



## **COUNCIL RESOLUTION NUMBER: 01/01/30/01/2024**

### **TABLING OF THE DRAFT ANNUAL REPORT FOR THE PERIOD ENDING 30 JUNE 2023.**

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#### **1. PURPOSE**

1.1 To provide record of the municipality during 2022/2023 financial year in respect of financial and non-financial performance against 2022/2023 IDP & Budget.

#### **2. PRE-DETERMINED OBJECTIVES**

2.1 Striving towards a secure and sustainable management of fiscal and financial affairs of the municipality with the limited resources.

#### **3. BACKGROUND**

The 2022/2023 Draft Annual Report of Mantsopa Local Municipality was prepared in terms of Local Government: Section 121 of the Municipal Finance Management Act No.56 of 2003 and Section 46 of the Municipal Systems Act, 32 of 2000, it was subsequently submitted by the Accounting Officer to the Auditor-General for audit as prescribed in terms of the **Local Government: Section 126 of the Municipal Finance Management, Act 56 of 2003** on 31<sup>st</sup> August 2023.

The Auditor-General has concluded the auditing of the Annual Financial Statements and the Draft Annual Report for the period ending 30 June 2023, a report of the Auditor-General South Africa is herewith attached.

In terms of the **Local Government: Section 127 (2) of the Municipal Finance Management Act, 56 of 2003** *"The Mayor of a municipality must, within seven months after the end of a financial year, table in the municipal council the annual report of the municipality and of any municipal entity under the municipality's sole or shared control"*.

The submission of the final Audit report and Management Report to the Accounting Officer in December 2023 by the Auditor General is intended to give Management sufficient time to prepare a credible Audit Action Plan to address issues raised by the Auditor-General in both reports, the Audit Action Plan as prescribed in terms of Section 121(3)(g) of the Municipal Finance Management Act, 56 of 2003.

The municipality received a qualified audit opinion with eleven paragraphs on the Annual Financial Statements.

After consideration of the Annual Report, an Oversight Report will be compiled by the MPAC (Municipal Public Accounts Committee) within 60 days in terms of Section 129 (a), (b) & (c) of the Municipal Finance Management Act, 56 of 2003 for approval by Council. The Municipal Public Accounts Committee, in preparation of the Oversight Report, shall also

- (b) That Councillors to submit inputs and or comments on the Annual Report within 7 (seven) days to the Municipal Manager after the tabling, upon the receipt of inputs/representations from Councillors.
- (c) The Accounting Officer must monitor the Audit Action Plan to address deficiencies and internal control weaknesses raised by the AGSA, Councillors, members of the public and other stakeholders as prescribed by Section 121(3)(g) of the Municipal Finance Management Act, 56 of 2003 on a weekly basis and submit progress to Council quarterly.
- (d) That Council refer the Annual Report inclusive of the Audited Financial Statements and the report of the Auditor General South Africa to the Municipal Public Accounts Committee for further deliberations.
- (e) The Accounting Officer must immediately make public the Annual Report and invite local community to submit representations as envisaged in terms of the Local Government: Section 127 (5) of the Municipal Finance Management Act, 56 of 2003.
- (f) The Accounting Officer must submit the Annual Report to the Auditor-General, the Provincial Treasury, Free State Legislature, Free State Department of Cooperative Governance & Traditional Affairs (FSCOGTA) and Thabo Mofutsanyana District Municipality within 7 days after the tabling.
- (g) That the Municipal Manager take all necessary steps to effectively implement the audit action plan as contemplated in Section 121(3)(g) of the Municipal Finance Management Act, 56 of 2003, weekly clean audit steering committee to be revived as an instrument to monitor internal control deficiencies identified by the Auditor-General.
- (h) The Municipal Public Accounts Committee must compile an Oversight Report within 60 days of tabling this report in terms of Section 129 (a), (b) & (c) of the Municipal Finance Management Act, 56 of 2003 for approval by Council.

The Auditor – General tabled the following:-

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

**Report on the audit of the financial statements**

**Qualified opinion**

1. I have audited the financial statements of the Mantsopa Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2023, 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 notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects and possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Mantsopa Local Municipality as at 30 June 2023, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 5 of 2022 (Dora).

**Basis for qualified of opinion**

**Property, plant and equipment**

3. I was unable to obtain sufficient appropriate audit evidence for the reconciliation of work-in-progress (WIP) additions of R18 717 369 (2022: R42 898 134) as per note 11 to the financial statements, because of the material unexplained reconciling difference between the WIP register and the financial statements. I was unable to confirm the property, plant and equipment by alternative means. Consequently, I was unable to determine whether any adjustment was necessary relating to property plant and equipment stated at R778 036 243 (2022: R896 664 142) in note 11 to the financial statements.
4. In addition, the municipality did not account for property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment*, because of material differences between the fixed asset register and supporting evidence. Furthermore, the municipality incorrectly calculated depreciation on assets, which could also not be physically verified. Consequently, property, plant and equipment and depreciation were overstated by R16 682 436.
5. The municipality did not calculate the impairment loss included in the reconciliation of property, plant and equipment, in accordance with GRAP 21, *Impairment of non-cash generating assets*, as disclosed in note 11 to the financial statements. This was due to material differences between auditors' recalculations and fixed asset register. Consequently, impairment loss included in the reconciliation of property, plant and equipment and the impairment reversal/(losses) was overstated by R31 520 067 (2022: R5 899 013). Additionally, there was an impact on the deficit for the year and accumulated surplus.

**Payables from exchange transactions**

6. I was unable to obtain sufficient appropriate audit evidence for trade payables, retentions, unknown deposits and payments received in advance included in payables from exchange transactions, due to the status of accounting records. I was unable to confirm trade payables, retentions, unknown deposits and payments received in advance by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to these payables from exchange transactions totalling R86 737 561 (2022: R29 548 033) in note 14 to the financial statements.

**Receivables from exchange transactions**

7. I was unable to obtain sufficient appropriate audit evidence that receivables from exchange transactions had been appropriately accounted for as the municipality processed manual adjustments against the receivables from exchange transactions in the general ledger instead of the individually affected customer accounts in the sub-ledger. I was unable to confirm the receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the receivables from exchange transactions stated at R216 805 676 (2022: R67 603 030) in note 5 to the financial statements, interest received on outstanding debtors from exchange transactions stated at R61 484 468 (2022: R53 597 043) in note 21 to the financial statements, and debt impairment stated at R19 249 133 (2022: R106 211 609) in note 31 to the financial statements. Additionally, there was an impact on the deficit for the year and accumulated surplus.

**Receivables from non-exchange transactions**

8. I was unable to obtain sufficient appropriate audit evidence that the receivables from non-exchange transactions had been appropriately accounted for. The municipality processed manual adjustments against the receivables from non-exchange transactions in the general ledger instead of the individually affected customer accounts in the sub-ledger. I was unable to confirm the receivables from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the receivables from non-exchange transactions stated at R9 064 261 in note 6 and interest received on outstanding debtors from non-exchange transactions stated at 2022: R5 390 236, in note 21 to the financial statements. Additionally, there was an impact on the deficit for the year and accumulated surplus.

**Investment property**

9. The municipality did not account for investment property, stated at R85 547 592 in note 10 to the financial statements, in accordance with GRAP 16, *Investment property*, as the municipality recorded assets with an R-Nil value, which were not assessed annually in respect of the useful lives of these assets even though the asset was still in use. Consequently, investment property was understated by R128 572 632 and impairment reversal/(losses) were understated by the same amount. Additionally, there was an impact on the deficit for the year and accumulated surplus.

#### Cash and cash equivalents

10. The municipality did not account for bank overdraft included in cash and cash equivalents in accordance with GRAP 1, *Presentation of financial statements*. This was due to differences identified between the supporting schedules and the amounts disclosed on the financial statements. Consequently, cash and cash equivalents disclosed in note 9 was understated by R5 084 004.

#### Service charges

11. I was unable to obtain sufficient appropriate audit evidence for service charges due to unsubstantiated material reconciling differences between the financial statements and supporting schedules. I was unable to confirm the service charges by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to service charges stated at R144 647 327 (2022: R117 958 675) in note 19 to the financial statements. In addition, the municipality did not recognise sewerage and sanitation charges in accordance with GRAP 9, *Revenue from exchange transactions*, as in the prior year some services were levied at incorrect tariffs. Consequently, the corresponding figure for service charges was understated by R5 891 542 and the corresponding figure for receivables from exchange transactions was understated by R5 891 542. Additionally, there was an impact on the deficit for the year and accumulated surplus.

#### Repairs and maintenance

12. The municipality did not classify repairs and maintenance expenditure in accordance with GRAP 1, *Presentation of financial statements*. This was due to expenditure transactions being incorrectly classified as repairs and maintenance. Consequently, repairs and maintenance expenditure disclosed in note 32 to the financial statements is overstated by R8 190 949 (2022: R9 308 782) and consumables is understated by R6 306 732.

#### Loss on disposal of assets and liabilities

13. During 2022, I was unable to obtain sufficient appropriate audit evidence for the loss on disposal of assets and liabilities and to confirm the loss by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the loss on disposals of assets and liabilities stated at R9 684 917 in the statement of financial performance. My audit opinion on the financial statements for the year ended 30 June 2022 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 loss on disposal of assets and liabilities for the current period.

#### General expenditure

14. The municipality did not account for general expenditure in accordance with GRAP 1, *Presentation of financial statements*. This was due to general expenditure, being incorrectly classified and occurrence of expenditure that could not be confirmed. Consequently, general expenditure in note 34 was overstated by R9 390 080. Additionally, there was an impact on the deficit for the year and accumulated surplus.

19. 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.
20. 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

21. I draw attention to the matter below. My opinion is not modified in respect of this matter.
22. As disclosed in note 56, the municipality reported a deficit of R7 036 839 and that the municipality's total liabilities exceed its assets by R580 741 161. In addition, creditors were not paid within 30 days and the municipality owed Eskom R319 847 019 (2022: R268 211 855) and the Leeuwater, and Bloemwater water boards a total of R3 725 496 (2022: R2 204 007), as at 30 June 2023. The municipality's unspent conditional grants for the year amounted to R35 206 962, increasing the liability of the municipality further as these funds were not cash backed. These events or conditions, along with other matters as set forth in note 56, 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

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

#### Irregular expenditure

24. As disclosed in note 47 to the financial statements, the municipality incurred irregular expenditure of R5 021 275 (2022: R5 330 002) due to contravention of the supply chain management (SCM) requirements.

#### Unauthorised expenditure

25. As disclosed in note 45 to the financial statements, the municipality incurred unauthorised expenditure of R35 206 962 (2022: R125 285 065) due to the grants not spent for their intended purpose.

#### Fruitless and wasteful expenditure

26. As disclosed in note 46 to the financial statements, fruitless and wasteful expenditure of R17 082 738 (2022: R9 490 035) was incurred due to interest charged on late payments to suppliers.

#### Material uncertainty relating to claims against the municipality

27. With reference to note 43 to the financial statements, the municipality is the defendant in various claims against the municipality. The municipality is opposing these claims. The

#### Commitments

15. The municipality did not account for commitments in accordance with GRAP 17, *Property, plant and equipment*. Commitments relating to ongoing projects were not included in the commitment register and differences were identified between the commitment register and supporting information. Consequently, commitments disclosed in note 42 to the financial statements was understated by R18 604 344 (2022: R10 741 510 overstated).

#### Total expenditure

16. Total expenditure was materially misstated by R4 267 138 (2022: R7 821 502) due to the cumulative effect of individually immaterial uncorrected misstatements in the following items:
- Bulk purchases, stated at R58 116 338 in note 33, was overstated by R208 808 (2022: R3 290 594)
  - Employee related costs, stated at R117 743 132 in note 27, was understated by R2 833 503 (2022: R111 315)
  - Remuneration of councillors, stated at R8 088 430 in note 28, was understated by R1 835 501
  - The corresponding amount for general expenditure stated at R29 827 257 in note 34, was understated by R2 094 322
  - The corresponding amount for depreciation and amortisation stated at R38 611 088 in note 29 was understated by R1 306 081
  - The corresponding amount for impairment reversal/losses was understated by R1 019 190
  - Loss on the disposal of assets, stated at R2 194 441 in the statement of financial performance, was overstated by R193 058

#### Current assets

17. The corresponding figures for current assets were materially misstated by R5 393 756 due to the cumulative effect of individually immaterial uncorrected misstatements in the following items:
- Cash and cash equivalents, stated at R676 806 in note 9, was overstated by R145 487
  - Receivables from non-exchange, stated at R6 248 629 in note 8, was overstated by R2 611 906
  - Inventories, stated at R2 575 451 in note 3, was overstated by R1 801 477
  - Vat receivables, stated at R34 026 768 in note 8, was understated by R634 886

#### Context for the opinion

18. 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 my report.

19. 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.
20. 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

21. I draw attention to the matter below. My opinion is not modified in respect of this matter.
22. As disclosed in note 56, the municipality reported a deficit of R7 036 839 and that the municipality's total liabilities exceed its assets by R560 741 161. In addition, creditors were not paid within 30 days and the municipality owed Eskom R319 847 019 (2022: R268 211 855) and the Leeuwater, and Bloemwater water boards a total of R3 725 496 (2022: R2 204 007), as at 30 June 2023. The municipality's unspent conditional grants for the year amounted to R35 206 962, increasing the liability of the municipality further as these funds were not cash backed. These events or conditions, along with other matters as set forth in note 56, 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

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

#### Irregular expenditure

24. As disclosed in note 47 to the financial statements, the municipality incurred Irregular expenditure of R5 021 275 (2022: R5 330 002) due to contravention of the supply chain management (SCM) requirements.

#### Unauthorised expenditure

25. As disclosed in note 45 to the financial statements, the municipality incurred unauthorised expenditure of R35 206 962 (2022: R125 285 065) due to the grants not spent for their intended purpose.

#### Fruitless and wasteful expenditure

26. As disclosed in note 46 to the financial statements, fruitless and wasteful expenditure of R17 082 738 (2022: R9 490 035) was incurred due to interest charged on late payments to suppliers.

#### Material uncertainty relating to claims against the municipality

27. With reference to note 43 to the financial statements, the municipality is the defendant in various claims against the municipality. The municipality is opposing these claims. The

ultimate outcome of these matters could not be determined and no provision for any liability that may result was made in the financial statements.

#### Restatement of corresponding figures

28. As disclosed in note 48 to the financial statements, the corresponding figures for 30 June 2022 were restated as a result of errors in the financial statements of the municipality, and for the year ended, 30 June 2023.

#### Material losses

29. As disclosed in note 33 to the financial statements, electricity distribution losses of R16 390 658 (2022: R16 123 395) were incurred by the municipality mainly due to leakages, burst water pipes and line losses.

#### Other matter

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

#### Unaudited disclosure notes

31. In terms of section 125(2)(e) of the MFMA, particulars of non-compliance with the MFMA should be disclosed in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

#### Responsibilities of the accounting officer for the financial statements

32. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the 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.
33. In preparing the financial statements, the accounting officer accounting 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

34. 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.

35. 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

36. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for the selected key performance area (KPA) presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.
37. I selected the following KPA presented in the annual performance report for the year ended 30 June 2023 for auditing. I selected KPA that measures the municipality's performance on its primary mandated functions and that is of significant national, community or public interest.

| KPA   | Page numbers | Purpose  |
|---|--------------|--|
| Basic service delivery and infrastructure development | XX           | To deliver basic municipal service (i.e. water, sanitation, electricity, roads, waste management) as part of the main core functions of the municipality to their communities. |

38. I evaluated the reported performance information for the selected KPA against the criteria developed from the performance management and reporting framework, as defined in the general notice. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users on the municipality's planning and delivery on its mandate and objectives.
39. I performed procedures to test whether:
- the indicators used for planning and reporting on performance can be linked directly to the municipality's mandate and the achievement of its planned objectives
  - the indicators are well defined to ensure that they are easy to understand and can be applied consistently, as well as verifiable so that I can confirm the methods and processes to be used for measuring achievements
  - the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated
  - the indicators and targets reported on in the annual performance report are the same as those committed to in the approved initial or revised planning documents
- the reported performance information is presented in the annual performance report in the prescribed manner
  - there is adequate supporting evidence for the achievements reported and for the measures taken to improve performance.
40. I performed the procedures for the purpose of reporting material findings only; and not to express an assurance opinion or conclusion.
41. The material findings on the reported performance information for the selected KPA are as follows:

##### Basic service delivery

###### Manyatseng (Ext 10): provision of water reticulation for 306 sites

42. An achievement of 53% provision of water reticulation was reported against a target of 100% provision of water reticulation. However, some supporting evidence was not provided for auditing and, where it was, I identified material differences between the actual and reported achievements. Consequently, the achievement might be more or less than reported and was not reliable for determining whether the target had been achieved.

###### Number of dwellings provided with connections to main electricity by Eskom within the municipality areas by 30 June 2023

43. An achievement of 138 connections to the main electricity by Eskom was reported against a target of 0 connections to the main electricity by Eskom. I could not determine if the reported achievement was correct, as adequate supporting evidence was not provided for auditing. Consequently, the achievement might be more or less than reported and was not reliable for determining if the target had been achieved.

##### Various indicators

44. Based on audit evidence, the actual achievements for two indicators did not agree to the achievements reported. Consequently, the targets were not achieved and the achievement against the target were lower than reported.

| Indicator                                    | Target | Reported achievement | Actual achievement |
|--|--------|----------------------|--------------------|
| Kilometers of roads reshaped by 30 June 2022 | 1km    | 39,04km              | 0km                |
| Storm-water channel cleaned by 30 June 2023  | 10km   | 13,48km              | 0km                |

**Other matter**

45. I draw attention to the matter below.

**Material misstatements**

46. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for KPA: basic services and Infrastructure development. Management did not correct all of the misstatements and I reported material findings in this regard.

**Achievement of planned targets**

47. The annual performance report includes information on reported achievements against planned targets and provides measures taken to improve performance. This information should be considered in the context of the material findings on the reported performance information.

**Report on the audit of compliance with legislation****Introduction and scope**

48. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting officer is responsible for the municipality's compliance with legislation.
49. I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.
50. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the municipality, clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.
51. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

**Annual financial statements**

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

**Conditional grants**

53. The municipal infrastructure grant was not spent for its intended purposes in accordance with the applicable grant framework, as required by section 16(1) of DORA.
54. The water services infrastructure grant was not spent for its intended purposes in accordance with the applicable grant framework, as required by section 16(1) of DORA.
55. The FMG was not spent for its intended purposes in accordance with the applicable grant framework, as required by section 16(1) of DORA.

**Asset management**

56. An adequate management, accounting and information system that accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
57. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.
58. Capital assets that were needed to provide the minimum level of basic municipal service were sold, transferred or permanently disposed of, in contravention of section 14(1) of the MFMA.
59. Capital assets were disposed of without the municipal council having, in a meeting open to the public, decided on whether the assets were still needed to provide the minimum level of basic municipal services and considered the fair market value of the assets and the economic and community value to be received in exchange for the assets, as required by section 14(2)(a) and 14(2)(b) of the MFMA.

**Procurement and contract management**

60. Sufficient appropriate audit evidence could not be obtained that all contracts were awarded in accordance with the legislative requirements as the signed contracts were not submitted for audit.
61. 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(1)(a) and (c). Similar non-compliance was reported in the prior year.
62. 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).
63. 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 reported in the prior year.
64. The contract performance and monitoring measures were not in place to ensure effective contract management, as required by section 116(2)(c)(ii) of the MFMA.

#### Expenditure management

- 65. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
- 66. Payments were made from the municipality's bank accounts without the approval of the properly authorised official, as required by section 11(1) of the MFMA.
- 67. Reasonable steps were not taken to ensure that the municipality implements and maintains an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds, as required by section 65(2)(a) of the MFMA.
- 68. Reasonable steps were not taken to prevent irregular expenditure of R5 021 275 (2022: R5 330 002) disclosed in note 47 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with the SCM regulations.
- 68. Reasonable steps were not taken to prevent unauthorised expenditure of R35 206 962 (2022: R121 340 728), as disclosed in note 45 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by expenditure that was not in accordance with the requirements Dora.
- 70. Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R17 082 736 (2022: R9 490 035), as disclosed in note 46 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The fruitless and wasteful expenditure was caused by interest raised by Eskom, Sars, the DBSA, pension funds and other service providers for non-payments.

#### Revenue management

- 71. I was unable to obtain sufficient appropriate audit evidence that revenue due to the municipality was calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.
- 72. I was unable to obtain sufficient appropriate audit evidence that accounts for charges for municipal service charges were prepared on a monthly basis, as required by section 64(2)(c) of the MFMA.
- 73. I was unable to obtain sufficient appropriate audit evidence that interest had been charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.
- 74. An adequate management, accounting and information system that accounts for revenue and debtors was not in place, as required by section 64(2)(e) of the MFMA.
- 75. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.

#### Human resource management

- 76. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the Municipal Systems Act 32 of 2000 (MSA).

- 77. A senior manager did not sign performance agreement within the prescribed period, as required by section 57(2)(a) of the MSA.

#### Consequences management

- 78. Unauthorised expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(a) of the MFMA.
- 79. Irregular expenditure incurred by the municipality were not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.
- 80. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.

#### Strategic planning and performance management

- 81. The performance management system and related controls were not maintained, as they did not describe how the performance monitoring, measurement, review and reporting processes should be conducted, as required by municipal planning and performance management regulation 7(1).
- 82. The local community was not afforded the opportunity to comment on the final draft of the integrated development plan before adoption, as required by section 42 of the MSA and municipal planning and performance management regulation 15(3).

#### Other information in the annual report

- 83. The accounting officer is responsible for the other information included in the annual report. The other information referred to does not include the financial statements, the auditor's report and the selected KPA presented in the annual performance report that has been specifically reported on in this auditor's report.
- 84. My opinion on the financial statements, the report on the annual performance report and the report on compliance with legislation do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.
- 85. My responsibility is to read this other information and, in doing so, consider whether it 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.
- 86. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

#### Internal control deficiencies

87. I considered Internal control relevant to my audit of the financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
88. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the material findings on the annual performance report and the material findings on compliance with legislation included in this report.
89. Ineffective monitoring and supervision over financial and performance reporting resulted in material misstatements in the financial statements and the annual performance report. The internal controls within the municipality did not improve, as repeat findings were reported in the current year.
90. Slow corrective measures were taken by management to address the drivers of material financial and non-compliance with laws and regulations.
91. Management did not prioritise the review and monitoring of compliance with legislation, which resulted in repeat findings. This was due to a lack of consequence management, as officials were not held accountable for non-compliance to laws and regulations.

#### Other reports

92. I draw attention to the following engagement conducted. This report did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
93. During December 2020 the municipal information technology infrastructure was compromised and the supplier statements were altered, resulting in a fraudulent transaction and payment being made to an unknown third party. A case was opened at the South African Police Service and the investigation was ongoing at the date of this report.

*Auditor - General*

Bloemfontein  
30 November 2023



#### **COUNCIL RESOLVED: -**

- 1) That Council take note of the Annual Report including audited Annual Financial Statements, Report of the Auditor-General for the period ending 30 June 2023.
- 2) That Councillors to submit inputs and or comments on the Annual Report within 7 (seven) days to the Municipal Manager after the tabling, upon the receipt of inputs/representations from Councillors.
- 3) The Accounting Officer must monitor the Audit Action Plan to address deficiencies and internal control weaknesses raised by the AGSA, Councillors, members of the public and other stakeholders as prescribed by Section 121(3)(g) of the Municipal Finance Management Act, 56 of 2003 on a weekly basis and submit progress report to Council quarterly.
- 4) That Council refer the Annual Report inclusive of the Audited Financial Statements and the report of the Auditor General South Africa to the Municipal Public Accounts Committee for further deliberations.
- 5) The Accounting Officer must immediately make public the Annual Report and invite local community to submit representations as envisaged in terms of the Local Government: Section 127 (5) of the Municipal Finance Management Act, 56 of 2003.
- 6) The Accounting Officer must submit the Annual Report to the Auditor-General, the Provincial Treasury, Free State Legislature, Free State Department of Cooperative Governance & Traditional Affairs (FSCOGTA) and Thabo Mofutsanyana District Municipality within 7 days after the tabling.
- 7) That the Municipal Manager take all necessary steps to effectively implement the audit action plan as contemplated in Section 121(3)(g) of the Municipal Finance

Management Act, 56 of 2003, weekly clean audit steering committee to be revived as an instrument to monitor internal control deficiencies identified by the Auditor-General.

- 8) The Municipal Public Accounts Committee must compile an Oversight Report within 60 days of tabling this report in terms of Section 129 (a), (b) & (c) of the Municipal Finance Management Act, 56 of 2003 for approval by Council.

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**Approved by: -**



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**Cllr ME Ncwada  
Speaker**

**Date: 30/01/2024.**