

Report of the auditor-general to Free State Provincial Legislature and the council on Mafube Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Mafube Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2022, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the except for the possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Mafube Local Municipality as at 30 June 2022, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practices (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 9 of 2021 (Dora).

Basis for qualified opinion

Service charges

3. I was unable to obtain sufficient appropriate audit evidence for the sale of water included in service charges, as a number of consumers were not billed, some consumers were only billed for certain months and in the prior year meter readings were incorrectly captured on the billing system. I was unable to confirm the revenue for sale of water by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to revenue from sale of water stated at R31 108 765 (2021: R36 173 588) in note 19 to the financial statements.

Receivables from exchange transactions

4. I was unable to obtain sufficient appropriate audit evidence for receivables from exchange transactions, as the municipality could not provide adequate, accurate and complete underlying accounting records to support the receivables from exchange transactions. I was unable to confirm receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to receivables from exchange transactions stated at R18 703 710 (2021: R76 733 753) in note 9 to the financial statements.

Property, plant and equipment

- I was unable to obtain sufficient appropriate audit evidence for the impairment loss and impairment reversal included in the reconciliation of property, plant and equipment in note 4 to the financial statements. This was due to the municipality not being able to provide adequate supporting evidence to support the assumptions and inputs used to calculate impairment losses and reversals. I was unable to confirm the impairment loss and impairment reversal by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the impairment loss of R2 709 031 (2021: R8 447 890) and impairment reversal R14 564 185 (2021: R11 497 442) stated in note 4 to the financial statements.

Context for the opinion

- I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.
- I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
- I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Material uncertainty relating to going concern

- I draw attention to the matter below. My opinion is not modified in respect of this matter.
- The financial statements indicate that the municipality incurred a net loss of R175 133 511 during the year ended 30 June 2022 and, as of that date, the municipality's current liabilities exceeded its current assets by R889 671 000, as per note 47 to the financial statements. The municipality has been deducting pension and pay as you earn from employee's salaries, but has been unable to pay over R172 999 325 (2021: R145 031 070) and R26 647 559 (R30 598 661) of these amounts deducted to the relevant third parties as disclosed in note 16. In addition, the municipality owed Eskom R48 309 919 (2021: R52 620 799) and the water board R457 588 874 (2021: R396 176 162) as at 30 June 2022, which was long overdue. These events or conditions, along with the other matters set forth in note 47, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matters

11. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unauthorised expenditure

12. As disclosed in note 49 to the financial statements, the municipality incurred unauthorised expenditure of R231 823 699 (2021: R242 389 375) due to overspending of the budget.

Irregular expenditure

13. As disclosed in note 51 to the financial statements, the municipality incurred irregular expenditure of R73 163 769 (2021: R82 157 896) due to non-compliance with supply chain management (SCM) requirements.

Fruitless and wasteful expenditure

14. As disclosed in note 50 to the financial statements, the municipality incurred fruitless and wasteful expenditure of R53 960 410 (2021: R53 246 882) due to interest on the late payment of suppliers.

Material losses - water

15. As disclosed in note 33 to the financial statements, material water distribution losses of R45 024 671 (2021: R44 382 567) were incurred by the municipality mainly due to ageing infrastructure, meter reading losses and losses due to faulty meters never replaced.

Material losses - trade debtors

16. As disclosed in note 32 to the financial statements, material losses of R130 100 832 (2021: R72 581 932) were incurred as a result of write-off of irrecoverable debts.

Material uncertainty relating to claims against the municipality

17. With reference to note 41 to the financial statements, the municipality is the defendant in various claims against the municipality. The municipality is opposing these claims. The ultimate outcome of these matters could not be determined and no provision for any liabilities that may result were made in the financial statements.

Restatement of corresponding figures

18. As disclosed in note 44 to the financial statements, the corresponding figures for 30 June 2021 have been restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2022.

Subsequent event

19. As disclosed in note 48 to the financial statements, the South African Revenue Services (Sars) deducted R8 861 695 from the municipal bank account in relation to amounts deducted from employees but not paid over to Sars.

Other matters

20. I draw attention to the matters below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

21. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and accordingly, I do not express an opinion thereon.

Responsibilities of the accounting officer for the financial statements

22. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the Standards of GRAP and the requirements of the MFMA and Dora, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

23. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

24. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

25. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

26. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected key performance areas (KPAs) presented in the annual performance report. I was engaged to perform procedures to identify findings but not to gather evidence to express assurance.

27. I was engaged to evaluate the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected KPA presented in the municipality’s annual performance report for the year ended 30 June 2022:

KPA	Pages in the annual performance report
KPA 1 - basic service delivery	x –x

28. The material findings on the usefulness and reliability of the performance information of the selected KPA are as follows:

KPA 1: basic service delivery

29. I was unable to audit the usefulness and reliability of the selected KPA as the annual performance report was presented without accurate and complete underlying (performance) records. This placed a limitation on the scope of my work as I was unable to obtain sufficient and appropriate audit evidence and to audit the reported performance information by alternative means.

Other matter

30. I draw attention to the matters below.

Achievement of planned targets

31. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraph 29 of this report.

Report on the audit of compliance with legislation

Introduction and scope

32. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the municipality’s compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

33. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements and annual report

34. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, liabilities, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.
35. The annual financial statements were not submitted to the auditor-general, for auditing, within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA. The non-compliance resulted in a material irregularity as reported in the section on material irregularities.
36. The 2020-21 annual report was not made public after being tabled in council, as required by section 127(5)(a)(i) of the MFMA.
37. The local community was not invited to submit representations in connection with the 2020-21 annual report, as required by section 127(5)(a)(ii) of the MFMA.
38. The council failed to adopt an oversight report containing the council's comments on the 2020-21 annual report, as required by section 129(1) of the MFMA.

Procurement and contract management

39. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(1)(a) and (c). Similar non-compliance was also reported in the prior year.
40. Some of the quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). Similar non-compliance was also reported in the prior year.
41. Some of the quotations were accepted from bidders whose tax matters had not been declared by Sars to be in order, in contravention of SCM regulation 43. Similar non-compliance was also reported in the prior year.
42. Invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM regulation 22(1) and 22(2). This non-compliance was identified in the procurement processes for the construction of a new 12 megalitre concrete reservoir in Namahadi/Frankfort.
43. Some of the contracts were awarded to providers whose tax matters had not been declared by the Sars to be in order, in contravention of SCM regulation 43. Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes for the electrification of 462 households in Namahadi/Frankfort.

44. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes for the construction of a dedicated clean water distribution pipeline from a 6,5 megalitre concrete reservoir in Qalabotjha-Villiers.

Expenditure management

45. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
46. Reasonable steps were not taken to prevent irregular expenditure amounting to R73 163 769 as disclosed in note 51 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with SCM regulations. Irregular expenditure amounting to R3 820 949 was incurred on the construction of a new 12 megaliter concrete reservoir in Namahadi/Frankfort.
47. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R53 960 140, as disclosed in note 50 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest on overdue accounts.
48. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R231 823 699, as disclosed in note 49 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending of the budget.

Utilisation of grants

49. The Water Services Infrastructure Grant was not spent for its intended purposes in accordance with the applicable grant framework, as required by section 16(1) of the Dora.
50. The Integrated National Electrification Programme (Municipal) Grant was not spent for its intended purposes in accordance with the applicable grant framework, as required by section 16(1) of the Dora.

Consequence management

51. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(a) of the MFMA.
52. Irregular expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.
53. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Revenue management

54. An adequate management, accounting and information system which accounts for service charges was not in place, as required by section 64(2)(e) of the MFMA.
55. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.
56. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

Strategic planning and performance management

57. Amendments to the integrated development plan were made without consultation with the district municipality, as required by municipal planning and performance management regulation 3(6)(a).

Other information

58. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and the selected KPA presented in the annual performance report that have been specifically reported in the auditor's report.
59. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion on it.
60. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected KPA presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
61. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

62. I considered internal control relevant to my audit of the financial statements, reported performance information, and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

63. Management did not monitor progress with the implementation of the action plan to address the prior year audit findings relating to financial, performance and compliance matters.
64. Effective controls were not implemented to ensure standard operating procedures are developed for the planned and reported performance indicators and targets.
65. Compliance with applicable legislation was not effectively monitored by management as instances of non-compliance reported in the previous year recurred. The oversight structures, did not improve the oversight and governance of the control environment.
66. Effective internal control processes were not implemented by management to manage the daily and monthly processing and reconciling of transactions. Effective record keeping was not implemented to ensure that complete, relevant, and accurate information is accessible and available to support financial and performance reporting. This resulted in material limitation misstatements being identified in the financial statements and the annual performance report.

Material irregularities

67. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit and on the status of the material irregularities reported in the previous year's auditor's report.

Material irregularities identified during the audit

68. The material irregularities identified are as follows:

Pension fund contributions not paid over to pension funds in time

69. Section 13A(3)(a)(ii) of the Pension Funds Act 24 of 1956, requires the municipality as employer to pay over the contributions relating to the members of the fund within seven days after the end of the month for which such a contribution is payable. The municipality did not make payments to the Municipal Workers Retirement Fund (MWRF) and the South African Local Authorities (SALA) pension fund within seven days after the end of the month during which the contributions became payable. The late payments resulted in interest being charged by the MWRF and the SALA pension fund.
70. As at 30 June 2022, the total outstanding contributions payable to MWRF, including accumulated interest, was R72 782 999. The municipality owed outstanding contributions of R49 315 819 and accumulated interest of R49 315 819 to the SALA pension fund. The interest incurred is likely to result in a material financial loss for the municipality due to the liability to pay MWRF and SALA.
71. The accounting officer was notified of the material irregularity on 3 October 2022 and was invited to make a written submission on the actions taken and that will be taken to address the matter. The following actions have been taken or is in progress to resolve the material irregularity:
 - The municipality has been engaging with the National Treasury and the Free State Department of Cooperative Governance and Traditional Affairs for assistance to repay the pension funds.

- The municipality has been placed under provincial intervention in terms of section 139(5)(a) and (c) of the Constitution of the Republic of South Africa with the purpose to impose and ensure implementation of a financial recovery plan aimed at securing the municipality's ability to meet its financial commitments. An administrator was appointed on 10 June 2022.
- The municipality developed and commenced with the implementation of a revenue collection plan for 2022-23 as approved by Council on 28 February 2023.
- The municipality appointed a debt collector on 30 November 2022 to enhance revenue collection.

72. I will follow up on the implementation of the planned actions and actions in progress during my next audit.

Annual financial statements not submitted for audit (2021-22)

73. The annual financial statements for the year ending 30 June 2022 were not submitted to the auditor-general for auditing within two months after the end of the financial year (31 August 2022), as required by section 126(1)(a) of the MFMA. The non-submission of the annual financial statements for auditing, and the subsequent non-tabling of the annual report, is likely to result in substantial harm to the municipality, as there is a lack of accountability and transparency for the fiscal and financial affairs of the municipality. This is due to the legislative processes that follow after the submission of the annual financial statements relating to the financial year ending 30 June 2022 being delayed or not implemented.

74. The accounting officer was notified of this material irregularity on 26 September 2022 and invited to make a written submission on the actions taken and that will be taken to address the matter. The accounting officer submitted the annual financial statements for auditing on 18 October 2022.

75. Therefore, the material irregularity has been resolved.

Status of previously reported material irregularities

Full and proper records not kept (2017-18) – infrastructure assets and bulk purchases of water

76. In my 2019-20 auditor's report, I reported that the municipality did not take reasonable steps in the 2017-18 financial year to ensure that full and proper records were kept of infrastructure assets and bulk purchases of water, as required by section 62(1)(b) of the MFMA. The non-compliance contributed to a disclaimed audit opinion as I could not obtain sufficient appropriate audit evidence to support the amounts and disclosures in the financial statements.

77. The lack of full and proper records is likely to result in substantial harm to the municipality as it contributed to the material uncertainty regarding its ability to continue operations, as disclosed in note 42 to the 2017-18 financial statements and paragraph 33 in the 2017-18 audit report. This, in turn, is likely to have a negative impact on the municipality's ability to discharge its service delivery mandate.

78. The accounting officer was notified of this material irregularity on 11 June 2021. The following actions have been taken or is in progress to resolve the material irregularity:
- The municipality has been placed under provincial intervention in terms of section 139(5)(a) and (c) of the Constitution of the Republic of South Africa with the purpose to impose and ensure implementation of a financial recovery plan aimed at securing the municipality's ability to meet its obligations to provide basic services and to meet its financial commitments. An administrator was appointed on 10 June 2022.
 - Two senior officials were subjected to a disciplinary process due to maladministration issues identified during previous audits and have subsequently been dismissed.
 - The municipality has addressed some of the shortcomings with regard to the availability of financial records, and the audit outcome for the 2018-19 financial year, as per audit report signed on 30 September 2021, improved from a disclaimer of opinion to a qualified opinion. The qualified opinion was maintained in the 2019-20 audit report, signed on 15 December 2021; in the 2020-21 audit report signed on 16 September 2022 and in this auditor's report for 2021-22. The actions taken to address the limitation of scope included the following:
 - the fixed asset register was updated through asset verifications and reconciled to the general ledger and financial statements. In 2020-21, the electricity fixed asset register was also updated and reconciled to the general ledger and financial statements.
 - the reconciliation of bulk water purchases as well as the invoices and statements were provided for audit purposes
79. I will follow up on the implementation of the planned actions and actions in progress during my next audit.

Auditor - General

Bloemfontein

12 May 2023



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected KPA and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
 - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the Mafube Local Municipality to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a municipality to cease operating as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.