

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

Report on the audit of the financial statements

Qualified of opinion

1. I have audited the financial statements of the Fezile Dabi District 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 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 2023, 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 5 of 2022 (Dora).

Basis for qualified opinion

General expenses

3. I was unable to obtain sufficient appropriate audit evidence that general expenses had been properly accounted for due to the status of accounting records. I was unable to confirm the expenses by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to general expenses stated at R30 093 837 (2022: R37 611 914) in note 25 to the financial statements.

Contracted services

4. During 2022, 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 R10 697 870 in note 21 to the financial statements. My audit opinion on the financial statements for the period ended 30 June 2022 was modified accordingly. My opinion on the current year's financial statements was also modified because of the possible effect of this matter on the comparability of the contracted services for the current period.

Contingencies

5. I was unable to obtain sufficient appropriate audit evidence that contingencies had been properly accounted for due to the status of the accounting records. I could not confirm contingencies by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to contingent liabilities stated at R24 616 868 (2022: R11 032 793) and contingent assets stated at R5 634 234 (2022: R5 248 538) in note 29 to the financial statements.

Statement of comparison of budget and actual amounts

6. The municipality did not correctly prepare and disclose the statement of comparison of budget and actual amounts as required GRAP 24, *Presentation of budget information in financial statements*. This was due to the final budget amounts disclosed not agreeing to the municipality's final approved budget. Consequently, I was unable to determine the full extent of the errors in the statement of comparison of budget and actual amounts as it was impracticable to do so. In addition, I was unable to obtain sufficient appropriate audit evidence for the budget differences disclosed in note 40 to the financial statements. I was unable to confirm these budget differences by alternative means. Consequently, I have not included the omitted information in this auditor's report as it was impracticable to do so.

Net cash flow from operating activities

7. Net cash flows from operating activities were not correctly prepared and disclosed as required GRAP 2, *Cash flow statements*. This was due to multiple errors in determining the cash flows from operating activities for the current and corresponding figures. I was not able to determine the full extent of the errors in the net cash flows from operating activities, as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to cash flows from operating activities stated at R20 221 491 (2022: R10 343 910) in the financial statements were necessary.

Net cash flow from investing activities

8. Net cash flows from investing activities were not correctly prepared and disclosed as required GRAP 2, *Cash flow statements*. This was due to multiple errors 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 R2 093 330 in the financial statements were necessary.

Context for opinion

9. 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.

10. 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.
11. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

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

Restatement of corresponding figures

13. As disclosed in note 31 to the financial statements, the corresponding figures for 30 June 2022 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2023.

Irregular expenditure

14. As disclosed in note 37 to the financial statements, irregular expenditure of R39 795 788 (2022: R14 298 487) was incurred, due to non-compliance with supply chain management (SCM) requirements. In addition, the full extent of the irregular expenditure is in the process of being determined.

Unauthorised expenditure

15. As disclosed in note 35 to the financial statements, unauthorised expenditure of R5487 645 (2022: R9 579 285) was incurred, due to overspending of the budget.

Other matter

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

Unaudited disclosure notes

17. 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.

Responsibilities of the accounting officer for the financial statements

18. 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.

19. 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

20. 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.
21. 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

22. 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 information against predetermined objectives for the selected material performance indicators presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.
23. I selected the following material performance indicators related to basic service delivery and infrastructure development presented in the annual performance report for the year ended 30 June 2023. I selected those indicators that measure the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.
- A focused roads conditions assessment initiated and completed on internal rural 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 Department of Transport by 30 June 2023.
 - Four (4) EPWP progress reports indicating created fulltime equivalent (FTE) and work opportunities (WO) as per the protocol agreement.
 - Four quarterly inspections performed at moderate to low risk premises in various areas across Mafube Local Municipality by 30 June 2023.
 - Four quarterly municipal health services reports indicating services rendered in various towns across the 4 local municipalities in the district prepared by 30 June 2023.
 - Four quarterly air quality management and waste management reports indicating work done in various towns across the 4 local municipalities in the district prepared by 30 June 2023.

- Implementation of the energy efficiency demand side Management (EEDSM) programme in the district in line with EEDSM grant conditions and a final report prepared and submitted to the National Department of Minerals, Resources and Energy by 30 June 2023.

24. I evaluated the reported performance information for the selected material performance indicators against the criteria developed from the performance management and reporting framework, as defined in the general notice. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users on the municipality's planning and delivery on its mandate and objectives.

25. I performed procedures to test whether:

- the indicators used for planning and reporting on performance can be linked directly to the municipality's mandate and the achievement of its planned objectives
- the indicators are well defined to ensure that they are easy to understand and can be applied consistently, as well as verifiable so that I can confirm the methods and processes to be used for measuring achievements
- the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated
- the indicators and targets reported on in the annual performance report are the same as those committed to in the approved initial or revised planning documents
- the reported performance information is presented in the annual performance report in the prescribed manner
- there is adequate supporting evidence for the achievements reported measures taken to improve performance

26. I performed the procedures to report material findings only; and not to express an assurance opinion or conclusion.

27. I did not identify any material findings on the reported performance information for the selected indicator.

Other matters

28. I draw attention to the matters below.

Achievement of planned targets

29. 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

30. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for basic service delivery and infrastructure development. Management subsequently corrected all the misstatements and I did not include any material findings in this report.

Report on compliance with legislation

31. 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.
32. 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.
33. 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.
34. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statements

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

Expenditure management

36. Withdrawals were made from the municipality's bank accounts without the approval of the accounting officer, as required by section 11(1) of the MFMA.
37. 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.
38. Reasonable steps were not taken to prevent irregular expenditure as required by section 62(1)(d) of the MFMA. The value of R39 795 788, as disclosed on note 37 of the annual financial statements, is not complete as management was still in the process of quantifying the full extent of the irregular expenditure. The majority of the irregular expenditure disclosed in the financial statements was caused by non-compliance with SCM regulations.

39. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R5 487 646, as disclosed on note 35 of 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.

Asset management

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

Consequence management

41. 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.
42. 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.
43. Allegations of financial misconduct laid against officials of the municipality were not investigated by the disciplinary board, relevant treasury or an independent investigator or team of investigators appointed by council, as required by municipal regulations on financial misconduct procedures and criminal proceedings 5(4).

Human resource management

44. 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).
45. Municipal manager and senior managers did not sign performance agreements within the prescribed periods as required by section 57(2)(a) of the MSA.

Procurement and contract management

46. Sufficient appropriate audit evidence could not be obtained that contracts were awarded only to bidders who submitted a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). A similar non-compliance was also reported in the prior year.
47. 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. A similar non-compliance was also reported in the prior year.
48. 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). A similar non-compliance was also reported in the prior year.
49. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5. A similar non-compliance was also reported in the prior year.

Other information in the annual report

50. 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 the selected material indicators presented in the annual performance report that have been specifically reported on in this auditor's report.
51. My opinion on the financial statements, the report on the audit of the annual performance report and the report on compliance with legislation does 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.
52. 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 material indicators presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
53. 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

54. 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.
55. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the material findings on the annual performance report and the material findings on compliance with legislation included in this report.
56. A lack of commitment from key officials and the staff supporting them to implement and monitor internal controls over the daily and monthly processing of transactions resulted in the material audit findings included in this report.
57. Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.
58. 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.
59. Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.
60. 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.

61. Management did not review and monitor compliance with applicable laws and regulations, as a result repetitive material findings were identified without sufficient consequences.
62. 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 2023



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

1. 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

2. 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 material performance indicators and on the municipality's compliance with selected requirements in key legislation.

Financial statements

3. 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

4. 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
5. 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 - Paragraphs (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), 32(6)(a), Sections 32(7), 53(1)(c)(iii), 54(1)(c), 62(1)(d), 62(1)(f)(i), 62(1)(f)(ii), Sections 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b), 64(2)(c), 64(2)(e), Sections 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), 72(1)(a)(ii), 112(1)(j), Sections 116(2)(b), 116(2)(c)(ii), 117, 122(1), 122(2), 126(1)(a), 126(1)(b), Sections 127(2), 127(5)(a)(i), 127(5)(a)(ii), 129(1), 129(3), 133(1)(a), Sections 133(1)(c)(i), 133(1)(c)(ii), 170, 171(4)(a), 171(4)(b)
MFMA: Municipal Budget and Reporting Regulations, 2009	Regulation 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), 17(1)(b), Regulations 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), 27(2)(e), Regulations 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a) and (b), 29(5)(a)(ii), 29(5)(b)(ii), Regulations 32, 36(1), 36(1)(a), 38(1)(c), 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), Regulations 38(1)(g)(ii), 38(1)(g)(iii), 43, 44, 46(2)(e), 46(2)(f)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2), 5(3), 5(6), 8(4)
Annual Division of Revenue Act	Sections 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, 2004	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), 7(1), Regulations 7(2), 7(3), 7(6), 7(8), 8(2), 8(5), 9(1), 10(1), 10(2), 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)
Municipal Systems Act 32 of 2000	Sections 25(1), 26(a), 26(c), 26(h), 26(i), 27(1), 29(1)(b)(ii), 29(2)(a), Sections 29(2)(c), 34(a), 34(b), 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, Sections 43(2), 56(a), 57(2)(a), 57(4B), 57(6)(a), 66(1)(a), 66(1)(b), Sections 67(1)(d), 74(1), 93J(1), 96(b)
MSA: Municipal Planning and Performance Management Regulations, 2001	Regulations 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 3(5)(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)

