

Report of the auditor-general to the Free State Legislature and the council on 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 2021, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information 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 my report, the financial statements present fairly, in all material respects, the financial position of the Mohokare Local Municipality as at 30 June 2021, 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 and the Division of Revenue Act 10 of 2020) (Dora).

Basis for qualified opinion

Service charges

3. 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 service. 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 R 90 316 026 (2020: R 87 320 126) in note 19 to the financial statements.

In addition, the municipality did not recognise revenue from service charges in accordance with GRAP 9, Revenue from exchange transactions. Services were levied at incorrect tariffs resulting in service charges and receivables from exchange transactions being understated by R10 641 557 (2020: R3 918 280 (overstatement)), respectively. This also has an impact on the surplus for the period and on the accumulated surplus.

Furthermore, the municipality made use of estimates for consumption over prolonged periods without any actual meter reading record on the billing system, which owing to the nature of the internal control, it was not practical to quantify what the amounts should be. This also has an impact on the surplus for the period and on the accumulated surplus.

Receivables from exchange transactions

4. The municipality did not ensure that particulars of consumer debtors were adequately described and that no differences exist between the debtors ageing according to the debtors' sub-ledgers and the financial statements. Consequently, the receivables from exchange transactions is overstated by R80 266 542.

Property, plant and equipment

5. I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment as the municipality did not have adequate systems in place that ensured that relevant supporting records were available that support work in progress assets and that assets which could not be traced through physical verifications, actually exist. I was unable to confirm the property, plant and equipment by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to property, plant and equipment stated at R652 077 460 (2020: R594 622 882) in note 05 to the financial statements.

In addition, the municipality did not evaluate and review the expected useful lives of certain categories of assets which are still in use but disclosed at zero balances in the assets register of the municipality in accordance with GRAP 17, Property, Plant and Equipment. Furthermore, the municipality did not review items of PPE to determine what the appropriate amount for the impairment of PPE should be and that is based on the conditions of these assets as required by GRAP 21 Impairment of Non- Cash-Generating Assets and GRAP 26 Impairment of Cash- Generating Assets, consequently, impairment of assets expenditure is overstated by R 5 236 279.

Irregular Expenditure

6. 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 also made payments in contravention of the supply chain management (SCM) requirements, which were identified during the year. Owing to the nature of these investigations to conclude on the validity of irregular expenditure, I was unable to determine the full extent of the understatement of irregular expenditure, stated at R 24 803 506 (2020: R40 630 065) in the note 48 to the financial statements, as it was impracticable to do so.

General Expenses

7. 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 the general expenses stated at R37 208 114 (2020: R39 115 820) in note 34 to the financial statements.

Context for the opinion

8. 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.
9. 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.
10. 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

11. I draw attention to the matter below. My opinion is not modified in respect of this matter.
12. Note 44 to the financial statements indicates that as at 30 June 2021, the municipality's current liabilities exceeded its current assets by R100 461 835. In addition, the municipality has been deducting pension, medical aid, pay as you earn from employee's salaries, but has been unable to pay over R33 722 078 (2020: R28 592 012) of these amounts deducted to the relevant third parties as disclosed in note 17. In addition, the municipality owed Centlec State-owned company that is the municipality's electricity supplier, R47 419 884 (2020: R41 494 840) as disclosed in note 15 as at 30 June 2021, which was long overdue. These events or conditions, along with other matters as set forth in note 44, 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

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

Unauthorised expenditure

As disclosed in note 46 to the financial statements, the municipality incurred unauthorised expenditure of R 53 672 874 (2020: R 80 144 907), due to overspending of the budget.

Restatement of corresponding figures

14. As disclosed in note 41 to the financial statements, the corresponding figures for 30 June 2020 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2021.

Other matters

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

Unaudited disclosure notes

16. 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.

Unaudited supplementary schedules

17. The supplementary information set out on pages XX to 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 them.

Responsibilities of the accounting officer for the financial statements

18. 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.
19. 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

20. 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.
21. 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

22. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected key performance areas (KPAs) presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
23. 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 included in the planning documents. My procedures do not examine whether the actions taken by the municipality enabled service delivery. My procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
24. 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 2021:

KPA	Pages in the annual performance report
KPA 1 – Basic Service Delivery	x – x

25. 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.
26. The material findings on the usefulness and reliability of the performance information of the selected KPA are as follows:

KPA 1 – Basic services and infrastructure

Various indicators

27. I was unable to obtain sufficient appropriate audit evidence for the achievements below in the annual performance report, due to the lack of accurate and complete records. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement.

Indicator	Reported achievement
Zastron/Matlakeng: Upgrading of the outfall sewer line and refurbishment of sewer pump stations.	Not Achieved, Actual Achievement by 30 June 2021 is 93,25%
Waste Water Quality Management	Target Achieved
Construction of an abstraction on the Orange River and equipping of x2 raw water pump stations with M&E	100% Target Achieved, Actual date for the practical completion 12 March 2021
Smithfield/Mofulatshepe: Refurbishment of the Water Treatment Works (WTW)	Not Achieved, Actual achievement 75%
Upgrading of the Rouxville Water Treatment Works (WTW)	Not Achieved, Actual achievement is 65%
Construction of a 27km long raw bulk water pipeline from the Orange River to Paisley dam in Rouxville	Not Achieved, Actual achievement 92,8%
Drinking Water Quality Management	Not Achieved

Key performance indicator: Provide 10793 of formal Household with water in MLM daily

28. The achievement of providing 664.58 KL was reported against target of providing 2080.5 ML by 30 June 2021 in the annual performance report. However, some supporting evidence provided materially differed from the reported achievement, while in other instances I was unable to obtain sufficient appropriate audit evidence. This was due to the lack of accurate and complete records. I was unable to further confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievement.

Various indicators

29. The indicators listed below were approved in the service delivery and budget implementation plan (SDBIP) but were not included and reported on in the annual performance report. These changes were made without the necessary approval. There was also no clear and logical link on how the indicators and targets will contribute to achieving the planned outcome or will measure the actual service delivery and the planned outputs to which they relate. These indicators focused on preparing monitoring reports, instead of actual delivery of electricity services.

Indicator	Planned target
To execute work amounting to R 40 000 000.00 on RBIG BY 30 June 2021	R 40 000 000 (Accumulative) certified as work done on the Regional Bulk

Indicator	Planned target
	Infrastructure Grant (RBIG)) by 30 June 2021
To execute work amounting to R 28 025 000.00 on WSIG 30 June 2021	R 28 025 000 (Accumulative) certified as work done on the Water Services Infrastructure Grant (WSIG) by 30 June 2021.
To executive work amounting to R 17 898 000.00 on MIG by 30 June 2021	R 17 898 000 (Accumulative) certified as work done on the Municipal Infrastructure Grant (MIG) by 30 June 2021.

Other matters

30. I draw attention to the matters below.

Achievement of planned targets

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

Adjustment of material misstatements

32. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of KPA 2 -water, sanitation and infrastructure.

Report on the audit of compliance with legislation

Introduction and scope

33. 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.

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

Revenue Management

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

36. Interest was not charged on accounts in arrears, as required by section 64(2)(g) of the MFMA.

Annual Financial Statements and Annual Report

37. Material misstatements of non-current assets, current assets, liabilities, revenue, 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.
38. 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.
39. 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.

Asset management

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

Conditional grants

41. I was unable to obtain sufficient appropriate audit evidence that the Regional Bulk Infrastructure Grant was spent for its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of the DoRA.
42. 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.
43. I was unable to obtain sufficient appropriate audit evidence that the Integrated National Electrification Program grant was spent for its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of the DoRA.
44. Performance in respect of programmes funded by the Integrated National Electrification Program grant was not evaluated within two months after the end of the financial year, as required by section 11(6)(b) of the DoRA.

Expenditure management

45. Reasonable steps were not taken to prevent irregular expenditure amounting to R24 803 506 (2020: R40 630 065) as disclosed in note 48 to the annual financial statements, 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 the qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with SCM regulations.
46. Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R11 203 586 (2020: R18 969 559), as disclosed in note 47 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.

47. Reasonable steps were not taken to prevent unauthorised expenditure of R53 672 874 (2020: R80 144 907), as disclosed in note 46 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.

Consequence management

48. 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.
49. 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.
50. 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.

Procurement and contract management

51. Some of the contracts and quotations 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.
52. Construction contracts were awarded to contractors that were not registered with the Construction Industry Development Board (CIDB) in accordance with section 18(1) of the CIDB Act No 38 of 2000.
53. 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.
54. An award was made to a supplier that did not submit a local content and production declaration as required by preferential procurement regulations 2017, section 8(5).
55. Sufficient appropriate audit evidence was not obtained to confirm that deviations were reported to council as required by SCM regulation 36(2).

Strategic and performance management

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

Other information

57. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those KPA[s] presented in the annual performance report that have been specifically reported in this auditor's report.
58. 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.

59. 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[s] presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
60. 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

61. 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 disclaimer of opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
62. Administrative and political leadership did not drive effectively and efficiently the municipality's approach towards addressing internal control weaknesses, which resulted in non-compliance with applicable legislation, misstatements on financial statements and performance information.
63. Adequate / effective consequence management was not implemented timeously which resulted in investigations on irregular, unauthorised, and fruitless and wasteful expenditure still in progress at the time of this report. Without investigations, accountability is not emphasised and employees and service providers are not held accountable for failure to deliver on their responsibilities to the municipality.
64. Furthermore, vacancies existed in key positions and support staff were not prioritised which further contributed to poor internal control environment since accountability could not be enforced. Council and management processes did not provide a sound environment that facilitate effective monitoring, review and oversight.

Auditor - General

Bloemfontein

1 April 2022



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected KPA[s] 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 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.