

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

Qualified opinion

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

Basis for qualified opinion

Receivables from exchange transactions

3. I was unable to obtain sufficient appropriate audit evidence for receivables from exchange transactions due to material differences between the debtor's sub-ledger and 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 R8 233 123 (2021: R8 872 082) in note 4 to the financial statements.

Property, plant and equipment

4. I was unable to obtain sufficient appropriate audit evidence for the infrastructure, infrastructure – work in progress and change in estimate included in the reconciliation of property, plant and equipment in note 11 to the financial statements due to the status of the accounting records. I was unable to confirm the infrastructure and infrastructure - work in progress assets by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the infrastructure assets stated at R619 010 942 (2021: R602 059 417) in note 11 to the financial statements.
5. In addition, the municipality did not account for infrastructure - work in progress in accordance with GRAP 17, *Property, Plant and Equipment* as differences were identified between the fixed asset register and the financial statements. This resulted in an overstatement of infrastructure – work in progress by R8 047 613 and impairment of assets was understated by the same amount. The municipality also as they incorrectly capitalised project costs for work not performed on these projects, resulting in an overstatement of infrastructure - work in

progress by R26 689 626, and receivables from exchange transactions were also understated by the same amount.

6. Furthermore, we could 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. There was also an impact on accumulated depreciation and accumulated impairment, depreciation and amortisation, the deficit for the year and the accumulated surplus.

Employee benefit obligations

7. The municipality did not calculate the post-retirement health care benefit liability 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 misstatements to employee benefit obligations, actuarial losses and finance costs as it was impracticable to do so. In addition, there was an impact on the deficit for the year and the accumulated surplus.

Provisions

8. 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 provisions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the R22 631 434 disclosed note 18 to the financial statements.
9. In addition, the municipality did not account for the provision for environmental rehabilitation in accordance with GRAP 19, *Provisions* as they did not record the current portion of the environmental rehabilitation liability due in the next 12 months as a result of illegal landfill activities taking place. Consequently, I was unable to determine the full extent of the impact of the misstatement on the provision for environmental rehabilitation liability as it was impracticable to do so.

Payables from exchange transactions

10. I was unable to obtain sufficient appropriate audit evidence for the non-current and current portion of the payables from exchange transactions due to material differences identified between the general ledger and financial statements. The municipality also could not provide adequate supporting evidence to confirm the staff salaries and third parties sub-line item included in note 13 to the financial statements. I could not confirm the payables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to payables from exchange transactions stated at R215 032 350 in note 13 to the financial statements.

11. In addition, 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 included 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 receivables

12. I was unable to obtain sufficient appropriate audit evidence for VAT receivables due to material differences between the debtor's sub-ledger and financial statements. I was unable to confirm the VAT receivables by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to VAT receivables stated at R21 626 486 in note 6 to the financial statements.

Service charges

13. 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 R86 913 170 (2021: R89 994 930) in note 19 to the financial statements.

14. In addition, the municipality did not recognise service charges in accordance with GRAP 9, *Revenue from exchange transactions*. Service charges were not billed and recorded for all properties, while incorrect water readings were captured in some instances, resulting in incorrect billing of consumer accounts. Consequently, I was unable to determine the full extent of the misstatements to service charges, and receivables from exchange transactions, as it was impracticable to do so. There was an impact on the deficit for the year and the accumulated surplus.

Property rates

15. The municipality did not record property rates in accordance with GRAP 23, *Revenue from non-exchange transactions*, as differences were identified between the valuation roll and financial statements. Consequently, property rates stated in note 25 to the financial statements were overstated by R16 263 860 and receivables from non-exchange were also overstated by the same amount. In addition, there was an impact on the deficit for the year and the accumulated surplus.

Government grants and subsidies

16. I was unable to obtain sufficient appropriate audit evidence for government grants and subsidies as the municipality could not provide adequate supporting evidence such as the payment vouchers, statements and/or invoices for transactions recorded in the general ledger. I was unable to confirm 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 an amount of R131 018 798 in note 27 to the financial statements.

17. In addition, the municipality did not record government grants and subsidies in accordance with GRAP 23, *Revenue from non-exchange transactions* as they did not record government grant and subsidies revenue in accordance with the conditions of the grants. Consequently, government grants and subsidies and unspent conditional grants were overstated by R9 915 535. There was also an impact on the deficit for the year and the accumulated surplus.

Debt impairment

18. I was unable to obtain sufficient appropriate audit evidence for debt impairment due to material differences between the supporting schedules and 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 R80 393 089 in note 34 to the financial statements.

General expenses

19. I was unable to obtain sufficient appropriate audit evidence to confirm that general expenses were only recognised where the goods and services were actually received and utilised. I was unable to confirm the general expenses by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the general expenses stated at R42 267 411 (2021: R37 208 114) in note 37 to the financial statements.

20. In addition, the municipality did not account for general expenses in accordance with GRAP 1, *Presentation of financial statements*, as some general expenses were incorrectly classified, while some expenditure items were recorded in the incorrect financial year. Consequently, general expenditure was overstated by R4 641 449 and payables from exchange transactions were understated by the same amount. There was also an impact on the deficit for the year and the accumulated surplus.

Interest received on outstanding debtors

21. I was unable to obtain sufficient appropriate audit evidence for interest received on outstanding debtors due to material differences between the debtor's sub-ledger and 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 stated at R22 203 177 in note 21 to the financial statements.

Irregular expenditure

22. 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. The municipality made payments in contravention of the supply chain management (SCM) requirements, which were identified during the year. I was unable to determine the full extent of the understatement of the irregular expenditure stated at R250 516 347 (2021: R231 158 524) in note 47 of the financial statements, as it was impracticable to do so.

Fruitless and wasteful expenditure

23. The municipality did not disclose all instances of fruitless and wasteful expenditure incurred in the notes to the financial statements as required by section 125(2)(d) of the MFMA. Consequently, I was unable to determine the full extent of the understatement of the fruitless and wasteful expenditure stated at R27 970 989 (2021: R55 662 151) in note 46 of the financial statements, as it was impracticable to do so.

Commitments

24. The municipality did not disclose all contractual commitments for the acquisition of property, plant and equipment in accordance with GRAP 17, *Property, Plant and Equipment*. Consequently, commitments disclosed in note 40 to the financial statements were understated by R39 419 440.

Net cash flows from operating activities

25. 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 cash flows from operating activities. I was not able to determine the full extent of the errors in the net cash flows from operating activities as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to cash flows from operating activities as stated at R19 467 194 in the financial statements were necessary.

Risk management

26. The municipality did not make adequate disclosures on risk management as they did not disclose all financial assets and liabilities in note 42 to the financial statements as required by GRAP 104: *Financial Instruments*. This resulted in the financial statements being materially misstated. I was unable to determine the full extent of the misstatements as it was impracticable to do so.

Total expenditure

27. Total expenditure was materially misstated by R3 699 787 due to the cumulative effect of individually immaterial uncorrected misstatements in the following items:
- Contracted services stated at R9 298 904 were overstated by R1 658 799.
 - Impairment of assets stated at R4 264 686 was overstated by R1 062 938.
 - Finance cost stated at R18 508 279 was overstated by R379 768.
 - Employee-related costs stated at R84 057 139 were understated by R269 434.

In addition, I was unable to obtain sufficient appropriate audit evidence for expenditure by alternative means:

- Contracted services for which evidence could not be obtained of R867 717 as included in the disclosed balance of R9 298 904.

Context for the opinion

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

Material uncertainty relating to going concern

31. I draw attention to the matter below. My opinion is not modified in respect of this matter.
32. Note 54 to the financial statements indicates that the municipality incurred a deficit of R50 296 282 during the year ended 30 June 2022 and, as of that date the municipality's current liabilities exceeded its current assets by R136 469 833. As disclosed in note 13, the municipality had been deducting pension and provident fund contributions from the employee's salaries but was unable to pay over R109 006 165 (2021: R104 662 964) of these amounts deducted to the relevant third parties. 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 matters

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

Unauthorised expenditure

34. As disclosed in note 45 to the financial statements, the municipality incurred unauthorised expenditure of R138 725 706 (2021: R65 835 067), due to overspending of the budget.

Restatement of corresponding figures

35. 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

36. 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 illegal electricity connections.

Material uncertainty relating to claims against the municipality

37. 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.

Other matter

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

Unaudited disclosure notes

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

Responsibilities of the accounting officer for the financial statements

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

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

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

Report on the audit of the annual performance report

Introduction and scope

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

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

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

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

KPA 1 - basic service delivery and infrastructure development

Various indicators

47. I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance against the targets listed below as reported in the annual performance report. This was due to limitations placed on the scope of my work as the municipality was unable to provide adequate supporting evidence for the reported corrective measures taken/to be taken to improve performance. I was unable to confirm the reported measures taken by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported measures taken to improve performance.

Indicator descriptions	Planned targets	Reported achievements
Zastron/Matlakeng: Upgrading of the outfall sewer line and refurbishment of sewer pump stations	Practical completion of the project by 30 December 2021	Not achieved
Upgrading of the Zastron water treatment works (WTW)	Practical completion of the project by 30 September 2021	Not achieved
Upgrading of the Rouxville water treatment works	Practical completion of the project by 30 December 2021	Not achieved
Smithfield/Mofulatshepe: The upgrading of the outfall sewer	Contractor site hand over by 30 December 2021	Not achieved
Provide 10 793 of formal household with water MLM daily	Provision of 2 080.5 ml purified water by 30 June 2022	Not achieved

Indicator descriptions	Planned targets	Reported achievements
Indicator: Wastewater quality management by 30 June 2022	Maintain dignified sanitation and submission of 22 waste water quality samples to meet waste water monitoring plan by June 2022	Not achieved
Drinking water quality management by June 2022	Submission of 11,5 drinking water quality samples to accredited laboratory for testing by 30 June 2022	Not achieved
Rouxville/Roleleathunya: Electrification of households 186 in Extension 6	Electrification of 186 HH in extension 10 by 30 June 2022	Not achieved
Zastron/Matlakeng: Electrification of 300 households in extension 10	Electrification of 300 HH in extension 10 by 30 June 2022	Not achieved

Other matters

48. I draw attention to the matters below.

Achievement of planned targets

49. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year and management's explanations provided for the under/over achievement of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraph 46 of this report.

Adjustment of material misstatements

50. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of basic services and infrastructure development. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Report on the audit of compliance with legislation

Introduction and scope

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

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

Annual financial statements and annual reports

53. 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 expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and/or the supporting records were provided subsequently, but the uncorrected material misstatements and/or supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.
54. 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.
55. 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.
56. 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.
57. 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.

Asset management

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

Revenue management

60. 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.
61. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.
62. 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.
63. 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.
64. 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.

Expenditure management

65. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
66. I was unable to obtain sufficient appropriate audit evidence that payments from the municipality's bank accounts were approved by the accounting officer, as required by section 11(1) of the MFMA.
67. 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.
68. 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.
69. 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 being followed.
70. 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 as indicated in the basis for qualification paragraph. The majority of the disclosed fruitless and wasteful expenditure was caused by the interest charged on late payments.
71. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R138 725 706, 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 of the budget vote.

Human resource management

72. An approved staff establishment was not in place, as required by section 66(1)(a) of the Municipal Systems Act 32 of 2000 (MSA).
73. 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.

Procurement and contract management

74. 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.

75. 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).
76. 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).
77. 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 2017 preferential procurement regulations.
78. 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.
79. The preference point system was not applied to 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 5 of 2000.
80. Contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5.
81. 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.
82. 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.
83. Awards were made to providers who were in the service of other state institutions or whose directors 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

84. 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.
85. Some of the unauthorised expenditure were certified by council as irrecoverable without having conducted an investigation to determine the recoverability of the expenditure, in contravention of section 32(2)(a)(ii) of the MFMA.
86. Authorisation of unauthorised expenditure amounting to R321 421 314 was not done through an adjustment budget, as required by section 32(2)(a)(i) of the MFMA.

87. 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.
88. 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.
89. 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.

Other information

90. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and the KPA presented in the annual performance report that has been specifically reported in this auditor's report.
91. My opinion on the financial statements and findings on the reported performance information and compliance with legislation does not cover the other information and I do not express an audit opinion or any form of assurance conclusion on it.
92. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected KPA presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
93. 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

94. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
95. 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.

96. 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. In addition, there was no skills transfer and training provided by consultants, consequently, consultants assumed the role of management in terms of financial statements preparation, reconciliation of records and supporting documentation.
97. Management was slow to respond to the previous year's recommendations of the external auditors, resulting in repeat material misstatements in the financial statements, annual performance report and non-compliance with legislation that could have been prevented.

Material irregularities

98. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit. The material irregularity identified is as follows:

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

99. The annual financial statements for the year ending 30 June 2022 were not submitted to the auditor-general for auditing within two months after the end of the financial year (31 August 2022), as required by section 126(1)(a) of the MFMA. The non-submission of the annual financial statements for auditing, and the subsequent non-tabling of the annual report, is likely to result in substantial harm to the municipality, as there is a lack of accountability and transparency for the fiscal and financial affairs of the municipality. This is due to the legislative processes that follow after the submission of the annual financial statements relating to the financial year ending 30 June 2022 being delayed or not implemented.
100. The accounting officer was notified of this material irregularity on 23 September 2022 and invited to make a written submission on the actions taken and that will be taken to address the matter. The accounting officer submitted the annual financial statements for auditing on 30 November 2022.
101. Therefore the material irregularity has been resolved.

Other reports

102. In addition to the investigations relating to material irregularities, I draw attention to the following engagements conducted by various parties which had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

103. The member of the executive authority responsible for Cooperative Governance and Traditional Affairs (CoGTA) has initiated an investigation in terms of section 106 of the MSA into possible maladministration at the municipality. At the time of this report, the outcome was not communicated to the municipality and therefore, the impact on this report was not determined.

Auditor General

Bloemfontein

01 March 2023



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

104. 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 the selected KPA and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

105. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:

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

Communication with those charged with governance

106. 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.

107. I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.