

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

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Mantsopa Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2020, statement of financial performance, statement of changes in net assets, and 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 Mantsopa 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. I was unable to obtain sufficient appropriate audit evidence that property, plant and equipment had been properly accounted for, due to the status of the accounting records. The municipality was unable to provide adequate supporting documentation for community assets (including own buildings) accounted for as assets belonging to the municipality. Adequate supporting evidence was also not provided for the assets donated to the community. Additionally, I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for property, plant and equipment. As described in note 45 to the financial statements, the restatement was made to rectify a previous year misstatement, but the restatement could not be substantiated by supporting audit evidence. I was unable to confirm the property, plant and equipment by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to property, plant and equipment stated at R942 130 505 (2019: R998 297 611) in note 4 to the financial statements.
4. I was unable to obtain sufficient appropriate audit evidence for the expenditure incurred for repairs and maintenance of property, plant and equipment, due to the status of the accounting records. The municipality did not provide adequate supporting documentation for the expenditure incurred to repair and maintain property, plant and equipment disclosed in note 4 to the financial statements. I was unable to confirm the disclosure by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the disclosure of expenditure incurred to repair and maintain property, plant and equipment stated at R2 990 451 (2019: R4 385 113) in note 4 to the financial statements.

VAT receivable

5. I was unable to obtain sufficient appropriate audit evidence that VAT receivable had been properly accounted for, due to the status of accounting records. Detailed reconciliations performed for the year could not be obtained for audit. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the VAT receivable stated at R30 295 949 in note 10 the financial statements.

Debt impairment

6. The municipality did not recognise the debt impairment expense in the statement of financial performance resulting from the movement in the allowance for impairment of debtors in accordance with GRAP 1, *Presentation of financial statements*. The municipality accounted for the debt impairment expense inclusive of VAT. I was unable to determine the impact on the debt impairment and VAT receivable as it was impracticable to do so. Additionally, there was a resultant impact on the deficit for the year and on the accumulated surplus.

Payables from exchange transactions

7. I was unable to obtain sufficient appropriate audit evidence for trade payables as the municipality did not maintain adequate records of outstanding payments for goods and services received but not yet paid. I was unable to 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 R333 287 829 (2019: R272 078 062) in note 16 to the financial statements.

Receivables from exchange transactions

8. I was unable to obtain sufficient appropriate audit evidence that receivables from exchange transactions had been properly accounted for, due to the status of accounting records and non-submission of supporting documents. I was unable to confirm the receivables by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to receivables from exchange transactions stated at R51 520 336 (2019: R95 628 800) in note 8 and 11 to the financial statements.

Investment property

9. I was unable to obtain sufficient appropriate audit evidence that investment property had been properly accounted for, as the municipality did not provide adequate supporting documentation for properties accounted for as assets belonging to the municipality. I was also unable to obtain adequate supporting evidence to confirm the amounts disclosed as impairment of investment property in note 3 to the financial statements. Additionally, I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for investment property. As described in note 45 to the financial statements, the restatement was made to rectify a previous year misstatement, but the restatement could not be substantiated by supporting audit evidence. I was unable to confirm investment property by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to investment property stated at R63 655 336 (2019: R71 825 304) in note 3 to the financial statements.

Commitments

10. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for commitments. As described in note 45 to the financial statements, the restatement was made to rectify a previous year misstatement, but the restatement could not be substantiated by adequate supporting audit evidence. I was unable to confirm commitments by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the commitments corresponding figure stated at R22 852 960 in note 41 to the financial statements.

General expenses

11. I was unable to obtain sufficient appropriate audit evidence to confirm that general expenses were only recognised for goods and services actually received due to the status of the accounting records. I could not confirm general expenses by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the general expenses stated at R35 989 178 (2019: R34 948 432) in the financial statements.

Repairs and maintenance

12. I was unable to obtain sufficient appropriate audit evidence that repairs and maintenance for the current and prior year had been properly accounted for, due to the status of the accounting records. I was unable to confirm the repairs and maintenance by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to repairs and maintenance stated at R13 971 644 (2019: R4 417 488) in note 34 to the financial statements.

Transfers and subsidies

13. I was unable to obtain sufficient appropriate audit evidence for transfers and subsidies, as the municipality did not submit supporting documents for transfers made to the community. I was unable to confirm the transfers and subsidies by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to transfers and subsidies stated at R7 587 768 (2019: R4 234 246) in the financial statements.

Service charges

14. I was unable to obtain sufficient appropriate audit evidence that service charges had been properly accounted for, due to the status of the accounting records. The municipality could not provide adequate supporting evidence that all services were billed on a monthly basis throughout the year, supporting evidence for meter readings could not be provided in most instances and there was non-submission of supporting documents relating to prior period adjustments. In addition, there was material unreconciled differences between the financial statements and trial balance for the sale of electricity. Consequently, I was unable to determine whether any adjustments were necessary to service charges stated at R105 789 744 (2019: R107 511 943) in note 19 to the financial statements.

Interest received

15. The municipality did not recognise all the interest revenue on overdue consumer balances in accordance with GRAP 9, *Revenue from exchange transactions*. The interest revenue on outstanding consumer accounts was not calculated on a daily basis in line with the municipality's credit control and debt policy, as a result, interest received and receivables from exchange transactions were understated by R5 152 352. Additionally, there was a resultant impact on the deficit for the period and on the accumulated surplus.

Employee related costs

16. I was unable to obtain sufficient appropriate audit evidence for overtime payments included in employee related costs as adequate support could not be provided. I was unable to confirm the overtime payments by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to overtime payments stated at R9 646 626 in note 27 to the financial statements.

Prior period adjustments

17. The municipality did not disclose all prior period errors in note 45 to the financial statements, in accordance with GRAP 3, *Accounting policies, estimates and errors*. The nature and the amount of the correction for each financial statement line item affected, and the amount of the correction at the beginning of the earliest previous period was not disclosed. The following prior period errors were not disclosed in note 45:

Line items	2019
Irregular expenditure	(R30 840 645)
Related parties	(R5 242 550)

Total revenue from non-exchange transactions

18. Total revenue from non-exchange transactions was materially misstated by R4 905 368 due to the cumulative effect of individually immaterial uncorrected misstatements in the following items:

- Government grants and subsidies stated at R111 617 208 was overstated by R1 733 975.
- Property rates stated at R20 176 912 was overstated by R3 171 393.

Context for the opinion

19. 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 auditor's report.

20. 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.

21. 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

22. I draw attention to the matter below. My opinion is not modified in respect of this matter.
23. The financial statements indicate that the municipality incurred a deficit of R191 057 147 during the year ended 30 June 2020 and, as of that date, the municipality's current liabilities exceeds its current assets by R257 308 094. In addition, as disclosed in note 47 to the financial statements, the municipality owed Eskom R225 892 051 and the Water Board R1 615 054 as at 30 June 2020, which was long overdue. The municipality has been deducting pension, medical aid and pay as you earn from employees' salaries, however it has been unable to pay over R11 020 102 of these amounts to the relevant third parties. These events or conditions, along with other matters as set forth in note 47, 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

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

Irregular expenditure

25. As disclosed in note 50 to the financial statements, irregular expenditure of R13 539 866 was incurred due to non-compliance with supply chain management (SCM) requirements.

Unauthorised expenditure

26. As disclosed in note 48 to the financial statements, unauthorised expenditure of R220 782 475 (2019: R114 729 650) was incurred, due to overspending of the budget.

Fruitless and wasteful expenditure

27. As disclosed in note 49 to the financial statements, fruitless and wasteful expenditure of R21 805 830 (2019: R20 198 733) was incurred, mainly due to interest on arrear payments to creditors.

Material losses

28. As disclosed in note 51 to the financial statements, electricity distribution losses of R12 785 406 (2019: R14 128 405) were incurred by the municipality mainly due to line losses, tampering and theft.

Other matters

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

Unaudited disclosure notes

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

Responsibilities of the accounting officer for the financial statements

31. 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 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.
32. In preparing the financial statements, the accounting officer is responsible for assessing the Mantsopa Local 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

33. 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.
34. 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

35. 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.

36. 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 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.
37. 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 2 – Basic service and infrastructure development	x – x

38. 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.
39. I did not identify any material findings on the usefulness and reliability of the reported performance information for this development priority:
- KPA 2 – Basic service and infrastructure development

Other matters

40. I draw attention to the matter below.

Achievement of planned targets

41. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the year.

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 report

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, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, 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.

Asset management

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

Procurement and contract management

47. Competitive bids were adjudicated by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2).

Expenditure management

48. I was unable to obtain sufficient appropriate audit evidence that money owed by the municipality had always been paid within 30 days, as required by section 65(2)(e) of the MFMA.

49. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R21 805 830, as disclosed in note 49 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest on arrear payments to creditors.

50. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R220 782 475, as disclosed in note 48 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 approved budget.

51. Reasonable steps were not taken to prevent irregular expenditure amounting to R13 539 866 as disclosed in note 50 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2).

Revenue management

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

53. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.
54. Accounts for municipal tax and charges for service charges were not prepared on monthly basis, as required by section 64(2)(c) of the MFMA.
55. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

Conditional grants

56. The municipal infrastructure grant was not spent for its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of Dora.
57. Funds received from the integrated national electrification programme (INEP) grant were transferred to Centlec (SOC) Limited without approval of the transfer in the budget of the department or by the National Treasury, as required by section 17(2)(a)(i) and (ii)(bb) of the Dora.

Other information

58. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected KPAs presented in the annual performance report that have been specifically reported in this auditor's report.
59. 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.
60. 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.
61. 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

62. I considered internal control relevant to my audit of the financial statements, 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 and the findings on compliance with legislation included in this report.

63. Management did not implement proper record keeping for financial statements and compliance with legislation. This resulted in information not being submitted timeously for audit and some information submitted not being sufficient appropriate audit evidence. Material limitation misstatements were identified in the financial statements and compliance testing, some of which the supporting documents were provided subsequently. The supporting documents not submitted resulted in material findings.
64. Management did not in all instances implement daily and monthly processing and reconciliation of transactions, including the clearing of suspense accounts. This resulted in the financial statements submitted for audit excluding some of the supporting schedules. In addition, differences were identified between the financial statements submitted for audit and the supporting schedules, some of which could be corrected.
65. Management did not in all instances effectively review and monitor the municipality's compliance with legislation due to their slow response in addressing the drivers of the compliance findings identified in the prior year. As a result, repeat instances of material non-compliance, which could have been prevented, were identified.
66. The internal audit function of the municipality is not adequately resourced and capacitated for the nature, size and complexity of the municipality. This in turn affected the efficiency and effectiveness of the audit committee which could not perform its duties as per the acceptable norms and standards.

Auditor-General

Bloemfontein

4 May 2021



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 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 Mantsopa 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.