

Report of the auditor-general to the Northern Cape Provincial Legislature and the council on Tsantsabane Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Tsantsabane Local Municipality set out on pages X to X, which comprise the statement of financial position as at 30 June 2021, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects and possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Tsantsabane Local Municipality as at 30 June 2021, and its financial performance and cash flows for the year then ended in accordance with Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2020 (Act No. 4 of 2020) (Dora).

Basis for qualified opinion

Property, plant and equipment

3. The municipality did not recognise all items of property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment*. Land identified on deeds records could not be traced back to the property, plant and equipment register. Consequently, property, plant and equipment and accumulated surplus were understated by R18 862 434.

Investment property

4. The municipality did not recognise all items of investment property in accordance with GRAP 16, *Investment property*. Land identified on deeds records could not be traced back to the asset register. Consequently, investment property and accumulated surplus were understated by R17 891 201.
5. I was unable to obtain sufficient appropriate audit evidence for investment property and the fair value adjustment, due to the status of the accounting records. I could not confirm the investment property by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to investment property stated at R61 224 490 (2020: R51 685 691) in note 10 to the financial statements. Since the fair value adjustment is included in the determination of net cash flows from operating activities reported in the statement of cash flows, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R22 003 027 in the financial statements.

6. The municipality did not have adequate systems in place to account for investment property in accordance with GRAP 16, *Investment property*. As the land that did not meet the recognition criteria for investment property was classified as investment property. Consequently, investment property was overstated and accumulated surplus was understated by R6 559 000 (2020: R3 708 319).

Receivables from exchange transactions

7. I was unable to obtain sufficient appropriate audit evidence to confirm the current and previous year balance of receivables from exchange transactions and provision for impairment, due to the status of the accounting records. I could not confirm the net balance disclosed for receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the net balance of receivables from exchange transactions stated at R13 691 719 (2020: R14 418 263) in note 3 to the financial statements. Since the receivables from exchange transactions balance is included in the determination of net cash flows from operating activities reported in the statement of cash flows, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R22 003 027 in the financial statements.

Receivables from non-exchange transactions

8. I was unable to obtain sufficient appropriate audit evidence to confirm the current and previous year balance of receivables from non-exchange transactions and provision for impairment, due to the status of the accounting records. I could not confirm the net balance disclosed for receivables from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the net balance of receivables from non-exchange transactions stated at R13 352 939 (2020: R17 547 024) in note 4 to the financial statements. Since the receivables from non-exchange transactions balance is included in the determination of net cash flows from operating activities reported in the statement of cash flows, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R22 003 027 in the financial statements.

Payables from exchange transactions

9. The municipality did not recognise all outstanding amounts meeting the definition of a liability in accordance with GRAP 1, Presentation of financial statements. As the municipality did not maintain adequate records of outstanding payments for goods and services received but not yet paid at year-end. This resulted in trade creditors and accumulated surplus being understated by R4 343 917. In addition, I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed as trade creditors. I could not confirm trade creditors by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to trade creditors stated at R286 045 192 (2020: R266 199 867) in note 14 to the financial statements. Since the trade creditors balance is included in the determination of net cash flows from operating activities reported in the statement of cash flows, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R22 003 027 in the financial statements.
10. During 2020, I was unable to obtain sufficient appropriate audit evidence for unallocated deposits by alternative means. Consequently, I was unable to determine whether any

adjustment was necessary to unallocated deposits stated at R17 534 937. My audit opinion on the financial statements for the period ended 30 June 2020 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the unallocated deposits for the current period.

Irregular expenditure

11. The municipality did not include the required information on irregular expenditure in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. This was due to payments made in contravention of the supply chain management requirements, which resulted in irregular expenditure. I was unable to determine the full extent of the understatement of irregular expenditure for the current and prior years as it was impracticable to do so.

Unauthorised expenditure

12. During 2020, the municipality did not have adequate systems in place to account for unauthorised expenditure, as required by section 125(2)(d) of the MFMA, which resulted in unauthorised expenditure being understated by R423 814 946. In addition, I was unable to obtain sufficient appropriate audit evidence for the unauthorised expenditure incurred during the year under review, as well as the opening balance of unauthorised expenditure and the impact of prior period error corrections on the opening balance, due to the status of the accounting records. I could not confirm these balances by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to unauthorised expenditure stated as R611 027 294 in note 45.1 to the financial statements.

Fruitless & wasteful expenditure

13. During 2020, I was unable to obtain sufficient appropriate audit evidence for the balance of fruitless and wasteful expenditure due to the status of the accounting records. I could not confirm fruitless and wasteful expenditure for the prior year by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to fruitless and wasteful expenditure stated at R68 721 990 in note 45.2 to the financial statements.

Statement of comparison of budget and actual amounts

14. The municipality did not disclose the explanations of material differences on the statement of comparison of budget and actual amounts as presented in the financial statements in accordance with GRAP 24, *Presentation-of-Budget-Information-in-Financial-Statements*. I was not able to determine the full extent of the misstatement as it was impracticable to do so.

Context for the opinion

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

16. 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.
17. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

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

Restatement of corresponding figures

19. As disclosed in note 42 to the financial statements, the corresponding figures for 30 June 2020 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2021.

An uncertainty relating to the future outcome of exceptional litigation or regulatory action

20. With reference to note 51 to the financial statements, the municipality is the defendant in two breach of contract-claim lawsuits. The ultimate outcome of the matters could not be determined and the provision for the liability that may result was stated at R21 830 835 (2020: R21 858 405) in the financial statements.

Material losses/ impairments – trade debtors

21. As disclosed in note 3 to the financial statements, the municipality reported a material impairment of R245 061 943 (2020: R227 023 806) as a result of the probability of non-payment of outstanding balances on receivables from exchange transactions.
22. As disclosed in note 4 to the financial statements, the municipality reported a material impairment of R57 896 374 (2020: R47 344 376) as a result of the probability of non-payment of outstanding balances on receivables from non-exchange transactions.

Material losses – electricity

23. As disclosed in note 46.8 to the financial statements, material electricity losses of R9 128 101 (2020: R9 875 163) was incurred, which represents 21.84% (2020: 25.58%) of total electricity purchased

Material losses – water

24. As disclosed in note 46.8 to the financial statements, material water losses of R13 533 012 (2020: R12 863 727) was incurred, which represents 64.34% (2020: 66.20%) of total water purchased.

Other matters

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

Unaudited disclosure notes

26. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

Unaudited supplementary schedules

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

Responsibilities of the accounting officer for the financial statements

28. 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.
29. 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.

Auditor-general's responsibilities for the audit of the financial statements

30. 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.
31. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

32. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development priorities presented in

the annual performance report. I was engaged to perform procedures to identify findings but not to gather evidence to express assurance.

33. I was engaged to evaluate the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2021:

Development priorities	Pages in the annual performance report
KPA 1 – Basic services and infrastructure development	x – x

34. The material findings on the usefulness and reliability of the performance information of the selected development priorities are as follows:

KPA 1 – Basic services and infrastructure development

Various indicators

35. I was unable to audit the usefulness and reliability of the reported indicators and targets listed below, since they were not pre-determined and included in the approved service delivery budget implementation plan for the year under review.

Performance indicator Number	Performance Indicator	Planned target	Reported achievement
KPI 1	Number of Road and Stormwater infrastructure projects implemented.	4 road and stormwater projects completed by June 2021	1
KPI 5	Number of Pre-Paid Water Meters Installed by June 2021	7000 prepaid water meters installed in the TLM area by June 2021	0
KPI 6	Number of Operation and maintenance measures implemented to ensure quality drinking water within TLM.	10 preventative measures implemented quarterly by June 2021	10
KPI 7	Number of corrective Maintenance implemented in Boreholes.	Quarterly reports on corrective Maintenance implemented in Boreholes by June 2021	4
KPI 11	Number of reports on roads and stormwater operation and maintenance work undertaken.	Bi-annual progress Reports by June 2021	2
KPI 12	Number of reports on water operation and maintenance work undertaken.	Bi-annual progress Reports by June 2021	2
KPI 13	Number of reports on wastewater / sanitation operation and maintenance work undertaken.	Bi-annual progress Reports by June 2021	2

Other matters

36. I draw attention to the matters below.

Achievement of planned targets

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

Report on the audit of compliance with legislation

Introduction and scope

38. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the municipality's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

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

Annual Financial statements

40. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.
41. The annual financial statements were not submitted to the Auditor-General, for auditing, within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.
42. The annual financial statements were not submitted to the Auditor-General within two months after the end of the financial year and written explanation setting out the reasons for the failure were not tabled in council, as required by section 133(1)(a) of the MFMA.

Expenditure management

43. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the irregular expenditure could not be quantified as indicated in the basis for qualification paragraph.
44. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the unauthorised expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed unauthorised expenditure was caused by overspending on the budget.

Revenue management

- 45. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.
- 46. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

Asset management

- 47. 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 and considered the fair market value of the assets and the economic and community value to be received in exchange for the assets, as required by section 14(2)(a) and 14(2)(b) of the MFMA.

Strategic planning and performance management

- 48. The IDP was not drafted considering the integrated development process and proposals submitted to it by the district municipality, as required by section 29(3)(b) of the MSA.
- 49. The performance management system and related controls were inadequate as it did not describe how the performance measurement, review, reporting and improvement processes should be conducted and managed, as required by municipal planning and performance management reg 7(1).

Procurement and contract management

- 50. 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.
- 51. 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). Similar non-compliance was also reported in the prior year.
- 52. Some of the quotations were accepted from bidders whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43. Similar non-compliance was also reported in the prior year.
- 53. 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). This non-compliance was identified in the procurement processes for the construction of emergency water supply & bulk water meters.
- 54. 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). This non-compliance was identified in the procurement processes for the construction of emergency water supply & bulk water meters.

55. Some of the goods or services procured under contracts secured by other organs of state were not procured in accordance with SCM Regulation 32 as there were reasons to believe that the contract was not validly procured by the other organ of state.
56. The preference point system was not applied for some of the procurement of goods and services above R30 000 as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act. Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes for the paving of streets.
57. Some of the contracts were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act and 2017 Preferential Procurement Regulations 11. This non-compliance was identified in the procurement processes for the paving of streets.
58. Construction contracts were awarded to contractors that did not qualify for the contract in accordance with CIDB Regulations 17 and 25(7A). This non-compliance was identified in the procurement processes for the construction of emergency water supply & bulk water meters.
59. Invitation to tender for procurement of commodities designated for local content and production, did not stipulated the minimum threshold for local production and content as required by the 2017 Preferential Procurement Regulation 8(2).
60. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes for the Paving of Mqomo Street.
61. The contract performance and monitoring measures were not in place to ensure effective contract management, as required by section 116(2)(c)(ii) of the MFMA.

Utilisation of conditional grants

62. Performance in respect of programmes funded by the Municipal Infrastructure Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act (Act 4 of 2020).

Consequence management

63. 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.
64. Irregular and fruitless and wasteful 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.
65. Allegations of financial misconduct laid against officials of the municipality were not investigated, as required by section 171(4)(a) of the MFMA.

Other information

66. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported in this auditor's report.
67. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion on it.
68. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
69. 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

70. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
71. The municipality did not effectively exercise its oversight responsibility regarding financial and performance reporting and compliance and related internal controls
72. The municipality did not implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored
73. The municipality did not develop complete and monitor the implementation of action plans to address internal control deficiencies
74. 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 financial reporting
75. The municipality did not implement controls over daily and monthly processing and reconciling of transactions

76. The municipality did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information
77. The municipality did not review and monitor compliance with applicable laws and regulations
78. The municipality did not design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.
79. The municipality did not implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored
80. The municipality did not ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively
81. The municipality did not ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations.

Other reports

82. I draw attention to the following engagements conducted by various parties which had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
83. The Public Protector South Africa had conducted an investigation into allegations of improper conduct and maladministration relating to temporary appointment of the Strategic Support Manager and three Ward Committee Clerks by Tsantsabane Municipality in 2017. The investigation covered the period from 22 August 2017 to 01 February 2021. The investigation process was concluded during the current year and report was made public on 01 February 2021.

Auditor General

Kimberley

15 February 2022

Annexure – Auditor-general's responsibility for the audit

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

Financial statements

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

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence, and to 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.