

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

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Tswelopele Local Municipality set out on pages 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 Tswelopele Local 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.

Material uncertainty relating to going concern

6. I draw attention to the matter below. My opinion is not modified in respect of this matter.
7. Note 62 to the financial statements indicates that the municipality incurred a net loss of R4 150 280 during the year ended 30 June 2023 and, as of that date the municipality's current liabilities exceeded its current assets by R82 084 556. In addition, the municipality owed Eskom R110 285 514 (2022: R71 064 141) and the water board R17 363 908 (2022: R14 415 790) which was long overdue. These events or conditions, along with other matters as set forth in note 62, 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

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

Restatement of corresponding figures

9. As disclosed in note 50 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 impairment

10. As disclosed in note 37 to the financial statements, receivables from exchange transactions and receivables from non-exchange transactions were impaired by R25 506 991 (2022: R24 335 271).

Unauthorised expenditure

11. As disclosed in note 54 to the financial statements, unauthorised expenditure of R6 085 826 (2022: R18 763 709) was incurred, due to overspending of the budget.

Irregular expenditure

12. As disclosed in note 56 to the financial statements, irregular expenditure of R52 370 821 (2022: R35 882 570) was incurred, due to non-compliance with supply chain management (SCM) requirements.

Fruitless and wasteful expenditure

13. As disclosed in note 55 to the financial statements, fruitless and wasteful expenditure of R9 366 529 (2022: R3 734 381) was incurred, due to payments not being made within 30 days resulting in interest being charged on overdue accounts.

Other matter

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

Unaudited disclosure notes

15. 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

16. 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.

17. 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

18. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
19. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the annual performance report

20. 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 information against predetermined objectives for the selected material indicators presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.
21. I selected the following material performance indicators related to infrastructure development and 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 are of significant national, community or public interest.
- Upgrading of bulk water supply in Hoopstad (Phase 4)
 - Limit water network losses to less than 15% by 30 June 2023. (difference between water supplied and water billed) (number of kilolitres water purchased - number of kilolitres water sold)/number of kilolitres water purchased x 100) in both towns.
 - Provide registered indigent households with free basic electricity
 - Provide registered indigent households with free basic sanitation
 - Provide registered indigent households with free basic refuse removal
 - Installation of electricity smart meters for households, businesses and public facilities in Bultfontein and Hoopstad.

- Refurbishment of electricity Infrastructure in Bultfontein and Hoopstad
- Refurbishment of electricity/energy demand management in Hoopstad and Bultfontein (Department of Mineral Sources and Energy)
- Construction of 2km paved road and stormwater drainage in Hoopstad
- Construction of water Reticulation in Phahameng/Bultfontein Ext 10 (426 sites)
- Upgrading of bulk water supply in Hoopstad (Phase 3)
- Upgrading of bulk water supply in Bultfontein (Phase 4)
- Upgrading of bulk water supply in Bultfontein (Phase 3)
- Construction of Sewer Reticulation in Phahameng/ Bultfontein Ext 10 (426 sites)
- Construction of Sewer Reticulation in Phahameng/ Bultfontein Ext 9 (476 sites)
- Refurbishment of pump station in Phahameng
- Provide households with access to clean, quality, and sustainable water services.
- Provide public facilities and businesses with access to clean, quality, and sustainable water services.
- Construction of water Reticulation in Phahameng/ Bultfontein Ext 10 (426 sites)
- Provide public facilities and businesses with access to safe and sustainable sanitation services.
- Provide households, public facilities and businesses in Bultfontein and Hoopstad towns with access to electricity services.
- Limit electricity losses to less than 15% by 30 June 2023. $(\text{number of electricity units purchased} - \text{number of electricity units sold}) / \text{number of electricity units purchased} \times 100$.
- Filling of potholes in Bultfontein and Hoopstad
- Grading of 6km roads in Bultfontein and Hoopstad
- Gravelling of 1km road in Bultfontein and Hoopstad
- Cleaning 6 storm water channels in Bultfontein and Hoopstad
- Revitalisation of tar surfaces segmented paving blocks in Bultfontein and Hoopstad.
- Provide household with weekly waste collection services (refuse removal)
- Provide public facilities and businesses with weekly waste collection services/refuse removal.

- Provide indigent households with free basic water

22. I evaluated the 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.

23. 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.

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

25. The material finding on the reported performance information for the selected material indicators is as follows:

[Provide registered indigent households with free basic refuse removal.](#)

26. Evidence was not provided to confirm that processes had been established to consistently measure and reliably report on this indicator. This was due to insufficient measurement definitions and processes. Consequently, I could not confirm the reliability of the reported achievement.

Other matters

27. I draw attention to the matters below.

Achievement of planned targets

28. 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.

Material misstatement

29. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for Infrastructure development and service delivery. Management did not correct all the misstatements and I reported material finding in this regard.

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

Expenditure management

35. Money owed by the municipality was not always paid within 30 days as required by section 65(2)(e) of the MFMA.
36. Reasonable steps were not taken to prevent irregular expenditure amounting to R52 370 821 as disclosed in note 56 to the annual financial statements, as required by section 62(1)(d) of

the MFMA. The majority of the irregular expenditure was caused by approved contract amounts exceeded as well as non-compliance with SCM requirements.

37. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R9 366 529, as disclosed in note 55 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest charged on overdue accounts.
38. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R6 085 826, as disclosed in note 54 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 the budget.

Assets management

39. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.
40. Capital assets were disposed of without the municipal council having, in a meeting open to the public, decided on whether the assets were still needed to provide the minimum level of basic municipal services.

Strategic planning and performance management

41. 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.

Consequence management

42. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
43. 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.
44. 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.

Procurement and contract management

45. 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.
46. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM Regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM Regulation 36(1). Similar non-compliance was also reported in the prior year.
47. Some of the contracts were awarded to bidders based on points given for legislative requirement that differed from those stipulated in the original invitation for bidding, in contravention of SCM regulations 21(b) and 28(1)(a)(i) and the Preferential Procurement Regulations.

48. Measures to combat the abuse of the SCM system were not implemented as per the requirements of SCM Regulation 38(1), because some of the contracts were awarded to providers who abused the SCM system of the municipality.
49. 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.
50. Some of the tenders which achieved the minimum qualifying score for functionality legislative requirement were not evaluated further in accordance with 2017 Preferential Procurement Regulation 5(7). Similar non-compliance was also reported in the prior year.
51. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM Regulation 5. Similar non-compliance was also reported in the prior year.
52. 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) of the MFMA. Similar limitation was also reported in the prior year.
53. 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. This limitation was identified in the procurement processes for some projects carried out by the municipality.

Other information in the annual report

54. 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.
55. 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.
56. 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.
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, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
59. 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.
60. Leadership and oversight bodies did not adequately monitor and enforce compliance with SCM prescripts and hold responsible municipal officials accountable for flouting the requirements of SCM laws and regulations. Consequence management and remedial actions were also not applied in a timely manner.
61. Corrective measures were not taken by management to address the drivers of non-compliance with applicable laws and regulations. Moreover, proper reviews were not performed to prevent, detect and correct material misstatements in the annual performance report and annual financial statements before the reports were submitted for audit.

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 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), Sections 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 62(1)(f)(i), Sections 62(1)(f)(ii), 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b), Sections 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), Sections 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), Sections 122(2), 126(1)(a), 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), Sections 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, Sections 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) Regulations 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a) Regulations 27(2)(e), 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a), 29(1)(b) Regulations 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c) Regulations 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43 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), 29(1)(b)(ii), 29(3)(b), 34(a), 34(b) Sections 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), 56(a), 57(2)(a) Sections 57(4B), 57(6)(a), 66(1)(a), 66(1)(b), 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(6)(a), 7(1), 8, 9(1)(a), 10(a), 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)

Legislation	Sections or regulations
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)
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) Regulations 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5) 9(1), 10(1), 10(2) 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)

