

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

Report on the audit of the financial statements

Disclaimer of opinion

1. I was engaged to audit the financial statements of the Nketoana Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. I do not express an opinion on the financial statements of the municipality. Because of the significance of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

Preparation of the financial statements

3. I was unable to obtain sufficient appropriate audit evidence that the accounting officer has fulfilled his responsibility for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practise (SA Standards of GRAP), as written representations in this respect were not provided. I was also unable to obtain written representations from the accounting officer that I had been provided with all relevant information and access as agreed in terms of the audit engagement, and that all transactions had been recorded and were reflected in the financial statements. I could not determine the effect of the lack of such representations on the financial position of the municipality at 30 June 2019 or the financial performance and cash flows for the year then ended.

Cash flow statement

4. The municipality did not present the cash flow statement in accordance with GRAP 2, *Cash flow statements*. The cash flows were misstated due to the inclusion of non-cash items. I was unable to determine the full extent of the misstatement as it was impracticable to do so.

Statement of comparison of budget and actual amounts

5. The municipality did not present the statement of comparison of budget and actual amounts in accordance with GRAP 24, *Presentation of budget information in financial statements*. The municipality did not disclose all the anticipated expenses and expenditures as approved by the council and the approved budget was misstated due to unexplained differences between the amounts approved by council and those disclosed. Furthermore, I could not obtain sufficient

appropriate audit evidence for the variances between the actual and final budgeted amounts nor the budget approved by council and the approved budget disclosed.

Property, plant and equipment

6. I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment recognised by the municipality due to the status of the accounting records. 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 R962 108 670 in the financial statements. The carrying amount for property, plant and equipment was overstated by R67 358 776 as the municipality did not assess useful life at reporting date or whether there were any indicators of impairment, infrastructure assets with a carrying amount of R30 487 740 were incorrectly disclosed as buildings, and work-in-progress was overstated by R25 310 201 as completed infrastructure projects and operational expenses were incorrectly included. There was a resultant impact on the deficit and accumulated deficit.

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. Consequently, I was unable to determine whether any adjustments were necessary to trade payables stated at R359 226 415 (2018: R252 406 785) in note 18 to the financial statements.

Commitments

8. I was unable to obtain sufficient appropriate audit evidence for capital commitments due to the status of the accounting records. I was unable to confirm commitments by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to commitments stated at R276 535 152 in note 46 to the financial statements. The municipality did not disclose capital commitments in accordance with GRAP 17, *Property, plant and equipment*. In addition, the items included in commitments not yet contracted for and authorised by accounting officer of R198 607 813 did not constitute contractual commitments and we identified that commitments included in note 46 to the financial statements were overstated by R9 023 041.

Unauthorised expenditure

9. I was unable to obtain sufficient appropriate audit evidence unauthorised expenditure due to the status of the accounting records. I was unable to confirm unauthorised expenditure by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to unauthorised expenditure stated at R189 327 359 in note 51 to the financial statements.

Irregular expenditure

10. The municipality did not include the required information on irregular expenditure in the financial statements, as required by section 125(2)(d) of the MFMA as the municipality made payments in contravention of the supply chain management requirements. Consequently, irregular expenditure was understated by R62 968 406 (2018: R29 437 954) in note 53 to the financial statements.

VAT receivable

11. The municipality did not have adequate systems to accurately maintain the accounts for the VAT receivable included in the financial statements. Consequently, VAT receivable was overstated by R40 893 376. In addition, I was unable to obtain sufficient appropriate audit evidence for adjustments of R5 091 304 to this account. I could not confirm the VAT receivable by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to VAT receivable stated at R35 021 492 in the financial statements. This also had a resultant impact on the non-current assets, expenditure, revenue, the deficit for the period and on the accumulated surplus.

Provisions

12. The municipality did not recognise the provision for rehabilitation of the landfill site in accordance with GRAP19, *Provisions, contingent liabilities and contingent assets*. The provision for the rehabilitation costs for one of its sites, in respect of which a closure licence was issued in September 2016 was not recognised as a current liability. In addition, the municipality did not determine the provision based on the best estimate of the costs to rehabilitate landfill sites in the future. Consequently, the provisions for environmental rehabilitation was overstated by R39 513 837. Additionally, there was an impact on current liabilities and the deficit for the period.

Investment property

13. The municipality did not recognise investment property in accordance with GRAP 16, *Investment property* as it did not measure investment property at its fair value reflecting market conditions at the reporting date. I was unable to confirm the fair value of investment property as it was impracticable to do so. In addition, the municipality did not have adequate systems in place to ensure that all investment property is identified and recognised and that they recognise only investment property where it is probable that the future economic benefits or service potential will flow to the entity. Consequently, investment property was overstated by R22 346 161.

Repairs and maintenance

14. The municipality did not recognise repairs and maintenance in accordance with GRAP 1, *Presentation of financial statements* as expenses were not recognised according to its nature. As a result, repairs and maintenance was overstated by R6 942 534. Additionally, there was an impact on the deficit for the period. I was unable to obtain sufficient appropriate audit evidence that repairs and maintenance expenses of R1 937 119 were only recognised where goods or services were received due to the state of the accounting records. I was unable to confirm whether the goods or services were received by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to repairs and maintenance stated at R11 899 647 in the financial statements.

General expenditure

15. The municipality did not recognise general expenditure in accordance with GRAP 1, *Presentation of financial statements* as expenses were not recognised according to their nature. As a result, general expenditure was overstated by R11 702 055. Additionally, there was an impact on the deficit for the period. I was unable to obtain sufficient appropriate audit

evidence that general expenditure of R12 223 227 were only recognised where goods or services were received and in addition I was unable to obtain sufficient appropriate audit evidence for further general expenditure of R1 866 153 due to the state of the accounting records. I was unable to confirm the expenditure or whether the goods or services were received by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to general expenditure stated at R39 560 599 in the financial statements.

Contracted services

16. The municipality did not present the contracted services in accordance with GRAP 1, *Presentation of financial statements* in the notes to the financial statements. Contracted services disclosed in note 41 to the financial statements were not presented according to their nature. I was unable to determine the full extent of the misstatement as it was impracticable to do so.

Receivables from exchange transactions

17. I was unable to obtain sufficient appropriate audit evidence for receivables from exchange transactions due to the state of the accounting records. I could not confirm the receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the unauthorised expenditure receivable stated at R 7 980 337 (2018: R7 980 338) in note 5 to the financial statements. There is also a resultant impact on the impairment of the receivables from exchange transactions. Additionally, the municipality did not classify the receivables as revenue from non-exchange transactions, where there was no benefit of equal value received by the municipality, in accordance with GRAP 1, *Presentation of financial statements*.

Service charges

18. The municipality did not recognise all revenue from service charges in accordance with GRAP 9, *Revenue from exchange transactions*. This was due to unreliable revenue estimation billings and the municipality not accounting for all revenue earned during the financial year. Consequently, service charges are understated by R7 071 880. Additionally, there was a resultant impact on consumer debtors and the deficit for the period.

Distribution losses

19. I was unable to obtain sufficient appropriate audit evidence for distribution losses disclosed by the municipality as required by section 125(2)(d)(i) of the MFMA due to the status of the accounting records. I was unable to confirm distribution losses by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to distribution losses stated at zero (2018: R15 120 972) in note 55 to the financial statements.

Change in accounting estimate

20. The municipality did not disclose the change in accounting estimate for the impairment of receivables from exchange- and non-exchange transactions in accordance with GRAP 3, *Accounting policies, changes in accounting estimates and errors*. The municipality changed its methodology for calculating the impairment of receivables from exchange- and non-exchange transactions but did not disclose the nature and amount of the change. I was unable to

determine the full extent of the impact in the change in the estimate for the current year, as it was impracticable to do so.

Employee cost

21. During 2018, I was unable to obtain sufficient appropriate audit evidence regarding employee related costs, due to the status of the accounting records, as no support was submitted for journals passed by the municipality. In addition, the municipality did not have adequate systems in place to account for allowances to employees and as a result the employee related costs were understated by R2 772 571. I could not confirm the employee cost by alternative means. In addition, I was unable to obtain sufficient appropriate audit evidence for the adjustment of R2 089 642 made by the municipality to the employee related cost for the year ended 30 June 2018 as disclosed in note 49 to the financial statements. Consequently, I was unable to determine whether any adjustment was necessary to employee related costs stated at R109 055 171 in note 32 to the financial statements.

Consumer debtors

22. During 2018, I was unable to obtain sufficient appropriate audit evidence that consumer debtors had been properly accounted for, due to some of the consumers not being categorised at all for debt impairment determination purposes. I was unable to confirm these consumer debtors by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to consumer debtors stated at R21 472 278 in note 8 to the financial statements.

Material uncertainty relating to going concern

23. I draw attention to the matter below. My opinion is not modified in respect of this matter.
24. I draw attention to note 50 to the financial statements, which indicates that the municipalities current liabilities exceed its current assets. The municipality owed Eskom R263 109 702 (2018: R185 643 837) as at 30 June 2019 which is long overdue. As stated in note 50, these events or conditions, along with the continuing operating losses, 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

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

Fruitless and wasteful expenditure

26. As disclosed in note 52 to the financial statements, fruitless and wasteful expenditure of R26 501 996 (2018: R21 335 407) was incurred, mainly due to interest on arrear payments to creditors.

Restatement of corresponding figures

27. As disclosed in note 49 to the financial statements, the corresponding figures for 30 June 2018 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2019.

Material losses/ impairments – trade debtors

28. As disclosed in note 5, 6 and 8 to the financial statements, consumers and other receivables were impaired by R490 352 855 (2018: R423 665 583).
29. As disclosed in note 38 to the financial statements, material losses of R42 498 520 (2018: R48 721 632) were incurred as a result of a write-off of irrecoverable trade debtors.

Material uncertainty relating to claims against the municipality

30. With reference to note 47 to the financial statements, the municipality is the defendant in a number of litigation claims. The municipality is opposing the claims. The ultimate outcome of the matters could not be determined and no provision for any liabilities that may result was made in the financial statements.

Other matter

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

Service delivery

32. The municipality entered into a contract in February 2014 to construct a 42km water pipeline between Mamafubedu and Reitz. The project has been significantly delayed as a result of challenges with contractors. A significant delay has been caused in Phase 1 of the project, a section of 5km's of the pipeline, in respect of which there is currently an ongoing court case between the municipality and the contractor. Phase 3 of the pipeline, a section of 15km is also delayed due to the fact that the contractor is not providing the municipality with the required test results. Phase 3 of the pipeline has been practically completed in December of 2017 but to date the issues with regards to the outstanding test results have not been finalised. The total spent to date on the project has been R36 339 420.

Unaudited disclosure notes

33. 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

34. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the MCS and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2018 (Act No. 1 of 2018) (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.
35. In preparing the financial statements, the accounting officer is responsible for assessing the Nketoana 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

36. My responsibility is to conduct an audit of the financial statements in accordance with the International Standards on Auditing and to issue an auditor's report. However, because of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.
37. I am independent of the municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* and, parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA codes) as well as the 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 codes.

Report on the audit of the annual performance report

Introduction and scope

38. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected KPAs presented in the annual performance report. I was engaged to perform procedures to raise findings but not to gather evidence to express assurance.
39. I was engaged to evaluate the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected KPA presented in the annual performance report of the municipality for the year ended 30 June 2019:

KPA	Pages in the annual performance report
KPA 2 – Basic service delivery and infrastructure development	x – x

40. 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.
41. The material findings in respect of the usefulness and reliability of the selected KPA are as follows:

KPA 4 – Basic service delivery and infrastructure development

Various indicators

42. I was unable to obtain sufficient appropriate audit evidence to support the reported achievement of the indicators listed below. This was due to lack of technical indicator descriptions and formal standard operating procedures that predetermined how the achievement would be measured, monitored and reported and the municipality not maintaining an adequate record keeping system to enable reliable reporting. I was unable to confirm the reported achievement of the indicator by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievements in the annual performance report of the indicators listed below:

Performance indicators	Planned targets	Reported achievement
Weekly refuse removal to households in formal settlements	17 026	17 026
14 043 households in formal urban areas, as defined in the IDP, have access to at least RDP level of potable water	14 043	14 043
Reitz to Mamafubedu pipeline, 42km	27km	0km
Improve the blue drop assessment result of the municipality by a minimum of 10%	80%	71.40%
All registered indigents have access to free basic water	100% - 5000 households/registered indigent households	5 364
17 026 households have access to at least RDP levels of sanitation	17 026	17 026
Reitz: Upgrade of Waste Water Treatment Works (WWTW)	10%	1%
Improvement of the municipality's green drop assessment score template	40%	18%
All registered indigents have access to free basic sanitation	100% - 5000 registered indigent households	5 364
To repair and maintain roads and storm water infrastructure on a continuous basis as required or on demand during the 2018/2019 financial year.	12	12
Repairs & Maintenance of street lights and other infrastructure according to the weekly plan and customer reports	12	12

43. The reported achievements in the annual performance report, for the following indicators and targets, were not consistent with the planned indicators and targets approved in the service delivery and budget implementation plan.

Key performance indicator	Planned target	Reported achievement
Improve the blue drop assessment result of the municipality by a minimum of 10%	10%	71.40%
All registered indigents have access to free basic water	100% - 5 000 households/registered indigent households	5 364
Improvement of the municipality's green drop assessment score template	40%	18%
All registered indigents have access to free basic sanitation	100% - 5 000 households/registered indigent households	5 364
Ntha: Upgrading of 1.5km gravel roads to paved roads and storm water drainage	1.5km	1.5km
To repair and maintain roads and storm water infrastructure on a continuous basis as required or on demand during the 2018/2019 financial year.	12	12
Repairs & Maintenance of street lights and other infrastructure according to the weekly plan and customer reports	12	12

44. The evidence and methods of calculation for achieving the planned indicators as indicated below were not clearly defined:

Indicator description	Reported achievement
Weekly refuse removal to households in formal settlements	Weekly at residential sites and bi-weekly at business sites (17026 households)
Reitz: Upgrade of Waste Water Treatment Works (WWTW) Phase 1: R10 510 442.54 Phase 2: R4 980 350.76 Phase 3: R2 589 456.00	1%
Maintain 1 substation each in the following towns: Reitz: 1 Mamafubedu: 1 Lindley:	0

45. The measures taken to improve performance against the targets listed below were not included in the annual performance report.

Indicator description	Reported achievement
Construction of 19.4km mPVC pipeline from Lindley to Arlington Phase 1: 3km	0km
Improve the blue drop assessment result of the municipality by a minimum of 10%	71.40%
Improvement of the municipality's green drop assessment score template	18%
Maintain 1 substation each in the following towns: Reitz: 1 Mamafubedu: 1 Lindley:	0

46. I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance against targets listed below as reported in the annual performance report. This was due to limitations placed on the scope of my work and 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	Reported achievement
Weekly refuse removal to households in formal settlements	Weekly at residential sites and bi-weekly at business sites (17026 households)
Upgrading of Reitz Purification Plant, RBIG	0
Reitz to Mamafubedu Pipeline, 42km Phase 1: Planning Phase 2: 15km Phase 3: 15km Phase 4: 12km	0km
Reitz water Treatment Works: Upgrading of Raw water pump station and high lift pump station	0
Leratswana: Construction of 0.4 km storm water infrastructure	0.2km

47. The supporting evidence provided for the achievement of targets listed in the table below, reported in the annual performance report, indicated that the achievement was for the year ended 30 June 2018 but reported for the year ended 30 June 2019.

Key performance indicator	Planned target	Reported achievement
Mamafubedu: Upgrading of 1.3km gravel roads to paved roads Phase	1.3km	1.3km
Petsana: Upgrading of 1.3km gravel roads to paved Roads Phase 2	1.3km	1.3km
Mamafubedu: Upgrading of 1.3km gravel roads to paved Roads Phase 2	1.3km	1.3km

KPI: Leratswana: Construction of 0.4 km storm water infrastructure.

48. The achievement for target *number of km storm water infrastructure constructed* reported in the annual performance report was 0.20km. However, the supporting evidence provided did not agree to the reported achievement and indicated an achievement of 0.36km.

Other matters

49. I draw attention to the matters below.

Achievement of planned targets

50. 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 paragraphs 42 to 48 of this report.

Report on the audit of compliance with legislation

Introduction and scope

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

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

Annual financial statements

53. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer audit opinion.

Expenditure management

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

55. I was unable to obtain sufficient appropriate audit evidence that certain payments from the municipality's bank account were approved by the accounting officer or a properly authorised official, as required by section 11(1) of the MFMA.
56. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with supply chain management (SCM) regulations.
57. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R26 501 996, as disclosed in note 52 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 payable on overdue supplier accounts.
58. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the unauthorised expenditure could not be quantified as indicated in the basis for qualification paragraph. The majority of the disclosed unauthorised expenditure was caused by the overspending of main divisions within the municipal budget.

Asset management

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

Strategic planning and performance management

60. The SDBIP for the year under review was not approved by the mayor within the prescribed timeframes of 28 days, as required by section 53(1)(c)(ii) of the MFMA.
61. The performance management system and related controls were not adequate to ensure that reported achievements are supported by reliable evidence, as required by municipal planning and performance management regulation 7(1).

Procurement and contract management

62. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(a) and (c). Similar non-compliance was also reported in the prior year.
63. Some of the quotations were accepted from bidders and some 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.
64. 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). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1). Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes for the *construction of 315mm diameter MPVC 15km pipe*.
65. Some of the contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding, in contravention of SCM regulations 21(b) and 28(1)(a) and the Preferential Procurement Regulations.
66. 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 Preferential Procurement Policy Framework Act and Preferential Procurement Regulations.

67. Some of the quotations were awarded to bidders based on preference points that were not calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.
68. Some of the bid documentation for procurement of commodities designated for local content and production, did not stipulate the minimum threshold local production and content as required by the 2017 preferential procurement regulation 8(2). Similar non-compliance was also reported in the prior year.
69. Some of the construction contracts were awarded to contractors that did not qualify for the contract in accordance with section 18(1) of the CIDB Act and CIDB regulations 17 and 25(7A).
70. 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.
71. 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.

Consequence management

72. 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.
73. Some of the irregular expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA / municipal budget and reporting regulations 75(1).
74. Some of the fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA / municipal budget and reporting regulations 75(1).

Human resource management

75. Appropriate systems and procedures to monitor, measure and evaluate performance of staff below the level of senior management were not developed and adopted, as required by section 67(1)(d) of the MSA.

Internal control deficiencies

76. I considered internal controls 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, findings on the annual performance report and the findings on compliance with legislation included in this report.
77. Leadership did not exercise effective oversight responsibility regarding financial and performance reporting and compliance and related internal controls. Furthermore, they did not ensure that corrective actions included in the action plan of the municipality are effectively implemented. This was due to slow response by the leadership.

78. Management did not effectively review compliance with applicable laws and regulations as instances of non-compliance reported in the previous year were also identified in the current year and this was due to lack of adequate consequence management being implemented.
79. Management did not ensure that effective internal control processes are implemented to manage the daily and monthly processing and reconciling of transactions and did not implement proper recordkeeping to ensure that complete relevant and accurate information is accessible and available to support financial and performance reporting. This resulted in material misstatements being identified in the financial statements and the annual performance report.
80. Internal audit was not adequately resourced and functioning and did not effectively identify internal control deficiencies or recommended effective corrective action. This resulted in the material misstatements being identified in the financial statements and the annual performance report.
81. The audit committee did not adequately review and verify the information reported in the annual financial statements and performance report submitted for auditing. This resulted in various matters being adjusted and corrected during the audit that could have been prevented.

Other reports

82. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
83. The directorate for priority crime of the South African Police Services is investigating alleged fraud and corruption relating to monies paid in previous financial years to companies for work not done. No detail on the status of the investigation could be secured but the case is ongoing.

Auditor - General

Bloemfontein

14 December 2019



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence