Report of the auditor-general to the Free State Provincial Legislature and the council on the Fezile Dabi District Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Fezile Dabi District Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2022, the statement of financial performance, statement of changes in net assets and cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.

2. In my opinion, 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 Fezile Dabi District Municipality as at 30 June 2022, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 9 of 2021 (Dora).

Basis for qualified opinion

General expenses

3. I was unable to obtain sufficient appropriate audit evidence for general expenses due to the status of the accounting records. I was unable to confirm the general expenses by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to general expenses stated at R39 041 273 (2021: R41 493 382) in note 27 to the financial statements were necessary.

Contracted services

4. I was unable to obtain sufficient appropriate audit evidence for contracted services, as supporting evidence was not provided for certain expenses. I was unable to confirm the contracted services by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to contracted services stated at R8 771 363 in note 24 to the financial statements.

5. At 30 June 2021, the municipality did not recognise contracted services in accordance with GRAP 1, *Presentation of financial statements*, as the municipality did not have an adequate system to ensure that legal services were accurately recognised in the period that the services were received. Consequently, contracted services disclosed in note 24 to the financial statements were overstated by R2 847 042, while the prior year deficit and accumulated surplus were overstated by the same amount.

Transfers and subsidies

6. The municipality did not account for a pre-payment made in accordance with GRAP 1, *Presentation of financial statements,* as the municipality incorrectly expensed an advanced payment made for goods and services financed through a conditional grant. Consequently, government grants and subsidies and transfers and subsidies were overstated by R2 397 840, while receivables from exchange transactions and unspent conditional grant understated by R2 757 517 and R2 397 840 respectively. In addition, there was an impact on the deficit for the period and on the accumulated surplus.

Receivables from exchange transactions

7. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for receivables from exchange transactions. As described in note 37 to the financial statements, the restatement was made to rectify a previous year misstatement, but the restatement could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the receivables from exchange transactions corresponding figure stated at R5 117 406 in the financial statements.

Property, plant and equipment

8. I was unable to obtain sufficient appropriate audit evidence that assets had been properly accounted for, due to the status of the accounting records. I was unable to confirm the property, plant and equipment by alternative means. Consequently, I was unable to determine whether any adjustment were necessary to property, plant and equipment stated at R75 741 999 in the financial statements.

Contingencies

9. I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed as contingencies. I could not confirm contingencies by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to contingent liabilities stated at R11 032 793 and contingent assets stated at R5 634 234 in the financial statements.

Cash flow statement

10. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for the cash flow statement. As described in note 37 to the financial statements, the restatement was made to rectify a previous year misstatement, but the restatement could not be substantiated by adequate supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the net cash flows from operating and investing activities corresponding figures stated at R7 946 403 and R1 347 277 respectively in the financial statements.

Context for the opinion

11. 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.

12. 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.

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

Emphasis of matters

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

Restatement of corresponding figures

15. As disclosed in note 37 to the financial statements, the corresponding figures for 30 June 2021 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2022

Irregular expenditure

16. As disclosed in note 40 to the financial statements, the municipality incurred irregular expenditure of R14 298 487 (2021: R27 127 505), due to non-compliance with supply chain management (SCM) requirements.

Unauthorised expenditure

17. As disclosed in note 38 to the financial statements, the municipality incurred unauthorised expenditure of R9 899 855 (2021: R46 579 839), due to overspending of the budget.

Other matter

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

Unaudited disclosure notes

19. 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.

Responsibilities of the accounting officer for the financial statements

20. 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.

21. 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

22. 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.

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

Report on the annual performance report

24. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the usefulness and reliability of the reported performance information against predetermined objectives presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

25. I performed procedures to evaluate the usefulness and reliability of the reported performance information on selected performance indicators in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice.

26. I performed the procedures in accordance with the AGSA audit methodology. This engagement is not an assurance engagement. Accordingly, I do not express an opinion or an assurance conclusion.

27. My procedures address the usefulness and reliability of the reported performance information on the selected performance indicators, 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.

28. I performed procedures to determine whether the reported performance information was properly presented and whether the performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the selected performance 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.

29. I selected the following material performance indicators contained in key performance area (KPA) 2 – basic service delivery and infrastructure investment presented in the municipality's annual performance report for the year ended 30 June 2022 set out on pages ... to ..... I selected the indicators that measure the municipality's performance on its primary mandated functions and which are of significant national, community or public interest.

Performance indicators - KPA 2: basic service delivery and infrastructure investment
2.1: A focused roads conditions assessment completed on 2 052 km road networks in the district in line with rural roads asset management system (RRAMS) grant conditions and a final report prepared and submitted to the provincial and national departments of roads by 30 June 2022.
2.3(b): Four (4) quarterly air quality management and waste management reports indicating work done in various towns across the four (4) local municipalities in the district prepared by 30 June 2022.
2.6(a): Four (4) EPWP progress reports indicating created fulltime equivalent (FTE's) and work opportunities (WO) as per the protocol agreement

30. The material findings on the usefulness and reliability of the performance information of the selected material performance indicators are as follows:

Performance indicator: 2.3(b): Four (4) quarterly air quality management and waste management reports indicating work done in various towns across the four (4) local municipalities in the district prepared by 30 June 2022.	**Target**: Prepare four (4) quarterly air Quality Management and waste management reports indicating work done in various towns across the four (4) local municipalities in the district by 30 June 2022.	**Reported achievement**: Four (4) quarterly Air Quality report indicating work performed in various towns across the four local municipalities in the district were prepared as at 30 June 2022.

31. The planned indicator and target was not consistent with the reported achievement as listed above. Furthermore, I was unable to obtain sufficient appropriate audit evidence for the reported achievement. This was due to the municipality not maintaining an adequate record keeping system to enable reliable reporting. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement as reported in the annual performance report.

Performance indicator: 2.1: A focused roads conditions assessment completed on 2 052 km road networks in the district in line with rural roads asset management system (RRAMS) grant conditions and a final report prepared and submitted to the provincial and national departments of roads by 30 June 2022.	**Target**: Complete a focused roads conditions assessment on 1552 km road networks and 60 traffic counts in the district in line with Rural Roads Asset Management System (RRAMS) Grant conditions and a final report prepared and submitted to the Provincial and National Department of Roads by 30 June 2022.	**Reported achievement**: the following by 30 June 2022: • Complete 1552 km of Visual Condition Assessments • Complete 60X traffic counts in Metsimaholo LM • System implemented and Road Network Information Module (RNIM) updated. • Close Out report on RRAMS prepared. • Handover Data to Department of Transport.

32. -The reported indicator and target listed above did not agree with the planned indicator and target as per the approved service delivery and budget implementation plan. The reported achievement was reported against target in the annual performance report. However, the supporting evidence provided did not agree to the reported achievement listed above.

Performance indicator: 2.6(a): Four (4) EPWP progress reports indicating created fulltime equivalent (FTE's) and work opportunities (WO) as per the protocol agreement	**Target**: Four (4) EPWP progress reports indicating created fulltime equivalent (FTE's) and work opportunities (WO) as per the protocol agreement	**Reported achievement**: Four (4) EPWP progress report indicating created fulltime equivalent (FTE's) and work opportunities (WO) as per the protocol agreement were submitted by 30 June 2022.

33. The planned target of provide four (4) EPWP progress reports indicating created full time equivalent (FE) and work opportunities (WO) for this indicator was not specific in clearly identifying the nature and required level of performance which is not in line with the outcomes of the programme, which is to create specific number of job opportunities

Other matter

34. I draw attention to the matter below.

Achievement of planned targets

35. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 29 to 33 of this report.

Report on compliance with legislation

36. 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 applicable legislation relating to financial matters, financial management and other related matters. The accounting officer is responsible for the municipality's compliance with legislation.

37. I performed procedures to test compliance with selected requirements in key legislation in accordance with the AGSA audit methodology. This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.

38. 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 adequately available to report in an understandable manner. The selection is done through an established AGSA process. The selected legislative requirements are included in the annexure to this auditor's report.

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

Annual financial statements

41. 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, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and/or the supporting records were provided subsequently, but the uncorrected material misstatements and/ or supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Expenditure management

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

43. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred, as required by section 65(2)(b) of the MFMA.

44. Reasonable steps were not taken to prevent irregular expenditure amounting to R14 298 487 as disclosed in note 40 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with SCM requirements

45. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R4 090 798, as disclosed in note 39 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by goods and services procured at unreasonable prices and goods procured but not received.

46. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R9 899 854, as disclosed in note 38 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending on the budget for finance and information technology sections.

Asset management

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

Consequence management

48. 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.

49. Irregular expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

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

Utilisation of conditional grants

51. Performance in respect of programmes funded by the energy efficiency and demand side management grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Dora.

Human resources management

52. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were developed and not adopted in the current financial period, as required by section 67(1)(d) of the Municipal systems act 32 of 2000 (MSA).

Procurement and contract management

53. Some of the quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c)

54. 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.

55. Some of the contracts were not awarded in an economical manner and the prices of the goods or services were not reasonable as required by MFMA section 62(1)(a). This non-compliance was identified in the procurement processes for the fumigation and deep cleaning services and awareness educational material

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

57. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM Regulation 5.

58. Awards were made to providers 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.

59. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of SCM regulation 46(2)(e), the code of conduct for councillors issued in terms of the MSA and the code of conduct for staff members issued in terms of the MSA.

Other information

60. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report, which includes the audit committee's report. The other information does not include the financial statements, the auditor's report and those selected material indicators in the scoped-in programme presented in the annual performance report that have been specifically reported in this auditor's report.

61. My opinion on the financial statements and material 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.

62. 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 material indicators in the scoped-in programme presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

63. 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

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

65. A lack of commitment from key officials and the staff supporting them to implement and monitor internal controls over daily and monthly processing of transactions resulted in the material audit findings included in this report

66. Inadequate oversight and accountability resulted in officials not being held accountable for transgressions with laws and regulations and the compliance findings raised during the year under review.

67. The action plan developed by management was not effectively implemented and monitored by the internal audit unit to ensure that prior year material misstatements and non-compliance matters raised in the prior year were addressed and did not recur in the current year.

68. Management's lack of detailed review of the financial statements and performance information and the underlying records resulted in material misstatements that were not detected by the municipality's internal processes.

69. The internal audit unit did not adequately review and verify the information reported in the annual financial statements submitted for auditing. This resulted in various matters needing to be adjusted and corrected during the audit process, which could have been prevented.

AUDITOR - GENERAL

Bloemfontein

30 November 2022

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 compliance requirements for compliance testing

Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs and the AGSA audit methodology, 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 performance indicators and on the municipality's compliance with selected requirements in key legislation.

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 Fezile Dabi District 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.