

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

Report on the audit of the financial statements

Disclaimer of opinion

1. I was engaged to audit the financial statements of the Mohokare Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2023, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. I do not express an opinion on the financial statements of the municipality. Because of the significance of the matters described in the basis for disclaimer of opinion section of this auditor's report. I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

Cash and cash equivalents

3. I was unable to obtain sufficient appropriate audit evidence for cash and cash equivalents as the municipality did not have adequate systems for processing and reconciliation of cash and cash equivalents. I was unable to confirm the cash and cash equivalents by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to cash and cash equivalents stated at R9 187 713 in note 8 to the financial statements.

Receivables from exchange transactions

4. I was unable to obtain sufficient appropriate audit evidence for receivables from exchange transactions due to unreconciled differences between the debtors' age analysis and the amounts recorded in the financial statements. I was unable to confirm the receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to receivables from exchange transactions stated at R102 853 532 (2022: R8 233 123) in note 4 to the financial statements.

Receivables from non-exchange transactions

5. I was unable to obtain sufficient appropriate audit evidence for receivables from non-exchange transactions due to unreconciled differences between the debtors' age analysis and the amounts recorded in the financial statements. I was unable to confirm the receivables from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to receivables from non-exchange transactions stated at R7 636 908 in note 5 to the financial statements.

Property, plant and equipment

6. I was unable to obtain sufficient appropriate audit evidence for infrastructure assets due to the status of the accounting records. I was unable to confirm the infrastructure assets by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to infrastructure assets stated at R606 298 477 (2022: R619 073 000) in note 11 to the financial statements.
7. In addition, the municipality did not recognise infrastructure – work in progress included in note 11 to the financial statements in accordance with Generally Recognised Accounting Practice (GRAP) 17, *Property, plant and equipment* as the municipality capitalised project expenditure that did not meet the recognition criteria. Differences were also identified between the fixed asset register and the amounts recorded in the financial statements. Consequently, this resulted in an overstatement of infrastructure – work in progress included in note 11 to the financial statements by R27 729 512 (2022: R33 861 800). Additionally, there was an impact on the payables from exchange transactions, surplus for the year and accumulated surplus.
8. During 2022, we could also not physically verify some of the assets included in the fixed asset register, resulting in an overstatement of movable assets disclosed in note 11 to the financial statements by R3 448 044 and an understatement of the loss on disposal of assets and liabilities by the same amount. Additionally, there was also an impact on accumulated depreciation and accumulated impairment, depreciation and amortisation, the deficit for the year and the accumulated surplus.

Payables from exchange transactions

9. I was unable to obtain sufficient appropriate audit evidence for the current payables from exchange transactions due to a lack of record keeping and reconciliation of the trade payables, payments received in advance, unallocated deposits and staff salaries and third parties included in note 13 to the financial statements. I was unable to confirm the current payables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the current payables from exchange transactions stated at R169 938 212 (2022: R140 204 127) in note 13 to the financial statements.
10. During 2022, the municipality did not account for payables from exchange transactions in accordance with GRAP 1, *Presentation of financial statements* as the municipality did not record all suppliers in the trade payables listing. Consequently, this resulted in trade payables and general expenditure being understated by R89 472 834. There was also an impact on the deficit for the year and accumulated surplus.

VAT receivable

11. I was unable to obtain sufficient appropriate audit evidence for VAT receivable due to the status of the underlying accounting records and the lack of reconciliation of the VAT control accounts. I was unable to confirm the VAT receivable by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the VAT receivables stated at R8 739 106 (2022: R21 626 486) in note 6 to the financial statements.

12. In addition, the municipality did not classify VAT receivable in accordance with GRAP 104, *Financial instruments* as the accrual for future VAT assets and liabilities was incorrectly set-off against the VAT receivable included in note 6 to the financial statements. Consequently, I was unable to determine the full extent of the misstatement to the VAT receivable stated at R8 739 106 (2022: R21 626 486) in note 6 to the financial statements as it was impractical to do so. Additionally, there was also an impact on the risk management disclosures in note 42 to the financial statements and the VAT receivable disclosed as part of the additional disclosures in terms of the Municipal Finance Management Act 56 of 2003 (MFMA) in note 48 to the financial statements.

Investment property

13. The municipality did not recognise investment property in accordance with GRAP 16, *Investment property*, as the municipality did not measure investment properties at their fair value to reflect the property's market conditions at the reporting date. I was unable to determine the full extent of the misstatement to the investment property stated at R54 997 648 in note 10 to the financial statements as it was impractical to do so. Additionally, there was also an impact on fair value adjustments, surplus for the year, accumulated surplus and the related disclosures on the valuation method and significant assumptions applied in note 10 to the financial statements.

Provisions

14. The municipality did not recognise the provision for environmental rehabilitation included in note 18 to the financial statements in accordance with GRAP 19, *Provisions, contingent liabilities and contingent assets*. This was due to the municipality calculating the provision for the Zastron landfill site over its expected remaining useful life of 17 years but there was no indication that this landfill site was licenced, as a result, the obligation to rehabilitate the landfill site accrues immediately. Consequently, the current liability for the provision for environmental rehabilitation included in note 18 to the financial statements was understated by R17 618 802, and the non-current liability for the provision for environmental rehabilitation included in note 18 to the financial statements was overstated by R7 952 168, and the infrastructure assets included in note 11 to the financial statements was understated by R9 666 634. Additionally, there was also an impact on the depreciation and amortisation, surplus for the year and accumulated surplus.
15. During 2022, I was unable to obtain sufficient appropriate audit evidence for the inputs used by the actuaries in their provision calculation as the municipality did not have adequate systems in place to ensure that the relevant supporting records were available to support the actuary's calculations. I was unable to confirm the provision by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the current and non-current provisions stated at R26 751 924 in note 18 to the financial statements.

Employee benefit obligation

16. I was unable to obtain sufficient appropriate audit evidence for the current and non-current employee benefit obligations as the municipality did not provide adequate supporting evidence to confirm the assumptions and estimations applied to the underlying calculations. I was unable to confirm the current and non-current employee benefit obligations by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the current and the non-current employee benefit obligation stated at R22 496 000 in note 15 to the financial statements.
17. During 2022, the municipality did not calculate the post-retirement health care benefit included in note 15 to the financial statements in accordance with GRAP 25, *Employee benefits* as they did not calculate the liability for all eligible employees. Consequently, I was unable to determine the full extent of the impact of the misstatement to employee benefit obligations, actuarial gains/losses and finance costs as it was impractical to do so. Additionally, there was an impact on the deficit for the year and the accumulated surplus.

Other financial liabilities

18. The municipality did not recognise other financial liabilities in accordance with GRAP 104, *Financial instruments* as the financial liabilities were not recognised at amortised cost as required by the accounting standard. In addition, differences were identified between the amount recorded in the financial statements and the amount confirmed with the service provider. I was unable to determine the full extent of the misstatement to other financial liabilities stated at R76 441 100 in note 17 to the financial statements, as it was impractical to do so. Additionally, there was an impact on interest received, finance cost, surplus for the year, accumulated surplus and the risk management disclosures in note 42 to the financial statements.

Service charges

19. I was unable to obtain sufficient appropriate audit evidence for service charges as the municipality did not have adequate systems in place to account for the billing of services. I was unable to confirm the service charges by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to service charges stated at R101 683 353 (2022: R86 913 170) in note 19 to the financial statements.
20. In addition, the municipality did not recognise revenue from service charges in accordance with GRAP 9, *Revenue from exchange transactions*. This was due to services being levied at incorrect tariffs, properties were not billed for service charges and in other instances, the consumption readings were not accurately captured and billed. Consequently, I was unable to determine the full extent of the misstatement to service charges stated at R101 683 353 (2022: R86 913 170) in note 19 to the financial statements, as it was impractical to do so. Additionally, there was an impact on the receivables from exchange transactions, surplus for the year, accumulated surplus as well as the bulk electricity and water losses disclosed as part of additional disclosures in terms of the MFMA in note 48 to the financial statements.

Interest received on outstanding debtors

21. I was unable to obtain sufficient appropriate audit evidence for interest received on outstanding debtors from exchange transactions due to material differences identified between the age analysis for the receivables from exchange and non-exchange transactions and the amounts recorded in the financial statements. I was unable to confirm the interest received on outstanding debtors by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to interest received on outstanding debtors for exchange and non-exchange transactions stated at R41 366 564 (2022: R25 121 296) in note 21 to the financial statements.

Government grants and subsidies

22. I was unable to obtain sufficient appropriate audit evidence for the government grants and subsidies due to the status of the accounting records. I was unable to confirm the government grants and subsidies by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the government grants and subsidies stated at R98 638 823 (2022: R130 570 128) in note 26 to the financial statements.

Unspent conditional grants and receipts

23. I was unable to obtain sufficient appropriate audit evidence for the unspent conditional grants and receipts due to the status of the accounting records. I was unable to confirm the unspent conditional grants and receipts by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the unspent conditional grants and receipts stated at R30 022 272 in note 16 to the financial statements.

General expenditure

24. I was unable to obtain sufficient appropriate audit evidence to confirm that general expenditure was only recognised where the goods and services were actually received and utilised. I was unable to confirm the general expenditure by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the general expenditure stated at R38 804 568 (2022: R42 267 411) in note 35 to the financial statements.

Contracted services

25. I was unable to obtain sufficient appropriate audit evidence to confirm that contracted services were only recognised where the goods and services were actually received and utilised. I was unable to confirm the contracted services by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to contracted services stated at R8 516 750 in note 34 to the financial statements.
26. In addition, the municipality did not classify contracted services in accordance with GRAP 1, *Presentation of financial statements* as some expenditure was not correctly classified in terms of the nature of the expenses while in other instances, the municipality did not record the expenditure accurately and/or in the correct financial period. Consequently, contracted services was understated by R3 884 770. Additionally, there was an impact on the general

expenditure included in note 35 to the financial statements, trade payables included in note 13 to the financial statements, surplus for the year and accumulated surplus.

Debt impairment

27. I was unable to obtain sufficient appropriate audit evidence for debt impairment due to the material unreconciled differences identified between the age analysis for receivables from exchange and receivables from non-exchange transactions that were used to calculate the value of the debt impairment and the amounts recorded in the financial statements. I was unable to confirm the debt impairment by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the debt impairment stated at R22 916 304 (2022: R80 393 089) in note 32 to the financial statements.

Fruitless and wasteful expenditure

28. The municipality did not include all instances of fruitless and wasteful expenditure in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. The municipality incurred fruitless and wasteful expenditure in the current and prior financial years on certain capital projects where there was no evidence that the goods and services were received. Consequently, this resulted in an understatement of the closing balance of fruitless and wasteful expenditure by R80 919 054 (2022: R76 977 903), as stated in note 46 to the financial statements.

Unauthorised expenditure

29. The municipality did not include all instances of unauthorised expenditure in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. Unauthorised expenditure incurred by the municipality for the spending of conditional grant money not used for its intended purpose was not disclosed in the financial statements. Consequently, this resulted in an understatement of the unauthorised expenditure by R16 061 489, as stated in note 45 to the financial statements.

Irregular expenditure

30. The municipality did not disclose all instances of irregular expenditure incurred in the notes to the financial statements as required by section 125(2)(d) of the MFMA. Expenditure was incurred in contravention of the supply chain management (SCM) requirements, resulting in irregular expenditure. I was unable to determine the full extent of the irregular expenditure stated at R255 210 142 (2022: R250 814 349) in note 47 to the financial statements as it was impractical to do so.

Commitments

31. I was unable to obtain sufficient appropriate audit evidence for commitments due to the status of the underlying accounting records. I was unable to confirm the commitments by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to commitments stated at R114 165 958 in note 40 to the financial statements.

Segment information

32. The municipality did not accurately disclose the segment information included in note 52 to the financial statements in accordance with GRAP 18, *Segment reporting*. This was due to multiple errors made in the total segment revenue and total segment expenditure included in the segment surplus or deficit as part of the segment information disclosure. I was unable to determine the full extent of the errors to the total segment revenue stated at R265 305 277 and total segment expenditure stated at R282 534 028 included in the segment surplus or deficit, included as part of the segment information disclosure as it was impractical to do so.

Net cash flow from operating activities

33. The municipality did not correctly prepare and disclose the net cash flows from operating activities as required by GRAP 2, *Cash flow statements*. This was due to multiple errors in determining the cash flows from operating activities. I was unable to determine the full extent of the errors in the net cash flows from operating activities as it was impractical to do so. Consequently, I was unable to determine whether any adjustments were necessary to cash flows from operating activities stated at R3 823 840 (2022: R17 947 469) in the financial statements.

Statement of comparison of budget and actual amounts

34. The municipality did not accurately account for the cash flow statement included in the statement of comparison of budget and actual amounts in accordance with GRAP 24, *Presentation of budget information in financial statements*. This was due to the actual amounts recorded in the cash flow statement included as part of the statement of comparison of budget and actual amount not agreeing to the cash flow statement. Consequently, I was unable to determine the full extent of the errors as it was impractical to do so. Additionally, reasons for all budget differences were not provided in note 53 to the financial statements, as required by the accounting standard.

Financial instruments disclosure

35. The municipality did not correctly disclose its financial assets and liabilities included as part of the financial instruments disclosure in note 39 to the financial statements in accordance with GRAP 104, *Financial instruments*. This was due to material differences being identified between the amounts disclosed for financial assets and financial liabilities in note 39 to the financial statements and the amounts recorded in the statement of financial position. In addition, the municipality did not correctly designate its financial liabilities at their fair value or amortised cost. I was unable to determine the full extent of the errors to the financial assets stated at R37 717 998 and financial liabilities stated at R371 518 389 included as part of the financial instrument disclosure in note 39 to the financial statements as it was impractical to do so.

Risk management

36. The municipality did not adequately disclose its liquidity risk included as part of the risk management disclosures in accordance with GRAP 104, *Financial instruments* as they did not consider and disclose all the financial liabilities in the maturity analysis, as required by the accounting standard. I was unable to determine the total extent of the misstatement stated at R154 604 320 (2022: R136 837 944) in note 42 to the financial statements as it was impractical to do so.

Total expenditure

37. Total expenditure was materially misstated by R3 383 962 due to the cumulative effect of individually immaterial uncorrected misstatements in the following items:

- Employee related costs stated at R90 555 353 was understated by R378 490

In addition, I was unable to obtain sufficient appropriate audit evidence and to confirm the following items by alternative means:

- Employee related costs for which evidence could not be obtained of R1 936 446 as included in the disclosed amount of R90 555 353
- Remuneration of councillors for which evidence could not be obtained of (R211 742) as included in the disclosed amount of R5 444 658
- Finance costs for which evidence could not be obtained of R2 037 748 as included in the disclosed amount of R17 832 769

Material uncertainty relating to going concern

38. I draw attention to the matter below. My opinion is not modified in respect of this matter.
39. Note 54 to the financial statements indicates that as at 30 June 2023, the municipality's current liabilities exceeded its current assets by R84 835 105. The municipality has been deducting pension and provident fund contributions from employees' salaries but has been unable to pay over these amounts deducted to the relevant third parties, as disclosed in note 54. 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.

Emphasis of matter

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

Restatement of corresponding figures

41. As disclosed in note 49 to the financial statements, the corresponding figures for 30 June 2022 were restated as a result of errors in the financial statements of the municipality at, and for the year ended 30 June 2023.

Other matters

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

Unaudited disclosure notes

43. In terms of section 125(2)(e) of the MFMA, the particulars of non-compliance with the MFMA should be disclosed 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 on it.

Responsibilities of the accounting officer for the financial statements

44. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the Standards of GRAP and the requirements of the MFMA and the Division of Revenue Act 5 of 2022 (Dora); and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
45. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern; disclosing, as applicable, matters relating to going concern; and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the auditor-general for the audit of the financial statements

46. My responsibility is to conduct an audit of the financial statements in accordance with the International Standards on Auditing and to issue an auditor's report. However, because of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.
47. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' International code of ethics for professional accountants (including International Independence Standards) (IESBA code), as well as the other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

Report on the audit of the annual performance report

48. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for selected key performance areas presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

49. I selected the following KPAs presented in the annual performance report for the year ended 30 June 2023 for auditing. I selected KPAs that measures the municipality's performance on its primary mandated functions and that is of significant national, community or public interest.

KPA	Page numbers	Objective
Basic service delivery and infrastructure development	XX	To improve access to portable water, dignified sanitation, trafficable roads and electricity
Environmental management and recreational facilities	XX	To keep Mohokare safe and clean

50. I was engaged to evaluate the KPAs against the criteria developed from the performance management and reporting framework, as defined in the general notice. An annual performance report prepared using these criteria provides useful and reliable information and insights to users of the report on the municipality's planning and delivery on its mandate and planned objectives. My objective was to perform procedures for the purpose of reporting material findings only; and not to express an assurance opinion or conclusion.
51. The material findings on the reported performance information for the selected KPAs are as follows:

Basic service delivery and infrastructure development

Smithfield/Mofulathpepe: phase 1 the construction of 1km paved access roads with related stormwater in Greenfield

52. A measure of bid evaluation and bid adjudication committees to sit with the target of appointing the contractor no later than 19 July 2023, was reported to improve the performance against the target of site handover to successful bidder (PSP) by June 2023. I could not determine if the measure was correct, as adequate supporting evidence was not provided for auditing. Consequently, I could not determine whether the reported measure was reliable.

Smithfield/Mofulathpepe: phase 2 the construction of 1km paved access roads with related stormwater in Greenfield

53. An achievement of not achieved for the phase 2 construction of 1km paved access roads with related stormwater in Greenfield was reported against a target of project registration by 30 June 2023. I could not determine if the reported achievement was correct, as adequate supporting evidence was not provided for auditing. The municipality could also not provide evidence to confirm that processes had been established to consistently measure and reliably report on this indicator. Additionally, the planned target for this indicator listed above was not specific in that it was not indicated how it would be measured. This was due to a lack of measurement definitions and processes and the information might be less useful for measuring performance. Consequently, I could not confirm the reliability of the reported

achievement or the measures reported to improve the performance against the target and the achievement might be better than reported.

Upgrading of Zastron water treatment works (WTW) phase 2

54. An achievement of achieved for the upgrading of Zastron WTW phase 2 was reported against a target of submission of a revised business plan for the upgrading of Zastron WTW phase 2. I could not determine if the reported achievement was correct, as adequate supporting evidence was not provided for auditing. The municipality could also not provide evidence to confirm that processes had been established to consistently measure and reliably report on this indicator. Additionally, the planned target for this indicator listed above was not specific in that it was not indicated how it would be measured. This was due to a lack of measurement definitions and processes and the information might be less useful for measuring performance. Furthermore, there was no link between the indicator of upgrading of Zastron WTW phase 2 and the planned target of submission of a revised business plan. Consequently, I could not confirm the reliability of the reported achievement and the achievement might be lower than reported.

8 000 formalised households provided with weekly waste removal services in all three (3) towns

55. An achievement of achieved for the 8 000 formalised households provided with weekly waste removal services in all 3 towns was reported against a target of provision of refuse removal from all households by end of June 2023. I could not determine if the reported achievement was correct, as adequate supporting evidence was not provided for auditing. The municipality could also not provide evidence to confirm that processes had been established to consistently measure and reliably report on this indicator. Additionally, the planned target for this indicator was not specific in that it was not indicated how it would be measured. This was due to a lack of measurement definitions and processes and the information might be less useful for measuring performance. Consequently, I could not confirm the reliability of the reported achievement and the achievement might be lower than reported.

Various indicators

56. The municipality could not provide evidence to confirm that processes had been established to consistently measure and reliably report the indicators listed below. This was due to a lack of measurement definitions and processes. Additionally, measures were reported to improve the performance against the targets, however I could not determine if the measure was correct, as adequate supporting evidence was not provided for auditing. Consequently, I could not determine whether the reported measures taken to improve performance were reliable.

Indicators	Planned Targets	Reported achievements
Smithfield/Mofulatshepe: The upgrading of the waste water outfall sewer	1,5km pipeline laid	Not achieved
Zastron/ Matlakeng: Upgrading of the outfall sewer line and refurbishment of sewer pump stations	Practical completion of the project by 30 June 2023	Not achieved

Zastron/ Matlakeng: The construction of a sewer network in Refengkhotoso	Site handover to successful bidder (PSP) by June 2023	Not achieved
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Various indicators

57. The municipality could not provide evidence to confirm that processes had been established to consistently measure and reliably report on the indicators listed below. This was due to a lack of measurement definitions and processes. Additionally, the planned target for the indicators listed below was not specific in that it was not indicated how it would be measured. Consequently, the information might be less useful for measuring performance. I could also not determine if the reported achievements or the measures taken to improve performance were correct, as adequate supporting evidence was not provided for auditing. Consequently, the achievements might be better than reported.

Indicators	Planned Targets	Reported achievements
Waste water quality management by 30 June 2023	Maintain dignified sanitation and submission of 20 wastewater quality samples to meet wastewater	Not achieved
Drinking water quality management by June 2023	Submission of 44 water quality samples to the laboratory to meet drinking water monitoring plan 30 June 2023	Not achieved

Environmental management and recreational facilities

58. I did not identify any material findings on the reported performance information for the environmental management and recreational facilities.

Other matters

59. I draw attention to the matter below.

Achievement of planned targets

60. The annual performance report includes information on reported achievements against planned targets and provides measures taken to improve performance. This information should be considered in the context of the material findings on the reported performance information.

Report on compliance with legislation

61. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting officer is responsible for the municipality's compliance with legislation.

62. I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.
63. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the municipality, clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.
64. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statements, performance reports and annual report

65. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of revenue, cash flow statement, statement of changes in net assets and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a disclaimer audit opinion.
66. The 2021-22 annual report was not tabled in the municipal council after the end of the financial year, as required by section 127(2) of the MFMA.

Procurement and contract management

67. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(1)(a) and (c). A similar non-compliance was also reported in the prior year.
68. 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). A similar non-compliance was also reported in the prior year.
69. Some of the quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
70. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).
71. 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. A similar non-compliance was also reported in the prior year.

72. The preference point system was not applied to some of the procurement of goods and services as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act 5 of 2000. A similar non-compliance was also reported in the prior year.
73. Sufficient appropriate audit evidence could not be obtained that construction contracts were awarded to contractors that were registered with the Construction Industry Development Board (CIDB) in accordance with section 18(1) of the CIDB Act 38 of 2000.
74. Sufficient appropriate audit evidence could not be obtained that contracts were extended or modified with the approval of a properly delegated official as required by SCM Regulation 5. A similar limitation was also reported in the prior year. This limitation was identified in the procurement processes for the following key projects:
- Construction of a 2km paved road and related storm water Roleleathunya (phase 1 - completion & phase 2)
 - Construction of a 1.7km paved road and related storm water Roleleathunya (phase 1)
 - Smithfield/Mofulatshepe: Refurbishment of the Water Treatment Works (WTW)
 - Upgrading of the Mofulatshepe sportsground
 - Zastron/Matlakeng: Upgrading of waste water pump stations and construction of a new outfall sewer line.
75. 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. A similar limitation was also reported in the prior year. This limitation was identified in the procurement processes for the following key projects:
- Construction of a 2km paved road and related storm water Roleleathunya (phase 1 - completion & phase 2)
 - Construction of a 1.7km paved road and related storm water Roleleathunya (phase 1)
 - Smithfield/Mofulatshepe: Refurbishment of the Water Treatment Works (WTW)
 - Upgrading of the Mofulatshepe sportsground
 - Zastron/Matlakeng: Upgrading of waste water pump stations and construction of a new outfall sewer line.
76. 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. A similar limitation was also reported in the prior year. This limitation was identified in the procurement processes for the following key projects:
- Construction of a 2km paved road and related storm water Roleleathunya (phase 1 - completion & phase 2)

- Smithfield/Mofulatshepe: Refurbishment of the Water Treatment Works (WTW)
- Zastron/Matlakeng: Upgrading of waste water pump stations and construction of a new outfall sewer line
- Construction of a 1.7km paved road and related storm water Roleleathunya (phase 1)
- Upgrading of the Mofulatshepe sportsground.

Expenditure management

77. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
78. I was unable to obtain sufficient appropriate audit evidence that payments from the municipality's bank accounts were approved by the accounting officer, the chief financial officer or a properly authorised official, as required by section 11(1) of the MFMA.
79. Reasonable steps were not taken to ensure that the municipality implements and maintains an effective system of expenditure control, including procedures for the approval, authorisation and payment of funds, as required by section 65(2)(a) of the MFMA.
80. 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 disclaimer paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance to supply chain management laws and regulations.
81. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the fruitless and wasteful expenditure incurred as indicated in the basis for disclaimer paragraph. The majority of the disclosed fruitless and wasteful expenditure was caused by interest charged on overdue supplier accounts.
82. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the unauthorised expenditure incurred as indicated in the basis for disclaimer paragraph. The majority of the disclosed unauthorised expenditure was caused by the overspending of the approved budget.
83. Expenditure was incurred in excess of the approved budget, in contravention of section 87(8) of the MFMA.

Utilisation of conditional grants

- 84. The municipal infrastructure grant was not spent for its intended purpose in accordance with the applicable grant framework, as required by section 16(1) of the Dora.
- 85. Performance in respect of programmes funded by the municipal infrastructure grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Dora.
- 86. The regional bulk infrastructure grant was not spent for its intended purpose in accordance with the applicable grant framework, as required by section 16(1) of the Dora.
- 87. Performance in respect of programmes funded by the regional bulk infrastructure grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Dora.
- 88. The water services infrastructure grant was not spent for its intended purposes in accordance with the applicable grant framework, as required by section 16(1) of the Dora.
- 89. Performance in respect of programmes funded by the water services infrastructure grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Dora.

Consequence management

- 90. 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.
- 91. 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.
- 92. 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.

Strategic planning and performance management

- 93. The service delivery budget implementation plan for the year under review did not include monthly revenue projections by source of collection and the monthly operational and capital expenditure by vote, as required by section 1 of the MFMA.
- 94. Amendments to the integrated development plan were made without consultation with the district municipality, as required by municipal planning and performance management regulation 3(6)(a).

Revenue management

- 95. An adequate management, accounting and information system which accounts for debtors and revenue was not in place, as required by section 64(2)(e) of the MFMA.

96. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.
97. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.
98. I was unable to obtain sufficient appropriate audit evidence that accounts for municipal tax and charges for municipal services were prepared on a monthly basis, as required by section 64(2)(c) of the MFMA.
99. 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.

Asset management

100. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
101. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Human resource management

102. Some of the senior managers did not sign performance agreements within the prescribed period, as required by section 57(2)(a) of the Municipal Systems Act 32 of 2000.

Other information in the annual report

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

Internal control deficiencies

107. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
108. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the disclaimer of opinion and, the material findings on the annual performance report and the material findings on compliance with legislation included in this report.
109. There was significant instability in senior management of the municipality, including specifically the position of municipal manager and chief financial officer. The instability resulted in ineffective oversight which contributed to unreliable financial and performance reporting and weaknesses in the daily and monthly internal control environment, which contributed to the regression to a disclaimed audit opinion.
110. Supporting documentation was not adequately safeguarded and processes for effective records management not implemented, monitored and controlled. The lack of availability of supporting evidence resulted in the auditors not being able to confirm account balances, classes of transactions, disclosures and reported performance information, which contributed to the regression to a disclaimed audit opinion.
111. The political and administrative leadership did not prioritise the external audit and was slow in their responses to the requests for information and communications from the auditors.
112. Governance structures in the municipality including the audit committee, the municipal public accounts committee, the finance committee, the disciplinary board and the internal audit did not function effectively during the year. The structures were not effectively supported by the political and administrative leadership of the municipality.

Auditor General

Bloemfontein

25 March 2024



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

1. The annexure includes the following:
 - The auditor-general's responsibility for the audit
 - The selected legislative requirements for compliance testing

Auditor-general's responsibility for the audit

Professional judgement and professional scepticism

2. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected KPAs and on the municipality's compliance with selected requirements in key legislation.

Financial statements

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

Communication with those charged with governance

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

Compliance with legislation – selected legislative requirements

6. The selected legislative requirements are as follows:

Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003	Section 1 - Paragraph (a), (b) & (d) of the definition: irregular expenditure, Section 1 - Definition: service delivery and budget implementation plan, Sections 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 29(1), Sections 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b), Sections 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 62(1)(f)(i), Sections 62(1)(f)(ii), 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b), Sections 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), Sections 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), Sections 122(2), 126(1)(a), 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), Sections 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, Sections 171(4)(a), 171(4)(b)
MFMA: Municipal Budget and Reporting Regulations, 2009	Regulations 71(1), 71(2), 72
MFMA: Municipal Investment Regulations, 2005	Regulations 3(1)(a), 3(3), 6, 7, 12(2), 12(3)
MFMA: Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014	Regulations 5(4), 6(8)(a), 6(8)(b), 10(1)
MFMA: Municipal Supply Chain Management Regulations, 2017	Regulations 5, 12(1)(c), 12(3), 13(b), 13(c), 13(c)(i), 16(a), 17(1)(a) Regulations 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a) Regulations 27(2)(e), 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a), 29(1)(b) Regulations 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c) Regulations 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43 Regulations 44, 46(2)(e), 46(2)(f)
Municipal Systems Act 32 of 2000	Sections 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 29(3)(b), 34(a), 34(b) Sections 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), 56(a), 57(2)(a) Sections 57(4B), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 93J(1), 96(b)
MSA: Municipal Planning and performance Management Regulations, 2001	Regulations 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 3(6)(a), 7(1), 8, 9(1)(a), 10(a), Regulations 12(1), 15(1)(a)(i), 15(1)(a)(ii)
MSA: Municipal Performance Regulations for Municipal Managers and Managers directly Accountable to Municipal Managers, 2006	Regulations 2(3)(a), 4(4)(b), 8(1), 8(2), 8(3)
MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations 17(2), 36(1)(a)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2), 5(3), 5(6), 8(4)
Annual Division of Revenue Act	Section 11(6)(b), 12(5), 16(1); 16(3)
Construction Industry Development Board Act 38 of 2000	Section 18(1)
Construction Industry Development Board Regulations	Regulations 17, 25(7A)
Municipal Property Rates Act 6 of 2004	Section 3(1)
Preferential Procurement Policy Framework Act 5 of 2000	Sections 2(1)(a), 2(1)(f)
Preferential Procurement Regulations, 2017	Regulations 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8) Regulations 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5) 9(1), 10(1), 10(2) Regulations 11(1), 11(2)
Preferential Procurement Regulations, 2022	Regulations 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4)
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section 34(1)