

# Report of the auditor-general to the Free State Provincial Legislature and the council on the Lejweleputswa District Municipality

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of the Lejweleputswa District Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2023, statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget actual amounts for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Lejweleputswa District Municipality as at 30 June 2023, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 5 of 2022 (Dora).

### Basis for 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 responsibilities of the auditor-general 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' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Emphasis of matters

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

#### Irregular expenditure

7. As disclosed in note 37 to the financial statements, irregular expenditure of R18 693 897 (2022: R5 966 166) was incurred, due to non-compliance with supply chain management (SCM) requirements.

## Restatement of corresponding figures

8. As disclosed in note 33 to the financial statements, the corresponding figures for 30 June 2022 were restated as a result of errors in the financial statements of the municipality, and for the year ended, 30 June 2023.

## Material uncertainty relating to claims against the municipality

9. With reference to note 32 to the financial statements, the municipality is the defendant in various claims against the municipality. The municipality is opposing these claims. The ultimate outcome of these matters could not be determined and no provision for any liabilities that may result were made in the financial statements.

## Material impairment

10. As disclosed in note 5 to the financial statements, receivables from non-exchange transactions were impaired by R31 001 755 (2022: R30 537 656).

## Other matter

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

## Unaudited disclosure notes

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

## Responsibilities of the accounting officer for the financial statements

13. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the 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.
14. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern; disclosing, as applicable, matters relating to going concern; and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

## Responsibilities of the auditor-general for the audit of the financial statements

15. 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.

16. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

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| <b>Report on the audit of the annual performance report</b> |
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17. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for the selected material performance indicators presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

18. I selected the following material performance indicators related to basic service delivery and infrastructure development presented in the annual performance report for the year ended 30 June 2023. I selected those indicators that measure the municipality's performance on its primary mandated functions and that are of significant national, community or public interest:

- Reports on roads conditions submitted by 30 June 2023
- Reports on roads maintenance submitted by June 2023
- Employ 110 people from communities by 30 June 2023
- Monthly water quality reports on the status of water in the 5 local municipalities submitted by 30 June 2023
- Monthly reports on compliance of food selling outlets in the 5 local municipality submitted by 30 June 2023
- Monthly reports on food sampling in the 5 local municipalities by 30 June 2023
- 4 reports on waste management compliance submitted in the district by 30 June 2023.

19. I evaluated reported performance information for the selected material performance indicators against the criteria developed from the performance management and reporting framework, as defined in the general notice. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users on the municipality's planning and delivery on its mandate and objectives.

20. I performed procedures to test whether:

- the indicators used for planning and reporting on performance can be linked directly to the municipality's mandate and the achievement of its planned objectives
- the indicators are well defined to ensure that they are easy to understand and can be applied consistently, as well as verifiable so that I can confirm the methods and processes to be used for measuring achievements

- the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated
- the indicators and targets reported on in the annual performance report are the same as those committed to in the approved initial or revised planning documents
- the reported performance information is presented in the annual performance report in the prescribed manner
- there is adequate supporting evidence for the achievements reported and for the measures taken to improve performance.

21. I performed the procedures to report material findings only; and not to express an assurance opinion or conclusion.

22. I did not identify any material findings on the reported performance information for the selected indicators.

### **Other matter**

23. I draw attention to the matter below.

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

24. The annual performance report includes information on reported achievements against planned targets and provides measures taken to improve performance.

|                                              |
|----------------------------------------------|
| <b>Report on compliance with legislation</b> |
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25. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting officer is responsible for the municipality's compliance with legislation.

26. I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.

27. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the municipality, clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.

28. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

## Expenditure management

29. Reasonable steps were not taken to prevent irregular expenditure amounting to R18 693 897 as disclosed in note 37 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with the supply chain management (SCM) processes.

## Consequence management

30. 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 MFMA.
31. Losses resulting from irregular expenditure were not recovered from the liable person, as required by section 32(2) of the MFMA.

## Procurement and contract management

32. 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).
33. 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).
34. Some of the contracts were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM regulation 29(5)(b).
35. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act 5 of 2020 (PPPFA).
36. 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 section 2(1)(a) PPPFA and its regulations.
37. 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 PPPFA and 2017 preferential procurement regulations 11 and 2022 preferential procurement regulation 4(4) and 5(4).
38. Some of the construction contracts were awarded to contractors that did not qualify for the contract in accordance with section 18(1) of the construction industry development board (CIDB) Act 38 of 2000 and CIDB regulations 17 and 25(7A).
39. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5.

## Strategic planning and performance management

40. A mid-year performance assessment was not performed, as required by section 72(1)(a)(ii) of the MFMA.

### Other information in the annual report

41. The accounting officer is responsible for the other information included in the annual report. The other information referred to does not include the financial statements, the auditor's report and those selected material performance indicators presented in the annual performance report that have been specifically reported on in this auditor's report.
42. My opinion on the financial statements, the report on the audit of the annual performance report and the report on compliance with legislation do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.
43. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the financial statements and the selected material indicators presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
44. 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

45. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
46. The matters reported below are limited to the significant internal control deficiencies that resulted in material findings on compliance with legislation included in this report.
47. Corrective measures by management to address the drivers of non-compliance with laws and regulations mainly pertaining to procurement and contract management were inadequate. As a result, material instances of non-compliance that could have been detected and prevented by officials and oversight bodies re-occurred in the current year.
48. The leadership did not ensure that there were effective controls to investigate irregular expenditure, this has an impact on the entity's ability to deal with matters and to implement appropriate consequence management.

*Auditor-General*

Bloemfontein

30 November 2023



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

## **Annexure to the auditor's report**

1. The annexure includes the following:
  - The auditor-general's responsibility for the audit
  - The selected legislative requirements for compliance testing

### **Auditor-general's responsibility for the audit**

#### **Professional judgement and professional scepticism**

2. 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 material performance indicators and on the municipality's compliance with selected requirements in key legislation.

#### **Financial statements**

3. 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
  - conclude on the appropriateness of the 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 relating to events or conditions that may cast significant doubt on the ability of the municipality 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 my 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 operating as a going concern
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

#### Communication with those charged with governance

4. 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.
5. I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

## Compliance with legislation – selected legislative requirements

6. The selected legislative requirements are as follows:

| Legislation                                                                                                                 | Sections or regulations                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|-----------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Municipal Finance Management Act 56 of 2003                                                                                 | Section 1 - Paragraph (a), (b) & (d) of the definition: irregular expenditure<br>Section 1 - Definition: service delivery and budget implementation plan<br>Sections 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 29(1),<br>Sections 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b), 32(6)(a),<br>Sections 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 62(1)(f)(i), 62(1)(f)(ii),<br>Sections 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b), 64(2)(c), 64(2)(e),<br>Sections 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), 72(1)(a)(ii), 112(1)(j),<br>Sections 116(2)(b), 116(2)(c)(ii), 117, 122(1), 122(2), 126(1)(a), 126(1)(b),<br>Sections 127(2), 127(5)(a)(i), 127(5)(a)(ii), 129(1), 129(3), 133(1)(a),<br>Sections 133(1)(c)(i), 133(1)(c)(ii), 170, 171(4)(a), 171(4)(b) |
| MFMA: Municipal Budget and Reporting Regulations, 2009                                                                      | Regulations 71(1), 71(2), 72                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| MFMA: Municipal Investment Regulations, 2005                                                                                | Regulations 3(1)(a), 3(3), 6, 7, 12(2), 12(3)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| MFMA: Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014                               | Regulations 5(4), 6(8)(a), 6(8)(b), 10(1)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| MFMA: Municipal Supply Chain Management Regulations, 2017                                                                   | Regulations 5, 12(1)(c), 12(3), 13(b), 13(c), 13(c)(i), 16(a), 17(1)(a)<br>Regulations 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a)<br>Regulations 27(2)(e), 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a), 29(1)(b)<br>Regulations 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c)<br>Regulations 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43<br>Regulations 44, 46(2)(e), 46(2)(f)                                                                                                                                                                                                                                                                                                                                                                                            |
| Municipal Systems Act 32 of 2000                                                                                            | Sections 25(1), 26(a), 26(c), 26(h), 26(i), 27(1), 29(1)(b)(ii), 29(2)(a),<br>Sections 29(2)(c), 34(a), 34(b), 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42,<br>Sections 43(2), 56(a), 57(2)(a), 57(4B), 57(6)(a), 66(1)(a), 66(1)(b),<br>Sections 67(1)(d), 74(1), 93J(1), 96(b)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| MSA: Municipal Planning and performance Management Regulations, 2001                                                        | Regulations 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 3(5)(a), 7(1), 8, 9(1)(a), 10(a),<br>Regulations 12(1), 15(1)(a)(i), 15(1)(a)(ii)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| MSA: Municipal Performance Regulations for Municipal Managers and Managers directly Accountable to Municipal Managers, 2006 | Regulations 2(3)(a), 4(4)(b), 8(1), 8(2), 8(3)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014                                       | Regulations 17(2), 36(1)(a)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| MSA: Disciplinary Regulations for Senior Managers, 2011                                                                     | Regulations 5(2), 5(3), 5(6), 8(4)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| Annual Division of Revenue Act                                                                                              | Section 11(6)(b), 12(5), 16(1); 16(3)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Construction Industry Development Board Act 38 of 2000                                                                      | Section 18(1)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Construction Industry Development Board Regulations                                                                         | Regulations 17, 25(7A)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Municipal Property Rates Act 6 of 2004                                                                                      | Section 3(1)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| Preferential Procurement Policy Framework Act 5 of 2000                                                                     | Sections 2(1)(a), 2(1)(f)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |

| Legislation                                                   | Sections or regulations                                                                                                                                                             |
|---------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Preferential Procurement Regulations, 2017                    | Regulations 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8)<br>Regulations 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5) 9(1), 10(1), 10(2)<br>Regulations 11(1), 11(2) |
| Preferential Procurement Regulations, 2022                    | Regulations 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4)                                                                                                                          |
| Prevention and Combating of Corrupt Activities Act 12 of 2004 | Section 34(1)                                                                                                                                                                       |