Report of the auditor-general to the North West Provincial Legislature and the council on Tswaing Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Tswaing Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2021, and the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the 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 Tswaing Local Municipality as at 30 June 2021, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 4 of 2020 (DoRA).

Basis for qualified opinion

Trade and other receivables from exchange

3. I was unable to obtain sufficient appropriate audit evidence for trade and other receivables from exchange due to the poor status of the accounting records. I was unable to confirm trade and other receivables form exchange by alternative means. Consequently, I was unable to determine whether any further adjustment to trade and other receivables from exchange of R42 824 464 (R37 681 751) as disclosed in note 5 in the financial statements was necessary.

Property, plant and equipment

4. I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment due to the poor status of the accounting records. I was unable to confirm property, plant and equipment by alternative means. Consequently, I was unable to determine whether any adjustments to property, plant, and equipment of R693 438 507 as disclosed in note 9 or the depreciation and amortisation of R28 840 401 as disclosed note 24 to the financial statements were necessary.

Payables from exchange transactions

5. I was unable to obtain sufficient appropriate audit evidence for trade payables as disclosed in note 12, due to the poor status of the accounting records. I was unable to confirm the trade payables by alternative means. In addition, recalculation differences were identified between supporting documentation and the amounts recorded in the accounting records as required by GRAP 104, *Financial Instruments*, resulting in other payables as disclosed in note 12 and

employee related costs being understated by R8 042 656 respectively. Consequently, I was unable to determine whether any further adjustment to trade payables of R143 341 572 (2020: R154 183 508) as disclosed in note 12 in the financial statements was necessary.

Service charges

6. I was unable to obtain sufficient appropriate audit evidence for service charges due to the poor status of the accounting records. I was unable to confirm service charges by alternative means. In addition, the municipality did not charge consumers for services in accordance with the approved tariffs resulting in service charges and trade and other receivables from exchange being overstated by R9 319 224. The misstatements on service charges had the resultant impact that I was unable to obtain sufficient appropriate audit evidence for the material distribution losses or confirm these losses by alternative means. Consequently, I was unable to determine whether any adjustments to service charges of R119 439 890 (2020: R88 935 400) as disclosed in note 17 or the material distribution losses of R2 595 437 (2020: R14 942 196) as disclosed in note 43 to the financial statements were necessary.

Government grants & subsidies

7. During 2020, the municipality did not account for government grants and subsidies in accordance with GRAP 23, *Revenue from non-exchange transactions* as the municipality recognised revenue in the incorrect year as the conditions of the municipal infrastructure grant were already met in the previous financial year. This resulted in the previous year government grants and subsidies being overstated by R5 667 768 and previous year unspent conditional grants and receipts being understated by same amount. My audit opinion on the financial statements for the period ended 30 June 2020 was modified accordingly. Consequently, my opinion on the current period's financial statements is also modified because of the effect of this matter on the comparability of the current period's figures.

Employee related costs

8. I was unable to obtain sufficient appropriate audit evidence for employee related costs due to the poor status of the accounting records. I was unable to confirm employee related costs by alternative means. Consequently, I was unable to determine whether any adjustment to employee related costs of R94 116 200 as disclosed in note 22 in the financial statements was necessary.

General expenses

9. I was unable to obtain sufficient appropriate audit evidence for general expenses due to the poor status of the accounting records. I was unable to confirm general expenses by alternative means. In addition, general expenses were accounted for in the incorrect period, resulting in general expenses being overstated by R4 368 884 in the current year and understated in the prior year by the same amount. Consequently, I was unable to determine whether any adjustment to general expenses of R44 143 681 (2020: R47 701 359) as disclosed in note 30 in the financial statements was necessary.

Contingencies

10. I was unable to obtain sufficient appropriate audit evidence for contingencies due to the poor status of the accounting records. I was unable to confirm contingencies by alternative means. Consequently, I was unable to determine whether any adjustment to contingencies of R8 875 950 (2020: R9 375 950) as disclosed in note 36 in the financial statements was necessary.

Fruitless and wasteful expenditure

11. I was unable to obtain sufficient appropriate audit evidence for fruitless and wasteful expenditure due to the poor status of the accounting records. I was unable to confirm fruitless

and wasteful expenditure alternative means. Consequently, I was unable to determine whether any further adjustments to fruitless and wasteful expenditure of R69 886 343 as disclosed in note 41 in the financial statements was necessary.

Irregular expenditure

12. Section 125(2)(d) of the MFMA requires the disclosure of irregular expenditure incurred. I was unable to obtain sufficient appropriate audit evidence for irregular expenditure as the municipality did not have adequate systems to maintain records to support financial information. I was unable to confirm the irregular expenditure by alternative means. In addition, a municipality made payments of R18 505 104 in contravention with the supply chain management requirements which were not included in irregular expenditure disclosed. Consequently, I was unable to determine whether any further adjustment relating to irregular expenditure of R526 848 726 (2020: R411 420 695) as disclosed in note 42 to the financial statements was necessary.

Prior period errors

13. The municipality did not disclose all corrections made to address prior period errors as required by GRAP 3, *Accounting policies, estimates and errors*. The nature and the amount of the correction for each financial statement item affected, and the amount of the correction at the beginning of the earliest previous period were not disclosed. In addition, I was unable to obtain sufficient appropriate audit evidence for the previous period errors disclosed, as the supporting information was not provided. I was unable to confirm these disclosures by alternative means. Consequently, I was unable to determine whether any adjustments to the prior period errors disclosed in note 51 to the financial statements was necessary.

Context for the opinion

14. 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 this auditor's report.
15. 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.
16. 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

17. I draw attention to the matters below. My opinion is not modified in respect of this matter.
18. I draw attention to note 39 to the financial statements, which indicates that the municipality is not paying its creditors within the accepted 30 days and the debtors are currently not paying as debts fall due. As stated in note 39, these events or conditions, along with the other matters as set forth in note 39, 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

Events after the reporting date

19. I draw attention to note 40 in the financial statements, which deals with subsequent events and specifically the fact that on 22 September 2021 the municipality was placed under

administration by invoking section 139(1)(c) of the Constitution and the suspension of the municipal manager and the chief financial officer.

Unauthorised expenditure

20. As disclosed in note 46 to the financial statements, unauthorised expenditure of R116 486 966 incurred in the current year and the unauthorised expenditure of R503 502 632 in respect of prior years have not yet been dealt with in accordance with section 32 of the MFMA.

Other matter

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

Unaudited disclosure notes

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

Responsibilities of the accounting officer for the financial statements

23. 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.
24. 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 there is no realistic alternative but to do so.

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

25. 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 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
26. 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

27. I am unable to audit and report on the usefulness and reliability of the performance information as the annual performance report of the municipality was not prepared as required by section 46 of the Municipal Systems Act 32 of 2000 (MSA) and section 121(3)(c) of the MFMA.

Report on audit of compliance with legislation

Introduction and scope

28. 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.

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

Strategic planning and performance management

30. The integrated development plan (IDP) did not reflect a financial plan as required by section 26 of the MSA.

Financial statements

31. 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 identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Expenditure management

32. Reasonable steps were not taken to prevent unauthorised expenditure of R116 486 966, as disclosed in note 46 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending of the budget.

33. 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 SCM regulation 5 where the total payments made under the contract up to date exceeded the original contract price and sufficient appropriate audit evidence could not be obtained on extensions and approval thereof. Irregular expenditure of R9 354 514 was incurred on the construction of internal roads Middleton project.

34. 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 levied on overdue amounts.

35. Reasonable steps were not taken to ensure that the municipality implements and maintains an effective system of expenditure control as required by section 65(2)(a) of the MFMA.

36. Expenditure was incurred in excess of the approved budget, in contravention of section 87(8) of the MFMA.

Procurement and contract management

37. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM Regulation 17(1)(a) and (c). Similar non-compliance was also reported in the prior year.

38. 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.

39. 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).

40. 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.

41. Some of the tenders which failed to achieve the minimum qualifying score for functionality criteria were not disqualified as unacceptable tender in accordance with 2017 Preferential Procurement Regulation 5(6). This non-compliance was identified in the procurement processes for the constr.uction of internal roads in Middleton.

42. Sufficient appropriate audit evidence could not be obtained that contracts were extended or modified with the approval of a properly delegated official as required by SCM Regulation 5.

Revenue management

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

Assets management

44. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Consequences management

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

Other information

46. 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 and the auditor's report thereon.

47. My opinion on the financial statements and findings on compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

48. 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, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

49. I did not receive the other information prior to the date of this auditor's report. After I receive and read this information, and if I conclude that there is a material misstatement, 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

50. 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 thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion and the findings on compliance with legislation included in this report.

- The municipality's leadership did not exercise adequate oversight over financial and performance reporting, compliance monitoring and related internal controls. Policies and procedures did not adequately guide financial, performance and compliance activities and consequence management measures were not fully implemented.
- Management's internal controls and processes over the preparation and presentation of financial statements, performance reports and compliance monitoring were not able to ensure that the reports were free from material misstatements and material deviations from legislation. Numerous financial registers and schedules submitted by management did not agree to amounts as per the annual financial statements, was not complete for all items recorded and management did not adequately ensure the collection, collation, verification, storing and reporting of actual performance information.
- The audit committee and internal audit was not established during the year under review, as a result there was no proper oversight and monitoring of internal controls to prevent and detect misstatements in the financial statements, and to ensure compliance with legislation and prepare annual performance report.

Auditor General

Rustenburg

30 November 2021

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 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 the 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 related to events or conditions that may cast significant doubt on the Tswaing Local Municipality's ability 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 the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor's report. However, future events or conditions may cause a municipality to cease to continue as a going concern.
   - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and 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 confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and where applicable, related safeguards.