

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

Qualified 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 2018, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the 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 Tswelopele Local Municipality as at 30 June 2018, 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, 2017 (Act No. 3 of 2017) (Dora).

Basis for qualified opinion

Property, plant and equipment

3. The municipality did not disclose property, plant and equipment owned by the municipality in the fixed asset register; furthermore, property that did not belong to the municipality was included in the fixed asset register. I was unable to confirm the ownership of these assets by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to property, plant and equipment stated at R541 535 132 in note 5 to the financial statements. Additionally, there was an impact on the surplus for the period and on the accumulated surplus.

Payables from exchange transactions

4. I was unable to obtain sufficient appropriate audit evidence for payables as described in note 20 to the financial statements. Payables could not be substantiated by supporting audit evidence as the information relating to the suspense account was not submitted. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustment would be necessary to payables amounting to R84 177 488.

Property rates

5. I was unable to obtain sufficient appropriate evidence for revenue from property rates as I was unable to confirm and rely on the value of the properties falling within the borders of the municipal area. Consequently, I was unable to determine whether any adjustments were necessary to revenue from property rates and stated at R22 737 843 in the annual financial statements. Additionally there was an effect on receivables from non-exchange transactions.

General expenditure

6. I was unable to obtain sufficient appropriate audit evidence for general expenditure due to the status of the accounting records. The municipality did not have all the supporting documents for transactions and events recorded in the financial statements. I could not confirm general expenditure by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to general expenditure stated at R34 979 403 in the financial statements. In addition, the municipality did not recognise all items of general expenditure in accordance with the Standard of Generally Recognised Accounting Practice (GRAP) 1, *Presentation of Financial Statements*. The municipality included in general expenditure transactions that were not approved; and transactions that did not relate to the current period. Consequently, general expenditure was overstated and payables was overstated by R2 576 072 (2017: R666 347). There was also a resultant impact on the surplus for the period and on the accumulated surplus.

Employee-related costs

7. I was unable to obtain sufficient appropriate audit evidence for the employee cost as described in note 28 to the financial statements. Employee costs could not be substantiated by supporting audit evidence. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the employee costs figure stated.

Commitments

8. The municipality recorded commitments at amounts that differed materially from the contracted amounts. Consequently, commitments were overstated by R2 821 706 as the supporting information differed materially from the disclosed amounts. I was unable to confirm these disclosures by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the amounts disclosed in the financial statements.

Irregular expenditure

9. The municipality did not include irregular expenditure in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. This was due to payments made in contravention of the supply chain management requirements, which resulted in irregular expenditure of R6 546 180. In addition, I was unable to obtain sufficient appropriate audit evidence to confirm the irregular expenditure included in the notes to the financial statements, as sufficient appropriate audit evidence was not provided. Furthermore I was unable to confirm the amounts of write-off, as the evidence provided was not adequate. I was unable to confirm this by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the irregular expenditure stated at R15 103 149 in the financial statements.

Accumulated surplus

10. I was unable to obtain sufficient appropriate audit evidence regarding accumulated surplus of R505 633 220 disclosed in the financial statements due to various inconsistencies in the various components of the financial statements. I was unable to confirm accumulated surplus

by alternative means. Consequently, I was unable to determine whether any adjustments were necessary relating to accumulated surplus in the financial statements.

Context for the opinion

11. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
12. 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.

Material uncertainty relating to going concern

13. I draw attention to the matter below. My opinion is not modified in respect of this matter.
14. Note 46 to the financial statements indicates that the municipality incurred a net loss of R7 518 969 during the year ended 30 June 2018 and, as of that date the municipality's current liabilities exceeded its current assets by R46 354 534. These events or conditions, along with other matters as set forth in note 46, 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

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

Fruitless and wasteful expenditure

16. As disclosed in note 48 to the financial statements, the municipality incurred fruitless and wasteful expenditure of R4 874 385 (2017: R1 150 175) mainly due to no interest charged by Eskom.

Restatement of corresponding figures

17. As disclosed in note 44 to the financial statements, the corresponding figures for 30 June 2017 have been restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2018.

Material losses

18. As disclosed in note 43 to the financial statements, electricity distribution losses of 12,88% (2017: 11,95%) of total electricity purchased were incurred by the municipality mainly due to tampering and theft.

Material impairment

19. As disclosed in note 13 to the financial statements, receivables from exchange transactions were impaired by R28 775 603 (2017: R23 271 648).

Other matters

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

Unaudited disclosure notes

21. 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.

Unaudited supplementary information

22. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

Responsibilities of the accounting officer for the financial statements

23. 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.

24. 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 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

25. 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.

26. 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

27. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on

the reported performance information against predetermined objectives for selected key performance areas (KPAs) presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

28. 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 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.
29. 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 KPAs presented in the annual performance report of the municipality for the year ended 30 June 2018:

KPA	Pages in the annual performance report
Key Performance Area 2 - Infrastructure Development and Service Delivery	x – x

30. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
31. The material findings in respect of the usefulness and reliability of the selected KPA are as follows:

KPA 2 – Infrastructure Development and Service Delivery

Weekly collection of domestic waste from all formalised residential areas, public facilities and businesses

32. The planned indicator indicated weekly collection of domestic waste from all formalised residential areas, public facilities and businesses in the Service Delivery and Budget Implementation Plan (SDBIP); however, the planned target indicated 100% of all formalised households, public facilities and businesses with access to electricity services.

Other matters

33. I draw attention to the matters below.

Achievement of planned targets

34. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 32 of this report.

Adjustment of material misstatements

35. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA 2 – Infrastructure Development and 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 the audit of compliance with legislation

Introduction and scope

36. 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.

The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements

37. 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 current assets, current liabilities, revenue, expenditure 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 a qualified audit opinion.

Expenditure management

38. Money owed by the municipality was not always paid within 30 days or an agreed period, as required by section 65(2)(e) of the MFMA.
39. Reasonable steps were not taken to prevent irregular expenditure amounting to R15 103 149 as disclosed in note 49 to the annual financial statements, as required by section 62(1)(d) of the MFMA.
40. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R12 145 950, as disclosed in note 47 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.

Revenue management

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

Consequence management

42. I was unable to obtain sufficient appropriate audit evidence that losses resulting from irregular expenditure were recovered from the liable person, as required by section 32(2) of the MFMA. This was because proper and complete records were not maintained as evidence to support the investigations into irregular expenditure.
43. I was unable to obtain sufficient appropriate audit evidence that losses resulting from fruitless and wasteful expenditure were recovered from the liable person, as required by section 32(2) of the MFMA. This was because proper and complete records were not maintained as evidence to support the investigations into fruitless and wasteful expenditure.

Asset management

44. Capital assets were disposed that were needed to provide the minimum level of basic municipal service, in contravention of section 14(1) of the MFMA.
45. Capital assets were permanently disposed without the approval of the council, as required by section 14(2)(a) of the MFMA.

Procurement and contract management

46. Sufficient appropriate audit evidence could not be obtained that goods and services with a transaction value of below R200 000 were procured using price quotations as required by SCM regulation 17(a) and (c). Similar non-compliance was also reported in the prior year.
47. Some of the invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM regulation 22(1) and 22(2).
48. Some of the quotations were accepted from bidders whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43.
49. Some of the quotations were accepted from bidders who did not submit a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
50. Sufficient appropriate audit evidence could not be obtained that bid adjudication committees were always composed in accordance with SCM regulation 29(2).
51. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act.
52. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to suppliers based on preference points that were allocated and calculated in

accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.

53. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders that scored the highest points in the evaluation process as required by section 2(1)(f) of Preferential Procurement Policy Framework Act and the Preferential Procurement Regulations.
54. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year.
55. Awards were made to providers who were in the service of other state institutions, in contravention of MFMA 112(j) and SCM regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM regulation 38(1).

Other information

56. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected KPAs presented in the annual performance report that have been specifically reported in this auditor's report.
57. 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.
58. 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.
59. 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

60. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

61. Leadership did not ensure that relevant laws and regulations were complied with due to a lack of capacity.
62. Management did not have processes in place to ensure that financial information was available when requested, mainly because the chief financial officer was on special leave. The delays cause by the non-submission resulted in material limitations on the audit.

Auditor - General

Bloemfontein

30 November 2018



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected KPAs and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
 - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 this auditor’s report. However, future events or conditions may cause a municipality to cease continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

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