

# 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 2019, the statement of financial performance, statement of changes in net assets, cash flow statement, the statement of comparison of budget and actual amounts and the appropriation statement 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 2019, 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, 2018 (Act no. 1 of 2018) (Dora).

### Basis for qualified opinion

#### Property, plant and equipment

3. The municipality did not disclose all items of property, plant and equipment owned by it in the fixed asset register. I also identified assets that were classified contrary to the current use. Consequently, these and other matters resulted in property, plant and equipment being understated by R5 520 338. This also has an impact on the depreciation charge for the year, as well as the accumulated surplus.
4. I was unable to obtain sufficient appropriate audit evidence for prior year adjustments to the balances of property, plant and equipment, and infrastructure under construction additions. I was unable to confirm the adjustment and additions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to these balances, and infrastructure under construction additions included in property, plant and equipment in note 5 to the financial statements, stated at R515 913 305 and R28 343 511 respectively. This also has an impact on adjustments disclosed in the previous period error note 49 and the accumulated surplus in the statement of financial position.

## Investment properties

5. I was unable to obtain sufficient appropriate audit evidence for the classification of investment property as the municipality did not have appropriate evidence of the purpose that the property is held for. I was unable to confirm the investment property by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to investment property, stated at R117 438 143 (2018: R113 466 805) in note 4 to the financial statements. In addition, the municipality recognised land that was not registered in its name as investment property. This resulted in an overstatement of investment property disclosed in note 4 to the financial statements, and a resultant impact on the surplus for the period and on the accumulated surplus of R1 100 267.

## Context for the opinion

6. 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.
7. I am independent of the municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants*, and parts 1 and 3 of the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA codes), as well as 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 codes.
8. 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

9. I draw attention to the matter below. My opinion is not modified in respect of this matter.
10. I draw attention to note 52 to the financial statements, which indicates that trade and other payables, retentions payable and capital commitments already contracted increased from the previous year, while the current assets in the statement of financial position decreased. As disclosed in the statement of financial position, the current liabilities exceeded current assets by R52 000 494 (2018: R46 399 705). In addition, included in trade payables note 20, the municipality owed Eskom R60 295 319 (2018: R42 357 458) and the Sand-Vet R7 696 765 (2018: R2 837 247) as at 30 June 2019, which has been long overdue. These events or conditions, along with other matters as set forth in note 52, 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**

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

### **Irregular expenditure**

12. As disclosed in note 55 to the financial statements, irregular expenditure of R51 110 239 (2018: R349 495) was incurred due to non-compliance with supply chain management (SCM) requirements. In addition, the full extent of irregular expenditure is still in the process of being determined.

### **Unauthorised expenditure**

13. As disclosed in note 53 to the financial statements, unauthorised expenditure of R4 049 823 (2018: R4 153 059) was incurred, due to overspending of main divisions within the vote.

### **Fruitless and wasteful expenditure**

14. As disclosed in note 54 to the financial statements, fruitless and wasteful expenditure of R2 290 006 (2018: R4 874 385) was incurred, mainly due to interest on arrear payments to creditors.

### **Restatement of corresponding figures**

15. As disclosed in note 49 to the financial statements, the corresponding figures for 30 June 2018 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2019.

### **Material impairment**

16. As disclosed in note 36 to the financial statements, consumers and other receivables were impaired by R21 210 707 (2018: R5 122 619).

### **Other matter**

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

### **Unaudited disclosure notes**

18. 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 my audit of the financial statements and, accordingly, I do not express an opinion on it.

## **Unaudited supplementary schedules**

19. The supplementary information set out on pages 16 to 17 does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion on it.

## **Responsibilities of the 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 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.
21. 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**

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 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 this 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 the selected key performance area (KPA) presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
25. My procedures addressed 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.

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 following selected KPA presented in the annual performance report of the municipality for the year ended 30 June 2019:

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

27. I performed procedures to determine whether the reported performance information was properly presented and whether the 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.
28. The material finding in respect of the usefulness and reliability of the selected KPA is as follows:

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

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

29. The indicator is not clear and unambiguous to ensure that the data that is collected is consistent and clear. The weekly performance was not determined to establish the level of service delivery for the year.

**Other matters**

30. I draw attention to the matters below.

**Achievement of planned targets**

31. 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 finding on the usefulness of the reported performance information in paragraph 29 of this report.

## **Adjustment of material misstatements**

32. 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 services and infrastructure. As management subsequently corrected only some of the misstatements, I raised a material finding on the 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**

33. 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.
34. The material findings on compliance with specific matters in key legislation are as follows:

### **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(1) of the MFMA. Material misstatements of non-current assets and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

### **Expenditure management**

36. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
37. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The value of R51 110 239 disclosed in note 55 is not complete, as management was still in the process of quantifying the full extent of the irregular expenditure. The majority of the disclosed irregular expenditure was caused by the absence of a senior SCM practitioner on the bid adjudication committee.
38. Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R2 290 006 disclosed in note 54 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 on the arrear payments to creditors.
39. Reasonable steps were not taken to prevent unauthorised expenditure of R4 049 823 disclosed in note 53 to the annual financial statements, in contravention of section 62(1)(d) of

the MFMA. The majority of the unauthorised expenditure was caused by the overspending of main divisions within the vote.

#### **Asset management**

40. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

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

41. 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(a) and (c).
42. Some 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).
43. Some 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 previous year.
44. Some quotations were accepted from, and contracts awarded to, bidders whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43. Similar non-compliance was also reported in the previous year.
45. Some contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding, in contravention of SCM regulations 21(b) and 28(1)(a) and the Preferential Procurement Regulations.
46. Competitive bids were adjudicated by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2).
47. Some contracts were awarded to bidders based on functionality criteria that were not stipulated in the original invitation for bidding, in contravention of Preferential Procurement Regulations.
48. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the previous year.
49. The contract performance and monitoring measures and methods were not sufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA. Similar non-compliance was also reported in the previous year.

## Consequence management

50. Unauthorised expenditure 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.
51. Unauthorised expenditure was certified by the council as irrecoverable without having conducted an investigation to determine the recoverability of the expenditure, in contravention of section 32(2)(a)(ii) of the MFMA.
52. Irregular expenditure by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.
53. Losses resulting from irregular expenditure were certified by the council as irrecoverable without having conducted an investigation to determine the recoverability of the expenditure, in contravention of section 32(2)(b) of the MFMA.

## Other information

54. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and the selected KPA presented in the annual performance report that has been specifically reported in this auditor's report.
55. 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.
56. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected KPA presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
57. 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

58. 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,



findings on the annual performance report and the findings on compliance with legislation included in this report.

59. There is a breakdown in the trust between the political and administrative leadership that delays the efficiency of interaction and processes between the two centres of power. This further results in a slow response to matters by both the political leadership and the administrative management.
60. The action plan contained various actions that addressed the correction of matters for financial reporting, but did not drive the timely implementation of internal control measures to address various the previous year's matters. This resulted in matters only being addressed at year end and with the assistance of consultants.

*Auditor-General*

Bloemfontein

29 November 2019



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 the selected KPA 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.