



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Draft management report

Mohokare Local Municipality

30 June 2022

Communicated to the Accounting Officer on: 17 February 2023

Draft

Management report

Mohokare Local Municipality

30 June 2022

Management report to the accounting officer on the audit of the Mohokare Local Municipality for the year ended 30 June 2022	4
INTRODUCTION.....	4
OVERALL MESSAGE	7
SECTION 1: Interactions with stakeholders responsible for oversight and governance	7
SECTION 2: Matters relating to the auditor's report.....	9
Audit of the financial statements	9
Matters to be brought to the attention of users	14
Audit of the annual performance report	15
Audit of compliance with legislation	18
Other information	21
Internal controls	22
Material irregularities	24
Other reports	27
SECTION 3: Assurance providers and status of implementation of commitments and recommendations.....	28
Assessment of assurance providers.....	28
Status of implementing commitments and key recommendations	31
SECTION 4: Specific focus areas	31
Financial viability	31
Procurement and contract management.....	34
Fraud and consequence management	37
Grants Management	41

Use of consultants	44
Water services.....	46
Sanitation services.....	47
SECTION 5: Using the work of internal auditors	47
SECTION 6: Emerging risks	48
Accounting, performance management/reporting and compliance matters	48
Subsequent events	48
Audit findings on the annual performance report that may have an impact on the audit opinion in future	48
SECTION 9: Conclusion.....	50
SECTION 10: Summary of detailed audit findings	51
Detailed audit findings	52
Annexure A: Matters affecting the auditor's report	52
Annexure B: Other important matters.....	53
Annexure C: Administrative matters	54
Annexure D: Performance management and reporting framework	55
Annexure D – Criteria developed from the performance management and reporting framework.....	56
Annexure E: Auditor-general's responsibility for the audit of the reported performance information	58
Annexure F: Assessment of internal controls.....	60

Management report to the accounting officer on the audit of the Mohokare Local Municipality for the year ended 30 June 2022

INTRODUCTION









1. The purpose of the management report is to communicate audit findings and other key audit observations to the accounting officer and to provide a summary of the material irregularity of which the accounting officer was notified. The report does not constitute public information.
2. The management report includes audit findings arising from the audit of the financial statements, performance information and compliance with legislation for the year ended 30 June 2022. These findings were communicated to management and this report details management's response to these findings (where applicable since not all findings were responded to). The report includes information on the internal control deficiencies that we identified as the root causes of the matters reported. Addressing these deficiencies will help to improve the audit outcome.
3. In accordance with the terms of engagement, our responsibility in this regard is to:
 - express an opinion on the financial statements
 - express an opinion in the management report on the usefulness and reliability of the reported performance information for selected objectives, and report the material findings in the auditor's report
 - report on material findings raised on compliance with specific requirements in key applicable legislation, as set out in the general notice issued in terms of the Public Audit Act 25 of 2004 (PAA).
 - notify the accounting officer of any material irregularity or suspected material irregularities identified during the audit, and report on it in the auditor's report.
4. Our engagement letter and the addendum to the engagement letter sets out our responsibilities and those of the accounting officer in detail.
5. This management report consists of the overall message arising from the audit, summary of key findings and observations, annexures containing the detailed audit findings, annexures to the report on the audit of performance information, as well as the annexure to internal control deficiencies reported.
6. The auditor's report is finalised only after the management report has been communicated. All matters included in this report that relate to the auditor's report remain in draft form until the final auditor's report is signed. In adherence to section 50 of the PAA, we do not disclose any information obtained during the audit and contained in this management report.
7. Please note that the information contained in these documents is confidential, privileged and only for the information of the intended recipient(s). It may not be used, published or redistributed without the prior written consent of the Auditor-General of South Africa (AGSA). Any form of reproduction, dissemination, copying, disclosure, modification, distribution and/or publication of this material is strictly prohibited. Should the information be used or processed in

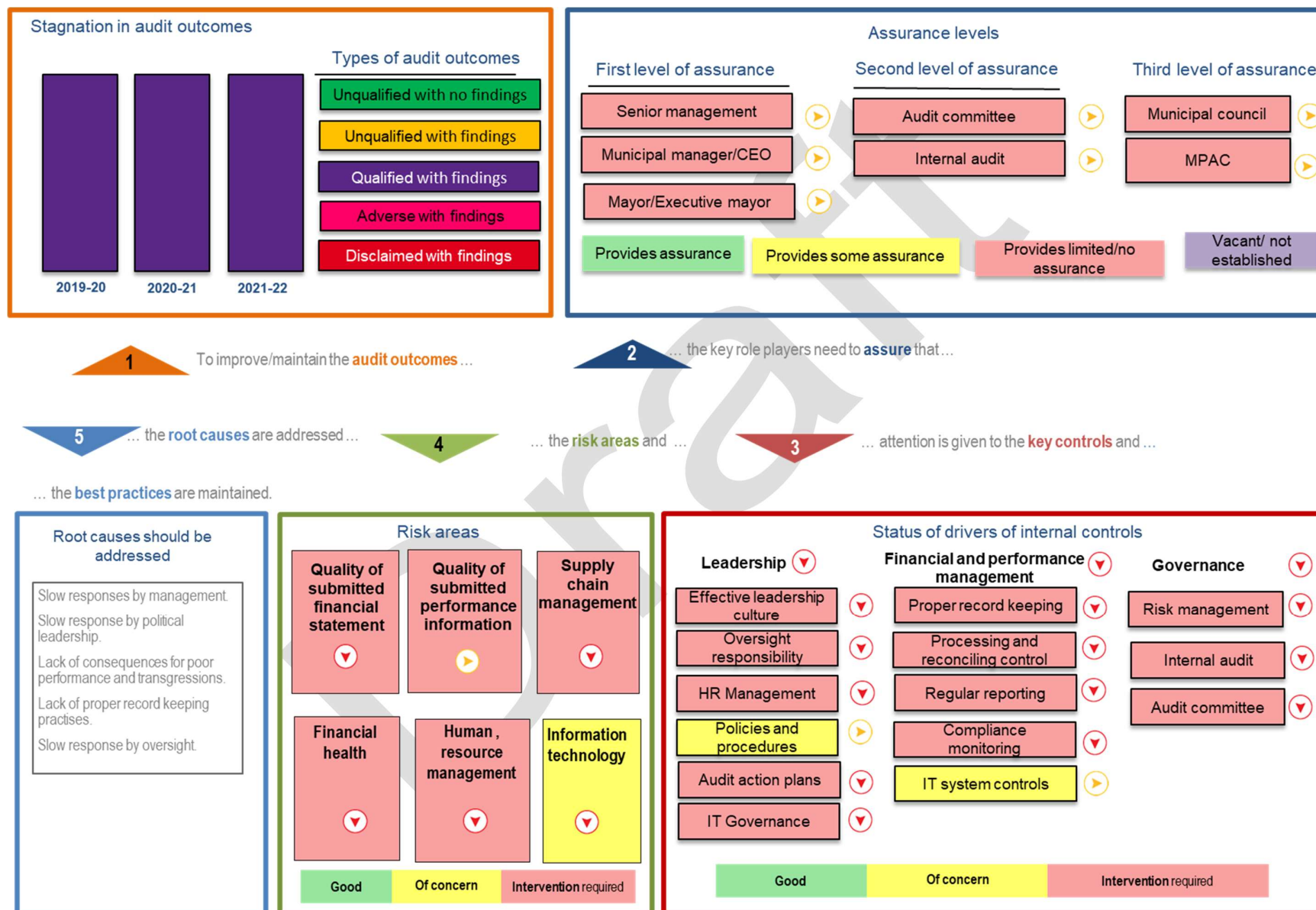
a manner that contravenes any laws in the Republic of South Africa, the AGSA is fully indemnified from liability that may arise from such contravention.

8. The **figure** that follows provides a pictorial summary of the audit results and our key messages on how to improve the audit outcomes, with the focus on the following:

- Status of the audit outcomes
- Status of the level of assurance provided by key role players
- Status of the drivers of internal controls
- Status of risk areas
- Root causes to be addressed

Movement from the previous year is depicted as follows:

-  /  Improved
-    /  Unchanged / slight improvement / slight regression
-  /  Regressed



OVERALL MESSAGE

9. The overall audit outcomes of the municipality remained the same for the fifth consecutive year since the 2017/2018 financial year. The basis for opinion paragraphs have increased from the prior year and the quality of the financial statements submitted regressed. It is concerning that the majority of findings during the audit were mostly repeat findings from the prior year which could be viewed as the municipality not actively addressing the issues from previous year.
10. A significant number of material findings were again noted in the preparation of both the annual financial statements as well as the annual performance report. Complete and accurate information is not readily available, significant delays were experienced in the submission of information for audit purposes while in other instances, responses to audit findings were not provided within agreed times.
11. Findings were also identified in respect of reporting against predetermined objectives and compliance with laws and regulations which remain areas of concern.
12. Effective performance management processes/procedures must be implemented and staff members's actual performance must be evaluated accordingly to ensure they commit to the policies and procedures approved by council. Poor performance must be managed accordingly throughout all the positions in the municipality.
13. Risk management activities in the municipality is expected to be the early warning system for the municipality but as it is currently seen, the impact by the risk management unit is requiring intervention by leadership.
14. In the current year, the audit committee was largely non operational and ineffective while the municipal public accounts committee on met towards the end of the financial year to establish themselves. Governance structures such as the municipality's audit committee and public accounts committes should be assisted to become effective in discharging their mandates and drive the municipality towards good financial management.
15. The municipality had limited funds available to meet all its financial obligations. Measures to ensure that spending is minimised should be strengthened to ensure that the financial pressures are gradually relieved. Management in conjunction with political leadership should develop a strategy on how to increase debt collections as the poor collection rate is causing severe financial constraints with concerns on the municipality's ability to operate in future.

SECTION 1: Interactions with stakeholders responsible for oversight and governance

16. During the audit cycle, we met with the following key stakeholders responsible for oversight and governance to communicate matters relating to the audit outcome and matters identified during our status of records review of the municipality:

Key stakeholder	Purpose of interaction	Number of interactions
Mohokare Municipal Council	There were no interactions with Council for the 2021/22 financial year.	0
Mohokare Municipal Public Accounts Committee	Discussion with the chairperson on the non-submission of the annual financial statements.	1

Key stakeholder	Purpose of interaction	Number of interactions
Honourable Mayor	Discussion of non-submission of the annual financial statements and high outstanding audit fees.	1
Municipal Manager / Accounting Officer	We met the former municipal manager to discuss and finalise the previous audit report and afterwards no further engagement until after year end with the appointment of the new municipal manager.	1
Audit committee	There were no interactions with the Audit Committee for the 2021/22 financial year, because the committee was not functional.	0
Other key and influential stakeholders – Management including the MM	Discussion of the engagement letter, audit strategy document, draft management report and audit report Monitoring progress of audit and findings	7

17. At these interactions, we highlighted the following key matters affecting audit outcomes and the auditee:

- Discussion of the engagement letter.
- Discussion of the audit strategy for the current year.
- Lack of progress in respect of implementation of prior year audit recommendations.
- Monitoring progress of audit and findings.
- Non-submission of the annual financial statements.

18. Some stakeholders made commitments to implement initiatives that can maintain/improve the audit outcome. The commitments given and the progress of previous commitments are included in section 3, which deals with the assessment of assurance providers.

SECTION 2: Matters relating to the auditor's report

Audit of the financial statements

19. We identified material misstatements in the financial statements during the audit. These misstatements were not prevented or detected by the municipality's system of internal control. These material misstatements also constitute non-compliance with section 122 of the Municipal Finance Management Act (MFMA).

20. The misstatements that were not corrected form the basis for the qualified opinion on the financial statements.

Material misstatement			Impact	Impact
Financial statement item	Finding (Include a brief description of the misstatement as per the findings and the auditor's report. Include the reasons for the auditee not correcting the misstatement when applicable.)	Occurred in prior year (Insert Yes/No)	current year	previous year
Material misstatements not corrected				
Non-current assets				
Property, plant and equipment	Physical verification of PPE, conditional assessments and limitation of scope issues identified during the audit. [CoAF 18; 78; 131; 134; 150; 156; 169; 170; 171; 173; 174 184; 206]	Yes	R45 919 013	R121 366 290
Current assets				
Receivables from exchange transactions	Positive identification of consumer debtors, differences between debtors ageing and financial statements [CoAF 80; 77]	Yes	R89 139 182	R78 929 744

Material misstatement			Impact current year	Impact previous year
Financial statement item	Finding (Include a brief description of the misstatement as per the findings and the auditor's report. Include the reasons for the auditee not correcting the misstatement when applicable.)	Occurred in prior year (Insert Yes/No)		
VAT Receivables	Difference between debtors ageing and financial statements [CoAF 80]	No	R17 567 506	Rnil
Non-current liabilities	.			
Employee benefit obligations	No provision made for medical aid contribution for in service employees. [CoAF 67; 140; 193]	No	R8 209 473	Rnil
Provisions	Misstatement of NPV and change in estimate, certain costs not substantiated. [CoAF 168]	No	R22 631 434	Rnil
Payables from exchange transactions	Difference between age analysis and financial statements, differences between debtors statements and age analysis and limitations of scope issues. [CoAF 80; 121; 122; 148; 177; 179; 204; 205; 226; 254; 255]	No	R157 898 931	Rnil
Current liabilities				
Unspent conditional grants	Conditions of conditional grants not met and limitation of scope issue. [CoAF 220; 221]	No	R15 568 833	Rnil
Revenue				
Service charges	Incorrect tariffs, positive identification of consumers, prolonged estimates of services revenue; significant number of	Yes	R86 913 170	R79 659 189

Material misstatement			Impact	Impact
Financial statement item	Finding (Include a brief description of the misstatement as per the findings and the auditor's report. Include the reasons for the auditee not correcting the misstatement when applicable.)	Occurred in prior year (Insert Yes/No)	current year	previous year
	accounts with no readings; high credit values on consumer accounts in the billing report not included in payments received in advance and consumer accounts debited with unusual amounts. [CoAF 76; 89; 90; 91; 137]			
Interest received on outstanding debtors	Difference between age analysis and financial statements. [CoAF 79]	No	R27 223 850	Rnil
Property rates	Differences between the financial statements, billing report and valuation roll. [CoAF 138]	No	R16 263 860	Rnil
Government grants and subsidies	Difference between general ledger, financial statements and grants registers; limitation of scope findings and conditions of grants not met. [CoAF 84; 220 & 221]	No	R15 448 478	Rnil
Expenditure				
Employee related costs	Difference between VIP and the financial statements [CoAF 166]	No	R10 732 597	Rnil
Debt impairment	Difference between financial statements and supporting schedule. [CoAF 75]	No	R80 393 089	Rnil
Contracted services	Occurrence that payments were made for official duties and that goods and	No	R5 322 824	R9 168 275

Material misstatement			Impact	Impact
Financial statement item	Finding (Include a brief description of the misstatement as per the findings and the auditor's report. Include the reasons for the auditee not correcting the misstatement when applicable.)	Occurred in prior year (Insert Yes/No)	current year	previous year
	services were actually received/rendered, transactions recorded in the incorrect period and differences between the general ledger and supporting evidence. [CoAF 190; 198; 199]			
General expenditure	Occurrence that payments were made for official duties and that goods and services were actually received/rendered and limitation of scope issues. [CoAF 31; 83; 97; 161; 165; 181; 185; 194; 195; 215; 219; 240]	Yes	R30 659 191	R5 106 469
Disclosure				
Irregular expenditure	Completeness of irregular expenditure still not determined, no investigations to determine which of these require further probing; limitation of scope issue. [CoAF 82; 107; 136; 167]	Yes	R19 669 828	R14 946 826
Fruitless and wasteful expenditure	No investigation reports in support of write-off by council; differences between register and invoices. [CoAF 29; 129]	No	R9 539 371	Rnil
Unauthorised expenditure	Unspent conditional grants not cash backed. [CoAF 82]	No	R26 916 431	Rnil

Material misstatement			Impact	Impact
Financial statement item	Finding (Include a brief description of the misstatement as per the findings and the auditor's report. Include the reasons for the auditee not correcting the misstatement when applicable.)	Occurred in prior year (Insert Yes/No)	current year	previous year
Commitments	Difference between commitment register and financial statements; errors in narrative; completeness and limitation of scope finding [CoAF 125; 131; 134; 142; 207; 209; 225]	No	R37 715 690	Rnil
Cashflow statement	Differences in the cash from operating activities. [CoAF 250] Receipts Payments	No	R40 981 076 R130 313 485	Rnil
Segment reporting	Differences between note and statement of financial performance. [CoAF 153]	No	Various amounts	Rnil
Financial instruments	Discounting not applied, disclosure of past due not impaired omitted. [CoAF 205]	Yes	Unknown	Unknown

Matters to be brought to the attention of users

Emphasis of matter paragraphs

21. The following emphasis of matter paragraphs will be included in our auditor's report to draw the users' attention to matters presented or disclosed in the financial statements:

Restatement of corresponding figures

22. As disclosed in note 49 to the financial statements, the corresponding figures for 30 June 2021 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2022.

Material losses

23. As disclosed in note 48 to the financial statements, material electricity distribution losses of R9 244 929 (2021: R7 258 297) were incurred by the municipality mainly due to faulty meters, tampering and theft.

Material impairment

24. As disclosed in notes 4 to the financial statements, receivables from exchange transactions were impaired by R360 693 431 (2021: R304 207 961).
25. As disclosed in note 5 to the financial statements, receivables from non-exchange transactions were impaired by R52 568 471 (2021: R162 723 018).
26. As disclosed in note 31 to the financial statements, property, plant and equipment was impaired by R4 264 686 (2021: R4 853 165).

Material uncertainty relating to claims against the municipality

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

Material uncertainty relating to going concern

28. Note 54 to the financial statements indicates that as at 30 June 2022, the municipality's current liabilities exceeded its current assets by R136 469 833 (2021: R100 461 835). The municipality also has long-outstanding creditors and has not been able to comply with section 65 of the MFMA, which requires creditors to be paid within 30 days. The municipality has been deducting pension and provident fund contributions from employees' salaries but has not been able to pay over these amounts deducted to the relevant third parties and until 30 June 2022, the amount included with trade payables is R109 006 165 (2021: R104 662 964) that is owed on

staff deductions as disclosed in note 13. As per the Statement of Financial Performance, the municipality operating losses in the current year amounted to R50 296 283 (2021: Profit of R18 033 318). These events or conditions, along with other matters as set forth in note 54, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Other matter paragraphs

29. The following other matter paragraphs will be included in our auditor's report to draw the users' attention to matters regarding the audit, the auditor's responsibilities and the auditor's report:

Unaudited disclosure notes

30. 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.

Audit of the annual performance report

31. In terms of the general notice issued in terms of the PAA, the opinion on the audit of reported performance information will be included in the management report. The report is included below to enable management and those charged with governance to see what the report will look like once it is published in the auditor's report. We will report all the audit findings included under the basis for opinion and the other matter sections of this report in the auditor's report.

Introduction and scope

32. We have undertaken a reasonable assurance engagement on the reported performance information for the following selected key performances area presented in the municipality's annual performance report for the year ended 30 June 2022:

Objectives	Pages in annual performance report	Opinion	Movement ¹
KPA 1 = Basic service delivery and infrastructure development (db.5)	x – x	Disclaimer	⬆️

33. We conducted our reasonable assurance engagement in accordance with the International Standard on Assurance Engagements, ISAE 3000(R): *Assurance engagements other than audits or reviews of historical financial information*.

34. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Basic services and infrastructure development

Disclaimer of opinion

35. We do not express an opinion on the reported performance information for Basic services and infrastructure development of the municipality . Because of the significance of the matters described in the basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate evidence to provide a basis for an opinion on the reported performance information of the [development priority / objective].

Basis for disclaimer of opinion

Various performance indicators and targets

I was unable to obtain sufficient appropriate audit evidence that systems and processes were established to enable consistent measurement and reliable reporting of performance against the predetermined indicator definitions for the indicators listed below. This was due to insufficient measurement definitions and processes. As a result, I was unable to obtain sufficient appropriate audit evidence for the reasons for the variances between the planned targets and these reported achievements of the listed indicators. I was unable to validate the existence of the systems or to confirm the reasons for the variances by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reasons for the variances.

Indicator description	Planned target	Reported Achievement
1. Zastron/Matlakeng: Upgrading of the outfall sewer line and refurbishment of sewer pump stations (CoAF 146)	Practical completion of the project by 30 December 2021	Not Achieved
2. Upgrading of the Zastron water treatment works (WTW) (CoAF 146)	Practical completion of the project by 30 September 2021	Not Achieved
3. Upgrading of the Rouxville water treatment works (CoAF 146)	Practical completion of the project by 30 December 2021	Not Achieved
4. Smithfield/Mofulatshepe: The upgrading of the outfall sewer (CoAF 146)	Contractor site hand over by 30 December 2021	Not Achieved
5. Provide 10793 of formal household with water MLM daily (CoAF 146)	Provision of 2080.5 ml purified water by 30 June 2022	Not Achieved
6. Indicator : Waste water quality management by 30 June 2022 (CoAF 146)	Maintain dignified sanitation and submission of 22 waste water quality samples to meet waste water monitoring plan by June 2022	Not Achieved
7. Drinking water quality management by June 2022 (CoAF 146)	Submission of 11,5 drinking water quality samples to accredited laboratory for testing by 30 June 2022	Not Achieved

Indicator description	Planned target	Reported Achievement
8. Rouxville/Roleleathunya: Electrification of households 186 in Extension 6 (CoAF 149)	Electrification of 186 HH in extension 10 by 30 June 2022	Not Achieved
9. Zastron / Matlakeng: Electrification of 300 households in extension 10 (CoAF 149)	Electrification of 300 HH in extension 10 by 30 June 2022	Not Achieved

Achievement of planned targets

36. Refer to the annual performance report on pages 11 to 23 for information on the achievement of planned targets for the year. This information should be considered in the context of the disclaimer of opinions expressed on the usefulness and reliability of the reported performance information in paragraphs 30 to 40 of this report.

Adjustment of material misstatements

37. We identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of the Basic services and infrastructure development development priorities). As management subsequently corrected only some of the misstatements, we raised material findings on the usefulness of the reported performance information. Those that were not corrected are included in the basis for disclaimer of opinion paragraphs.

Responsibilities of the accounting officer for the reported performance information

38. The accounting officer is responsible for the preparation of the annual performance report in accordance with the prescribed performance management and reporting framework set out in annexure D to this report, and for such internal control as the accounting officer determines is necessary to enable the preparation of performance information that is free from material misstatement in terms of its usefulness and reliability.

Auditor-general's responsibilities for the reasonable assurance engagement on the reported performance information

39. Our objectives are to obtain reasonable assurance about whether the reported performance information for the selected objectives presented in the annual performance report is free from material misstatement, and to issue a management report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that the assurance engagement conducted in accordance with the relevant assurance standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if they could reasonably be expected to influence the relevant decisions of users taken on the basis of the reported performance information.

40. Our procedures address the usefulness and reliability of the reported performance information, which must be based on the approved performance planning documents of the municipality. We have not evaluated the appropriateness of the performance indicators established and included in the planning documents. Our procedures do not examine whether the actions taken by the municipality enabled service delivery. Our procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, our opinion does not extend to these matters.
41. A further description of our responsibilities for the reasonable assurance engagement on reported performance information is included in annexure E to this report.

Audit of compliance with legislation

42. Included below are material findings on compliance with selected specific requirements of applicable legislation, as set out in the general notice issued in terms of the PAA.

Annual financial statements and annual reports

43. 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.
44. Material misstatements of non-current assets, current assets, liabilities, revenue, expenditure disclosure items, were identified by the auditors in the submitted financial statements and the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.
45. 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. (CoAF 45)
46. The annual financial statements were not submitted to the Auditor-General within two months after the end of the financial year and a written explanation setting out the reasons for the failure was not tabled in council, as required by section 133(1)(a) of the MFMA. (CoAF 264)
47. 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. (CoAF 257)
48. The oversight report adopted by the council on the 2020/21 annual report was not made public, as required by section 129(3) of the MFMA. (CoAF257)

Asset management

49. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA. (CoAF 60)

Revenue management

- 50. An adequate management, accounting and information system which accounts for revenue was not in place, as required by section 64(2)(e) of the MFMA. (CoAF 223 & 89)
- 51. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA. (CoAF 89 & 16)
- 52. I was unable to obtain sufficient appropriate audit evidence that revenue due to the municipality was calculated on a monthly basis, as required by section 64(2)(b) of the MFMA. (CoAF 89; 90 & 91)
- 53. I was unable to obtain sufficient appropriate audit evidence that accounts for municipal tax and charges for municipal services / service charges were prepared on a monthly basis, as required by section 64(2)(c) of the MFMA. (CoAF 89; 90 & 91)
- 54. I was unable to obtain sufficient appropriate audit evidence that interest had been charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA. (CoAF 79)

Expenditure management

- 55. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA. (CoAF 188)
- 56. Payments were made from the municipality's bank accounts without the approval of [the accounting officer / the chief financial officer / a properly authorised official], as required by section 11(1) of the MFMA. (CoAF 186)
- 57. Reasonable steps were not taken to ensure that the municipality implements and maintains an effective system of expenditure control, including procedures for the approval of funds, as required by section 65(2)(a) of the MFMA. (CoAF 186)
- 58. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred / accounted for creditors, as required by section 65(2)(b) of the MFMA. . (CoAF 254)
- 59. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by SCM processes not followed.
- 60. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R 604 652 505 , as disclosed in note 45 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 on votes. (CoAF 106)

Human resource management

- 61. An approved staff establishment was not in place, as required by section 66(1)(a) of the MSA. (CoAF 248)
- 62. I was unable to obtain sufficient appropriate audit evidence that senior managers signed performance agreements within the prescribed period, as required by section 57(2)(a) of the MSA. (CoAF 265)

Procurement and contract management

- 63. Sufficient appropriate audit evidence could not be obtained that all contracts and/ or quotations] were awarded in accordance with the legislative requirements as the information was not provided as per the request for information was not submitted.
- 64. 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 by SCM Regulation 17(1)(a) and (c).
- 65. Some of the written quotations were accepted from prospective providers who were not on the list of accredited prospective providers and did not meet the listing requirements prescribed by the SCM policy, in contravention of SCM Regulations 16(b) and 17(1)(b).
- 66. Some of the contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding, in contravention of SCM regulations 21(b) and 28(1)(a)(i) and the Preferential Procurement Regulations.
- 67. Some of the contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM Regulation 43.
- 68. The preference point system was not applied some of the procurement of goods and services above R30 000 as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act. Similar non-compliance was also reported in the prior year
- 69. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM Regulation 5.
- 70. Sufficient appropriate audit evidence could not be obtained that the performance of contractors or providers was monitored on a monthly basis as required by section 116(2) of the MFMA.
- 71. Sufficient appropriate audit evidence could not be obtained that contract performance and monitoring measures were in place to ensure effective contract management as required by section 116(2)(c)(ii) of the MFMA.
- 72. Awards were made to providers who were in the service of other state institutions or whose directors / principal shareholders were in the service of other state institutions, in contravention of MFMA 112(1)(j) and SCM Regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM Regulation 38(1).

Consequence Management

73. Some of the unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA. (CoAF 242)
74. Authorisation of unauthorised expenditure amounting to R492 843 230 was not done through an adjustment budget, as required by section 32(2)(a)(i) of the MFMA.
75. Some of the irregular expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA. (CoAF 242)
76. Some of the fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA (CoAF 242)
77. Some of the fruitless and wasteful expenditure were certified by council certified as irrecoverable without having conducted an investigation to determine the recoverability of the expenditure, in contravention of section 32(2)(b) of the MFMA (CoAF 242)

Other information

78. 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 those selected objectives presented in the annual performance report that have been specifically reported in the auditor's report.
79. Our opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and we do not express an audit opinion or any form of assurance conclusion on thereon.
80. In connection with our audit, our 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 objectives presented in the annual performance report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated.
81. The following paragraphs will be included in the auditor's report to highlight to the users whether any inconsistencies in the other information exist:
82. We did not receive the other information prior to the date of this management report. When we do receive and read this information, if it is concluded that there is a material misstatement therein, we are 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, we may have to retract this management report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal controls

83. The significant deficiencies in internal control that led to our overall assessment of the status of the drivers of key controls, as included in the figure in paragraph x, are described below. The detailed assessment of the implementation of the drivers of internal control in the areas of financial statements, performance reporting and compliance with legislation is included in annexure F.

Leadership

Effective leadership culture

84. Management did not in all instances review and monitor compliance with applicable laws and regulations.

Oversight responsibility

85. Management did not in all instances exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Human resource management

86. Management did not in all instances implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.

Policies and procedures

87. Management did not in all instances establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities

Action plans to address internal control deficiencies

88. Management did not develop and monitor the implementation of action plans to address internal control deficiencies.

Information technology governance framework

89. Management did not in all instances establish an IT governance framework that supports and enables the business, delivers value and improves performance.

Financial and performance management

Proper record keeping

90. Management did not in all instances implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

Daily and monthly processing and reconciling of transactions

91. Management did not implement controls over daily and monthly processing and reconciling of transactions.

Regular, accurate and complete financial and performance reports²

92. Management did not in all instances prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Compliance monitoring

93. Management did not review and monitor compliance with applicable laws and regulations.

Governance

Risk management activities and risk strategy

94. Management did not in all instances implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.

Audit committee

95. Management did not ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment including financial and performance reporting and compliance with laws and regulations.

Summary

96. The matters above, as they relate to the basis for the qualified of opinion, findings on the annual performance report and findings on compliance with legislation, will be summarised in the auditor's report as follows:

97. Inadequate monitoring by key officials of support staff in the implementation of daily and monthly controls over financial and performance reporting, and compliance with laws and regulations resulted in the audit findings included in this report.

98. The municipality continued to rely on consultants to resolve the prior year's audit findings; however, information prepared by consultants was not thoroughly reviewed by management to assess the accuracy and completeness thereof for financial reporting purposes.

99. Management relied heavily on consultants to resolve current year audit findings which in turn proved that there is no skills transfer and training provided, consultants have assumed a role of management in terms of financial statements preparation, reconciliation of records and supporting documentation.

100. Inadequate monitoring by key officials of support staff in the implementation of daily and monthly controls over financial and performance reporting, and compliance with laws and regulations resulted in the audit findings included in this report.
101. Management was slow to respond to the previous year's recommendations of the external auditors, again resulting in material misstatements in the financial statements, annual performance report and non-compliance with legislation that could have been prevented.

Material irregularities

102. In accordance with the PAA and the material irregularity regulations, we have a responsibility to report on material irregularities identified during the audit and on the status of material irregularities reported in the previous year.
103. We have notified the accounting officer of a material irregularity identified during the audit and the actions the AGSA will take with regard to this material irregularity.
104. Except for the summary of material irregularities, the auditor's report will include the following summarised information:

Material irregularities identified during the audit

Annual Financial Statements not submitted for auditing (2021-22) – Material Irregularity #1 of 2022

105. Section 126(1)(a) Municipal Finance Management Act 56 of 2003 (MFMA) requires that *“the accounting officer of a municipality must prepare the annual financial statements of the municipality and, within two months after the end of the financial year to which those statements relate, submit the statements to the Auditor-General for auditing”*
106. The annual financial statements for the financial year ending 30 June 2022 has not been submitted for auditing by 31 August 2022, as required by the MFMA and as on the date of this notification (23 september 2022), has not yet been submitted for auditing.
107. The non-compliance was communicated to management on 16 September 2022 (refer communication of audit finding 68 of 2022). Management did not provide a written response to the communication.
108. 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 following legislative processes relating to the financial year ending 30 June 2022 being delayed:

- a) The audit of the financial statements by the Auditor-General

- b) Consideration of the annual report by the municipal council
 - c) Adoption of an oversight report containing council's comments on the annual report
 - d) Making the oversight report public
109. The assessment of the annual financial statements and audit report by the MEC for local government in the province
110. The submission of the annual report and oversight report to the provincial legislature
111. The extent of the harm could however not be determined with absolute certainty. The non-compliance is therefore likely to result in substantial harm to the municipality if appropriate actions are not taken to address the cause of the non-submission of financial statements for auditing.

Management requested the extension 21 October 2022

112. Mohokare Local Municipality requested the above extension based on the premise that there is an ongoing court matter pertaining to the appointment of the Municipal Manager and at administration level we are not privy to the information of the case. Therefore, we kindly request to await the outcome of the matter so the Accounting Officer can have an input in the drafting of the response to the Material Irregularity as raised.

Mohokare response on material irregularity on 11 November 2022

(a) The circumstances that led to the material irregularity

113. Several factors had an impact on the non-submission of the Annual Financial Statements and Annual report for the year ended 30 June 2022.
114. Main contributing factors include the following:
- (1) Due to financial constraints experienced at the Municipality, Mohokare Local Municipality was unable to appoint a service provider to assist with the preparation of the Fixed Asset Register, Investment Property Register, Provision for rehabilitation of Landfill Sites and Employee Benefit Obligations.
 - (2) To date of this response, no appointments have been made and this is further hampered by the fact that the Municipality does not currently have a functional Bid Adjudication Committee as all appointments for acting Directors were only made for a month and are to be reviewed and renewed by Council during their next sitting.
 - (3) The financial system was locked by the service provider for a period of 6 weeks during the 2021/22 financial year due to non-payment, causing a back log in the capturing of financial transactions and the issuing of consumer accounts. This further led to the late closure of the system that had a great impact on the non-submission of the AFS.

(4) The fact that the 2020/21 Audit was only finalised in March 2022 also had a great impact on the time available to finalise the information as required for the 2021/22 Annual Financial Statements. This was brought on by the late submission of the previous year's financial statements as the Municipal Officials were unable to access the offices for two months due to political unrest and residents refusing employees entry to the municipal premises.

The above has a great impact on the preparation of the Annual Financial Statements and led to the non-submission as alluded to in this MI

(5) Political instability had an influence on the day to day operations of the Municipality During the 2021/22 financial year, two accountants in the Finance Department (expenditure accountant and fixed asset accountant) resigned and these positions cannot be filled to date as the Council placed a moratorium on any new appointments until such time that the appointment of the new Municipal Manager is concluded.

We believe that these positions will be advertised accordingly as soon as the Municipal Manager sees fit.

(b) Whether these circumstances still exist and, if so, what steps have been taken to ensure they no longer exist:

(1) The finalisation of the appointment of the Municipal Manager will bring stability to the Municipality and this will assist with ensuring the smooth flow of day to day operations

(2) At the date of this response, no appointment for the above mentioned service providers has yet been made, the Municipal Manager and the Chief Financial Officer is however currently finalizing the appointment and an update to this regard will be given shortly.

As stated above, the moratorium on appointments are still in place and we believe that it will be lifted during the next ordinary council meeting to ensure that adequately qualified employees are appointed in the vacant positions.

(3) The Municipality is also actively implementing its revenue strategy to assist the Municipality with obtaining available funds by under more focusing on debt collection especially for arrear consumers.

(c) Steps that have been taken to address the material irregularity, and their outcomes, if any:

(1) At current, the Municipal Manager and Chief Financial Officer is in the process of appointing a service provider to assist with the outstanding areas of the Annual Financial Statements.

(2) Once this issues have been addressed, the Municipality will be able to submit a set of GRAP compliant Annual Financial Statements

(3) Areas of the Annual Financial Statements where the assistance of an expert is not required are finalised or in the process of finalisation and the audit file is build accordingly

(d) Steps that have been taken to address the material irregularity, and their outcomes, if any:

Currently the Municipality is well under way with all areas of the Annual Financial Statements as well as the Audit File that are being prepared in-house.

A meeting was held with Munsoft FMS and they are to undertake the outstanding areas where assistance is required in order to finalise the Annual Financial Statements.

(e) Steps that have been taken and/ or will be taken to identify the person(s) responsible for the material irregularity, and their outcomes, if any:

An investigation into the reasons for the late submission is in progress on the request of the Mayor and the new Accounting officer and the outcomes will be communicated to the Auditor General once the process is finalised.

(f) If the person responsible for the material irregularity was identified, the steps that have been taken and/or will be taken against the person, and their outcomes, if any:

The Chief Financial Officer was served with an intention to suspend and has submitted his response to the intention on 9 November 2022. The outcome of the matter will also be communicated to the AGSA upon finalisation.

(g) The steps that have been taken and/or will be taken to prevent a re- occurrence of the material irregularity:

Appointment of the service providers to assist with all areas of the annual financial statements where the work of experts is required have been done for a period of two years (2021/22 and 2022/23 annual financial years) to ensure that this does not recur in the current financial year and to ensure that the legislative deadline for the submission of the Annual Financial Statements are met by 31 August 2023.

Any other relevant information pertaining to the material irregularity

None identified to date. Should any further information however come to light we will ensure that it is communicated to the Auditor General as soon as it becomes available.

AGSA Mohokare MI determination on written submission letter

115. The purpose of this letter is to share with you the determination we made with regard to the response received on MI notification no. 01 of 2021-22, delivered on 23 September 2022, in accordance with the Public Audit Act, 2004 (Act No.25 of 2004) (PAA) and the Material Irregularity Regulations (the “regulations”).

116. We have received the annual financial statements for the 2021-22 financial year on 30 November 2022 and concluded that appropriate actions have been taken to address the material irregularity.

117. We will report the action taken and their outcomes in the audit report.

Other reports

118. We draw attention to the following engagements by various parties that have or could have an impact on the municipality’s financial statements, reported performance information and compliance with applicable legislation and other related matters. The reports noted do not form

part of the opinion on the financial statements or findings on the reported performance information or compliance with legislation.

119. The MEC of CoGTA has initiated a section 106 investigation into possible maladministration at the municipality. The report is going to be presented to the council on 24 February 2023 and the management report shall be updated with the details of the outcome of this investigation as reported.
120. A supplier was appointed in order to conduct investigations in relation to unauthorised, irregular, fruitless and wasteful expenditure between 2016/17 to 2019/2020. According to report by MPAC, the report presented to it was a copy and paste exercise and there are no supporting documents to substantiate the non compliance which is being noted in the report. During the year, Rx was paid on this service which could be considered to be of a wasteful nature since the report could not be used for its intended purposes.
121. The CFO was suspended after year end in October 2022 and at time of the report, the issue was still ongoing and not finalised. The management report shall be updated with the details of the investigation as it become available.
122. The appointment of the current municipal manager was the subject of litigation between the municipality and others and based on a decision of the court, the appointment was unlawful. The costs are to be paid by the Mohokare Local Municipality resulting in irregular expenditure incurred. Management will provide particulars to update the management report with the latest on this matter as it is still in court.

SECTION 3: Assurance providers and status of implementation of commitments and recommendations

Assessment of assurance providers

123. The annual report is used to report on the financial position of auditees, their performance against predetermined objectives, and overall governance. One of the important oversight functions of the municipal council is to consider auditees' annual reports. To perform this oversight function, they need assurance that the information in the annual report is credible. To this end, the annual report includes our auditor's report, which provides assurance on the credibility of the financial statements and the annual performance report, as well as on the auditee's compliance with legislation.
124. Our reporting and oversight processes reflect on past events, as they take place after the end of the financial year. However, management, the leadership and those charged with governance contribute throughout the year to the credibility of financial and performance information and compliance with legislation by ensuring that adequate internal controls are implemented.
125. We assess the level of assurance provided by these assurance providers based on the status of internal controls (as reported in section 2.6) and the impact of the different role players on these controls. We provide our assessment for this audit cycle below.

Senior management: provides limited assurance

- Various misstatements were identified in the financial statements, performance information and non-compliance matters were reported. These matters were not detected by senior management and timeously addressed.
- Management's audit action plan also did not assist the municipality to prevent issues from recurring, as issues raised previously were again raised in the current year.

Accounting officer: provides limited assurance

- Municipal manager and senior managers, did not sign the performance agreement for the 2021/2022 financial year. Furthermore the performance assessments were not conducted for 2021/2022 for all employees. Consequently, no steps were taken on employees with poor performance and/or high errors made.
- Management's audit action plan did not prevent the issues from recurring and issues raised in the previous year continued to be raised in the current year and the Accounting Officer did not display effective oversight and implement remedial steps timeously.
- There is lack of consequence management within the municipality, as prior year irregular expenditure was not investigated and those responsible identified and to enforce consequence management.

Mayor: provides limited assurance

- The mayor did not provide support for investigations of irregular expenditure to be conducted. As a result, no consequence management has been applied. The mayor's oversight also did not ensure that consequence management within the municipality regarding all the non-compliance, and the follow up on the recommendations of prior year findings, to assess if they have been implemented.
- The support of as well as accountability from the mayor is needed by the municipal manager and senior management to ensure that internal controls can be implemented.

Second level of assurance

Internal audit unit: provides limited assurance

- Legislation in South Africa requires the establishment of, and provides for, the roles and responsibilities of internal audit units. Internal audit units must form part of the internal control and governance structures of the municipality and must play an important role in its monitoring activities. Internal audit must provide an independent assessment of the municipality's governance, risk management and internal control processes.
- The internal audit unit of a municipality must prepare a risk-based audit plan and internal audit programme for each financial year. It must advise the accounting officer and report to the audit committee on implementation of the internal audit plan and matters relating to internal audit; internal controls; accounting procedures and practices; risk and risk management; performance management; loss control and compliance with the MFMA. The

internal audit unit must also perform such other duties as may be assigned by the accounting officer.

- The material misstatements were due to the underlying internal control deficiencies in the various components and a majority of those deficiencies were not detected by internal audit throughout the year as they performed their audits and where management is not advised of deficiencies that exist within the municipality, they will not be able to sufficiently improve their processes and controls.
- More input is needed and assistance from internal audit and the audit committee to be more involved in the evaluation of the municipality's controls and compliance with laws and regulations so that they can add even better value to the control environment of the municipality and to assist the municipality in achieving better outcomes regarding the financial and non-financial information of the municipality.

Audit committee: provides limited assurance

- The audit committee must be an independent advisory body to the accounting officer and the management and staff of the municipality on matters relating to internal financial control and internal audits; risk management; accounting policies; the adequacy, reliability and accuracy of financial reporting and information; performance management; effective governance; the MFMA and any other applicable legislation; performance evaluation and any other issues.
- The audit committee is also expected to review the annual financial statements to provide an authoritative and credible view of the municipality, its efficiency and effectiveness and its overall level of compliance with the applicable legislation.

The audit committee was not functional for the 2021/22 financial year and did not have any meetings in the 2021/22 financial year. There were no quarterly reports submitted to council by the audit committee.

- More input is needed and assistance from the audit committee to support internal audit to be more involved in the evaluation of the municipality's controls and compliance with laws and regulations so that they can add even better value to the control environment of the municipality and to assist the municipality in achieving better outcomes regarding the financial and non-financial information of the municipality.

Third level of assurance

Municipal council: provides limited assurance

- The council did not implement any measures to assist the municipality in addressing its going concern challenges. The municipal council did not ensure that consequence management is implemented within the municipality, by ensuring that prior year irregular expenditure is investigated and the necessary action is taken against officials involved.

Municipal public account committee (MPAC): provides limited assurance

- MPAC was established and met on fruitless and wasteful expenditure. However, limited action was implemented and irregular expenditure still remain not investigated. The MPAC will have to start with certain matters in this balance that can be addressed with the available information to ensure that this balance is addressed systematically and consequence management implemented. This would also provide council with a plan to provide oversight and recommendations on improvements to the control environment.

Status of implementing commitments and key recommendations

126. Below is our assessment of the progress in implementing the commitments made by the municipality to address the previous and current years' audit findings.

No.	Auditee commitment	Made by	Date	Origin of commitment	Status
No commitments has been made by management.					

SECTION 4: Specific focus areas**Financial viability**

127. Our audit included a high-level overview of the municipality's financial viability as at year-end. The financial viability assessment provides useful information for accountability and decision-making purposes and complements the financial statements by providing insights and perspectives thereon. The financial viability assessment is expected to enhance timely remedial decision-making and policy reforms where financial viability may be at risk. It will also highlight to management those issues that may require corrective action and the urgency and magnitude of the reforms and decisions necessary to maintain operations. The information should be used to complement, rather than substitute, management's own financial assessment.

FINANCIAL VIABILITY ASSESSMENT			
		As at 30 June 2022	As at 30 June 2021
Expenditure management			
1.1	Creditor-payment period	448 Days	288.3 Days
Revenue management			
2.1	Debt-collection period (after impairment)	35 Days	41.9 Days
2.2	Debt-impairment provision as a percentage of accounts receivable	98%	97.3%

FINANCIAL VIABILITY ASSESSMENT			
		As at 30 June 2022	As at 30 June 2021
	<ul style="list-style-type: none"> Amount of debt-impairment provision Amount of accounts receivable 	R360 502 654 R422 795 435	R 465 695 518 R 478 798 183
Asset and liability management			
3.1	A deficit for the year was realised (total expenditure exceeded total revenue) <ul style="list-style-type: none"> Amount of the surplus / (deficit) for the year 	Yes (R50 296 283)	No R14 075 319
3.2	A net current liability position was realised (total current liabilities exceeded total current assets) <ul style="list-style-type: none"> Amount of the net current assets / (liability) position 	Yes (R136 469 833)	Yes (R100 601 806)
3.3	A net liability position was realised (total liabilities exceeded total assets) <ul style="list-style-type: none"> Amount of the net asset / (liability) position 	No R415 097 110	No R 456 817 724
Cash management			
4.1	The year-end bank balance was in overdraft <ul style="list-style-type: none"> Amount of year-end bank balance (cash and cash equivalents) / (bank overdraft) 	No R 1 594 323	No R5 066 936
4.2	Net cash flows for the year from operating activities were negative <ul style="list-style-type: none"> Amount of net cash in / (out)flows for the year from operating activities 	No R19 467 193	No R 82 840 262
4.3	Creditors as a percentage of cash and cash equivalents <ul style="list-style-type: none"> Amount of creditors (accounts payable) Amount of cash and cash equivalents / (bank overdraft) at year-end 	6678% R106 465 989 R1 594 323	1289.0% R65 312 21 R5 066 936
4.4	Current liabilities as a percentage of next year's budgeted resources ** <ul style="list-style-type: none"> Amount of current liabilities Amount of next year's budgeted income ** 	82,9 % R170 595 153 R205 868 000	70.6% R147 530 470 R 208 957 493
Overall assessment ³			
Overall, the financial viability is assessed as:		Red (unfavourable – intervention required)	Red (unfavourable – intervention required)

Financial indicators that can impact on service delivery:

128. In addition to the assessment of financial viability, our audit included a high-level overview of the municipality's financial indicators that can impact on service delivery as at year-end. This assessment provides useful information for accountability and decision-making purposes and complements the financial viability assessment by providing an overview of potential service delivery implications of financial transactions. It will also highlight to management those issues that may require corrective action in order to avoid service delivery failures.

Financial indicators that can impact on service delivery			
1.1	% spending on repairs and maintenance <i>[unfavorable if less than 8%]</i>	0,24%	0,34%
	• Total expenditure on repairs and maintenance for the year	R 1 629 539	R 2 240 331...
	• Total Property, plant and equipment at year end	R 668 839 509	R 655 810 622
1.2	Total capital expenditure as a % of total expenditure <i>[unfavorable if less than 10%]</i>	31,52%	40,47%
	• Amount of capital expenditure for the year	R40 063 306	R 82 115 733
	• Amount of total expenditure for the year	R 127 117 781	R 202 855 191
1.3	% of electricity distribution losses <i>[unfavorable if greater than 30%]</i>	26%	131%
	• Amount of units generated/purchased	R 19 741 266	R 20 303 221
	• Amount of units sold to consumers	R 14 650 759	R 15 523 338
1.4	% of water distribution losses <i>[unfavorable if greater than 30%]</i>	7%	20%
	• Amount of units generated/purchased	227 768	212446
	• Amount of units sold to consumers	212 560	170825

High-level comments

129. The municipality has difficulty paying its creditors as it cannot make its payments within a period of 30 days as the creditor payment period has deteriorated from the previous year to 448 days.

130. The municipality has a deficit which was realised during the current year and therefore this shows that the municipality has cash flow difficulties.

131. This is further exacerbated by the fact that the debtors collection period is 35 days after the debtors impairment as a percentage of receivables is 98% of the receivables amount.

132. The auditee is not able to pay its short term liabilities as the creditors as a percentage of cash and cash equivalents is 6678% which indicates that the municipality is not able to pay its creditors within the period.

High-level comments – budget management

133. Evaluation of Budget management for the 2021/22 MFMA audit. To test compliance with legislation and controls that strengthen the budgetary processes at municipalities and municipal entities to enable transparency, accountability and effective financial management. Included below are findings on budget management:

- A statement on the state of the municipality's budget was not submitted by the accounting officer at the end of each month as required by section 71(1) of the MFMA.

Procurement and contract management

134. The audit included an assessment of procurement processes, contract management and the related controls in place. These processes and controls must comply with legislation to ensure a fair, equitable, transparent, competitive and cost-effective supply chain management (SCM) system and to reduce the likelihood of fraud, corruption, favouritism and unfair and other irregular practices. A summary of the findings from the audit are as follows:

Irregular expenditure

135. R 7 577 488(100%) of the irregular expenditure incurred in the current financial year was as a result of the contravention of SCM legislation. Further, irregular expenditure incurred in previous years amounting to R11 780 335 was identified in the current year. 81% (0% of irregular expenditure relating to the previous year) of this irregular expenditure was identified during the audit process and not detected by the municipality's monitoring processes. The root cause of the lack of effective prevention and detection is due to lack of controls in place in order to ensure that proper procurement processes are followed.

Awards to persons in the service of the state

136. Regulation 44 prohibits awards to persons in the service of the auditee (i.e. employees and councillors), persons in the service of any other state institution and entities owned/managed by them. The audit included the identification of such prohibited awards. Further testing was also performed to determine whether the legislated requirements with regard to declarations of interest were adhered to.
137. The findings were as follows

Nature of finding	Number and value of awards made	Number and positions of officials/councillors identified	Number of suppliers identified	Further non-compliance or irregularities regarding the awards			
				Supplier did not submit declarations of interest	Supplier did not declare interest (false declaration)	Official/councillor or did not declare interest	Official/councillor was involved in awarding the contract/accepting the quotation
Awards to persons in the service of other state institutions	Number 88 Value	Number of state officials 88	Number 88	88	88		

Awards to close family members of persons in the service of the state

Procurement and contract management processes

138. The table below is a summary of findings identified on procurement and contract management processes:

This table must include a total of all tenders and quotations that have been tested under:

- procurement processes – quotations
- procurement processes – competitive bids and deviations
- deviations
- preference point system
- CIDB requirements/ construction contracts
- local content.
- contract management

	Total		Quotations		Competitive bids		Contract management	
	Number	Value R	Number	Value R	Number	Value R	Number	Value R
Awards selected for testing	<i>Number of awards selected</i>	<i>Total value of contract + quotation</i>	<i>Number of awards selected</i>	<i>Total value of quotation</i> R 1 428 536	<i>Number of awards selected</i>	<i>Total value of contract</i> R 28 126 319	<i>Number of awards selected</i>	<i>Total value of contract</i> R 152 037 221,78

	Total		Quotations		Competitive bids		Contract management	
	Number	Value R	Number	Value R	Number	Value R	Number	Value R
	133	R 181 590 076,78	115		5		13	
Expenditure incurred on selected awards – current year		<i>Expenditure</i> R 28 659 259		<i>Expenditure</i> R 1 120 263		<i>Expenditure</i> R 5 936 521		<i>Expenditure</i> R 21 602 475
Limitations – awards selected but could not be tested	<i>Number of awards not tested</i> 5	<i>Total value of contract + quotation</i> R69 373 600,05	<i>Number of awards not tested</i> 1	<i>Total value of quotation</i> R 172 500	<i>Number of awards not tested</i> 0	<i>Total value of contract</i> R 0,00	<i>Number of awards not tested</i> 4	<i>Total value of contract</i> R 69 201 000,05
Awards where non-compliance was identified	<i>Number of awards affected</i> 23	<i>Total value of contract + quotation</i> R 1 259 098	<i>Number of awards affected</i> 11+8=19	<i>Total value of quotation</i> =292019,50(CAF 114)+ 37020(CAF 144)=R 329 039+R601 019,05(CAF 126)	<i>Number of awards affected</i> 3	<i>Total value of contract</i> R 5 936 921(CAF 133)+	<i>Number of awards affected</i> 1	<i>Total value of contract</i> R 2 148 998
Irregular expenditure identified	<i>Number of awards affected</i> 14	<i>Irregular expenditure</i> R 10 903 654,22	<i>Number of awards affected</i> 8+1=9	<i>Irregular expenditure</i> 389 300(CAF 108)+R 556 505 (CAF 109)+R 292019,50(CAF 114)+R 1 002 830,22(CAF 119)+R 540 461(CAF 126)+R 37 020(CAF 144)	<i>Number of awards affected</i> 1+1+2=4	<i>Irregular expenditure</i> R 37000(CAF 116)+ CAF 132+R 5 899 521(CAF 133)	<i>Number of awards affected</i> 1	<i>Irregular expenditure</i> R 2 148 998(CAF 251)

Limitations on audit

139. As indicated in the table above, sufficient appropriate audit evidence could not be provided that 5 selected awards to the value of R69 373 600 were made in accordance with the requirements of applicable SCM legislation. No alternative audit procedures could be performed to obtain reasonable assurance that the expenditure incurred on these awards was not irregular.

140. The reasons for the limitations were due to information not being submitted as evidenced by communication number 110 and 113. As a result of these limitations, the findings reported in the rest of this section may not reflect the true extent of irregularities and SCM weaknesses.

Procurement processes – general

- 8 awards to the value of R 389 300 were procured without inviting at least the minimum prescribed number of written price quotations from prospective suppliers and the deviation was not approved by a properly delegated official.(CoAF 108)

- 5 awards to the value of R 556 505 were procured without inviting at least the minimum prescribed number of written price quotations from prospective suppliers, and the deviation was approved even though it was possible to obtain the quotations.(CoAF 109)
- 10 quotations to the total value of R 292 019 were accepted from prospective providers who were not registered on the list of accredited prospective providers or the National Treasury's central supplier database and did not meet the listing requirements prescribed by the SCM policy.(CoAF 114)
- 1 contract to the value of R 884 931 were procured from suppliers whose tax matters had not been declared by the South African Revenue Services to be in order.(CoAF 132)
- 1 contract to the value of R26 870 759 were awarded to bidders who had not submitted a declaration of past supply chain practices such as fraud, abuse of the SCM system and non-performance.(CoAF 117)
- 8 (quotations to the value of R 540 461 were awarded without applying the preference points system.(CoAF 126)

Contract management

- 1 contract were amended or extended without approval by a delegated official. The total value of the extensions was R 2 148 998(CoAF 251)
- The performance of 9 contractors or providers was not monitored monthly. The total value of related contracts was R 69 571 729,57(CoAF 110,113)
- The contract performance and monitoring measures and methods applied in monitoring 9contracts to the value of R 69 571 729,57(CoAF 110,113) were insufficient to ensure effective contract management.

Internal control deficiencies

141. Quotation and deviation register not accurate and complete as some items were not included(CoAF 130)

Fraud and consequence management

142. The primary responsibility for preventing and detecting fraud rests with management and those charged with governance. We are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and for issuing an auditor's report that includes our opinion. Due to the inherent limitations of an audit, there is a risk that some material misstatements, including fraud, may not be detected.⁴

143. Below is a summary of fraud risk factors identified during the audit that should be addressed to ensure that sufficient measures/controls are in place to prevent material misstatement/ non-compliance due to fraud.

- Increase in unauthorised expenditure because of poor budgetary controls
- Transactions of UIF are incorrectly reported as being condoned. The completeness of UIF
- Limitation of scope on the UIF transactions, which result in a modification of the audit comparatives
- Limitation on actual performance when the APR is submitted for audit
- PPE - Assets are not properly maintained and looked after and
- Expenditure - monies are spent on vehicle rentals that is not budgeted for / pricing is excessive
- Disagreements on PPE because useful lives of PPE, Depreciation, etc was not done during the year
- The Audit committee was not functional as no meetings were held during the 2021/22 financial period, as a result there is a weak internal environment in terms oversight
- There is a risk that assets are missappropriated, employees could be paid large salaries compared to the jobs they do
- There is a risk that SCM registers are not adequately updated which may result in irregular expenditure
- Risk of fraud in procurement processes
- Risk in payments for goods and services that could not be verified (occurrence)

144. The MFMA and its regulations clearly stipulate that matters such as incurring unauthorised, irregular and fruitless and wasteful expenditure; the possible abuse of the SCM system (including fraud and improper conduct); and allegations of financial misconduct should be investigated. Disciplinary steps should be taken based on the results of the investigations. Our audits included an assessment of the municipality's management of consequences. The significant findings are provided below

Measures to manage consequences

145. The following measures were not implemented to ensure that the environment is conducive to effective consequence management:

- The municipality did not have a fraud prevention plan in 2021/22 financial year.
- There was a lack of proper record keeping to ensure that complete, relevant and accurate information is accessible and available to support the processes followed for financial misconduct/transgressions committed by officials and suppliers of the municipality

Ongoing investigations

146. A total of 0 investigations into allegations relating to financial misconduct, fraud or improper conduct in SCM were ongoing at year-end. None of these investigations were initiated for a long time now. The Municipal Regulations on Financial Misconduct, Procedures and Criminal

Proceedings and the Disciplinary Regulations for Senior Managers require that each investigation be completed within 30 days from the date of appointing the investigator. The table below provides a summary of investigations which had not been completed as at year-end:

Total number of ongoing investigations at year-end	0
• Number of SCM-related investigations	0
• Number of fraud-related investigations	0
Number of investigations exceeding 3 months	0

Failure to deal properly with allegations reported in the previous year

147. The table below provides a summary of transgressions from the previous year that were either not investigated or proper disciplinary steps were not taken after investigation.

Unauthorised/ irregular/ fruitless and wasteful expenditure

Finding	Value R
Unauthorised expenditure	
Unauthorised expenditure identified in the previous year was not investigated to determine whether any person was liable for the expenditure	R 492 843 230
Unauthorised expenditure was not properly investigated	R 492 843 230
Effective and appropriate disciplinary steps were not taken against officials who [made and/or permitted] unauthorised expenditure	R 492 843 230
Losses resulting from unauthorised expenditure were not recovered from the person liable	R492 843 230
Unauthorised expenditure was not authorised through an adjustment budget	R 492 843 230
Irregular expenditure	
Irregular expenditure identified in the previous year was not investigated to determine whether any person was liable for the expenditure	R 243 320 717
Fruitless and wasteful expenditure	
Fruitless and wasteful expenditure identified in the previous year was not investigated to determine whether any person was liable for the expenditure	R 55 662 151
Fruitless and wasteful expenditure was not properly investigated	R 55 662 151
Council/Board's decision to certify fruitless and wasteful expenditure as irrecoverable was not based on the results of an investigation	R 43 258 637

Transgressions reported to management for investigation

148. During the previous year's audit, we reported findings relating to transgressions by officials or other role players, for management to investigate. During the current year audit, we performed follow-up tests to determine whether the matters reported were dealt with by management.

149. The table below provides a summary of the transgressions reported in the previous year and the year under review that must be investigated and disciplinary steps taken based on the results of the investigations.

Finding	Findings raised in the previous year			Findings reported in current year	
	Number of instances	Number of instances investigated	Number of instances resolved from those investigated	Number of instances	Value (R)
A: Improper conduct in SCM by suppliers					
Supplier submitted false declaration of interest	(Number of suppliers)			(Number of suppliers)	
Other improper conduct in SCM by suppliers					
B: Improper conduct in SCM by officials/ role players					
Officials failed to disclose their own interest or that of close family members, partners or associates	Number of officials 1	0	0	Number of officials 0	0
D: Other fraud/corruption allegations (not included above)					
Awards made to suppliers in service of the state	2	0	0	88	

150. Unauthorised/irregular/ fruitless and wasteful expenditure disclosed in note 45,46 and 47 to the financial statements must be investigated to determine whether any official is liable for losses incurred as a result of this expenditure. Disciplinary steps must be taken against officials who caused or permitted the unauthorised/ irregular/ fruitless and wasteful expenditure and losses incurred must be recovered from the person liable.

Grants Management

151. For the financial year under review, the audit included an assessment of the effectiveness of the municipality's use of the following conditional grants received:

- Water Service Infrastructure Grant
- Municipal Infrastructure Grant
- Regional Bulk Infrastructure Grant

152. The following compliance findings were raised on the utilisation of selected grants:

Finding	Water Services Infrastructure Grant	Municipal Infrastructure Grant	Regional Bulk Infrastructure Grant
The grant was not spent according to the applicable grant framework	Yes CoAF: 220 and 221	Yes CoAF:: 220 and 221	Yes CoAF:: 220 and 221
The municipality did not evaluate its performance on programmes funded by the grant	Yes CoAF: 101	Yes CoAF: 101	Yes CoAF: 101
Funds received from DoRA grants transferred to other entities in contravention of section 16(3) of DoRA	N/A	N/A	N/A

153. For each of the grants tested as per the table above, we selected key projects funded by the grant and audited the use of grants for the projects. The audit findings raised on each project are reported in the table below and subsequent sections of the report.

Summary of key findings per selected project			
Key project name	<i>Upgrading of the Rouxville/Roleleathunya Water Treatment Work</i>	<i>Completion of a 27km long, bulk water pipeline from the Orange river to the Paisley dam in Rouxville</i>	<i>Zastron/Matlakeng: Upgrading of Waste Water Pump Stations and construction of new outfall sewer line</i>
Brief description of key project	Construction of a new abstraction works, construction of admin building, construction of	The Construction of 27km long, 300mm diameter pipeline from the orange river to	Upgrading of Waste Water Pump Stations and

Summary of key findings per selected project			
Key project name	<i>Upgrading of the Rouxville/Roleleathunya Water Treatment Work</i>	<i>Completion of a 27km long, bulk water pipeline from the Orange river to the Paisley dam in Rouxville</i>	<i>Zastron/Matlakeng: Upgrading of Waste Water Pump Stations and construction of new outfall sewer line</i>
	new clarifiers and sand filters.	Paisley dam close to Rouxville/Roleleathunya. Construction of 2 booster pumpstations(Civil Works)	construction of new outfall sewer line
Project commenced as planned	Yes	Yes	Yes
Project completed within defined duration (applicable if completed)	Abandoned	Abandoned	Abandoned
Status of completion	Abandoned	Abandoned	Abandoned
Total project budget	R45 658 820.32	R84 895 800.00	R16 576 936.09
Actual amount spent from initiation to date (end of financial year)	R69 522 523.00	R179 853 692.69	R16 148 171.79
Audit findings			
Overspending or underspending on total project budget	Yes, significant over spending	Yes, significant over spending	Yes, significant under spending
Findings identified on the procurement of goods and services for the project	No	No	No
Findings identified on the appointment and contract management of implementing agents for the project	N/A	N/A	N/A
Findings identified on procurement and contract management by the implementing agent for the project	N/A	N/A	N/A

Summary of key findings per selected project			
Key project name	<i>Upgrading of the Rouxville/Roleleathunya Water Treatment Work</i>	<i>Completion of a 27km long, bulk water pipeline from the Orange river to the Paisley dam in Rouxville</i>	<i>Zastron/Matlakeng: Upgrading of Waste Water Pump Stations and construction of new outfall sewer line</i>
Findings on the overall project management	Yes	Yes	Yes
Findings identified on consequence management in relation to the project	N/A	N/A	N/A
Findings identified on fraud in relation to the project	No	No	No
Findings identified on the quality of goods and services delivered on the project	No	No	No
Findings on commissioning of the completed project	N/A	N/A	N/A
Findings identified on accounting for the project (annual financial statements)	No	Yes	Yes
Spending not aligned to stage of completion	Yes	Yes	Yes
Budget spent but project milestones not achieved	Yes	Yes	Yes
Findings identified on grant spending in relation to the project	No	Yes	No
Findings identified on fruitless and wasteful expenditure incurred on the project	No	Yes	No
Findings identified on irregular expenditure incurred on the project	No	No	No

154. Below are the key findings on the projects above.

- The Municipality incurred Fruitless & Wasteful Expenditure in total of R 8 728 000 relating to expenditure on supply and installation of Pumps and Motors.

- Quality control requirements were not adhered to as a result the works were not done though they were paid for.
- The quality of work on the steel tank concrete platform was of poor quality the concrete finishes were poorly constructed.
- it was identified that the contractor had abandoned site. The excavations that were done were left open, and not barricaded by the contractor.
- The Municipality incurred Fruitless & Wasteful Expenditure in total of R 1 250 000 relating to testing of pipeline that was not done.
- Grant monies not utilised for intended purposes.
- The need/objective of the project was not met, the project is incomplete and there is no progress on site.
- The project was visited on the 23rd of January 2023 and there was no progress onsite and there was incomplete electrical and mechanical works identified. The project has been abandoned.

Use of consultants

155. The audit included an assessment of the effective use of consultants. In the local government environment, the partnership between the private and public sectors has become important in driving strategic goals.
156. The total expenditure on consultants was not obtained due to a limitation of scope
157. A summary of the significant findings from the audit is as follows:

Planning and appointment process

- Consultants were appointed without any terms of reference.
- The terms of references used when appointing consultants were inadequate as they did not clearly define the task's directive, objectives, goals, scope of the assignment, time frames linked to various tasks, frequency of monitoring a-ctions or required experience and qualifications.

Transfer of skills

- Requirements for transfer of skills were not included in the terms of reference.
- Conditions or clauses for transfer of skills were not included in the contract.
- Measures to monitor transfer of skills according to the contract were not implemented.
- There was no evidence that skills were transferred or training programmes took place.
- Employees were not identified for training or were not available to attend training.

Performance management and monitoring



- Consultancy services were provided and payment made to the consultants without a signed contract to regulate the work of the consultant.
- The payments/expenditure exceeded the approved budget.
- Measures to monitor contract performance and delivery were not defined and/or implemented.
- Measures applied to monitor consultancy projects were insufficient and could not ensure effective contract management.
- A comparison of the consultant's services rendered and the deliverable to the initial project objectives and needs was not evaluated.
- The consultant's contract did not stipulate the terms and conditions for the termination of the contract in the case of non-/underperformance.
- The consultant's contract did not stipulate deliverables or deliverables stipulated in the contract were not linked to timelines.
- Consultants were contracted at prices or rates that are above the tendered prices.
- Material misstatements were identified or findings were raised by the auditors on the work performed by the consultant or in areas of the consultants' responsibilities.
- The consultancy project was not evaluated for value for money
- The consultant's contract did not stipulate the travel and subsistence costs in accordance with government's travel policy.

Internal control deficiencies

- The consultant was not appointed for purpose/objective contained in the policy/strategy for the appointment of consultants.
- Terms of reference were not drafted and provided to bidders.
- The following details regarding transfer of skills are not included in the terms of reference:
 - i) employees to be trained;
 - ii) skills to be transferred;
 - iii) Monitoring and evaluation arrangements
- The consultant's contract does not include a clause for transfer of skills.
- The respective responsibilities of the municipality and the consultant were not clearly defined in the contract
- The contract does not stipulate deliverables which are linked to milestones and timelines.
- Appointments of consultants are not made on a time and cost basis with specific start and end dates.
- Appointments of consultants are not made on an output-specified basis, subject to specific measurable objectives and associated remuneration.
- Appointment of consultants does not include overall cost ceilings by specifying whether the contract price includes or excludes travel and subsistence disbursements
- Exact specifications of the work to be accomplished was not used to monitor contract performance and delivery has not been recorded and monitored.
- The work of the consultant was not monitored by a staff member who is sufficiently senior and had the relevant skills/ experience to ensure that work is performed and the progress made is effective.
- There is no record of whether penalties have been invoked and/ or the contract terminated for default.

- No record of proof of recommendations that are contained in the consultant's reports were considered and implemented.
- There's no record proof of recommendations contained in the consultant's reports which were considered and implemented had a positive impact
- We obtained no record of whether consultants were appointed on a time bound contract, indefinite delivery contract or any other contract where payment is based on time spent, the rates paid to the consultant are not significantly higher than the rates proposed by relevant professional body in the consultant's industry (e.g. SAICA,DPSA etc.)

Water and sanitation services

158. The audit included an assessment of the water and sanitation service delivery objective of the municipality. Procedures were performed in relation to the following:

- Delegation of function to provide water and sanitation services
- Performance planning and reporting on the provision of water and sanitation services
- Planning and budgeting for water and sanitation infrastructure and routine maintenance
- Reporting on water losses

159. A summary of the significant findings from the audit are as follows:

Water services

Performance planning and reporting on water services

- The table below summarises whether key performance indicators for the provision of water services were achieved, measurable, relevant and whether the reported achievements were reliable⁵.

Planned KPI and target as per IDP/SDBIP	Achievement of target as per annual performance report	KPI and target measurable and relevant	Reported achievement is reliable
Upgrading of the Zastron water treatment works	Not achieved	Yes	N/a
Smithfield/Mofulatshepe: Refurbishment of the water treatment works	Achieved	Yes	Yes
Upgrading of the Rouxville water treatment works	Not achieved	Yes	N/a
Construction of abstraction works on the Orange River and equipping of X2 raw water pump station	Not achieved	Yes	N/a

Planned KPI and target as per IDP/SDBIP	Achievement of target as per annual performance report	KPI and target measurable and relevant	Reported achievement is reliable
Construction of a 27km long raw bulk water pipeline from the orange River to Paisley dam in Rouxville	Not achieved	Yes	N/a
Provide 10793 of formal household with water MLM daily	Not achieved	Yes	N/a
Waste water quality management by 30 June 2022	Not achieved	Yes	N/a
Drinking water quality management by June 2022	Not achieved	Yes	N/a
Installation of prepaid water meters in Zastron	Not achieved	Yes	N/a

- The backlog in the provision of water services is due to:
 - the lack of sufficient water infrastructure to meet the needs of the municipality;-
 - weak water infrastructure in need of repair;

Planning and budgeting for water infrastructure and routine maintenance

- The under-expenditure on maintenance of infrastructure is due to [lack of planning on maintenance.

Sanitation services

Performance planning and reporting on sanitation services

- The backlog in the provision of sanitation services is due to:
 - the lack of sufficient sanitation infrastructure to meet the needs of the municipality;

Planning and budgeting for sanitation infrastructure and routine maintenance

- The under-expenditure on maintenance of infrastructure is due to lack of planning on maintenance.

SECTION 5: Using the work of internal auditors

160. The auditing standards allow external auditors the option to use the work of internal audit for external audit purposes and for direct assistance. We have used internal audit as follows:

- There were no reports prepared by Internal audit for the 2021/22 financial year

- The internal audit function was not used for external audit purposes or for direct assistance during the current audit.

SECTION 6: Emerging risks

Accounting, performance management/reporting and compliance matters

New pronouncements

Standards of Generally Recognised Accounting Practice (GRAP)

161. The ASB has issued the following GRAP pronouncements, with effective dates as indicated:

GRAP pronouncement	Effective date
GRAP 25 on Employee benefits (revised)	To be determined
GRAP 104 on <i>Financial instruments</i> (revised)	To be determined
IGRAP 7 on <i>The limit on a defined benefit asset, minimum funding requirements and their interaction</i> (revised)	To be determined
IGRAP 21 on <i>The effect of past decisions on materiality</i>	To be determined
Guideline on <i>Accounting for landfill sites</i>	To be determined

Subsequent events

162. The incumbent CFO was on suspension before 2021/2022 AFS were submitted to the AGSA and the current Acting CFO is acting CFO during the period of this report. The particulars of the suspension could not be confirmed by the auditors due to information not submitted to audit.

Audit findings on the annual performance report that may have an impact on the audit opinion in future

163. The planned and reported performance information of selected objectives was audited against the following additional criteria as developed from the performance management reporting framework:

- Presentation and disclosure – overall presentation
 - Overall presentation of the performance information in the annual performance report is comparable and understandable.

- Relevance – completeness of relevant indicators
 - Completeness of relevant indicators in terms of the auditee's mandate, including whether:
 - relevant core functions are prioritised in the period under review
 - relevant performance indicators are included for the core functions prioritised in the period under review

164. Material audit findings arising from the audit against the additional criteria do not have an impact on the audit opinion(s) of the selected objectives in this report. However, they may have an impact on the audit opinion in future.

SECTION 8: Ratings of detailed audit findings

165. For the purposes of this report, the detailed audit findings included in annexures A to C have been classified as follows:

- Matters to be included in the auditor's report: these matters should be addressed as a matter of urgency.
- Other important matters: these matters should be addressed to prevent them from leading to material misstatements of the financial statements or material findings on the performance report and compliance with legislation in future.

- Administrative matters: these matters are unlikely to result in material misstatements of the financial statements or material findings on the performance report and compliance with legislation.

SECTION 9: Conclusion

166. The matters communicated throughout this report relate to the three fundamentals of internal control that should be addressed to achieve sustained clean administration. Our staff remain committed to assisting in identifying and communicating good practices to improve governance and accountability and to build public confidence in government's ability to account for public resources in a transparent manner.

Yours sincerely

Matshidiso Wesi (Mrs)

Senior Manager: Free State Business Unit

28 February 2023

Enquiries: Gregory Coetzee
Telephone: 051 409 0100
Fax: 051 409 0181
Email: gregory.coetzee@agsa.co.za

Distribution:

Audit committee

Head of internal audit unit

Executive authority

SECTION 10: Summary of detailed audit findings

Page no.	Finding	Classification					Rating			Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters		
	Property, plant and equipment										[In progress / Not addressed]
	Inventory										[In progress / Not addressed]
	Revenue										[In progress / Not addressed]
	Receivables										[In progress / Not addressed]

Detailed audit findings

Annexure A: Matters affecting the auditor's report

[Class of transaction/ account balance/ disclosure/ non-compliance/ predetermined objectives]

Audit finding

Internal control deficiency

Recommendation(s)

Management's response

Auditor's conclusion

Annexure B: Other important matters

[Class of transaction/ account balance/ disclosure/ non-compliance/ predetermined objectives]

Audit finding

Internal control deficiency

Recommendation(s)

Management's response

Auditor's conclusion

Annexure C: Administrative matters

[Class of transaction/ account balance/ disclosure/ non-compliance]

Audit finding

Internal control deficiency

Recommendation(s)

Management's response

Auditor's conclusion

Annexure D: Performance management and reporting framework

The performance management and reporting framework (PMRF) consists of the following:

- Legislation applicable to performance planning, management and reporting, which includes the following:
 - Municipal Finance Management Act 56 of 2003 (MFMA)
 - Municipal Systems Act 32 of 2000 (MSA)
 - Regulations for planning and performance management, 2001, issued in terms of the MSA.
 - Municipal performance regulations for municipal managers and managers directly accountable to municipal managers, 2006, issued in terms of the MSA.
- The Framework for Managing Programme Performance Information (FMPPI), issued by the National Treasury. This framework is applicable to all spheres of government.
- Circulars and guidance issued by the National Treasury and the Department of Cooperative Governance and Traditional Affairs (Cogta) and supported by the Department of Planning Monitoring and Evaluation (DPME) regarding the planning, management, monitoring and reporting of performance against predetermined objectives.

Annexure D – Criteria developed from the performance management and reporting framework

Criteria	References to PMRF per institution	
	Municipalities	Municipal entities
Consistency: , Performance indicators and targets are consistent between planning and reporting documents.		
1. Reported indicators are consistent or complete when compared to planned indicators	Section 121(3)(f) of the MFMA Sections 41(a) – (c) & section 46 of the MSA	Section 121(4)(d) of the MFMA
2. Changes to indicators are approved	Section 25(2) of the MSA	Section 54(1)(c) of the MFMA
3. Reported targets are consistent or complete compared to planned targets	Section 121(3)(f) of the MFMA Sections 41(a) – (c) & section 46 of the MSA	Section 121(4)(d) of the MFMA
4. Changes to targets are approved	Section 25(2) of the MSA	Section 54(1)(c) of the MFMA
5. Reported achievements are consistent with the planned and reported indicator and target	Section 121(3)(f) of the MFMA	Section 121(4)(d) of the MFMA
Measurability: Performance indicators are well defined and verifiable, and targets are specific, measurable and time bound		
6. A performance indicator is well defined when it has a clear, unambiguous definition so that data will be collected consistently and is easy to understand and use.	FMPPI chapter 3.2	
7. A performance indicator is verifiable when it is possible to validate or verify the processes and systems that produce the indicator.	FMPPI chapter 3.2	
8. A target is specific when the nature and required level of performance of the target are clearly identifiable.	FMPPI chapter 3.3	
9. A target is measurable when the required performance can be measured.	FMPPI chapter 3.3	
10. A target is time bound when the timeframes for achievement of targets are indicated.	FMPPI chapter 3.3	
Relevance: Performance indicators relate logically and directly to an aspect of the institution’s mandate and the realisation of its strategic goals and objectives		
11. The performance indicator and target relate logically and directly to an aspect of the institution’s mandate and the realisation of its strategic goals and objectives.	FMPPI chapter 3.2	

Criteria	References to PMRF per institution	
	Municipalities	Municipal entities
Presentation and disclosure: Performance information in the annual performance report is presented and disclosed in accordance with the requirements contained in the legislation, frameworks, circulars and guidance		
12. Actual performance compared to planned targets and prior year performance is disclosed in the annual performance report	Section 46 of the MSA	Section 46 of the MSA
13. Measures taken to improve performance are disclosed in the annual performance report	Section 46 of the MSA	Section 46 of the MSA
14. Measures taken to improve performance are corroborated with audit evidence	Section 46 of the MSA	Section 46 of the MSA
Reliability: Recording, measuring, collating, preparing and presenting information on actual performance achievements is valid, accurate and complete.		
15. Reported performance occurred and pertains to the reporting entity.	Section 45 of the MSA	Section 45 of the MSA
16. Amounts, numbers and other data relating to reported performance are recorded and reported correctly.	FMPPI chapter 5	FMPPI chapter 5
17. All actual performance that should have been recorded is included in the reported performance information.		

Annexure E: Auditor-general's responsibility for the audit of the reported performance information

167. As part of our engagement conducted in accordance with ISAE 3000(R), we exercise professional judgement and maintain professional scepticism throughout our reasonable assurance engagement on reported performance information for selected objectives.

168. We are 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 the ethical requirements relevant to our audit in South Africa. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA code.

Quality control relating to assurance engagements

169. In accordance with the International Standard on Quality Control 1, the Auditor-General of South Africa maintains a comprehensive system of quality control that includes documented policies and procedures on compliance with ethical requirements and professional standards.

Reported performance information

170. In addition to our responsibility for the assurance engagement on reported performance information, as described in the auditor's report, we also:

- identify and assess risks of material misstatement of the reported performance information, 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 our opinion. In making those risk assessments, we consider internal control(s) relevant to the management and reporting of performance information per selected [development priority/objective] 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 documentation maintained by the municipality that supports the generation, collation, aggregation, monitoring and reporting of performance indicators and their related targets for the selected objectives
- evaluate and test the usefulness of planned and reported performance information, [including presentation in the annual performance report (municipalities only)], its consistency with the approved performance planning documents of the municipality and whether the indicators and related targets were measurable and relevant
- evaluate and test the reliability of information on performance achievement to determine whether it is valid, accurate and complete

Communication with those charged with governance




171. We 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 we identify during our audit.
172. We also confirm to the accounting officer that we have complied with relevant ethical requirements regarding independence and communicate all relationships and other matters that may reasonably be thought to have a bearing on our independence and, where applicable, the actions taken to eliminate threats, or the related safeguards applied.

Draft




Annexure F: Assessment of internal controls







Below is our assessment of the implementation of drivers of internal control based on significant deficiencies identified during our audit of the financial statements, the [annual performance report/ insert name of performance report] and compliance with legislation. Significant deficiencies occur when internal controls do not exist, are not appropriately designed to address the risk, or are not implemented. These either had caused, or could cause, the financial statements or the annual performance report to be materially misstated, and material instances of non-compliance with legislation to occur.

The internal controls were assessed as follows:



























	The required preventative or detective controls were in place.
	Progress was made on implementing preventative or detective controls, but improvement is still required, or actions taken were not or have not been sustainable.
	Internal controls were not in place, were not properly designed, were not implemented or were not operating effectively. Intervention is required to design and/or implement appropriate controls.

The movement in the status of the drivers from the previous year-end to the current year-end is indicated collectively for each of the three audit dimensions under the three fundamentals of internal control. The movement is assessed as follows:

	Improved
	Unchanged
	Regressed

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
Leadership						
Overall movement from previous assessment						
• Provide effective leadership based on a culture of honesty, ethical business practices and						

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
good governance, and protecting and enhancing the best interests of the entity						
• Exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls	☹	☹	☹	☹	☹	☹
• Implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored	☹	😊	☹	☹	☹	☹
• Establish and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities	😊	😊	☹	☹	☹	☹
• Develop and monitor the implementation of action plans to address internal control deficiencies	☹	☹	☹	☹	☹	☹
• Establish and implement an information technology governance framework that supports and enables the business, delivers value and improves performance	😊	☹	☹	☹	☹	☹
Financial and performance management						
Overall movement from previous assessment						
• Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting	☹	☹	☹	☹	☹	☹
• Implement controls over daily and monthly processing and reconciling transactions	☹	☹	☹	☹	☹	☹
• Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information	☹	☹	☹	☹	☹	☹

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
• Review and monitor compliance with applicable legislation						
• Design and implement formal controls over information technology systems to ensure the reliability of the systems and the availability, accuracy and protection of information						
Governance						
Overall movement from previous assessment						
• Implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of information technology risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored						
• Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively						
• Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and overseeing the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislation						

Draft