

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

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of the Tswelopele Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2017, statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Tswelopele Local Municipality as at 30 June 2017, 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 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 opinion

3. 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.
4. 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.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Material uncertainty related to going concern

6. I draw attention to the matter below. My opinion is not modified in respect of this matter:
7. Note 44 in the financial statements indicates that the municipality incurred a net loss of R20 193 850 during the year ended 30 June 2017 and, as of that date, the municipality's current liabilities exceeded its current assets by R39 658 304. In addition, the municipality owed Eskom R18 809 407 (2016: R4 021 472) as at 30 June 2017, which was long overdue and the municipality has requested financial intervention from the province. This matter was still in progress as at reporting date. These conditions, along with other matters as set forth in note 44, 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**

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

#### **Irregular expenditure**

9. As disclosed in note 47 to the financial statements, irregular expenditure of R4 606 238 (2016: R4 698 122) was incurred mainly due to conditional grants not being used for the intended purposes.

#### **Restatement of corresponding figures**

10. As disclosed in note 42 to the financial statements, the corresponding figures for 30 June 2016 have been restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2017.

#### **Material losses**

11. As disclosed in note 33 to the financial statements, electricity distribution losses of 12,88% (2016: 17,79%) of total electricity purchased were incurred by the municipality mainly due to tampering and theft.

#### **Material impairments**

12. As disclosed in notes 12 and 13 to the financial statements, receivables from exchange transactions were impaired by R28 921 857 (2016: R21 557 938) and receivables from non-exchange transactions were impaired by R12 141 296 (2016: R7 548 271).

### **Other matters**

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

#### **Unaudited disclosure notes**

14. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement, as contained in the note 48 to the financial statements, did not form part of the audit the financial statements and, accordingly, I do not express opinion on it.

#### **Unaudited supplementary information**

15. The appropriation statement set out on pages 15 to 16 does not form part of the financial statements and is presented as additional information. I have not audited this statement and, accordingly, I do not express an opinion on it Responsibilities of the accounting officer for the financial statements.

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

16. 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.
17. In preparing the financial statements, the accounting officer is responsible for assessing the Tswelopele Local Municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the intention is to liquidate the municipality or cease operations, or there is no realistic alternative but to do so.

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

18. 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.
19. 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**

20. 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.
21. 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 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.
22. 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 following selected KPA's presented in the annual performance report of the municipality for the year ended 30 June 2017:

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

23. 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.
24. The material findings in respect of the usefulness and reliability of the selected KPA are as follows:

### **KPA 2 – basic service and infrastructure**

Improve on the recommendation made by the Department of Water and Sanitation on the 2015 blue and green drop results

25. The method of calculation of the planned indicator was not clearly defined, as required by the Framework for Managing Programme Performance Information (FMPPi).

#### **Various indicators**

26. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the indicators listed below. This was due to the unavailability of supporting documentation. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements.

Indicator	Reported achievement
Number of households with access to a quality and sustainable water services.	11 372
Number of reports for households with access to sanitation services	10 433
Number of households with access to electricity	11 442

#### **Other matters**

27. I draw attention to the matters below.

#### **Achievement of planned targets**

28. Refer to the annual performance report on pages x to x and x to x for information on the achievement of planned targets for the year and explanations provided for the underachievement 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 paragraphs 25 to 26 of this report.

## Adjustment of material misstatements

29. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA 2 – basic service and infrastructure. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information.

## Report on audit of compliance with legislation

### Introduction and scope

30. 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.
31. The material findings in respect of the compliance criteria for the applicable subject matters are as follows:

#### Expenditure management

32. Effective steps were not taken to prevent irregular expenditure amounting to R4 606 238 as disclosed in note 47 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the disclosed irregular expenditure was caused by contravention of the applicable grant framework.
33. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R1 150 175, as disclosed in note 46 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 made.
34. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

#### Annual financial statements

35. 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 and the disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided, resulting in the financial statements receiving an unqualified audit opinion.

#### Revenue management

36. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

#### Utilisation of conditional grants

37. The municipal infrastructure grant was not spent in accordance with the applicable grant framework, in contravention of section 17(1) of the DoRA.

#### Budgets

38. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R3 165 890 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 actual expenditure per vote exceeding the budgeted figures.

#### Consequence management

39. 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.

#### Procurement and contract management

40. 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.

41. 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). Similar non-compliance was also reported in the prior year.

#### Other information

42. The Tswelopele Local Municipality's 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 thereon and those selected KPAs presented in the annual performance report that have been specifically reported on in the auditor's report.

43. 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.

44. 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.

45. 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

46. 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 findings on the annual performance report and the findings on compliance with legislation included in this report.
47. Management did not implement adequate controls over the preparation of the annual financial statements and the annual performance report, due to vacancies identified within the finance department, internal audit and the strategic management unit, resulting in proper reviews not being effected on the annual financial statements and the annual performance report. This resulted in material misstatements being identified in the annual financial statements and performance report submitted for auditing.
48. The leadership did not adequately exercise oversight responsibility of the implementation of the action plan to address material weaknesses identified in the previous year in performance reporting and compliance with legislation, resulting in material findings being reported in the year under review. This was because management has not implemented adequate monitoring processes on compliance with legislation.

*Auditor-General*

Bloemfontein

30 November 2017



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 performance areas 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 Tswelopele 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 where applicable, related safeguards.