

Report of the auditor-general to the Free State Legislature and the council on the Xhariep District Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Xhariep District Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2020, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information 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, the financial statements present fairly, in all material respects, the financial position of the Xhariep District 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 opinion

3. 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.
4. 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.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Material uncertainty relating to going concern

6. I draw attention to the matter below. My opinion is not modified in respect of this matter.
7. Note 29 to the financial statements indicates that the municipality's current liabilities exceeded its current assets by R1 180 359 for the year ended 30 June 2020. The municipality is unable to pay its creditors' accounts when they fall due, as it takes the municipality more than 221 days to settle creditors. These events or conditions, along with other matters as set forth in note 29, 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

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

Irregular expenditure

9. As disclosed in note 33 to the financial statements, irregular expenditure of R4 381 556 (2019: R2 466 957) was incurred due to non-compliance with supply chain management (SCM) requirements. In addition, the full extent of irregular expenditure is still in the process of being determined.

Unauthorised expenditure

10. As disclosed in note 31 to the financial statements, unauthorised expenditure of R455 404 (2019: R6 175 909) was incurred due to overspending a main division within the vote.

Restatement of corresponding figures

11. As disclosed in note 37 to the financial statements, the corresponding figures for 30 June 2019 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2020.

Material uncertainty relating to claims against the municipality

12. With reference to note 27 to the financial statements, the municipality is the defendant in various claims against the municipality. The municipality is opposing these claims. The ultimate outcome of these matters could not be determined and no provision for any liabilities that may result were made in the financial statements.

Material impairment

13. As disclosed in note 4 to the financial statements, consumers and other receivables were impaired by R2 084 804 (2019: R1 588 212).

Other matter

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

Unaudited disclosure notes

15. 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.

Responsibilities of the accounting officer for the financial statements

16. 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.

17. In preparing the financial statements, the accounting officer is responsible for assessing the Xhariep District 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

18. 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.
19. 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

20. 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 (KPA) presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
21. 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.
22. 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 and delivery	x – x

23. 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.
24. I did not identify any material findings on the usefulness and reliability of the reported performance information for this development priority:
- KPA 1 – basic service and delivery

Other matter

25. I draw attention to the matter below.

Achievement of planned targets

26. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year and explanations provided for the under or overachievement of a number of targets.

Report on the audit of compliance with legislation

Introduction and scope

27. 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.
28. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements

29. 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 liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.
30. 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

31. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
32. Reasonable steps were not taken to prevent irregular expenditure of R4 381 556 disclosed in note 33 to the annual financial statements, as required by section 62(1)(d) MFMA. The majority of the irregular expenditure was caused by non-compliance with the Municipal Systems Act 32 of 2000 and SCM regulations.
33. Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R188 793, as disclosed in note 32 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 and penalties for late payments of suppliers.
34. Reasonable steps were not taken to prevent unauthorised expenditure of R455 404, as disclosed in note 31 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 main division of the vote and spending not allocated to a vote.

Strategic planning and performance management

35. The service delivery and budget implementation plan was revised during the year without approval of the council following approval of an adjustments budget, as required by section 54(1)(c) of the MFMA.

Asset management

36. An investment policy adopted by council was not in place, as required by section 13(2) of the MFMA and municipal investment regulation 3(1)(a).

Procurement and contract management

37. Some goods and services with a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Also a deviation was approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).
38. The preference point system was not applied to the procurement of some goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act 5 of 2000. Similar non-compliance was also reported in the prior year.
39. Some bid documentation to procure commodities designated for local content and production did not stipulate the minimum threshold for local production and content as required by the 2017 preferential procurement regulation 8(2).

Consequence management

40. Irregular 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 MFMA.

Other information

41. 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.
42. 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.
43. 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.
44. 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

45. 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 findings on compliance with legislation included in this report.
46. There was a slow response from the leadership to implement and monitor the audit action plan to address the prior year's findings and internal control deficiencies identified during the previous audits, as well as material misstatements that were subsequently corrected by management and repeated non-compliance with relevant laws and regulations. There was again a last-minute effort implemented by management during the audit to resolve the internal control deficiencies and material misstatements to avoid audit report matters.
47. The leadership did not take effective steps to ensure that there were consequences for poor performance and transgressions, as not all of the irregular expenditure was investigated during the financial year.

48. The municipality's governance structures were not sufficiently capacitated and, as a result, did not deliver on their mandates. Consequently, the governance structures did not take into account all the risks that affected the municipal environment and did not monitor the implementation of the recommendations of the risk management division.

Auditor-General

Bloemfontein

26 February 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 KPAs 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 Xhariep District 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.