

Report of the auditor-general to the Free State 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 xx to which comprise the statement of financial position as at 30 June 2020, statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects and the possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Mohokare Local Municipality as at 30 June 2020, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 16 of 2019 (Dora).

Basis for qualified opinion

Property, plant and equipment

3. The municipality did not account for property, plant and equipment in accordance with GRAP17, Property, plant and equipment. Properties that were held for rental were incorrectly disclosed as property, plant and equipment. Consequently, property, plant and equipment was overstated and investment properties understated by R1 590 614. In addition, I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment as I was unable to physically verify certain of the municipality's assets and, furthermore, could not obtain supporting calculations for the impairment assessment of assets. I was also unable to obtain sufficient appropriate audit evidence that the municipality had recognised all their assets in their fixed asset register due to insufficient detail in the asset register. I was unable to confirm property, plant and equipment by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to property, plant and equipment stated at R602 616 655 (2019: R596 645 180) in note 10 to the financial statements. There was also a resultant impact on depreciation and amortisation and impairment of assets.

Irregular expenditure

4. 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 not disclosed. I was unable to determine the full extent of the understatement of irregular

expenditure, stated at R40 630 065 (2019: R37 052 392) in note 44 10 the financial statements, as it was impracticable to do so.

Service charges

5. The municipality did not recognise revenue from service charges in accordance with GRAP 9, Revenue from exchange transactions. Adequate systems were not implemented to ensure that consumers were only billed for services they received, at the correct tariffs, or that estimates were correctly made where actual readings were not taken. I was unable to determine the full extent of the misstatement, as it was impracticable to do so. In addition, I was unable to confirm that consumers registered as indigent, qualified for the reduced tariffs for the services they received as approved indigent application forms were not provided. Consequently, I was unable to determine whether any further adjustments were necessary to service charges stated at R87 320 126 (2019: R79 800 070) in note 17 to the financial statements. There was also a resultant impact on receivables from exchange transactions and VAT receivable.

General expenses

6. 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 for official purposes. I was unable to confirm general expenses by alternative means.
Consequently, I was unable to determine whether any adjustments were necessary to general expenses stated at R39 067 905 in note 32 to the financial statements.

Employee related cost

7. During 2019, the municipality incorrectly calculated the overtime paid to employees. As a result, employee related cost stated at R73 946 730 in note 24 was overstated by R4 258 876.
Additionally, there was an impact for the surplus for that period and the accumulated surplus. My audit opinion on the financial statements for the period ended 30 June 2019 was modified accordingly. My opinion on the current year's financial statements was also modified because of the effect of this matter on the comparability of employee related costs for the current period.

Payables from exchange transactions

8. During 2019, the municipality did not have adequate systems to maintain records of accounts payable for goods and services received but not yet paid. As a result, payables from exchange transactions stated at R 132 163 571 in note 13 was understated by R9 604 326. My audit opinion of the financial statements for the period ended 30 June 2019 was modified accordingly. My opinion on the current year's financial statements was also modified because of the effect of this matter on the comparability of payables from exchange transactions for the current period.

Context for the opinion

9. 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 this auditors report.

10. 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.
11. 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

12. I draw attention to the matter below. My opinion is not modified in respect of this matter.
13. Note 40 to the financial statements indicates that the municipality's current liabilities exceeded its current assets by R 144 813 540. In addition, the municipality has been deducting pension and provident fund contributions from employees' salaries, but has not been able to pay the amounts over to these third parties. These events or conditions, along with other matters as set forth in note 40, 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

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

Unauthorised expenditure

15. As disclosed in note 42 to the financial statements, the municipality incurred unauthorised expenditure of R80 356 139 (2019: R69 647 451) due to overspending of the approved budget.

Fruitless and wasteful expenditure

16. As disclosed in note 43 to the financial statements, fruitless and wasteful expenditure of R18 969 559 (2019: R9 321 508) was incurred, mainly due to interest on arrear payments to creditors.

Restatement of corresponding figures

17. As disclosed in note 52 to the financial statements, the corresponding figures for 30 June 2019 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2020.

Underspending of conditional grants

18. As disclosed in note 23 to the financial statements, the municipality had unspent balances in the municipal infrastructure grant of R7 623 819 (2019: R4 643 805) and the regional bulk infrastructure grant of R23 526 286 (2019: R18 908 835).

Material losses

19. As disclosed in note 45 to the financial statements, material electricity distribution losses of R6 258 690 (2019: R5 115 979) were incurred by the municipality mainly due to tampering with meters, faulty meters and illegal connections.

Material impairment

20. As disclosed in notes 4 and 5 to the financial statements, receivables from exchange transactions and receivables from non-exchange transactions were impaired by R389 558 377 (2019: R349 396 369).

Other matters

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

Unaudited disclosure notes

22. 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 on it.

Unaudited supplementary schedules

23. The supplementary information set out on pages XXto XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on thereon.

Responsibilities of the accounting officer for the financial statements

24. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA, 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.
25. 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

26. 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.

27. 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

28. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected key performance areas (KPAs) in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
29. My procedures address the usefulness and reliability of the reported performance information, which must be based on the municipality's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators/measures included in the planning documents. My procedures do not examine whether the actions taken by the municipality enabled service delivery. My procedures also do not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
30. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected KPA presented in the municipality's annual performance report for the year ended 30 June 2020:

KPA	Pages in the annual performance report
KPA 1 - Basic service delivery and infrastructure development	x—x

31. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
32. The material findings in respect of the usefulness and reliability of the selected development priority is as follows:

KPA 1 — Basic service delivery and infrastructure development

Construction of a 27km long raw bulk water pipeline from the Orange River to Paisley dam in Rouxville

33. The reported target of Practical completion of the project by 30 June 2020 did not agree to the planned target of Practical completion of the project by 30 June 2020, 30% physical progress on site as per the approved service delivery budget implementation plan (SDBIP).
34. The target of Practical completion of the project by 30 June 2020, 30% physical progress on site per the approved SDBIP was changed without the necessary approval.

Provide 10793 of households with water in MI-M daily

35. The planned indicator was Provide 10793 of households with water in MI-M daily, but the planned target and reported achievement referred to were 2080.5 mega litre of purified water and 2407.56 mega litre of purified water respectively.
36. The planned target of 2080.5 mega litre of purified water for this indicator did not specify the period for delivery.

Various indicators

37. I was unable to obtain sufficient appropriate audit evidence to support the measures taken or to be taken to improve performance as reported in the annual performance report. This was due to limitations placed on the scope of my work and the reasons provided were not specific and verifiable. 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 description	Planned target	Reported achievement
Construction of a 27 km-long raw bulk water pipeline from the Orange River to Paisley Dam in Rouxville	Practical completion of the project by 30 June 2020	Not achieved Actual achievement is 17% physical progress on site
Upgrading of the Zastron Water Treatment Works (WIW)	Practical completion of the project by 30 March 2020	Not achieved Actual achievement is 65% physical progress on site
Indicator description	Planned target	Reported achievement
To execute work amounting to R30 000 000,00 on the (regional bulk infrastructure grant) RBIG by 30 June 2020	R30 000 000,00 (accumulative) certified as work done on the RBIG by 30 June 2020	Not achieved R21 402 650 work certified as complete by 30 June 2020
To execute work amounting to R30 000 000 00 on the (water services infrastructure grant) WSIG June 2020	R30 000 000,00 (accumulative) certified as work done on the WSIG by 30 June 2020	Not achieved R29 065 687,16 work certified as complete by 30 June 2020

To execute work amounting to R17 991 000,00 on the (municipal infrastructure grant) MIG by June 2020	R17 991 000,00 (accumulative) certified as work done on the MIG by 30 June 2020	Not achieved R8 389 508,10 work certified as complete by 30 June 2020
Rouxville/Roleleathunya: upgrading of the waste water treatment works (WWTW)	Appointment of a contractor to establish site before 30 June 2020	Not achieved Tender was advertised and closed; however, the appointment could not be concluded

Various indicators

38. I was unable to obtain sufficient appropriate audit evidence for the reported achievements of six of the 12 indicators relating to this key performance area. This was due to the lack of accurate and complete records. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements in the annual performance report for the indicators listed below.

Indicator description	Reported achievement
Installation of on-site sanitation units for 410 households in Refengkhotoso	Achieved: 110 household units were installed on-site at Refengkgotso by 30 June 2020
Zastron/Matlakeng: upgrading of the outfall sewer line and refurbishment of sewer pump stations	Achieved: Actual achievement is 38,3% physical progress on site at 30 June 2020
Upgrading of the Zastron Water Treatment Works (WTW)	Not achieved: Actual achievement is 65% physical progress on site
Construction of an abstraction works on the Orange River and equipping of x2 raw water pump stations with M&E	Achieved: Actual achievement is 51%
Waste water quality management by 30 June 2020	Achieved: Green drop compliance status, was achieved by 30 June 2020
Drinking water quality management by June 2020	Achieved: Blue drop compliance status was achieved by 30 June 2020

Other matters

39. I draw attention to the matters below.

Achievement of planned targets

40. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 33 to 38 of this report.

Adjustment of material misstatements

41. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of KPA 1: Basic service delivery 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

42. 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.
43. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements and annual reports

44. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets and revenue identified by the auditors in the submitted financial statements

were subsequently corrected, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

45. The annual financial statements were not submitted to the auditor-general, for auditing, within four months after the end of the financial year, as required by section 126(1)(a) of the MFMA.
46. The council failed to adopt an oversight report containing the council's comments on the 2018/19 annual report, as required by section 129(1) of the MFMA.

Expenditure management

47. Money owed by the municipality was not always paid within 30 days, as required by section 65(2) of the MFMA.

48. 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.
49. Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R18 969 559, as disclosed in note 43 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA
50. Reasonable steps were not taken to prevent unauthorised expenditure of R80 326 139, as disclosed in note 42 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.

Revenue management

51. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.
52. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the ME-MA.

Consequence management

53. Unauthorised expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(a) of the MFMA.
54. Irregular expenditure incurred by the municipality were not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.
55. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(b) of the ME-MA.

Conditional grants

56. The municipal infrastructure grant and regional bulk infrastructure grant was not spent for its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of the Dora.

Asset management

57. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the ME-MA.

Strategic planning and performance management

58. No KPAs were set in respect of the provision of solid waste removal services, as required by section 43(2) of the Municipal Systems Act 32 of 2000 and municipal planning and performance management regulation 10(a).

59. The performance management system and related controls were not maintained and implemented to ensure sufficient appropriate audit evidence, which ensures that systems and processes established enable consistent measurement and reliable reporting of processes, as required by municipal planning and performance management regulation).

Procurement and contract management

60. Sufficient appropriate audit evidence could not be obtained that all contracts were awarded in accordance with the legislative requirements because not all tender documents were submitted.

61. Some of the quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). Similar non-compliance was also reported in the prior year.

62. Some of the quotations were accepted from bidders whose tax matters had not been declared by the SARS to be in order, in contravention of SCM regulation 43. Similar non-compliance was also reported in the prior year.

63. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Similar non-compliance was also reported in the prior year.

64. Some of the invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM regulation 22(1) and 22(2).

65. Some of the competitive bids were adjudicated by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2). Similar non-compliance was also reported in the prior year.

66. Sufficient appropriate audit evidence could not be obtained that contracts were awarded only to bidders who submitted a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). Similar non-compliance was also reported in the prior year.

67. Some of the contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43. Similar non-compliance was also reported in the prior year.

68. Some of the contracts and quotations were awarded to bidders based on preference points that were not allocated and calculated in accordance with the requirements of the PPPFA and its regulations. Similar non-compliance was also reported in the prior year.

69. Some of the contracts were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of and Preferential Procurement Regulations (PPR). Similar non-compliance was also reported in the prior year.

70. Some of the contracts were awarded to bidders based on functionality criteria that were not stipulated in the original invitation for bidding, in contravention of PPR.
71. 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 No 38 of 2000.
72. Some of the bid documentation for procurement of commodities designated for local content and production, did not stipulated the minimum threshold for local production and content as required by the 2017 PPR 8(2). Similar non-compliance was also reported in the prior year.
73. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year.
74. The contract performance and monitoring measures and methods were not sufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA. Similar non-compliance was also reported in the prior year.

Other information

75. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and the selected KPA presented in the annual performance report that has been specifically reported in this auditor's report.
76. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion on it.
77. 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.
78. 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

79. 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.

80. Management was slow to respond to the previous year's recommendations of the external auditors, again resulting in material misstatements in the financial statements, annual performance report and non-compliance with legislation that could have been prevented.
81. 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.
82. The lack of consequence management at the municipality resulted in officials not being held accountable for irregular, unauthorised, and fruitless and wasteful expenditure incurred in the current and previous financial years.
83. 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.

A aeemy(

Bloemfontein

31 March 2021



A U D I T O R - G E N E R A L
S O U T H A F R I C A Auditing to

build public confidence

Annexure — Auditor-general's responsibility for the audit

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

Financial statements

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
- conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the 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

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