

# Report of the auditor-general to the Free State Legislature and the council on 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 2020, 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. In my opinion, except for the effects and the possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Matjhabeng Local Municipality as at 30 June 2020, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 16 of 2019 (Dora).

### Basis for qualified opinion

#### 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 that consumers were correctly billed for services rendered. The municipality did not read meters regularly, which resulted in estimates being used for extended periods. I identified active meters that were not billed, and meters that were billed on estimates despite not being in use as they were disconnected for non-payment of services. I was unable to confirm the service charges by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to service charges, stated at R1 283 071 845 (2019: R1 115 263 946) in note 20 to the financial statements.

#### Payables from exchange transactions

4. I was unable to obtain sufficient appropriate audit evidence for trade payables included in payables from exchange transactions in note 18 to the financial statements, due to the status of the accounting records. I was unable to confirm trade payables by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to trade payables stated at R381 485 876 (2019: R 448 977 554) in note 18 to the financial statements.
5. During 2019, the municipality did not recognise payments received in advance, included in payables from exchange transactions in note 18 to the financial statements, in accordance with GRAP 1, *Presentation of financial statements*. Payments received in advance did not

meet the definition of a liability, as payments received in advance included debit balances. Consequently, receivables from exchange transactions were understated by R36 546 991 and payments received in advance in note 18 were overstated by R36 546 991. My audit opinion on the financial statements for the period ended 30 June 2019 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the payments received in advance for the current period.

#### **Investment property**

6. I was unable to obtain sufficient appropriate audit evidence for investment property as the municipality did not have adequate controls in place to ensure that all investment properties were recognised. I was unable to confirm investment properties by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to investment properties stated at R1 045 584 956 in note 3 to the financial statements.

#### **Contracted services**

7. I was unable to obtain sufficient appropriate audit evidence that contracted services had been properly accounted for, due to the status of the accounting records. I was unable to confirm the contracted services by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to contracted services stated at R292 556 112 (2019: R253 733 941), as disclosed in note 34 to the financial statements.
8. The municipality did not recognise and classify all expenditure in accordance with GRAP 1, *Presentation of financial statements*. The municipality did not correctly classify contracted services and general expenses, resulting in contracted service being overstated by R64 656 245 and general expenses being understated by R64 656 245. Furthermore, some transactions were recorded in the incorrect accounting period. Consequently, contracted services were overstated and payables from exchange transactions understated by R92 401 663. Additionally, there is a resultant impact on deficit for the period and on the accumulated deficit.

#### **Receivables from exchange transactions**

9. I was unable to obtain sufficient appropriate audit evidence for rentals included in receivables from exchange transaction in note 14 to the financial statements, due to the status of the accounting records. I was unable to confirm rentals by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to rentals stated at R98 305 445 (2019: R85 542 721) in note 14 to the financial statements. Additionally, the municipality did not separately present material classes of similar receivables in accordance with GRAP 1 *Presentation of financial statements* as consumer debtors for sewerage, refuse, water, electricity and rentals were included as sundries. Consequently, sundries was overstated by R98 305 445. I was unable to determine the impact on the receivables for sewerage, refuse, water, electricity and rentals as it was impractical to do so.

#### **Property rates**

10. I was unable to obtain sufficient appropriate audit evidence for property rates as the valuation roll used as the basis for charging property rates was not appropriate. No reliance could be

placed on the valuation roll values, as multiple valuations performed during the current year could not be substantiated. I could not confirm property rates by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to property rates, stated at R401 915 359 (2019: R376 083 038) in note 25 to the financial statements.

#### **Employee related costs**

11. I was unable to obtain sufficient appropriate audit evidence for overtime payments included in employee-related costs in note 27 to the financial statements, due to the state of the accounting records. I was unable to confirm overtime payments by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to overtime payments stated at R70 965 083 (2019: R67 800 843) in the financial statements.

#### **Context for the opinion**

12. 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.
13. 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.
14. 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**

15. I draw attention to the matter below. My opinion is not modified in respect of this matter.
16. Note 48 to the financial statements indicates that the municipality had a deficit of R1 300 719 611 for the year ended 30 June 2020 and, as of that date, the municipality's current liabilities exceeded its current assets by R5 993 466 152. The municipality's total liabilities exceeded its total assets by R1 384 421 500. In addition, as disclosed in note 18, the municipality owed Eskom R3 339 427 253 and Sedibeng Water R3 683 781 220 as at 30 June 2020, which were long overdue. These events and conditions, along with the other matters set forth in note 48, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

#### **Emphasis of matter**

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

### **Unauthorised expenditure**

18. As disclosed in note 49 to the financial statements, the municipality incurred unauthorised expenditure of R1 499 069 612 (2019: R1 497 647 555) due to overspending the approved budget.

### **Fruitless and wasteful expenditure**

19. As disclosed in note 50 to the financial statements, the municipality incurred fruitless and wasteful expenditure of R281 932 415 (2019: R281 423 740) mainly due to interest and penalties charged for late payments.

### **Irregular expenditure**

20. As disclosed in note 51 to the financial statements, the municipality incurred irregular expenditure of R339 793 590 (2019: R307 018 306) due to non-compliance with the MFMA, supply chain management (SCM) requirements and Dora. In addition, the total extent of the irregular expenditure for the year ended 30 June 2020 is still under investigation.

### **Material losses**

21. As disclosed in note 33 to the financial statements, material electricity losses of R116 350 948 (2019: R 122 116 273) were incurred, which represented 22% (2019: 28%) of the total electricity purchased, mainly due to tampering and theft.
22. As disclosed in note 33 to the financial statements, material water of R497 835 691 (2019: R462 844 267) were incurred, which represents 76% (2019: 77%) of the total water purchased, mainly due to leakages, burst water pipes, line losses, tampering and theft.

### **Other matters**

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

### **Unaudited disclosure notes**

24. 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**

25. 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.
26. In preparing the financial statements, the accounting officer is responsible for assessing the Municipality's ability to continue as a going concern, disclosing, as applicable, matters relating



to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

### **Auditor-general's responsibilities for the audit of the financial statements**

27. 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.
28. 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**

29. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected key performance areas (KPAs) presented in the annual performance report. I was engaged to perform procedures to identify findings but not to gather evidence to express assurance.
30. 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 2020:

| <b>KPA</b>   | <b>Pages in the annual performance report</b> |
|--|---|
| KPA 2 – basic services and infrastructure Investment | x – x   |

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

#### **KPA2 – basic services and infrastructure investment**

Various strategic objectives

32. The strategic objectives and targets per the service delivery and budget implementation plan were changed without the necessary approval.

| <b>Strategic objectives description</b>   |
|---|
| To develop and maintain water networks and ancillary works as well to ensure constant water supply and water demand management system to enhance revenue                |
| To develop infrastructure roads, water, sewerage, electricity, storm water master-plans in order to facilitate proper planning and budgeting in a cost effective manner |
| Ensure proper waste management through promotion of recycling schemes and adequate landfill management  |

Various indicators

33. The indicators listed below were approved in the strategic delivery and budget implementation plan but were not included and reported on in annual performance report.

| <b>Indicators as per the strategic delivery and budget implementation plan</b>         |
|--|
| Phomolong WWTW   |
| Completed tendering process (Thabong ext. 22 Tandanani: road and storm water (2,3 km)) |

34. The targets for the indicators listed below were changed without the necessary approval.

| <b>Indicator descriptions</b>  | <b>Planned targets (SDBIP)</b>  | <b>Reported targets</b>                 |
|--|---|---|
| % of completed refurbishment works of Nyakallong WWTW  | 100% completed refurbishment  | Project retention stage                 |
| % of completed refurbishment works of Virginia WWTP sludge management  | 100% completed refurbishment works Virginia WWTP sludge management                                  | Project completed                       |
| % of completed refurbishment works of WWTW, pump station and outfall sewer pipe line in Mmamahabane                          | 100% completed refurbishment works of WWTW, pump station and outfall sewer pipe line in Mmamahabane | 100% completion of the works            |
| Construction of the septic tank system whites started  | 100% construction completed   | Refurbishment of works in the next year |
| Completed works of Virginia: upgrading of waste water treatment works - phase 2  | Completed works of Virginia: upgrading of waste water treatment works - phase 2                     | Upgrading of works in the next year     |
| Commenced upgrade and refurbishment of Kutlwanong WWTW and inlet pump station to address new developments to total of 9 MI/d | 60% upgrade commenced   | Refurbishment of works in the next year |
| Completed upgrade and refurbishment of Thabong T8 pump station to address new developments.                                  | Completed upgrade and refurbishment of Thabong T8 pump station                                      | Construction stage                      |
| Completed upgrade and refurbishment of Phomolong pump station  | 1 functional pump station   | 1 Functional pump station               |

| Indicator descriptions   | Planned targets (SDBIP)  | Reported targets                            |
|--|--|---|
| 8 sumps cleaned in the next financial year   | 8 sumps/a  | 8 sumps/a                                   |
| Commence upgrade and refurbishment Kutwanong outfall sewer   | Commenced upgrade and refurbishment of Kutlwanong outfall sewer                    | Construction stage                          |
| Number of manhole covers replaced  | 200 MH covers replaced/a   | 200 MH covers replaced/a                    |
| Replace 5 km of worn out water pipelines replaced  | 5 km of worn out water pipe lines replaced   | 10 Km/ a worn out water pipelines replaced. |
| 1000 dysfunctional water meters replaced   | 1000 dysfunctional water meters replaced   | 1000 new meters                             |
| Completed tendering process (finalise procurement process for water meters in Kutlwanong X9, K2 block 5 to 200 stands) | Completed tendering process  | Appointment letter                          |
| 180 house connections and meters installed   | 180 house connections and meters installed   | 180   |
| Completed tendering process (Kutwanong: replacement of old asbestos water pipes with pvc pipes)                        | Completed tendering process  | 650 M                                       |
| Completed tendering process (replacement of water asbestos pipes in Thabong)   | Completed tendering process  | 650 M                                       |
| Continued construction of Thabong gravel road to concrete paving blocks in ward 28                                     | Continued construction of Thabong gravel road to concrete paving blocks in ward 28 | 2,1 km over 2 financial years               |
| 8 km of streets resealed per year  | 8 km   | 8 km  |
| 2 kilometres of road upgraded per year   | 2 km of road upgraded  | 2 km of road upgraded in Meloding           |
| 2 km of main storm water system in Nyakallong upgraded   | 2 km of main storm water system in Nyakallong upgraded                             | 2 km  |
| 7,1 kilometres of lined storm water canals cleaned according to maintenance plan                                       | 7,1 kilometres of water lined storm water canals cleaned                           | 7,1 km                                      |
| 8 km of unlined storm water canals cleaned   | 8 km of unlined storm water canals cleaned   | 8 km  |
| 2 km of existing drainage pipes cleaned and maintained   | 2 km of existing drainage pipes cleaned and maintained                             | 2 km  |

35. I was unable to obtain sufficient appropriate audit evidence that systems and processes were established to enable consistent measurement and reliable reporting of performance against the predetermined indicator definitions for the indicators listed below. This was due to insufficient measurement definitions and processes. As a result, I was also unable to obtain sufficient appropriate audit evidence for the achievements reported in the annual performance report as well as the reasons for the variances between the planned targets and these reported achievements of the listed indicators. I was unable to validate the existence of the systems or

to confirm the reasons for the variances and the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements and reasons for the variances.

| Performance indicator descriptions   | Planned targets  | Reported achievements |
|--|--|-----------------------|
| Commenced upgrade and refurbishment of Kutlwanong WWTW and inlet pump station to address new developments to total of 9 MI/d | 60% upgrade commenced  | 60%                   |
| 8 sumps cleaned in the next financial year   | 8 sumps/a  | 6                     |
| Number of manhole covers replaced  | 200 MH covers replaced   | 122                   |
| Replace 5 km of worn out water pipelines replaced  | 5 km of worn out water pipelines replaced  | 1,013                 |
| 1000 dysfunctional water meters replaced   | 1 000 dysfunctional water meters replaced  | 963                   |
| 180 house connections and meters installed   | 180 house connections and meters installed   | 180                   |
| 2000 water meters investigated and registered  | 2 000 meters investigated and registered.  | 1 244                 |
| 40 zonal meters and valves installed   | 40 zonal meters and valves installed   | 63%                   |
| Continued construction of Thabong gravel road to concrete paving blocks in ward 28   | Continued construction of Thabong gravel road to concrete paving blocks in ward 28 | 100%                  |
| 8 km of streets released per year  | 8 km   | 24,975                |
| 1 kilometre of road upgraded   | 1 km upgraded  | 0%                    |
| 2 kilometres of road upgraded per year   | 2 km of road upgraded  | 2                     |
| 12 000 square meters of streets patched  | 12 000 m2  | 10672,24              |
| 60 kilometres of gravel roads refurbished by blading   | 60 km  | 40,764                |
| 2 km of main storm water system in Nyakallong upgraded   | 2 km of main storm water system in Nyakallong upgraded                             | 2                     |
| 7,1 kilometres of lined storm water canals cleaned according to maintenance plan   | 7,1 kilometres of lined storm water canals cleaned                                 | 8,689                 |
| 8 km of unlined storm water canals cleaned   | 8 km of unlined storm water canals cleaned.  | 5,075                 |
| 2 km of existing drainage pipes cleaned and maintained   | 2 km of existing drainage pipes cleaned and maintained                             | 3,335                 |

36. The reported achievements for the indicators below were not consistent with the planned indicators and targets:

| Indicator description   | Planned target          | Reported achievement |
|---|-------------------------|----------------------|
| % of completed refurbishment works of Nyakallong WWTW                 | Project retention stage | Achieved             |
| % of completed refurbishment works of Virginia WWTP sludge management | Project completed       | Achieved             |

| Indicator description  | Planned target   | Reported achievement                  |
|--|--|---------------------------------------|
| Construction of the septic tank system whites started  | Refurbishment of works in the next year                        | Not achieved                          |
| Completed works of Virginia: upgrading of waste water treatment works - phase 2  | Upgrading of works in the next year                            | Not achieved                          |
| Commenced upgrade and refurbishment of Kutlwanong WWTW and inlet pump station to address new developments to total of 9 MI/d | Refurbishment of works in the next year                        | Not achieved                          |
| % commenced refurbishment of Theronia WWTW   | Annual target is not included in the annual performance report | Not achieved                          |
| Completed upgrade and refurbishment of Thabong T8 pump station to address new developments.                                  | Construction stage   | Not achieved                          |
| Commence upgrade and refurbishment Kutlwanong outfall sewer  | Construction stage   | Only 50% of construction was achieved |
| Completed tendering process(Finalise procurement process for water meters in Kutlwanong X9, K2 Block 5 to 200 stands)        | Appointment letter   | Not achieved                          |
| 180 house connections and meters installed   | 180  | Not applicable                        |
| Completed tendering process (Kutlwanong: replacement of old asbestos water pipes with pvc pipes)                             | 650 M  | Not achieved                          |
| Completed tendering process (replacement of water asbestos pipes in Thabong)   | 650 M  | Not achieved                          |
| Continued construction of Thabong gravel road to concrete paving blocks in ward 28   | 2.1 km over 2 financial years                                  | Not applicable                        |

37. I was unable to obtain sufficient appropriate audit evidence for the reported achievements of the indicators listed below. This was due to the lack of accurate and complete records. 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 for the indicators listed below:

| Indicator descriptions   | Reported achievements |
|--|-----------------------|
| Commenced upgrade and refurbishment of Kutlwanong WWTW and inlet pump station to address new developments to total of 9 MI/d | Not achieved          |
| Number of manhole covers replaced  | 155                   |
| 180 house connections and meters installed   | 180                   |
| 40 zonal meters and valves installed   | 20                    |
| Continued construction of Thabong gravel road to concrete paving blocks in ward 28   | 100%                  |
| 8 km of streets released per year  | 24,975                |
| 1 kilometre of road upgraded   | Not achieved          |

| Indicator descriptions  | Reported achievements |
|---|-----------------------|
| 1 000 dysfunctional water meters replaced   | 1 219                 |
| Old galvanized steel pipes replaced   | 95%                   |
| 12 000 square meters of streets patched   | 10 672,24             |
| 2 km of main stormwater system in Nyakallong upgraded   | 2 km                  |
| 8 sumps cleaned in the next financial year  | 6                     |
| 7,1 kilometres of lined storm water canals cleaned according to maintenance plan.                   | 8,689                 |
| 2 km of existing drainage pipes cleaned and maintained  | 3,335                 |
| 2 000 water meters investigated and registered  | 744                   |
| 2 kilometres of road upgraded per year  | 2km                   |
| 60 kilometres of gravel roads refurbished by blading  | 40,764                |
| 8 km of unlined stormwater canals cleaned   | 5,075                 |
| % of completed refurbishment works of WWTW, pump station and outfall sewer pipe line in Mmamahabane | 100%                  |
| Construction of septic tank system whites started   | 25%                   |
| Completed works of Virginia: upgrading of waste water treatment works - phase 2                     | 75%                   |

38. I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance against the target for the following indicators as reported in the annual performance report. This was due to limitations placed on the scope of my work as the actual level of achievement for the year was not quantified. 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  | Reported achievement         |
|--|------------------------------|
| % of completed refurbishment works of Nyakallong WWTW  | Practical completion         |
| % of completed refurbishment works of Virginia WWTW sludge management  | Completion and commissioning |
| % of completed refurbishment works of WWTW, pump station and outfall sewer pipe line in Mmamahabane                          | Final completion             |
| Construction of septic tank system whites started  | 25% completion construction  |
| Completed works of Virginia: upgrading of waste water treatment works - phase 2  | 50% construction             |
| Commenced upgrade and refurbishment of Kutiwanong WWTW and inlet pump station to address new developments to total of 9 MI/d | Not achieved                 |
| % commenced Refurbishment of Theronia WWTW   | 64%                          |
| Completed upgrade and refurbishment of Thabong T8 pump station to address new developments.                                  | 95% construction completed   |

| Indicator  | Reported achievement     |
|--|--------------------------|
| Completed upgrade and refurbishment of Phomolong pump station  | 100%                     |
| 8 sumps cleaned in the next financial year   | 6                        |
| Commence upgrade and refurbishment Kutlwano outfall sewer  | 50%                      |
| Number of manhole covers replaced  | 122                      |
| Replace 5km of worn out water pipelines replaced   | 1,013                    |
| Old galvanized steel pipes replaced  | 95%                      |
| 1000 dysfunctional water meters replaced   | 963                      |
| Completed tendering process (finalise procurement process for water meters in Kutlwano X9, K2 Block 5 to 200 stands) | Not achieved             |
| 180 house connections and meters installed   | 180                      |
| Completed tendering process(Kutlwano: replacement of old asbestos water pipes with pvc pipes)                        | Not achieved             |
| Completed tendering process (replacement of water asbestos pipes in Thabong)   | Not achieved             |
| 2000 water meters investigated and registered  | 1 244                    |
| 40 zonal meters and valves installed   | 63%                      |
| Continued construction of Thabong gravel road to concrete paving blocks in ward 28                                   | 100%                     |
| Completed tendering process (Thabong Ext. 22 Tandanani road and storm water (2,3 km))                                | Not achieved             |
| 8 km of streets released per year  | 24,975                   |
| 1 kilometre of road upgraded   | Not achieved             |
| 2 kilometres of road upgraded per year   | Not achieved             |
| 12 000 square meters of streets patched  | 10 672,24                |
| 60 kilometres of gravel roads refurbished by blading.  | 40,764                   |
| 2 km of main storm water system in Nyakallong upgraded   | 2 km                     |
| 7.1 kilometres of lined storm water canals cleaned according to maintenance plan.                                    | 8,689                    |
| 8 km of unlined storm water canals cleaned   | 5,075                    |
| 2 km of existing drainage pipes cleaned and maintained   | 3,335                    |
| Commenced upgrade and refurbishment of Kutlwano outfall sewer  | 50% completion completed |

## 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 32 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 in the reported performance information of KPA 2 – basic services 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.

### **Report on the audit of compliance with legislation**

#### **Introduction and scope**

42. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the municipality's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
43. The material findings on compliance with specific matters in key legislation are as follows:

#### **Annual financial statements and annual reports**

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 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 qualified audit opinion.
45. The 2018-19 annual report was not tabled in the municipal council after the end of the financial year, as required by section 127(2) of the MFMA.

#### **Expenditure management**

46. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
47. An adequate management, accounting and information system was not in place which recognised expenditure and accounted for creditors, as required by section 65(2)(b) of the MFMA.
48. Reasonable steps were not taken to prevent irregular expenditure as required by section 62(1)(d) of the MFMA. The value of R339 793 590 as disclosed in note 51 to the annual financial statements is not complete as management was still in the process of quantifying the full extent of the irregular expenditure. The majority of the disclosed irregular expenditure was caused by non-compliance with SCM processes.
49. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R281 932 415, as disclosed in note 50 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 charged on late payments to suppliers.

50. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R1 499 069 612, as disclosed in note 49 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 approved budget.

#### **Revenue management**

51. An effective system of internal control for revenue was not in place, as required by section 64(2)(f) of the MFMA.
52. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

#### **Consequence management**

53. Some of the 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.
54. Irregular 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.
55. Cases of irregular expenditure that constituted a criminal offence were not reported to the South African Police Service (SAPS), as required by section 32(6) of the MFMA.

#### **Asset management**

56. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.

#### **Strategic planning and performance management**

57. A performance management system was not adopted, as required by municipal planning and performance management regulation 8.

#### **Procurement and contract management**

58. 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.
59. Some of the invitations for competitive bidding were not advertised for the required minimum period of days, in contravention of SCM regulation 22(1) and 22(2). Similar non-compliance was also reported in the prior year.

60. The preference point system was not applied some of the goods and services above R30 000 as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act 5 of 2000 (PPPFA).
61. Some of the contracts and quotations were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of the PPPFA and the 2017 Preferential Procurement Regulations (PPR).
62. Some of the contracts were awarded to bidders based on functionality criteria that differed from those stipulated in the original invitation for bidding, in contravention of the PPR.
63. Some of the bid documentation for procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by 2017 PPR 8(2).
64. Some of the commodities designated for local content and production, were procured from suppliers who did not submit a declaration on local production and content as required by the 2017 PPR 8(5).
65. Some of the commodities designated for local content and production, were procured from suppliers who did not meet the prescribed minimum threshold for local production and content, as required by the 2017 PPR 8(5).
66. Some of the contracts were not awarded in an economical manner and the prices of the goods or services were not reasonable as required by MFMA sec 62(1)(a).
67. The performance of 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
68. 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. Similar non-compliance was also reported in the prior year.

|                          |
|--------------------------|
| <b>Other information</b> |
|--------------------------|

69. 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 have been specifically reported in this auditor's report.
70. 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.
71. 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.

72. 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**

73. 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.
74. Leadership did not effectively oversee financial and performance reporting compliance and related internal controls, as they were slow in responding to the outcome of the previous year's audit. This resulted in previously reported internal control weaknesses not being adequately addressed.
75. Management did not ensure that effective internal control processes were implemented to manage the daily and monthly processing and reconciling of transactions, and did not implement proper record keeping to ensure that complete, relevant and accurate information was accessible and available to support financial and performance reporting. In addition, management did not ensure that sufficient consequence management was applied against those responsible for not implementing the municipality's internal controls and monitoring functions. This resulted in material misstatements being identified in the financial statements and the annual performance report as well as, non-compliance with legislation.
76. The municipality's governance structures did not adequately discharge their responsibilities. The Internal audit unit was not adequately resourced and functioning, and the audit committee did not adequately review and verify the information reported in the financial statements and annual performance report submitted for auditing.

### **Material irregularities**

77. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit.

### **Material irregularities identified during the audit**

78. The material irregularity identified is as follows:

## **Payment for attenuation dam not constructed on Nyakallong stormwater system phase 1**

79. A contract of R13 744 408 for the construction of the Nyakallong stormwater system was awarded to a contractor on 12 April 2017. Two variation orders amounting to R3 268 705 were approved in 2017 and 2019. During a site visit, it was confirmed that the project was incomplete, the contractor abandoned the project site and the work performed was not of the required quality. Payments, estimated at R7 214 719, were made for an attenuation dam after the consulting engineer certified it had been completed. However, my site visit confirmed that the attenuation dam was not constructed. Therefore, section 65(2)(a) of the MFMA was contravened, as an effective system of expenditure control for the approval and payment of funds was not maintained. The overpayments made on the project are likely to result in a material financial loss for the municipality, if not recovered.
80. The accounting officer was notified of the material irregularity on 5 May 2020 and invited to make a written submission on the actions taken and that will be taken to address the matter. The accounting officer could not provide sufficient and appropriate evidence of the actions that had been taken in response to being notified of the material irregularity. I am in the process of referring the material irregularity to a public body for investigation as provided for in section 5(1A) of the PAA.

## **Material irregularities in progress**

81. I identified other material irregularities during the audit and notified the accounting officer of these, as required by material irregularity regulation 3(2). By the date of this auditor's report, the responses of the accounting officer were not yet due for some material irregularities and for the remainder, I had not yet completed the process of evaluating the responses from the accounting officer. These material irregularities will be included in the next year's auditor's report.

## **Other reports**

82. I draw attention to the following engagements conducted by various parties that have or could potentially have an impact on the municipality's financial statements, reported performance information and compliance with applicable legislation and other related matters. The reports noted do not form part of the opinion on the financial statements or findings on the reported performance information or compliance with legislation.
83. There was an ongoing investigation by the SAPS 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. The outcome was unknown as the investigation was in progress at the date of this auditor's report.
84. There was an ongoing investigation into allegations of forgery of a signature of a municipal official that resulted in a payment being made without a service having been rendered to the municipality. This investigation is being conducted by the SAPS and covers a specific incident

that occurred on 11 November 2015. The outcome was unknown as the investigation was in progress at the date of this auditor's report.

*Auditor-General*

Bloemfontein

16 April 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 Matjhabeng Local Municipality to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease operating as a going concern
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

### **Communication with those charged with governance**

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may

reasonably be thought to have a bearing on my independence and, where applicable, the actions taken to eliminate threats or the safeguards applied.