

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

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Matjhabeng Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the 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 Matjhabeng Local Municipality as at 30 June 2018, 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 of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2017 (Act No. 3 of 2017) (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 implement adequate processes and controls to ensure consumers were correctly billed for services used. The municipality did not read meters on a regular basis which resulted in estimates being used for extended periods, active meters were identified that were not being billed as well as meters which were disconnected due to non-payment of services, but still billed estimates even though there was no usage. I could not confirm service charges by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to service charges stated at R1 097 788 518 in the financial statements.

Property, plant and equipment

4. The municipality did not measure all items of property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment*. Infrastructure assets that were no longer in a useable condition were not impaired. Consequently, property, plant and equipment was overstated and impairment was understated by R66 131 381. There was also a resultant impact on the surplus for the period and on the accumulated surplus.

Receivables from exchange transactions

5. The municipality incorrectly recognised rental receivables where future economic benefits would not be received, which constitutes a departure from GRAP 1 *Presentation of Financial Statements*. Rental receivables were recognised for tenants that no longer occupied a property. This resulted in rental receivables as disclosed in note 13 being overstated by R63 927 116. Additionally, there was an impact on the surplus for the period and on the accumulated surplus.

Context for the opinion

6. 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.
7. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and 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 code.
8. 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

9. I draw attention to the matter below. My opinion is not modified in respect of this matter.
10. Note 49 to the financial statements indicates that the municipality incurred a net loss of R820 945 304 during the year ended 30 June 2018 and, as of that date, the municipality's current liabilities exceeded its current assets by R3 407 887 646. The municipality has been deducting pension, medical aid and pay as you earn from employees' salaries, but has been unable to pay over R57 883 792 (2017: R21 906 866) of these amounts deducted to the relevant third parties as disclosed in note 54. In addition, as disclosed in note 17, the municipality owed Eskom R1 895 894 280 (2017: R1 464 169 380) and Sedibeng Water R2 299 167 866 (2017: R1 886 576 057) as at 30 June 2018, which is long overdue. These events and conditions 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

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

Irregular expenditure

12. As disclosed in note 53 to the financial statements, irregular expenditure of R358 024 407 (2017: R323 171 276) was incurred, due to non-compliance with supply chain management (SCM) requirements.

Unauthorised expenditure

13. As disclosed in note 51 to the financial statements, the municipality incurred unauthorised expenditure of R873 124 569 (2017: R1 031 091 788) in the year under review due to the overspending of the approved budget.

Fruitless and wasteful expenditure

14. As disclosed in note 52 to the financial statements, fruitless and wasteful expenditure of R167 709 893 (2017: R186 771 314) was incurred, mainly due to interest and penalties charged for late payments by suppliers.

Restatement of corresponding figures

15. As disclosed in note 46 to the financial statements, the corresponding figures for 30 June 2017 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2018.

Material uncertainty relating to claims against the municipality

16. With reference to note 44 to the financial statements, the municipality is the defendant in claims of R102 828 769. The municipality is opposing these claims, as it believes them to be invalid. The ultimate outcome of these matters could not be determined and no provision for any liability that may result was made in the financial statements.

Material losses

17. As disclosed in note 54 to the financial statements, material water distribution losses of R155 272 799 (2017: R299 865 808) were incurred by the municipality mainly due to leakages and burst water pipes.
18. As disclosed in note 54 to the financial statements, material electricity distribution losses of R70 504 900 (2017: R74 080 387) were incurred by the municipality mainly due to line losses, tampering and theft.

Material impairment

19. As disclosed in note 11 to the financial statements, receivables from non-exchange transactions was impaired by R218 378 634 (2017: R187 584 761).
20. As disclosed in note 13 to the financial statements, receivables from exchange transactions was impaired by R1 811 608 356 (2017: R1 532 476 770).

Other matters

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

Unaudited disclosure notes

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

Service delivery matters

23. The audit revealed various areas of concern regarding poor planning, project management and monitoring of infrastructure projects. The completion of these projects was often delayed, resulting in the quality of the work being compromised while expected project costs were exceeded. This had a negative impact on service delivery, as the funds were not used effectively.

24. The municipality entered into a contract of R61 899 139 to construct waterborne sanitation for 1 300 stands during 2014. During the project site visit, it was confirmed that the pump station had been completed but had not been handed over to the municipality by the contractor nor commissioned as planned on the 13th of November 2017 due to non-payment of the contractor. As a result the contractor did not issue the municipality with a practical completion certificate. Since the pump station remained unused, it was vandalised and the major components, including the transformer that had been installed by Eskom, were stolen. This resulted in the sewer overflow to these stands as the pump station did not pump to the sewer treatment works but caused the spillage along the road next to the community's homes. The vandalised and stolen components will therefore have to be redone, which could result in fruitless and wasteful expenditure.
25. The municipality entered into a contract for the rehabilitation and restoration of the Witpan Waste Water Treatment Works (WWTW) in 2009. During construction the site was flooded by water from a nearby pan, submerging the work-in-progress, resulting in the project being halted and the contractor abandoning the site. Payments to this contractor of R 1 943 455 could be confirmed. Neither the full extent of payments made to this contractor nor the contract value could be determined due to a lack of supporting documentation. A second contractor was appointed in June 2011 for R60 511 215. The total payments made to the second contractor was R112 195 402, resulting in overspending of R51 684 187, without the project being completed. During a site visit conducted on the 17 September 2018, it was noted that one of the recently upgraded tanks was leaking, which may result in additional cost to the project. Additionally, in July 2016 the Department of Water Affairs (DWA) advised the municipality that the Witpan WWTW should be decommissioned as it would only be usable for eight more years. Instead, the municipality should upgrade Theronia WWTW or Thabong WWTW. DWA also indicated to the municipality that the effluent from the Witpan WWTW did not meet the department's required standards. The municipality will obtain limited benefit from the rehabilitation and restoration of the Witpan WWTW as most of the structures are dilapidated or old. However, notwithstanding the concerns raised by DWA, the municipality still continued with the project.

Responsibilities of the accounting officer for the financial statements

26. 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.
27. In preparing the financial statements, the accounting officer is responsible for assessing the Matjhabeng 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

28. 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.

29. 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

30. 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 key performance areas (KPAs) presented in the annual performance report. I was engaged to perform procedures to raise findings but not to gather evidence to express assurance.

31. 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 2018:

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

32. 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.

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

KPA 2 – basic service delivery and infrastructure investment

Various indicators

34. I was unable to obtain sufficient appropriate audit evidence for the reported achievements of 10 of the 61 indicators relating to this programme. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements in the annual performance report of the indicators listed below:

KPI	Reported achievement per annual performance report
Refurbishment and Upgrade of Mmamahabane WWTW measured according to PPIM	Achieved: PPIM 85 completed
Number of kilometers of worn out water pipelines replaced measured according to PPIM.	Not achieved: only 848m worn out water pipelines replaced
Number of square meters of streets patched	Not achieved: Only 10 970m ² was patched
Number of km of gravel and dirt roads refurbished though blading/ re-graveling	Not achieved: Only 113,844m km of gravel and dirt roads refurbished though blading/ re-graveling

KPI	Reported achievement per annual performance report
Number of km of lined storm water cleaned	Not Achieved: only 7,411 m of lined canals cleaned.
Number of km of storm water canals cleaned	Not achieved: only 3,135 m of unlined canals cleaned
Number of km of storm water drainage pipes cleaned and maintained	Achieved: 2,568 m of drainage pipes cleaned and maintained
Number of stolen or damaged catch pit and manhole lids repaired or replaced	Not achieved: only 20 lids repaired or replaced
Upgrade Phomolong pump station measured according to PPIM	Achieved: Overall progress is 96%. Finalizing construction of layer works and paving around the pump station, erection of ClearVu fencing and access gate, Finalising embankment capping, Commission of the pump station (Project 80-90% complete)
Number of litres of paint procured per year.	Only about 1 380 litres of paint was delivered.

Various indicators

35. The actual achievements for the following 22 indicators were not reflected in the adjusted annual performance report, which placed a limitation on the scope of the audit as the auditors could not determine the actual level of performance of the municipality:

KPI	Reported achievement per annual performance report
Refurbishment of Theronia WWTW measured according to PPIM	Not achieved: PPIM 71 not completed
Construction of Whites: Septic Tank System measured according to PPIM	Not Achieved: PPIM 30 not completed (Consultant was appointed - Project on preliminary design stage).
Upgraded electrical panels measured according to PPIM	Not achieved: PPIM 40 not completed
Refurbished Klippan Pump station and upgraded Mostert/Sandriver canal measured according to PPIM	Not achieved: PPIM 53 not completed
Refurbished Kutlwanong outfall sewer line measured according to PPIM	Not achieved: PPIM 58 not completed
Odendaalsrus outfall sewer lines refurbished according to PPIM	Not achieved: PPIM 58 not completed
Refurbished main sewer in Stateway for Phase 1 according to PPIM	Not achieved: PPIM 58 not completed
Refurbished main sewer in Stateway for Phase 2 according to PPIM	Not achieved: PPIM 58 not completed
Refurbished 70 m main sewer in Jan Hofmeyr Road according to PPIM	Not achieved: PPIM 58 not completed
Installation of zonal mers measured according to PPIM	Not achieved: PPIM 85 not completed
Replace steel pipe according to PPIM	Not achieved: PPIM 40 not completed
Install new water network and house connections according to PPIM	Not achieved: PPIM 67 not completed
Number of km of streets resurfaced per year	Not achieved: 10km of streets not resurfaced for the year
Construction of roads measured according to PPIM	Not achieved: PPIM 90 not completed
Construction of roads measured according to PPIM	Not achieved: PPIM 67 not completed
Number of km of storm water drainage pipes cleaned and maintained	Achieved: 2,568 m of drainage pipes cleaned and maintained
Construction of roads measured according to PPIM	Not achieved: PPIM 85 not completed
PPIM 100 completed	Not achieved: PPIM 100 not completed

KPI	Reported achievement per annual performance report
Approval of finding from GIZ by Minister of Energy and construction of project PPIM	Not achieved: Retrofitting of 123 high mast lights with energy efficient technologies not completed: PPIM 90
Create according to PPIM new cemetery at Mmamahane and measured	Not achieved: PPIM 49 completed
1 landfill site upgraded in Welkom	Not achieved: 1 landfill site not upgraded in Welkom
Upgrade of Kutlwanong WWTW measured according to PPIM.	Not achieved: PPIM 44 not completed

Various indicators

36. The source information and method of calculation for achieving the planned indicator were not clearly defined for the indicators listed below:

Reported indicator as per the draft annual performance report
Upgrade of Nyakallong measured according to PPIM
Upgraded electrical pannels measured according to PPIM
Number of sumps cleaned in the next financial year.
Refurbished main sewer in Stateway for Phase 1 according to PPIM
Refurbished main sewer in Stateway for Phase 2 according to PPIM
Number of kilometers of worn out water pipelines replaced measured according to PPIM.
Installation of zonal meters measured according to PPIM
Replace steel pipe according to PPIM
Install new water network and house connections according to PPIM
Construction of roads measured according to PPIM
PPIM 100 completed
PPIM 100 completed
Upgrade sport facilities measured according to PPIM
Construction of Sport Complex measured according to PPIM
Upgrade 1 Sport Stadium: Thabong
1 multi-purpose centre established

Various indicators

37. A comparison between the planned and actual performance of the year under review and the previous year was not included in the annual performance report for the following indicators:

Upgrade of Nyakallong measured according to PPIM
Construction of Virginia: WWTP Sludge Management measured according to PPIM
Refurbishment and Upgrade of Mmamahabane WWTW measured according to PPIM
Construction of Whites: Septic Tank System measured according to PPIM
Upgrade of Kutlwanong WWTW measured according to PPIM
Upgrade T8 pump station measured according to PPIM
Upgrade Phomolong pump station measured according to PPIM

Refurbished Klippan Pump station and upgraded Mostert/ Sandriver canal measured according to PPIM
Number of sumps cleaned in the next financial year.
Odendaalsrus outfall sewer lines refurbished according to PPIM
Number of kilometers of worn out water pipelines replaced measured according to PPIM.
Number of dysfunctional water meters replaced
Installation of zonal meters measured according to PPIM
Replace steel pipe according to PPIM
Install new water network and house connections according to PPIM
Number of km of gravel and dirt roads refurbished though blading/ graveling
Construction of roads measured according to PPIM - Dr Mngoma road in Thabong
Construction of roads measured according to PPIM - Meloding
PPIM 100 completed - Urania Substation
PPIM 100 completed - in Extension 15 Thabong.

Various indicators

38. No targets were recorded for the following KPIs included in the approved SDBIP for KPA 2:
Basic service delivery and infrastructure investment:

Performance indicator/measure
Develop Storm water Master plan for all towns and prioritize identified projects subject to availability of budget.
Develop bulk Sewerage Master plan and capacity analysis for all towns and prioritize identified projects subject to availability of budget.
Develop Water reticulation Master plan (including meters and standpipes) for all towns and prioritize identified projects subject to availability of budget.
Develop Transportation master plan according to legislation
Develop Purified Effluent (PSE) master plan subject to availability of budget.
Develop Pavement Management System (PMS) master plan subject to availability of budget.

Other matters

39. I draw attention to the matters below.

Achievement of planned targets

40. 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 34 to 38 of this report.

Adjustment of material misstatements

41. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA 2 – basic service delivery and infrastructure investment. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

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 compliance of the municipality 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

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, current assets, current liabilities, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Expenditure management

45. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
46. Reasonable steps were not taken to prevent irregular expenditure amounting to R358 024 407, as disclosed in note 53 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The irregular expenditure was caused by non-compliance with SCM processes.
47. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R167 709 893, as disclosed in note 52 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The fruitless and wasteful expenditure was mainly caused by interest charged by Eskom.
48. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R873 124 569, as disclosed in note 51 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by under-budgeting on bulk purchases, finance costs, employee-related costs, and non-cash items (debt impairment and depreciation).

Revenue management

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

Asset management

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

Liability management

51. An adequate management, accounting and information system was not in place to account for liabilities, as required by section 63(2) (a) of the MFMA.

Procurement and contract management

52. Sufficient appropriate audit evidence could not be obtained that quotations were awarded only to bidders who submitted a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). Similar non-compliance was also reported in the prior year.
53. Sufficient appropriate audit evidence could not be obtained that quotations were only accepted from bidders whose tax matters had been declared by the South African Revenue Service to be in order, as required by SCM regulation 43. Similar non-compliance was also reported in the prior year.
54. Some goods and services with 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.
55. Some goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(a) and (c).
56. The performance of some 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.
57. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of SCM regulation 46(2)(e).
58. Awards were made to providers who were in the service of other state institutions and whose directors were in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM regulation 44.

Utilisation of conditional grants

59. The water services infrastructure grant was not spent on its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of Dora.

Human resource management

60. An approved staff establishment was not in place, as required by section 66(1)(a) of the MSA.
61. Appropriate systems and procedures to monitor, measure and evaluate the performance of staff were not developed and adopted, as required by section 67(1)(d) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000).

Other information

62. 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.
63. 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 thereon.

64. 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 KPAs presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
65. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, and 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

66. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
67. The leadership did not always take timeous and adequate corrective actions to address weaknesses in the finance and performance reporting directorate. This resulted in non-compliance with applicable legislation and gave rise to unauthorised, fruitless and wasteful, and irregular expenditure.
68. The municipality did not ensure that an organisational structure that is aligned to the municipality's needs was approved. As a result, personnel that needed to address the municipality's needs were appointed outside the approved organisational structure. The municipality tried to address the capacity constraints in the finance and human resource sections by appointing consultants; however, this may result in overreliance on the consultants if capacity constraints are not addressed.
69. The municipality did not implement effective human resource management to ensure that the performance of all employees was monitored, resulting in material weaknesses in the internal control environment reported in the prior year not being addressed.
70. Management did not in all instances prepare regular, accurate and complete financial and performance reports that were supported and evidenced by reliable information, which resulted in material differences that gave rise to material adjustments in the annual financial statements and performance report submitted for auditing. Additionally, controls over daily and monthly processing and reconciling of transactions were not effective.
71. The municipality operated for nine months without the audit committee in place in the 2017-18 financial year. A new audit committee was only appointed in March 2018 and as a result, the internal audit plan for 2017-18 was not approved and the audit committee did not advise the council and management on matters relating to internal financial control and internal audit, risk management, accounting policies, effective governance, performance management and performance evaluation.
72. The internal audit division was not adequately resourced to plan and execute risk-based audits. As a result, and due to the audit plan that had not been approved, only one audit was performed during the 2017-18 financial year. Therefore, the internal audit division could not adequately advise the accounting officer and report to the audit committee on implementing the internal audit plan and matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management, performance management, loss control and compliance with the legislation.

Other reports

73. 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.
74. The South African Police Service was conducting an ongoing investigation into allegations of unauthorised amendments to the supplier banking details on the municipality's accounting system. The investigation covers the specific incident that occurred on 13 May 2016.
75. The South African Police Service is also conducting an ongoing investigation into allegations of the forgery of a signature of a municipal official that resulted in a payment being made without any service being rendered to the municipality. This investigation covers a specific incident that occurred on 11 November 2015. At the time of this report, this investigation had not yet been finalised.

Auditor-General

Bloemfontein

30 January 2019



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 related to events or conditions that may cast significant doubt on the Matjhabeng Local Municipality’s ability 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 the 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 continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and 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, related safeguards.