

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

## Report on the audit of the financial statements

### Qualified opinion

1. I have audited the financial statements of the Nketoana Local Municipality set out on pages XX to XX, which comprise the statement of financial position as at 30 June 2017, the statement of financial performance, statement of changes in net assets and 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 possible effects of the matters described in the basis for qualified opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Nketoana Local Municipality as at 30 June 2017 and its financial performance and cash flows for the year then ended in accordance with 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, 2016 (Act No. 3 of 2016) (DoRA).

### Basis for qualified opinion

#### Payables from exchange transactions

3. The municipality did not recognise all outstanding amounts meeting the definition of a liability in accordance with GRAP 1, *Presentation of financial statements*. As the municipality did not maintain adequate records of outstanding payments for goods and services received but not yet paid at year-end, this resulted in trade payables being understated by R22 332 766, I could not confirm trade payables by alternative means. Consequently, there was a resultant impact on the surplus for the period and on the accumulated surplus. Furthermore, as described in note 52 to the financial statements, the restatement was made to rectify trade payables previous year misstatement, but it could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the trade payables corresponding amount stated at R 209 630 149 in the financial statements

## Vat payable

4. I was unable to obtain sufficient appropriate audit evidence for vat payable, as the municipality did not maintain accurate and complete records of the information used to determine vat payables. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to vat payable stated at R8 461 157 in the financial statements.

## Irregular expenditure

5. The municipality did not disclose all irregular expenditure in the notes to the financial statements, as required by section 125(2)(d)(i) of the MFMA. The municipality incurred expenditure in contravention of supply chain management (SCM) requirements, resulting in irregular expenditure being understated by R49 825 990. I was not able to determine the impact on irregular expenditure disclosed in note 31 to the financial statements as it was impracticable to do so

## Operating expenditure

6. I was unable to obtain sufficient appropriate audit evidence for operating expenditure, due to the status of the accounting records and non-submission of information in support of the recorded expenditure. I was unable to confirm the expenditure by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to operating expenditure stated at R 389 562 363

## Property plant and equipment

7. The municipality did not recognise all items of property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment*. Furthermore, I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment, I was unable to confirm these physical assets by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to property, plant and equipment stated at R992 356 253 to the financial statements.
8. 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.
9. 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.
10. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

## **Material uncertainty related to going concern/financial sustainability**

11. I draw attention to note xx in the financial statements, which indicates that the municipality incurred a net loss of R68 059 278 during the year ended 30 June 2017 and, as of that date, the municipality's current liabilities exceeded its current assets by R988 668 439. The municipality owed Eskom R145 782 736 (2016: R99 407 396) and the water board R4 037 887 (2016:R4 007 540) as at 30 June 2017 which is long overdue. These conditions, along with other matters as set forth in note 54, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern and to meet its service delivery objectives.

## **Emphasis of matters**

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

### Restatement of corresponding figures

13. As disclosed in note 52 to the financial statements, the corresponding figures for 30 June 2016 have been restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2017.

### Material losses

14. As disclosed in note 58 to the financial statements, water distribution losses of R7 186 783 (2016: R5 907 654) and electricity distribution losses of R927 490 (2016: R4 831 751) were incurred by the municipality mainly due to leakages, burst water pipes, line losses, tampering and theft.

15. As disclosed in note 40 to the financial statements, material losses to the amount of R52 208 251 (2016: R23 565 465) were incurred as a result of a write-off of irrecoverable trade debtors

### Material impairment

16. As disclosed in note 8 to the financial statements, consumer debtors from exchange transactions were impaired by R338 370 261 (2016: R299 214 761) and, as disclosed in note 8 to the financial statements, receivables from non- exchange transactions were impaired by R22 787 652 (2016: R20 368 866).

### Unauthorised expenditure

17. As disclosed in note 55 to the financial statements, the municipality incurred unauthorised expenditure of R53 437 353 (2016: R62 703 108). The unauthorised expenditure was as a result of the budgeting process not being properly organised.

## **Other matters**

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

## Unaudited disclosure item

19. 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 accounting officer for the financial statements**

20. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with 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.
21. In preparing the financial statements, the accounting officer is responsible for assessing the Nketoana Local Municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless there is an intention to liquidate the municipality or to cease operations, or there is no realistic alternative but to do so.

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

22. 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
23. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

## **Report on the audit of the annual performance report**

### **Introduction and scope**

24. 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 (KPA's) presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
25. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators/measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future

periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

26. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the selected KPAs presented in the annual performance report of the municipality for the year ended 30 June 2017:

Key performance area	Pages in the annual performance report
Key performance area 4 – Basic Service Delivery	x – x

27. I performed procedures to determine whether the reported performance information 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.

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

**Key performance area 4 – Basic Service Delivery**

14 000 households in formal urban areas, as defined in the IDP, have access to at least RDP level of potable water

29. The reported achievement for target 14000 (Number of households that have access to basic water) was misstated as the evidence provided indicated 13330 households and not 14000 households as reported It was confirmed on the Munsoft report that 13331 households are reported to have access to water.

Boreholes: Equipping new boreholes in Arlington

30. The reported achievement for target 5 (Boreholes: Equipping new boreholes in Arlington) was misstated as the evidence provided indicated 0 boreholes and not 5 boreholes as reported. Inspected the portfolio of evidence and confirmed that the boreholes equipped in Arlington is not indicated on this report.

Boreholes: Equipping new boreholes in Mamafubedu

31. The reported achievement for target 3 (Boreholes: Equipping new boreholes in Mamafubedu) was misstated as the evidence provided indicated 0 boreholes were completed and not 3 boreholes as reported.

32. Traced reported information to portfolio of evidence for quarter 1,2,3, and 4 and confirmed the boreholes reported as equipped and fully functional were still not complete.

## Upgrading of water pump stations in Lindley and Arlington

33. The reported achievement for target 4 (Upgrading of water pump stations in Lindley and Arlington) was misstated as the evidence provided indicated 0 water pumps were complete and not 4 water pumps as reported.
34. The performance is reported as partially achieved and on inspection of supporting documents confirmed that the municipality did not complete the project therefore the target is not achieved.

## Farms provided with clean potable water

35. The reported achievement for target 4 (Farms provided with clean potable water) was misstated as the evidence provided indicated 1 farm was supported and not 4 farms as reported.
36. Inspected the water delivery logbooks for quarter the year and confirmed water deliveries were made during May, June, March, February and January to a Farm in ward 04 (Kaallaagte plaas) only but not to other three farms; and therefore the support is only valid for 1 farm

## All registered indigents have access to free basic water 100%

37. The reported achievement for target 100% (Indigents that have access to free basic water) was misstated as the evidence provided indicated 73% of indigents that have access and not 100% as reported.
38. It was identified that the portfolio of evidence provided is not valid as management provided the list of registered indigents instead of billing report and indigents register. The differences were identified as the billing report indicate 5 509 indigents that received free basic services and the number of indigents registered is 6 366 as compared to reported performance report indicating 6 000 indigents as total registered indigents that have access to free water.

## All registered indigents having access to at least RDP level of free basic sanitation

39. The reported achievement for target 100% (Indigents that have access to free basic water) was misstated as the evidence provided indicated 98% of indigents that have access and not 100% as reported.

## 14 000 households have access to at least RDP level of sanitation.

40. The reported achievement for target 14000 (14 000 households have access to at least RDP level of sanitation) was misstated as the evidence provided indicated 14836 households have access and not 14000 as reported.
41. During testing of reliability of information used to report 14 000 households that have access to at least RDP level of sanitation indicator identified that the performance is reported as 14 000 when the actual report as per billing system indicate 14836.

Petsana: Provision for Sanitation and Toilet brick structures. Number of stands served with sanitation and toilet structures.

42. The reported achievement for target of 320(Number of stands served with sanitation and toilet structures) was misstated as the evidence provided indicated 362 was served and not 320 as reported.

43. Inspected the portfolio of evidence for the 1st quarter and confirmed 362 toilets were completed.

Maintenance Project of Transformers: Reitz: 2 Mamafubedu: 2 Lindley

44. The reported achievement for target of (Maintenance Project of Transformers:) was misstated as the evidence provided indicated 0 and not 1 as reported

45. Municipality reported that the target was achieved but not all the transformers as indicated in the indicator were maintained, the following were included in the report by Vaal Transformers Petrus: Steyn (2), Lindley (1), and Reitz (1) on (01/12/2016), therefore the target is not achieved:

Rehabilitation of Mamafubedu disposal site

46. The reported achievement for target of 1(Rehabilitation of Mamafubedu disposal site) was misstated as the evidence provided indicated 0 and not 1 as reported

47. Inspected portfolio of evidence and confirmed municipality obtained a license for the closure of Mamafubedu disposal site on 16/09/2016 from the department of Economic, small business development and environmental affairs however the landfill site is not closed.

Clearing of illegal dumps

48. The reported achievement for target of 1(Clearing of illegal dumps) was misstated as the evidence provided indicated 0 and not 1 as reported

49. Inspected the portfolio of evidence and confirmed there is no evidence included on the cleaning campaigns held to clear illegal dumping sites, only photos of cleared dumping site are included on the portfolio of evidence, it cannot be confirmed whether the indicator target is met or not as the photos does not present enough evidence as to when was the project conducted and where was the campaign held.

Standard: Weekly at all residential sites and bi-weekly at business sites

50. I was unable to obtain sufficient appropriate evidence for target weekly refuse removal that clearly defined the predetermined nature and required level of performance and/or method of calculation and/or deadline for delivery, as required by the FMPPI. This was due to a lack of technical indicator descriptions and/or proper systems and processes and/or formal standard operating procedures or documented system descriptions. The indicator is not well defined and measurable. The target reached cannot be confirmed or be validated because the target is planned to be achieved weekly but the reporting is done monthly, as a result direct comparison of weekly plan to monthly achievement cannot be made. This results to material scope limitation in testing reliability. I was

unable to test whether the target for this indicator was clearly defined by alternative means

#### Repairs & Maintenance of street lights and other infrastructure according to the weekly plan

51. I was unable to obtain sufficient appropriate evidence for target daily maintenance according to weekly plan that clearly defined the predetermined nature and required level of performance and/or method of calculation and/or deadline for delivery, as required by the FMPPI. This was due to a lack of technical indicator descriptions and/or proper systems and processes and/or formal standard operating procedures or documented system descriptions. The indicator is not measurable as the target is not specific and time bound and this results to material scope limitation in testing reliability.
52. Through inspection of weekly plans, it was confirmed that maintenance is not done according to the weekly plan. Some weekly plan periods differ with the weekly reporting and this makes it hard to determine if what is planned weekly is achieved. I was unable to test whether the target for this indicator was clearly defined by alternative means

#### Various indicators

53. The source information and/or evidence and/or method of calculation for the achievement of the planned indicators below were not clearly defined, as required by the Framework for Managing Programme Performance Information (FMPPI).
54. The targets were not time bound, they recorded as continuously on demand, it is not stated/specified when the targets should be achieved. Furthermore, there was no evidence of approved demands, only the reporting was done, it is not possible to conclude if the municipality achieved the targets or not.
55. The reported achievements of the indicators listed below were misstated, as the evidence provided did not agree with the reported achievements as follows:

<b>Performance indicator</b>	<b>Reported achievement</b>	<b>Audited value</b>
Number of potholes repaired	399	759
Number of square meters repaired	695	1808
Number of km of streets graveled	9400	9436
Number of Storm water canals cleaned	11 969	14656
Number of damaged paved roads repaired	109	104



## **Other matters**

56. I draw attention to the matters below.

### **Achievement of planned targets**

57. Refer to the annual performance report on [page(s) x to x; x to x] for information on the achievement of planned targets for the year and explanations provided for the [under / overachievement] of a [significant] number of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraph(s) [x; x; x] of this report.

### **Adjustment of material misstatements**

58. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of key performance area for basic service delivery. 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 audit of compliance with legislation**

### **Introduction and scope**

59. 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.

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

#### **Annual financial statements**

61. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, liabilities and disclosure items 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 qualified audit opinion.

#### **Expenditure Management**

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

63. Reasonable steps were not taken to prevent unauthorised expenditure as required by section 62(1)(d) of the MFMA.
64. Reasonable steps were not taken to prevent irregular expenditure as required by section 62(1)(d) of the MFMA.
65. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

#### HR Management

66. Job descriptions were not established for all posts in which appointments were made, as required by section 66(1)(b) of the MSA.

#### Asset Management

67. Capital assets were disposed without the approval of the council, as required by section 14(2) (a) of the MFMA.

#### Liability Management

68. An effective system of internal control for liabilities (including a liability register) was not in place, as required by section [63(2)(c) / 96(2)(b)] of the MFMA

#### Consequence Management

69. 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 Municipal Finance Management Act.
70. Irregular expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the Municipal Finance Management Act
71. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the Municipal Finance Management Act.

#### Compliance Budget

72. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R53 437 353, as disclosed in note 55 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 on debt impairment.

#### Procurement and Contract Management

73. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM regulation 17(a) and (c). Similar non-compliance was also reported in the prior year.

74. Some of the quotations were accepted from prospective providers who were not on the list of accredited prospective providers and did not meet the listing requirements prescribed by the SCM policy, in contravention of SCM regulations 16(b) and 17(b).
75. Some of the quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
76. 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.
77. 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).
78. Some of the contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding and quotations, in contravention of SCM regulations 21(b) and 28(1)(a) and the Preferential Procurement Regulations.
79. Some of the competitive bids were adjudicated by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2).
80. The preference point system was not applied to some of the procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act.
81. Some of the quotations were awarded to bidders based on preference points that were not calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.
82. Awards were made to providers who were in the service of the municipality, in contravention of section 112(j) of the MFMA and SCM regulation 44. Furthermore, the provider failed to declare that he / she was in the service of the municipality, as required by SCM regulation 13(c).
83. Persons in the service of the municipality who had a private or business interest in contracts awarded by the municipality failed to disclose such interest, the code of conduct for staff members issued in terms of the Municipal Systems Act.

#### Other information

84. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the audit committee's report. The other information does not include the financial statements, the auditor's report thereon and the selected KPAs presented in the annual performance report that have been specifically reported on in the auditor's report.
85. 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.

86. 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.
87. 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**

88. 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 thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, the findings on the name of performance report and the findings on compliance with legislation included in this report.
89. The leadership did not always take timeous and adequate action to address weaknesses in the finance and supply chain management directorate, which resulted in non-compliance with applicable legislation and gave rise to fruitless and wasteful and irregular expenditure. Oversight provided by leadership was not adequate to prevent material irregular expenditure and to set the standard of sound corporate governance.
90. Deviations from the expected standards of conduct were not followed up to ensure that remedial or disciplinary action was taken in a timely and consistent manner. Overriding of internal controls occurred which resulted in a high number of irregular expenditure.
91. Consequence management was not effective as the council did not investigate instances of unauthorised, irregular, fruitless and wasteful expenditure to determine whether any person was liable for the expenditure as the council neglected to appoint a committee to investigate the expenditure.
92. Key management positions were vacant during the year under review. Management did not implement effective human resource management to ensure that competent and sufficiently skilled officials are appointed and performance is being monitored.
93. The lack of decisive action to mitigate emerging risks, implement timely corrective measures and address non-performance was evident by the failure of management to adequately address the external audit findings in a timely manner. The municipality failed to properly analyse the control weaknesses and implement appropriate follow-up actions that adequately addressed the root cause. This resulted in the audit findings in the prior year recurring in the current year.
94. The leadership did not evaluate whether management had implemented effective internal controls by gaining an understanding of how senior management members had

met their responsibilities in terms of ensuring proper records management and maintaining an asset register and preparing the annual financial statements.

95. There was a material breakdown of the internal controls at the municipality. The monthly and daily controls not being implemented and monitored led weak control environment.
96. Compliance to laws and regulations are not monitored on a regular basis and non-compliance is not addressed in a timely manner because management did not implement the action plan on the prior year findings.
97. The appointment of the Head of Internal Auditor as the Acting Chief Financial Officer hampered the productivity and reliability of the work of the internal audit section.
98. Internal audit did not adequately review and verify the information reported in the annual financial statements and performance report submitted for audit. This resulted in various matters to be adjusted and corrected in the audit report that could have been prevented.

### Other reports

99. 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.
100. An investigation was conducted by independent forensic auditors at the request of the bank regarding alleged fraudulent transactions which occurred between 22 and 25 October 2010 on two of the municipality's bank accounts. The bank indicated in a letter Ref. 2030906 dated 2 August 2013 that they are not liable for the loss. Management did not take any action and no evidence could be provided of efforts by the municipality to recover the money or to follow up on the investigation since August 2013. The amount that was not recovered is R1 780 000.
101. An investigation was being conducted by the South African Police Service (SAPS) into alleged fraudulent procurement transactions between the 2009 and 2012 financial years. Supporting documentation has been seized by the SAPS. The investigation commenced towards the end of the 2013 financial year. The investigation was still ongoing at the reporting date.
102. Case was opened with Directorate Priority Crime Investigation into alleged fraudulent procurement transactions between the 2014 and 2015 financial years.

[Sign as 'Auditor-General']

Place of signing

Date of signing



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 key development area 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 the 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 Nketoana 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 the auditor’s report. However, future events or conditions may cause a municipality to cease to continue 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 here applicable, related safeguards.