Report of the auditor-general to 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 xx to xx, which comprise the statement of financial position as at 30 June 2022, 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 2022, and its financial performance and cash flows for the year then ended in accordance with Standards of Generally Recognised Accounting Practise (Standards of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 9 of 2021 (Dora).

Basis for qualified opinion

Property plant and equipment

3. I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment, as a result of poor accounting records relating to land additions. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to land stated at R82 131 237 (2021: R40 710 704) in note 8 in the financial statements were necessary.

4. I was unable to obtain sufficient appropriate audit evidence for Infrastructure included in property plant and equipment, as a result of poor accounting records. I was unable to confirm the balance by alternative means. In addition, the municipality did not recognise Infrastructure in accordance with GRAP 17, *Property, plant and equipment*. Additions to Infrastructure were not recorded as required. Consequently, Infrastructure was understated and the total Finance lease liability was understated by R5 504 094 in the financial statements.

5. The municipality did not have adequate systems to record assets in accordance with GRAP 17, Property plant and equipment. Assets that were recorded in the current year could not be located during the asset verification process. This resulted in property, plant and equipment being understated by R4 250 249.

Investment property

6. The municipality did not recognise investment property in accordance with GRAP 16, *Investment property*. Since the municipality did not fair value investment property as required by the standard. Fair value could not be measured reliably. I was unable to determine the full extent of the understatement of investment property as it was impracticable to do so.

7. The municipality did not have adequate systems in place to account for investment property in accordance with GRAP 16, *Investment property.* As land that did not meet the recognition criteria for investment property was incorrectly classified as investment property. Consequently, investment property was overstated by R18 621 968 (2021: R6 559 000) and inventory was understated by R 18 621 968 (2021: R 6 559 000). In addition, land that met the criteria of investment property was incorrectly disclosed as disposals. As a result, investment property was understated by R 9 250 000 and receivables from exchange transactions was overstated by R9 250 000. There was a resultant impact on the Gains / (Losses) on Disposal of Capital Assets.

Receivables from non-exchange

8. I was unable to obtain sufficient appropriate audit evidence regarding property rates included in receivables from non-exchange transactions, as the amount in the debtors age analysis does not agree with the financial statements. I was unable to confirm the receivables from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to property rates stated at R16 403 776 in note 4 to the financial statements.

Non-current provisions

9. The municipality did not recognise provision for landfill site in accordance with GRAP 19, *Provisions-Contingent Liabilities and Contingent Assets 1.* As a result, provision for landfill sites is overstated and the carrying value of landfill sites understated by R4 136 545.

Payables from exchange transactions

10. The municipality did not account for unallocated deposits included in other payables in accordance with GRAP 1, *Presentation of financial statements*, as the deposits that could be allocated to debtors' accounts were included in the unallocated deposits balance. Consequently, unallocated deposits included in payables from exchange transactions and receivables from exchange transactions were overstated by R8 582 413. In addition, the creditors statements did not agree to the amounts disclosed under trade payables. As a results, trade payables included in payables from exchange transactions and inventory consumed were understated by R3 236 075. Furthermore, I was unable to obtain sufficient appropriate audit evidence for trade creditors and control, clearing and interface accounts included in other payables, as the municipality did not have adequate systems to record trade creditors and control, clearing and interface accounts. I could not confirm the amount by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to trade creditors and other payables stated at R312 187 740 and R14 497 476 in note 14 to the financial statements.

11. I was unable to obtain sufficient appropriate audit evidence for retentions due to the poor status of the accounting records. I could not confirm the retentions by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to retentions stated at R3 408 003 (2021: R3 408 003) in note 14 to the financial statements.

12. I was unable to obtain sufficient appropriate audit evidence for the balance of Department of Community Safety & Transport Management - Licence fees included in payables from exchange transactions due to the poor status of the accounting records. I could not confirm the balance by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the balance of Department of Community Safety & Transport Management - Licence fees included in payables from exchange transactions stated at R22 482 004 in note 14 the financial statements.

13. During 2021, 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 R312 187 740 (2021: R262 268 295) in note 14 to the financial statements.

Revenue from exchange transactions

14. The municipality did not recognise service charges revenue, as required by GRAP 9, *Revenue from exchange transactions.* Properties were identified for which service charges were not billed and recorded. I was unable to determine the full extent of the understatement of service charges, stated at R115 646 410 in note 24 to the financial statements, and related receivable from exchange transactions, stated at R 20 314 151 in note 3 to the financial statements, as it was impracticable to do so. There was a resultant impact on the surplus for the period and on the accumulated surplus.

15. The municipality did not account for gains on disposal of capital assets included in revenue from exchange transactions in accordance with GRAP 9, *Revenue from exchange transactions*, as it was incorrectly calculated. In addition, I was unable to obtain sufficient appropriate audit evidence for gains on disposal of capital assets due to the poor status of the accounting records. I could not confirm the gains on disposal of capital assets by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to gains on disposal of capital assets stated at R15 920 302 in note 39 to the financial statements.

16. I was unable to obtain sufficient appropriate audit evidence regarding revenue from exchange transactions, as the amount in the trial balance does not agree with the financial statements. I was unable to confirm the revenue from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to revenue from exchange transactions stated at R133 766 172 on the face of the financial statements.

Revenue from non-exchange transactions

17. I was unable to obtain sufficient appropriate audit evidence for transfers and subsidies included in Revenue from non-exchange transactions for the current year as a result of poor accounting records. I was unable to confirm the revenue by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to revenue stated at R83 913 053 in note 23 to the financial statement.

Finance costs

18. The municipality did not account for finance costs included in expenditure in accordance with GRAP 1, Presentation of financial statements, as the interest on provision for landfill sites was offset from the finance costs amount in the statement of financial performance. Consequently, finance costs were understated and provision for landfill site was understated by R5 995 596. In addition, interest on overdue account was incorrectly included in as deposit. As a result, interest on overdue account was understated and deposit overstated by R6 462 206.

Bulk purchases

19. The municipality did not account for bulk purchases included in expenditure in accordance with GRAP 1, *Presentation of financial statements*, as operational costs on indigent relief and municipal services were included in bulk purchases. Consequently, bulk purchases were overstated and operational costs understated by R5 967 763.

Employee related costs

20. I was unable to obtain sufficient appropriate audit evidence regarding employee related costs, as the amount in the general ledger and payroll does not agree with the face of the financial statements. I was unable to confirm the employee related costs by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to employee related costs stated at R75 893 225 (2021:R81 295 831) in note 29 to the financial statements.

Unauthorised expenditure

21. The municipality incorrectly calculated unauthorised expenditure in the current year by not including actual expenditure per vote, resulting in the current year unauthorised expenditure being understated by R63 587 352. In addition, I was unable to obtain sufficient appropriate audit evidence for the opening balance of unauthorised expenditure 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 R715 934 383 (2021: R659 082 941) in note 44.1 to the financial statements.

Irregular expenditure

22. Section 125(2)(d)(i) of the MFMA requires the disclosure of irregular expenditure incurred. The municipality made payments of R24 040 394 in contravention with the supply chain management requirements which were not included in irregular expenditure disclosed. As

the municipality did not quantify the full extent of the irregular expenditure, it was impracticable to determine the resultant understatement of irregular expenditure as per note 44.1 to the financial statements. In addition, I was unable to obtain sufficient appropriate audit evidence to confirm the restatement of irregular expenditure included in the notes to the financial statements. I was unable to confirm this by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the irregular expenditure stated at R64 128 501 (2021: R51 640 605) in the financial statements.

Fruitless & wasteful expenditure

23. 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 by alternative means. In addition, I was unable to obtain sufficient appropriate evidence to confirm the restatement of fruitless and wasteful expenditure included in the notes to the financial statements. Consequently, I was unable to determine whether any further adjustments were necessary to fruitless and wasteful expenditure stated at R107 330 144 (2021: R68 721 990) in note 44.2 to the financial statements.

24. The municipality incorrectly calculated fruitless and wasteful expenditure in the current year by overstating the expenditure incurred, resulting in the current year fruitless and wasteful expenditure being overstated by R35 224 149 in note 44.2 of the financial statements.

Statement of comparison of budget and actual amounts

25. 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.

Net cash flows from operating activities

26. The municipality did not correctly prepare and disclose the net cash flows from operating activities as required Standards of GRAP 2, *Cash flow statements.* This was due to multiple errors identified in interest paid and suppliers paid in determining cash flows from operating activities. I was not able to determine the full extent of the errors in the net cash flows from operating activities as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to cash flows from operating activities as stated at R R40 656 464 (2021: R22 003 027) in the financial statements were necessary.

Net cash flows from investing activities

The municipality did not correctly prepare and disclose the net cash flows from investing activities as required Standards of GRAP 2, *Cash flow statements.* This was due to non-cash proceeds included in proceeds on disposal of property, plant and equipment in determining cash flows from investing activities. I was not able to determine the full extent of the errors in the net cash flows from investing activities as it was impracticable to do so.

Consequently, I was unable to determine whether any adjustments to cash flows from investing activities as stated at R20 335 659 in the financial statements were necessary.

Segment reporting

27. The municipality did not calculate the segment report in accordance with the Standards of GRAP 18, Segment reporting. The municipality did not accurately disclose the amounts included in the segment report for the current year and the prior year. Consequently, I was unable to determine whether any further adjustments were necessary to segment reporting.

Context for the opinion

28. 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.

29. 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.

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

Emphasis of matters

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

Restatement of corresponding figures

32. As disclosed in note 41 to the financial statements, the corresponding figures for 30 June 2021 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2022.

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

33. With reference to note 50 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 contingent liability that may result was stated at R22 720 535 (2021: R21 830 535) in the financial statements.

Material impairments – trade debtors

34. As disclosed in note 3 to the financial statements, the municipality reported a material impairment of R267 228 858 (2021: R245 061 943) as a result of the probability of non-payment of outstanding balances on receivables from exchange transactions.

35. As disclosed in note 4 to the financial statements, the municipality reported a material impairment of R69 541 115 (2021: R57 896 374) as a result of the probability of non-payment of outstanding balances on receivables from non-exchange transactions.

Material losses – electricity

36. As disclosed in note 45.8 to the financial statements, material electricity losses of R6 707 790 (2021: R9 128 101) was incurred, which represents 14.09% (2021: 21.84%) of total electricity purchased.

Material losses – water

37. As disclosed in note 45.8 to the financial statements, material water losses of R12 294 792 (2021: R13 533 012) was incurred, which represents 58.84% (2021: 64.34%) of total water purchased.

Other matters

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

Unaudited disclosure notes (MFMA 125)

39. 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

40. 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 for the financial statements

41. 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.

42. 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

43. 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.

44. 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

45. 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 on the usefulness and reliability of the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

46. My procedures address the usefulness and reliability of the reported performance information, which must be based on the municipality's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the municipality enabled service delivery. My procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

47. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the municipality's annual performance report for the year ended 30 June 2022:

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

48. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved

performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

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

Various indicators

50. The achievements reported in the annual performance report materially differed from the supporting evidence provided for the indicators listed below:

Indicator description	Reported achievement	Audited value
Number of Road and Stormwater infrastructure projects implemented.	4	0
Number of internal roads upgraded and maintained within the TLM area.	1	0
Number of Pre-Paid Water Meters Installed in the TLM	4	2
Number of reports on Postdene water Intervention project	4	1
Number of reports on the roads and stormwater operation and maintenance work undertaken	4	0
Number of reports on upgrade and storm water for 5th Avenue Road	4	1
Number of reports on wastewater/sanitation operation and maintenance work undertaken	4	1

Various indicators

51. The measures taken to improve performance against targets below were not reported in the annual performance report.

Indicator description	Planned target	Reported achievement
Number of internal roads upgraded and maintained within the TLM area.	6 internal roads maintained within TLM area by June 2022	1
Number of reports on new households provided with Refuse removal service by June 2021 (Mountain View, Greenfields, Postdene Phase 1&2, Skeyfontein, Jenn Haven, Groenwater & Maremane)	Bi-annual progress reports by June 2022	0

52. Reported achievements for the below indicators were not consistent with the planned and reported indicator and target. There was no clear and logical link on how the indicator will contribute to achieving the planned outcomes or will measure the actual service delivery and the planned output to which it relates. The indicator and target measured the number of reports prepared instead of actual delivery of services.

Indicator	Planned targets per APR	Reported actual achievement per APR
Number of street lights replaced and installed with LED lights	20 Street LED streetlights replaced and installed by June 2022	Annual (1)
Number of interventions to implement bulk electricity infrastructure	Construction of 2 bulk electricity lines by June 2022	Annual (1)
Number of Road and Stormwater infrastructure projects implemented.	4 road and stormwater projects completed by June 2022	4 quarterly reports
Number of internal roads upgraded and maintained within the TLM area.	6 internal roads maintained within TLM area by June 2022	4 quarterly reports
Number of Pre-Paid Water Meters Installed in the TLM	7000 prepaid water meters installed in the TLM area by June 2022	4 quarterly reports
Number of Operation and maintenance measures implemented to ensure quality drinking water within TLM.	10 preventative measures implemented quarterly by June 2022	4 quarterly reports

KPI 13: Number of reports on upgrade and storm water for 5th Avenue Road

Performance indicators were not well-defined

The performance indicator doesn't have a clear unambiguous definition and the performance indicator is not defined so that data will be collected consistently

Various indicators

A comparison between the planned and actual performance/ performance of the year under review and previous year was not included in the annual performance report.

Indicator
Number of Road and Stormwater infrastructure projects implemented.
Number of internal roads upgraded and maintained within the TLM area.
Number of Pre-Paid Water Meters Installed in the TLM
Number of Operation and maintenance measures implemented to ensure quality drinking water within TLM.
Number of street lights replaced and installed with LED lights
Number of interventions to implement bulk electricity infrastructure
Number of reports on Skeyfontein bulk water supply phrase 2
Number of reports on Postdene water Intervention project
Number of reports on the roads and stormwater operation and maintenance work undertaken
Number of reports on upgrade and storm water for 5th Avenue Road
Number of reports on water operation and maintenance work undertaken
Number of reports on wastewater/sanitation operation and maintenance work undertaken
Number of reports on new households provided with Refuse removal service by June 2021 (Mountain View, Greenfields, Postdene Phase 1&2, Skeyfontein, Jenn Haven, Groenwater & Maremane)
Number of reports on refuse collection in all residential areas
Reports on Number of interventions implemented to prevent illegal dumping within communities.

Other matter

53. I draw attention to the matter below.

Achievement of planned targets

54. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 50 to 52 of this report.

Report on the audit of compliance with legislation

Introduction and scope

55. 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.

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

Annual financial statements

57. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, current assets, revenue and expenditure by the auditors in the submitted financial statements were subsequently corrected but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

58. The 2020/21 annual report was not tabled in the municipal council after the end of the financial year, as required by section 127(2) of the MFMA.

Expenditure management

59. Money owed by the municipality was not always paid within 30 days as required by section 65(2)(e) of the MFMA.

60. 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. The majority of the disclosed irregular expenditure was caused by non-compliance with supply chain management regulations.

61. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the fruitless and wasteful expenditure could not be quantified as indicated in the basis for qualification paragraph. The majority of the disclosed fruitless and wasteful expenditure was caused by interest charged on overdue accounts and penalties.

62. 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

63. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.

64. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

Asset management

65. I was unable to obtain sufficient appropriate audit evidence that capital assets disposed of were not needed to provide minimum level of basic municipal service, as required by section 14(1) of the MFMA

66. 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, as required by section 14(2)(a) of the MFMA.

Strategic planning and performance management

67. 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).

68. Amendments to the IDP were made without consultation with the district municipality, as required by municipal planning and performance management regulation 3(6)(a).

Procurement and contract management

69. 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.

70. 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.

71. 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.

72. Some of the 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). This non-compliance was identified in the procurement processes for the tender: TM004/2021/2022 - RFP for biometric clocking system and access control and RA13/8/121/2021-2022 - C-PAC Pumps and Valves.

73. Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding were advertised for a required minimum period of days, as required by SCM Regulation 22(1). Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes for the following projects: TM019/2021/2022 - request for proposals from qualified electrical contractors for a panel of

electrical contractors (projects and maintenance) for a period of 36 months and TM033/2020/21 - construction of sport facilities in postdene.

74. 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. This non-compliance was identified in the procurement processes for the following tenders: TM012/2021/22 - Skeyfontein: Rural Water Project: Water Reticulation: Phase 2 and TM019/2021/2022 - Request for proposals from qualified electrical contractors for a panel of electrical contractors (projects and maintenance) for a period of 36 months.

75. Some of the contracts were awarded to 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).

76. Some of the 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. This non-compliance was identified in the procurement processes for the following tenders: TM036/2020/2021 - Request for proposals from qualified electrical contractors for a panel of electrical contractors (projects and maintenance) for a period of 36 months and TM021/2020/2021 - Appointment of panel for Civil Engineering Professional Services for a period of 36 months, on an as and when required.

77. The preference point system was not applied to 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.

78. Some of the construction contracts were awarded to contractors that were not registered with the CIDB and did not qualify for the contract in accordance with section 18(1) of the CIDB Act and CIDB Regulations 17 and 25(7A). Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes for the following contract: TM036/2020/2021 - Request for proposals from qualified Electrical Contractors for Panel of Electrical Contractors (Projects and Maintenance) for a period of 36 months.

79. Contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM Regulation 5.

80. 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.

81. 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. Similar non-compliance was also reported in the prior year.

Utilisation of conditional grants

82. 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 9 of 2021).

83. I was unable to obtain sufficient appropriate audit evidence that the Integrated National Electrification Programme (Municipal) Grant was spent for its intended purposes in accordance with the applicable grant framework, as required by section 16(1) of the Division of Revenue Act (Act 9 of 2021).

Consequence management

84. 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.

85. 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.

Human resource management

86. 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

87. 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.

88. 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.

89. 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.

90. 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

91. 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.

92. The municipality did not effectively exercise its oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

93. Management 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.

94. The municipality did not implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.

95. Management did not in all instances provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the interests of the entity.

96. Management did not review and monitor compliance with applicable laws and regulations

97. 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.

98. Management did not in all instances prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

99. The municipality did not establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes and responsibilities.

100. The municipality did not implement controls over daily and monthly processing and reconciling of transactions.

Auditor General

1 December 2022

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for 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.