The accounting officer
Tsantsabane local municipality
13 Springbok street
Postmasburg
8420

Date: 14 December 2023

Reference: 21352REG22-23

Dear Sir

Report of the Auditor-General on the financial statements, annual performance report, compliance with legislation and other legal and regulatory requirements of Tsantsabane Local Municipality for the year ended 30 June 2023

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act No. 25 of 2004 (PAA) read in conjunction with section 188 of the Constitution of the Republic of South Africa section 126(3) of the Municipal Finance Management Act 56 of 2003.
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and the annual performance report and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements, the annual performance report, or our report on compliance with legislation. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified, these will be communicated to you, and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA you are required to include the auditor's report in the municipality's annual report to be tabled.
4. Prior to printing or copying the annual report which will include the auditor's report you are required to do the following:
   - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the auditor's report and for confirmation that the financial statements, annual performance report and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications..
   - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.

5. Please notify the undersigned Deputy Business Unit Leader well in advance of the date on which the annual report containing this audit report will be tabled.

6. The confidentiality of information obtained in an engagement must be observed at all times. In terms of section 50 of the PAA and the International Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants *(including International Independence Standards)*, members of the staff of the Auditor General (AG), or an audit firm appointed in terms of section 25 of the PAA, may not disclose or make available any information obtained during an audit, other than the final auditor's report, to any third party without the permission of the AG or his/her delegate, unless this is to a legislature or internal committee of a legislature or a court in a criminal matter..

7. Until the steps described in paragraphs 2 and 4 of this documents are completed and the annual report is tabled as required by section 127(2) of the MFMA, the audit report is not a final and public document and you are therefore requested to treat it as confidential.

8. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

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Deputy Business Unit Leader: Northern Cape Business Unit

Enquiries: Morakane Saule
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Fax: (053) 836 8897

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 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 information 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, 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 2023, and its financial performance and cash flows for the year then ended in accordance with the 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 5 of 2022 (Dora).

Basis for qualified opinion

Property, plant, and equipment

3. I was unable to obtain sufficient appropriate audit evidence for infrastructure additions included in property, plant and equipment as infrastructure recorded in the current year could not be located during the verification process. I could not confirm infrastructure additions by alternative means. As a result, I was unable to determine whether any further adjustments were necessary to infrastructure additions stated at R41 575 490 in note 8 to the financial statements. In addition, I was unable to obtain sufficient appropriate audit evidence for other assets included in property, plant and equipment as other assets recorded in the prior year could not be located during the verification process. Consequently, I was unable to determine whether any further adjustments were necessary to other assets stated at R8 096 610 in note 8 to the financial statements.

4. I was unable to obtain sufficient appropriate audit evidence for infrastructure additions included in property, plant, and equipment as a result of poor accounting records. Supporting documentation for work-in-progress included infrastructure additions I was not submitted for audit. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to infrastructure additions stated at R41 575 490 (2022: R40 936 785) in note 8 to the financial statements. In addition, the municipality did not recognise infrastructure in accordance with GRAP 17, Property, plant and equipment as additions to infrastructure were not recorded as required in the previous year.

As a result, infrastructure was understated, and the total finance lease liability was understated by R5 504 094 in the financial statements.

Investment property

5. The municipality did not have adequate systems in place to account for investment property in accordance with GRAP 16, Investment property. Land that did not meet the recognition criteria for investment property was incorrectly classified as investment property. Consequently, investment property was overstated by R49 616 668 (2022: R18 621 968) and land was understated by the same amount. In addition, land that met the criteria of investment property was incorrectly disclosed as disposals in the current and previous year. As a result, investment property was understated by R2 897 200 (2022: R9 250 000). There was a resultant impact on the Gains/ losses on disposal of capital assets.

Inventories

6. I was unable to obtain sufficient appropriate audit evidence for property stock included in inventory for the current year and previous year due to the poor status of accounting records. I could not confirm the property stock by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to property stock stated at R8 750 000 (2022: R8 750 000) in note 2 to the financial statements.

Receivables from exchange transactions

7. The provision for impairment of debtors was not calculated in accordance with the Standards of GRAP 104, Financial Instruments. An incorrect rate was applied for some the debtors in calculating the impairment provision. Consequently, the provision for impairment included in the receivables from exchange transactions is overstated by R3 708 284 in note 3 to the financial statements

8. The municipality did not account for property rental debtors included in receivables from exchange transactions in accordance with GRAP 9, Revenue from exchange transactions, as other debtors were incorrectly classified as property debtors. As a result, property rental debtors included in receivables from exchange transactions was overstated and other debtors understated by R5 866 544 in note 3 to the financial statements.

Receivables from non-exchange transactions

9. 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 receivables from non-exchange transactions by alternative means. I was unable to confirm whether any adjustment was necessary to property rates stated at R24 859 843 (2022: R16 403 315) in note 3 to the financial statements.

Payables from exchange transactions

10. The municipality did not account for trade creditors included in payables from exchange transactions in accordance with GRAP 1, Presentation of financial statements, as the creditors statements did not agree to the amounts disclosed under trade payables. As a result, trade

payables included in payables from exchange transactions was understated by R9 141 119 (2022: R3 236 075), inventory consumed was understated by R3 896 156 (2022: R3 236 075) and bulk purchases was understated by R5 244 964. In addition, I was unable to obtain sufficient appropriate audit evidence for trade creditors included in payables from exchange transactions as the amount in the annual financial statements did not agree to the creditors listing and supporting documentation for the restatement and journals was not submitted for audit. Consequently, I was unable to determine whether any further adjustments were necessary to trade creditors included in payables from exchange transactions stated at R387 920 598 (2022: 318 760 047).

11. I was unable to obtain sufficient appropriate audit evidence for retentions included in payables from exchange transactions for the current year and previous year as a result of poor accounting records. I was unable to confirm the retentions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to retentions stated at R3 408 002 (2022: 3 408 002) in note 14 to the financial statements.

12. Payables from exchange transactions was materially misstated by R3 129 292 due to the cumulative effect of individually immaterial uncorrected misstatements in department of community safety & transport management – licence fees, trade creditors and leave accruals as follows:

    - Department of community safety & transport management as stated at R22 482 004 in note 14 was overstated by R679 566
    - Trade creditors as stated at R387 920 598 in note 14 was overstated by R625 000
    - Leave accrual as stated at R8 257 604 in note 14 was overstated by R1 824 725

    In addition, I was unable to obtain sufficient appropriate audit evidence and to confirm payables from exchange transactions by alternative means for:

    - Payables from exchange transactions relating to unallocated deposits, trade payables and department of community safety & transport management – licence fees.

    Consequently, I was unable to determine whether any further adjustment was necessary to payables from exchange transactions.

Revenue from exchange transactions

13. The municipality did not recognise service charges revenue included in revenue from exchange transactions as required by GRAP 9, Revenue from exchange transactions. Properties were identified for which water services were not billed. I was unable to determine the full extent of the understatement of service charges and related receivables from exchange transactions, stated at R20 402 387 (2022: R20 557 406) in note 3 to the financial statements as it was impracticable to do so. In addition, I was unable to obtain sufficient appropriate audit evidence for service charges included in revenue from exchange transactions due to poor status of accounting records. Supporting documentation for indigents was not submitted for audit. Consequently, I was unable to determine whether any adjustments were necessary to service charges included in revenue from exchange

transactions stated at R115 116 619 (2022: R115 870 608) in note 24 to the financial statements.

14. During 2022, 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.

Revenue from non- exchange transactions

15. I was unable to obtain sufficient appropriate audit evidence for transfers and subsidies included in revenue from exchange transactions for the current year as a result of poor accounting records. The restatement on corresponding figures was not disclosed in the correction of error note 41, supporting documentation for journals and conditional grants was not provided for audit. I was unable to confirm revenue by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to transfers and subsidies included in revenue from non-exchange transactions stated at R116 945 565 (2022: R83 913 053)

Operational costs

16. The municipality did not account for operational costs included expenditure in accordance with GRAP 1, Presentation of financial statements, as audit fees were included in contracted services. As a result, audit fees included in operational costs were understated and contracted services overstated by R4 676 176.

Inventory consumed

17. I was unable to obtain sufficient appropriate audit evidence for inventory consumed included in expenditure for the current year due to the status of accounting records. Supporting documentation for journals was not provided for audit. I was unable to confirm inventory consumed included in expenditure by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to inventory consumed, stated at R25 453 754.

Operating leases

18. I was unable to obtain sufficient appropriate audit evidence for operating leases included in expenditure for the current year as a result of poor accounting records. I was unable to confirm the expenditure by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to expenditure stated at R7 807 602 in note 37 to the financial statements.

Commitments

19. I was unable to obtain sufficient appropriate audit evidence for commitments disclosed in note 46 to the financial statements due to the status of accounting records. I was unable to confirm these commitments by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to commitments, stated at R16 494 332 in note 46 to the financial statements.

Unauthorised expenditure

20. During 2022, the municipality incorrectly calculated unauthorised expenditure by not including actual expenditure per vote, resulting in the prior 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 R759 894 802 (2022: R715 934 383) in note 44.1 to the financial statements.

Irregular expenditure

21. Not all irregular expenditure was included in note 44.3 to the financial statements, as required by section 125(2)(d) of the MFMA. Expenditure incurred in contravention of supply chain management requirements, which resulted in irregular expenditure of R4 539 912 (2022: R7 821 207) were not included in note 44.3. In addition, I was unable to obtain sufficient appropriate audit evidence to confirm the irregular expenditure included in note 44.3 to the financial statements as sufficient appropriate audit evidence was not provided. 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 R80 565 288 (2022: R64 128 501) in the financial statements.

Fruitless and wasteful expenditure

22. 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. Consequently, I was unable to determine whether any further adjustments were necessary for fruitless and wasteful expenditure stated at R128 055 121 (2022: R107 330 144) in note 44.2 to the financial statements.

23. The municipality incorrectly calculated fruitless and wasteful expenditure by overstating the expenditure incurred, resulting in the current and previous year fruitless and wasteful expenditure being overstated by R6 256 831 (2022: R35 224 149) in note 44.2 to the financial statements.

Statement of comparison of budget and actual amounts

24. 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. In addition, the municipality incorrectly calculated amounts in the statement of comparison of

budget and actual amounts. I was not able to determine the full extent of the misstatement as it was impracticable to do so.

Segment reporting

25. 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 prior year. Consequently, I was unable to determine whether any adjustments were necessary to segment reporting.

Net cashflows from investing activities

26. During 2022, 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

Non-current provisions

27. During 2022, the municipality did not recognise provision for landfill site in accordance with GRAP 19, Provision-Contingent Liabilities and Contingent Assets. As a result, provision for land fill sites is overstated and the carrying value of landfill sites included in property, plant and equipment by R4 136 545.

Employee related costs

28. During 2022, 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.

Finance costs

29. During 2022, the municipality did not account for finance costs included in expenditure in accordance with GRAP 1, Presentation of financial statements, as interest on provision for landfill sites was offset from 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.

Bulk purchases

30. During 2022, 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 bulk purchases. Consequently, bulk purchases were overstated, and operational costs understated by R5 967 763.

Context for opinion

31. 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.

32. 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.

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

Material uncertainty relating to going concern

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

35. I draw attention to note 56 to the financial statements, which indicates that a net loss of R19 200 687 was incurred during the year ended 30 June 2023 and, as of that date the current liabilities exceeded the current assets by R413 193 625. As stated in note 56, these events or conditions, along with other matters as set forth in note 56, 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

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

Restatement of corresponding figures

37. As disclosed in note 41 to the financial statements, the corresponding figures for 30 June 2022 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2023.

An uncertainty relating to the future outcome of exceptional litigation

38. With reference to note 50 to the financial statements, the municipality is the defendant in 2 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 816 980 (2022: R22 720 535).

Material impairments – trade debtors

39. As disclosed in note 3 to the financial statements, material losses of R299 682 717 (2022: R267 228 858) was incurred as a result of a probability of non-payment of outstanding balances on receivables from exchange transactions.

40. As disclosed in note 4 to the financial statements, material losses of R77 036 338 (2022: R69 541 115) was incurred as a result of a probability of non-payment of outstanding balances on receivables from non-exchange transactions.

Material losses - electricity

41. As disclosed in note 45.8 to the financial statements, material electricity losses of R12 129 137 (2022: R6 707 790) was incurred, which represents 22.04% (2022: 14.09%)

Material losses - water

42. As disclosed in note 45.8 to the financial statements, material water losses of R17 429 857 (2022: R12 294 792) was incurred, which represents 74.41% (2022: 58.84%)

Other matters

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

Unaudited disclosure notes

44. 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.

Unaudited supplementary schedules

45. 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 schedule(s) and, accordingly, I do not express an opinion on them.

Responsibilities of the accounting officer for the financial statements

46. 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 the 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.

47. 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

48. 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.

49. 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

50. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for the selected development priority presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

51. I selected the following development priority presented in the annual performance report for the year ended 30 June 2023 for auditing. I selected a development priority that measures the municipality's performance on its primary mandated functions and that is of significant national, community or public interest.

Development priority	Page numbers	Strategic objective
Basic services delivery and infrastructure development	XX	To ensure the provision of services to communities in a sustainable manner.

52. I was engaged to evaluate the reported performance information for the selected development priority against the criteria developed from the performance management and reporting framework, as defined in the general notice. An annual performance report prepared using these criteria provides useful and reliable information and insights to users of the report on the municipality's planning and delivery on its mandate and planned objectives.

53. My objective was to perform procedures for the purpose of reporting material findings only; and not to express an assurance opinion or conclusion.

54. The material findings on the reported performance information for the selected development priority are as follows:

Basic services delivery and infrastructure development

Various indicators

55. I could not determine if the reported achievements were correct, as adequate supporting evidence was not provided for auditing. Consequently, the achievements might be more or less than reported and were not reliable for determining if the targets had been achieved:

Indicator description	Reported achievement	Audited value
Number of Road and Stormwater infrastructure projects implemented.	4	1
Number of reports on upgraded and storm water for 5th Avenue Road	4	1
Number of reports on water operation and maintenance work undertaken	4	1
Number of reports on Skeyfontein Bulk Water phase 2	4	1
Number of reports on Postdene water Intervention project	4	1
Number of reports on sewer complains attended	4	1
Number of reports on the construction of mountain view connection and link	4	1
Number of reports on maintenance of electrical complains	4	1
Number of interventions to implement bulk electricity infrastructure	4	1

Various indicators

56. Based on audit evidence, the actual achievement for below indicators did not agree to the achievements reported. Consequently, the targets were not achieved and the achievements against the target were lower than reported:

Indicator description	Target	Reported achievement	Audited Value
Number of reports on the roads and storm water operation and	4	4	0

Indicator description	Target	Reported achievement	Audited Value
maintenance work undertaken			
Number of reports on funding and construction of new WWTW	4	4	0
Number of faulty metres reported and repaired in the TLM area	12	6	0

Various indicators

57. Evidence was not provided to confirm that processes had been established to consistently measure and reliably report on these indicators. This was due to a lack of measurement definitions and processes. Consequently, I could not confirm the reliability of the reported achievement:

Indicator description
Number of Road and Stormwater infrastructure projects implemented.
Number of reports on the roads and stormwater operation and maintenance work undertaken
Number of reports on Postdene water Intervention project
Number of reports on funding and construction of new WWTW
Number of reports on new households provided with Refuse removal service by June 2023 (Mountain View, Greenfields, Postdene Phase 1&2, Skeyfontein, Jenn Haven, Groenwater & Maremane)
Number of reports on the implementation of 210L steel refuse bins to all residential areas to reduce illegal dumping
Number of faulty metres reported and repaired in the TLM area

Various indicators

58. A comparison of the performance of the year under review and that of the previous year was not included in the annual performance report. This would make it difficult to track the achievement of service delivery goals.

Indicator description
Number of Road and Stormwater infrastructure projects implemented.
Number of internal roads upgraded and maintained within the TLM area
Number of reports on the roads and stormwater operation and maintenance work undertaken
Number of reports on upgraded and storm water for 5th Avenue Road
Number of reports on water operation and maintenance work undertaken
Number of reports on Postdene water Intervention project
Number of reports on funding and construction of new WWTW
Number of reports on the construction of mountain view connection and link
Number of reports on maintenance of electrical complains
Number of interventions to implement bulk electricity infrastructure
Number of reports on new households provided with Refuse removal service by June 2023 (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
Number of reports on the cleaning and greening project
Number of reports on the implementation of 210L steel refuse bins to all residential areas to reduce illegal dumping
Number of quarterly reports on road safety improvement interventions implemented
Number of faulty metres reported and repaired in the TLM area

Number of internal roads upgraded and maintained within the TLM area

59. An achievement of 4 was reported against a target of 6 internal roads maintained within TLM area by June 2023 but the audit evidence showed the actual achievement to be 6. The achievement against the target was better than reported.

Number of interventions to implement bulk electricity infrastructure

60. There was no link between the indicator and target of 4 quarterly reports on the Connection of 1000 Electricity connections in Greenfields by June 2023 and the achievement of planned

objectives and strategic goals. The indicator measured the number of interventions to implement bulk electricity infrastructure while the target measured the number of reports.

61. I could not determine how the planned indicator would be measured and what evidence would be needed to support the achievement, as adequate supporting evidence was not provided for auditing. This was due to insufficient measurement definitions and processes.

Other matters

62. I draw attention to the matters below.

Achievement of planned targets

63. 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 misstatements

64. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for basic service and infrastructure development. Management did not correct all of the misstatements and I reported material findings in this regard.

Report on compliance with legislation

65. 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.

66. 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.

67. 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.

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

Annual financial statements, performance reports and annual reports

69. 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.

70. 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

71. The 2021/22 annual report was not made public after being tabled in council, as required by section 127(5)(a)(i) of the MFMA.

72. The local community was not invited to submit representations in connection with the 2021/22 annual report, as required by section 127(5)(a)(ii) of the MFMA.

73. The council failed to adopt an oversight report containing the council's comments on the 2021/22 annual report, as required by section 129(1) of the MFMA.

Procurement and contract management

74. Sufficient appropriate audit evidence could not be obtained that all contracts and quotations were awarded in accordance with the legislative requirements as there is lack of record keeping.

75. 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.

76. 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.

77. 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.

78. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM Regulation 19(a). Similar non-compliance was also reported in the prior year.

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

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

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

82. The preference point system was not applied on some of the procurement of goods and services as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act. Similar non-compliance was also reported in the prior year.

83. 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.

84. 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.

85. 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.

86. Awards were made to providers who were in the service of other state institutions or whose directors were in the service of other state institutions, in contravention of MFMA 112(1)(j) and SCM Regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM Regulation 38(1).

Expenditure management

87. Money owed by the municipality was not always paid within 30 days / an agreed period, as required by section 65(2)(e) of the MFMA.

88. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with supply chain regulations.

89. 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 on overdue accounts and penalties.

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

Utilisation of conditional grants

91. Performance in respect of programmes funded by the Water Services 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 5 of 2022).

92. I was unable to obtain sufficient appropriate audit evidence that the Water Services Infrastructure 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 5 of 2022).

93. I was unable to obtain sufficient appropriate audit evidence that the Municipal Infrastructure 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 5 of 2022).

94. Performance in respect of programmes funded by the Integrated National Electrification Programme (Municipal) 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 5 of 2022).

Consequence management

95. 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.

96. 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.

Revenue management

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

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

Strategic planning and performance management

99. The SDBIP 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.

100. 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.

101. The IDP did not reflect the financial plan as required by sections 26 (h) of the MSA and municipal planning and performance management regulation 2(3)(a).

102. Performance targets were not set for each of the KPIs for the financial year, as required by section 41(1)(b) of the MSA and municipal planning and performance management regulation 12(1).

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

104. A performance management system was not adopted, as required by municipal planning and performance management regulation 8.

105. The performance management system and related controls were inadequate as it did not describe how the performance measurement processes should be conducted and managed, as required by municipal planning and performance management regulation 7(1).

Other information in the annual report

106. 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 development priority presented in the annual performance report that have been specifically reported on in this auditor's report.

107. 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.

108. 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 development priority presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

109. 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

110. Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information as numerous material misstatements were identified that resulted in the modification of the auditor's opinion.

111. 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.

112. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion and, the material findings on the annual

performance report and the material findings on compliance with legislation included in this report.

113. The municipality did not prepare regular, accurate and complete performance report that is supported and evidenced by reliable information as numerous misstatements were identified which resulted in the findings on performance information.

114. 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 and performance reporting.

115. Management did not implement controls over daily and monthly processing and reconciling of transactions

116. Leadership did not monitor the implementation of action plans to address internal control deficiencies.

117. Those charged with governance 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 reporting and compliance with laws and regulations.

Auditor-General

Auditor General

Kimberley

14 December 2023

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

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

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 selected requirements in key legislation.

Financial statements

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

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.

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

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)

Legislation	Sections or regulations
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)
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)