

Report of the auditor-general to the Free State Provincial Legislature and the Council on the Thabo Mofutsanyana District Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Thabo Mofutsanyana 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 and 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 Thabo Mofutsanyana 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 29 to the financial statements, irregular expenditure of R16 090 700 (2022: R9 791 475) 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

8. As disclosed in note 28 to the financial statements unauthorised expenditure of R1 497 133 was incurred, due to overspending of the budget.

Restatement of corresponding figures

9. As disclosed in note 38 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

10. With reference to note 23 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

11. As disclosed in note 4 and 5 to the financial statements, receivables from exchange transactions and receivables from non-exchange transactions were impaired by R3 169 146 (2022: R3 526 919).

Other matter

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

Unaudited disclosure notes

13. 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

14. 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.
15. 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

16. 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.
17. 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 annual performance report

18. 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.
19. I selected the following material performance indicators related to basic service delivery 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 is of significant national, community or public interest.
 - 100% Development of rural road asset management system - the extend & conditions of the road network & RRAMS system implementation on the 30 June 2023
 - 100% Retrofitting of high mast & street lights with LED tubes on the 30 June 2023
 - Number of monthly reports indicating food selling outlets inspected in the district on the 30th June 2023
 - Number of monthly reports indicating food samples taken in the district on the 30th June 2023
 - Number of monthly reports indicating water samples taken in the district on the 30th June 2023
 - Number of environmental reports on waste management activities performed in the district on the 30 June 2023
 - Procurement of tools of trade for eight youth SMMEs on the 30th June 2023
 - Number of community outreach programs conducted on the 30th June 2023
20. 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.

21. 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.

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

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

- 100% Retrofitting of high mast & street lights with LED tubes on the 30 June 2023
- Number of monthly reports indicating food selling outlets inspected in the district on the 30th June 2023
- Number of monthly reports indicating food samples taken in the district on the 30th June 2023
- Number of monthly reports indicating water samples taken in the district on the 30th June 2023
- Number of environmental reports on waste management activities performed in the district on the 30 June 2023
- Procurement of tools of trade for eight youth SMMEs on the 30th June 2023
- Number of community outreach programs conducted on the 30th June 2023

24. The material findings on the reported performance information for the selected material indicator are as follows:

100% Development of rural road asset management system - the extend & conditions of the road network & RRAMS system implementation on the 30 June 2023

25. An achievement of 100% visual assessments of pavement management & conditions was reported against a target of 100% visual assessments of pavement management & conditions. I could not determine if the reported achievement was correct, as adequate supporting evidence was not provided for auditing. Consequently, the achievement might be more or less than reported and was not reliable for determining if the target had been achieved.
26. In addition, an achievement of 100% visual assessments of pavement management & conditions was reported in the annual performance report. However, the indicator and target in the approved service delivery and budget implementation plan and integrated development plan was 100% development of rural road asset management system - the extend & conditions of the road network & RRAMS system implementation on the 30th June 2023.
27. Furthermore, there was no link between the indicator of 100% development of rural road asset management system - the extend & conditions of the road network & RRAMS system implementation on the 30th June 2023 and the planned target of 100% visual assessments of pavement management & conditions.

Other matter

28. I draw attention to the matter below.

Achievement of planned targets

29. The annual performance report includes information on reported achievements against planned targets and provides measures taken to improve performance. This information should be considered in the context of the material findings on the reported performance information.

Report on compliance with legislation

30. 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.
31. 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.
32. 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.
33. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statements

34. The financial statements submitted for auditing were not fully prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of expenditure, receivables and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.
35. The council failed to adopt an oversight report containing the council's comments on the 2021-22 annual report, as required by section 129(1) of the MFMA.

Procurement and Contract Management

36. Sufficient appropriate audit evidence could not be obtained that all contracts were awarded in accordance with the legislative requirements as the municipality did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support expenditure incurred in relation to awarded contracts.
37. 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(1) (a) and (c). Similar non-compliance was also reported in the prior year.
38. Sufficient appropriate audit evidence could not be obtained that contracts were awarded only to bidders who submitted 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). Similar non-compliance was also reported in the prior year.
39. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to bidders based on points given for legislative requirement that were stipulated in the original invitation for bidding, as required by SCM regulations 21(b) and 28(1)(a)(i) and preferential procurement regulations.
40. Sufficient appropriate audit evidence could not be obtained that contracts were awarded through a competitive bidding process that were adjudicated by the bid adjudication committee as required by SCM Regulations 29(1)(a) and (b) and preferential procurement regulations.
41. Sufficient appropriate audit evidence could not be obtained that the accounting officer ratified the decision of bid adjudication committee of awarding contracts to bidders other than those recommended by the bid evaluation committee as required by SCM Regulation 29(5)(b).
42. Sufficient appropriate audit evidence could not be obtained that councillors of the municipality did not participate in committees evaluating or approving tenders as required by section 117 of the MFMA.
43. Contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM Regulation 43.
44. 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). Similar non-compliance was also reported in the prior year.

45. 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) of the PPPFA and its regulations.
46. 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 the PPPFA and 2017 preferential procurement regulations 11 and/or 2022 preferential procurement regulation 4(4) and 5(4).
47. Tenders which failed to achieve the minimum qualifying score for functionality legislative requirement were not disqualified as unacceptable tender in accordance with 2017 preferential procurement regulation 5(6).
48. Sufficient appropriate audit evidence could not be obtained that contracts were extended or modified with the approval of a properly delegated official as required by SCM Regulation 5.
49. Sufficient appropriate audit evidence could not be obtained that the performance of contractors or providers was monitored on a monthly basis as required by section 116(2)(b) of the MFMA. Similar limitation was also reported in the prior year.
50. Sufficient appropriate audit evidence could not be obtained that contract performance and monitoring measures were in place to ensure effective contract management as required by section 116(2)(c)(ii) of the MFMA. Similar limitation was also reported in the prior year.

Expenditure management

51. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
52. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1) (d) of the MFMA. The value of R16 090 700 as disclosed in note 29, 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 non-compliance with SCM regulations.

Utilisation of conditional grants

53. Performance in respect of programmes funded by the expanded public works programme integrated grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Dora.

Consequence management

54. Some of the 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.
55. Some of the fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Strategic planning and performance management

56. The service delivery and budget implementation plan for the year under review did not include monthly revenue projections by source of collection and the monthly operational and capital expenditure by vote as required by section 1 of the MFMA.

Asset management

57. Capital assets were transferred/disposed of without the municipal council having a meeting open to the public as required by section 14(2)(a) of the MFMA.

Human resource management

58. The employment contract of the municipal manager exceeded a fixed period of five years and one year after the next municipal election term commences, as required by section 57(6)(a) of the Municipal Systems Act 32 of 2000 (MSA) and municipal performance regulations for municipal managers and managers directly accountable to municipal managers 2(3)(a).
59. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the MSA.

Other information in the annual report

60. 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 indicators presented in the annual performance report that have been specifically reported on in this auditor's report.
61. 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.
62. 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.
63. 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

64. 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.
65. The matters reported below are limited to the significant internal control deficiencies that resulted in the material findings on the annual performance report and the material findings on compliance with legislation included in this report.
66. Leadership did not implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored, as a result repetitive material findings were identified without sufficient consequences.
67. Leadership did not adequately monitor the implementation of action plans to address matters raised in the prior year, resulting recurring compliance issues being raised in the current financial year.
68. Management did not adequately implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support performance reporting, resulting in material findings on one of the selected material indicators.
69. Management did not implement adequate controls over daily and monthly processing and reconciling of transactions, resulting material findings being identified on the annual financial statements as well as the annual performance report. Furthermore, a thorough review of the financial statements was not performed before they were submitted, resulting in a number of material misstatements that had to be corrected.
70. Management did not review and monitor compliance with applicable legislation, resulting in material compliance matters being reported on various compliance subject matters.

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 Section 1 - Definition: service delivery and budget implementation plan Sections 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 29(1), Sections 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b), 32(6)(a), Sections 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 62(1)(f)(i), 62(1)(f)(ii), Sections 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b), 64(2)(c), 64(2)(e), Sections 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), 72(1)(a)(ii), 112(1)(j), Sections 116(2)(b), 116(2)(c)(ii), 117, 122(1), 122(2), 126(1)(a), 126(1)(b), Sections 127(2), 127(5)(a)(i), 127(5)(a)(ii), 129(1), 129(3), 133(1)(a), Sections 133(1)(c)(i), 133(1)(c)(ii), 170, 171(4)(a), 171(4)(b)
MFMA: Municipal Budget and Reporting Regulations, 2009	Regulation 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), 17(1)(b), Regulations 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), 27(2)(e), Regulations 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a) and (b), 29(5)(a)(ii), 29(5)(b)(ii), Regulations 32, 36(1), 36(1)(a), 38(1)(c), 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), Regulations 38(1)(g)(ii), 38(1)(g)(iii), 43, 44, 46(2)(e), 46(2)(f)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2), 5(3), 5(6), 8(4)
Annual Division of Revenue Act	Sections 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, 2004	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)
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), 7(1), Regulations 7(2), 7(3), 7(6), 7(8), 8(2), 8(5), 9(1), 10(1), 10(2), 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)
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), Sections 29(2)(c), 34(a), 34(b), 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, Sections 43(2), 56(a), 57(2)(a), 57(4B), 57(6)(a), 66(1)(a), 66(1)(b), 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), Regulations 12(1), 15(1)(a)(i), 15(1)(a)(ii)

Legislation	Sections or regulations
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)