

# Report of the auditor-general to the Free State Provincial Legislature and the council on the Dihlabeng Local Municipality

## Report on the audit of the financial statements

### Qualified opinion

1. I have audited the financial statements of the Dihlabeng Local 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, 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 Dihlabeng Local Municipality as at 30 June 2022, and its financial performance and cash flows for the year then ended in accordance with 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

#### Property, plant and equipment

3. The municipality did not recognise all items of property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment*. Some infrastructure assets were not accounted for in the fixed asset of the municipality. Consequently, property, plant and equipment was understated by R40 052 500.54. Furthermore, additions to work-in-progress were not accounted for at the correct values, resulting in property, plant and equipment being overstated by R26 336 516. This resulted in the overstatement of work in progress. Additionally, there was an impact on the surplus for the period and accumulated surplus in the financial statements. In addition, I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment, as supporting evidence for assets acquired during the year was not submitted for audit. I was unable to confirm these assets by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to property, plant and equipment stated at R1 737 880 011 (2021: R1 744 628 226) in note 12 to the financial statements.

#### Commitments

4. The municipality did not account for contractual commitments in accordance with GRAP 17, *Property, plant and equipment* as capital expenditure outstanding at year that was contracted for was not accounted for. This resulted in the understatement of commitments by R64 075 381.93. In addition, I was unable to obtain sufficient appropriate audit evidence for

commitments, as the municipality did not maintain accurate and complete records of some of the contractual information used to determine commitments. I could not confirm commitments by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to commitments stated at R42 222 838 (2021: R32 391 150) in note 46 to the financial statements.

### **Investment property**

5. The municipality did not account for its investment properties in accordance with GRAP 16, *Investment property* as vacant stands over which the municipality has control were not accounted for and the fair value of investment properties were not determined at reporting date. I was unable to determine the full extent of the misstatement of investment property stated at R572 452 692 (2021: R572 452 692) in note 11 to the financial statements, as it was impracticable to do so.

### **Heritage assets**

6. The municipality incorrectly classified assets for which a significant portion were used for administrative purposes as heritage assets, contrary to the requirements of GRAP 103, *Heritage assets*. This resulted in the overstatement of heritage assets and understatement of property, plant and equipment by R16 200 000. In addition, the municipality did not revalue its heritage assets in accordance with GRAP 103, *Heritage assets*. I was unable to confirm the revaluation amount of heritage assets stated at R48 660 000 (2021: R48 660 000) in note 14 to the financial statements, as it was impracticable to do so.

### **Revenue from exchange transactions – Service charges**

7. The municipality did not correctly account for service charges revenue in accordance with GRAP 9, *Revenue from exchange transactions* and GRAP 1, *Presentation of financial statements*. Revenue from exchange transactions was incorrectly calculated and classified as revenue from non-exchange transactions whilst other revenue transactions were recorded in the incorrect financial year. Consequently, service charges revenue was overstated by R43 029 791 and receivables from exchange transactions was overstated by R43 029 791 and revenue from non-exchange was understated by R17 056 019. This also had an impact on the deficit for the period and on the accumulated surplus.

### **Property rates**

8. The municipality did not correctly classify property rates revenue in accordance with GRAP 23, *Revenue from non-exchange transactions*. Transactions amount to R54 087 523 included in note 29 to the financial statements was incorrectly classified in terms of the nature of the property rates levied. Consequently, property rates from residential properties disclosed in note 30 to the financial statements are understated by R29 863 103, property rates from commercial properties are overstated by R49 356 906 and property rates from state properties are understated by R20 676 006.

### **Consumer debtors from non-exchange transactions**

9. The municipality did not classify outstanding balances of consumers as consumer debtors from exchange transactions where the municipality receives value for the maintenance of the

meter boxes for water and electricity in accordance with GRAP 23, *Revenue from non-exchange transactions*. The outstanding balances of consumers for the maintenance of the meter boxes for water and electricity constitute consumer debtors from exchange transactions, but were accounted for as consumer debtors from non-exchange transactions. Consequently, consumer debtors from exchange transactions were understated and consumer debtors from non-exchange transactions were overstated by R12 975 787 respectively.

#### **Employee related cost**

10. I was unable to obtain sufficient appropriate evidence to confirm overtime payments, due to the status of the accounting records. I was unable to confirm overtime payments by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to overtime payments stated at R15 633 470 in note 32 to the financial statements.

#### **Contracted services**

11. In 2021, I was unable to obtain sufficient appropriate evidence to confirm contracted services, due to status of the accounting records, consequently I was unable to determine whether any further adjustments were necessary to contracted services stated at R94 665 301 in note 38 to the financial statements. Furthermore the municipality did not recognise all contracted services expenditure transactions in accordance with GRAP 1, *Presentation of financial statements* as some expenses were recorded in the incorrect financial year and general expenses, repairs and maintenance, property, plant and equipment as well as receivables from exchange transactions was incorrectly classified as contracted services expenses. Consequently, contracted services was overstated by R80 920 410 and accumulated surplus was understated by the same amount.

#### **General expenses**

12. The municipality did not recognise all general expense transactions in accordance with GRAP 1, *Presentation of financial statements* as some expenses were recorded in the incorrect financial year and general expenses was incorrectly classified as contracted service expenses. Consequently, general expenses was understated by R28 111 544 and accumulated surplus was understated by the same amount. In addition, I was unable to obtain sufficient appropriate evidence to confirm that general expenses were only recognised where goods and services were actually received due to the status of the accounting records. I was unable to confirm general expenses by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to corresponding figures of contracted services stated at R66 729 581 in note 39 to the financial statements

#### **Total Expenditure**

13. Total expenditure was materially misstated by R12 981 569 due to the cumulative effect of individually immaterial uncorrected misstatements in the following items:
  - Repairs and maintenance stated at R16 382 394 was overstated by R8 272 310

- Depreciation, impairment and amortisation stated at R83 496 025 was understated by R429 920
14. In addition, I was unable to obtain sufficient appropriate audit evidence and to confirm total expenditure by alternative means:
- Repairs and maintenance of R861 850 as included in the disclosed amount of R16 382 394
  - Finance costs of R4 277 329 as included in the disclosed amount of R 54 602 041
15. Consequently, I was unable to determine whether any further adjustment was necessary to total expenditure

### **Context for the opinion**

16. 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.
17. 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.
18. 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**

19. I draw attention to the matter below. My opinion is not modified in respect of this matter.
20. Note 52 to the financial statements indicates that the municipality incurred a net loss of R179 379 174 for the year ended 30 June 2022, and as of that date, the municipality's current liabilities exceeded its current assets by R710 671 837. In addition, the municipality owed Eskom R726 132 377 (2021: R542 013 593), Free State Fleet Management Trading Entity R62 684 617 (2021: R62 681 782) and the department of water affairs R58 439 904 (2021: R54 427 508), which was long overdue. These events or conditions, along with other matters as set forth in note 52, 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**

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

### **Material impairments**

22. As disclosed in note 8 to the financial statements, consumer debtors from exchange and non-exchange transactions were impaired by R1 136 289 389 (2021: R996 073 452).

### **Material losses**

23. As disclosed in note 37 to the financial statements, material water distribution losses of R37 245 896 (2021: R60 294 487) and electricity distribution losses of R42 151 959 (2021: R34 167 819) were incurred by the municipality mainly due to leakages, burst water pipes, line losses, tampering and theft.

### **Material uncertainty relating to claims against the municipality**

24. With reference to note 47 to the financial statements, the municipality is the defendant in various claims against the municipality. The municipality is opposing these claims. The ultimate outcome of these matters could not be determined and no provision for any liabilities that may result were made in the financial statements.

### **Restatement of corresponding figures**

25. As disclosed in note 49 and 50 to the financial statements, the corresponding figures for 30 June 2020 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2022.

### **Unauthorised expenditure**

26. As disclosed in note 54 to the financial statements, the municipality incurred unauthorised expenditure of R276 107 670 (2021: R255 555 816), due to overspending of the budget.

### **Irregular expenditure**

27. As disclosed in note 56 to the financial statements the municipality incurred irregular expenditure of R138 970 108 (2021: R151 323 677) due to contravention with supply chain management (SCM) requirements.

### **Fruitless and wasteful expenditure**

28. As disclosed in note 55 to the financial statements the municipality incurred fruitless and wasteful expenditure of R41 114 932 (2021: R21 174 242) due to interest on late payment.

### **Other matters**

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

### **Unaudited disclosure note**

30. In terms of section 125(2)(e) 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 thereon.

## **Responsibilities of the Accounting officer for the financial statements**

31. 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 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.
32. 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**

33. 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.
34. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

## **Report on the audit of the annual performance report**

### **Introduction and scope**

35. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected key performance areas (KPAs) presented in the annual performance report. I was engaged to perform procedures to identify findings but not to gather evidence to express assurance.
36. I was engaged to evaluate the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected KPA presented in the municipality's annual performance report for the year ended 30 June 2022:

<b>KPA</b>	<b>Pages in the annual performance report</b>
KPA 1 – accelerated service delivery and infrastructure development - public works technical services	x – x

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

**KPA 1 – accelerated service delivery and infrastructure development - public works technical services**

Various indicators

38. The reported indicators and/or targets below did not agree with the planned indicators and/or targets as per the approved service delivery and budget implementation plan:

<b>Planned indicator per annual planning document</b>	<b>Reported indicator</b>	<b>Planned target per annual planning document</b>	<b>Reported target</b>
Nkitsing 3.5km tarred road to blocked paved road in Bohlokong constructed by 2021	Nkitsing 1.km tarred road to blocked paved road in Bohlokong constructed by 2021	Nkitsing reconstruction of 3.5km tarred road to blocked paved road Bohlokong	Nkitsing reconstruction of 3.5km tarred road to blocked paved road Bohlokong
Not included	Maintenance of Roads And Stormwater Infrastructure for a Period of Four Months	Not included	Ongoing Maintenance on an as and when required basis.
Not included	12 Monthly submissions of reports for daily inspections, maintenance and operations of all sections: street patching, blading and regravelling, stormwater infrastructure, carpentry and painting, and railway derailment.	Not included	12 Monthly submissions of reports for daily inspections, maintenance and operations of street patching, blading and regravelling, stormwater infrastructure, carpentry and painting, and railway derailment.
32 723 & 85% of households with access to electricity	Indicator did not form part of the SDBIP, hence the target did not form part thereof.	32 723 & 85% of households with access to electricity	Electrification of farm dwellers as per the approval of the Farm Owner and capacity availability from Eskom at least 8

Planned indicator per annual planning document	Reported indicator	Planned target per annual planning document	Reported target
			farms will be targeted.
	Indicator did not form part of the SDBIP, hence the target did not form part thereof.		Replacement of obsolete and dangerous switchgears at Panorama S/S
	Indicator did not form part of the SDBIP, hence the target did not form part thereof.		Maintenance of protection scheme at three main 11kV substation
Not included	Development and implementation of the maintenance plan	Not included	Implementation of maintenance program for all public lighting, highmast light, traffic signals with DLM.
Not included	Ensure that the installed 5 Highmast light are energized and in working order	Not included	Electrification of the installed 5xHighmast lights within DLM
Not included	Reduction of distribution loses by 10%	Not included	Installation of electricity smart metering within the jurisdiction of DLM

39. The indicators and/or targets listed below were changed without the necessary approval:

Planned indicator per annual planning document	Reported indicator	Planned targets per annual planning document	Reported target
Not included	Maintenance of Roads And Stormwater Infrastructure for a Period of Four Months	Not included	Ongoing Maintenance on an as and when required basis.
Not included	12 Monthly submissions of	Not included	12 Monthly submissions of

Planned indicator per annual planning document	Reported indicator	Planned targets per annual planning document	Reported target
	reports for daily inspections, maintenance and operations of all sections: street patching, blading and regravelling, stormwater infrastructure, carpentry and painting, and railway derailment.		reports for daily inspections, maintenance and operations of street patching, blading and regravelling, stormwater infrastructure, carpentry and painting, and railway derailment.
32 723 & 85% of households with access to electricity	Indicator did not form part of the SDBIP, hence the target did not form part thereof.	32 723 & 85% of households with access to electricity	Electrification of farm dwellers as per the approval of the Farm Owner and capacity availability from Eskom at least 8 farms will be targeted.
	Indicator did not form part of the SDBIP, hence the target did not form part thereof.		Replacement of obsolete and dangerous switchgears at Panorama S/S
	Indicator did not form part of the SDBIP, hence the target did not form part thereof.		Maintenance of protection scheme at three main 11kV substation
Not included	Development and implementation of the maintenance plan	Not included	Implementation of maintenance program for all public lighting, highmast light, traffic signals with DLM.
Not included	Ensure that the installed 5 Highmast light are energized and in working order	Not included	Electrification of the installed 5xHighmast lights within DLM

Planned indicator per annual planning document	Reported indicator	Planned targets per annual planning document	Reported target
Not included	Reduction of distribution loses by 10%	Not included	Installation of electricity smart metering within the jurisdiction of DLM

40. The supporting evidence provided did not agree to the reported achievement for the indicators listed below

Indicator description	Reported achievement	Audited value
32 723 & 85% of Households with Access to Electricity	Realised (100% Completed)	Realised (100% completed) - Validity misstatement
Clarens/Phahameng pump station and Kgubetswana lower outfall sewer pipeline upgraded and refurbished by 2021.	Not Realised	Realised (100% completed)
Bethlehem Waste Water Treatment Works Refurbished by 2021	Not Realised	Realised (100% completed)
12 Monthly submissions of reports for daily inspections, maintenance and operations of all sections	100% Completed	Realised (100% completed) - Validity misstatement

41. I was unable to obtain sufficient appropriate audit evidence for the reported achievements of the following indicators. This was due to the lack of accurate and complete records. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements in the annual performance report for the indicators listed below:

Indicator description	Planned target	Reported achievement
Construction of phase 2 of 44 km Raw water pipe line constructed by 2023	Construction phase 1 of 44 KM Raw water pipe line from Bethlehem to Fouriesburg completed by 2022/2023.	Not realised
Bethlehem/Bakenpark construction of water and sewer networks by 2021	Bethlehem/ Bakenpark construction of water and sewer networks	Not realised

<b>Indicator description</b>	<b>Planned target</b>	<b>Reported achievement</b>
Maintenance of Roads And Stormwater Infrastructure for a Period of Four Months	Ongoing Maintenance on an as and when required basis.	Completed
32 723 & 85% of Households with Access to Electricity	5.2 Electrification of farm dwellers as per the approval of the farm owner and capacity availability from Eskom at least 8 farms will be targeted	Not realised
	5.3 Replacement of obsolete and dangerous switchgears at Panorama S/S	Not realised
	5.4 Maintenance of protection scheme at three main 11kV substation	Not realised
Development and implementation of the maintenance plan	Implementation of maintenance program for all public lighting, high mast light, traffic signals with DLM.	Ongoing
Ensure that the installed 5 Highmast light are energized and in working order	Electrification of the installed 5xHighmast lights within DLM	Not realised
Reduction of distribution losses by 10%	Installation of electricity smart metering within the jurisdiction of DLM	Not realised
Description not included in annual performance report	Fateng tse Ntsho upgrading of waste water treatment work	Not realised
Description not included in annual performance report	Mashaeng upgrading of 2.2ML waste water treatment works	Not realised
Description not included in annual performance report	La Province sewer pump station and rising main upgraded	Not realised
Description not included in annual performance report	Upgrading of Mashaeng waste water treatment works	Not realised
Description not included in annual performance report	Paul Roux construction of sewer network satellite	Not realised

## **Other matters**

42. I draw attention to the matter below.

### **Achievement of planned targets**

43. 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 35 to 38 of this report.

## **Report on the audit of compliance with legislation**

### **Introduction and scope**

44. 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.

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

### **Annual financial statements**

46. 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 not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a qualified audit opinion.

### **Expenditure management**

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

48. Payments were made from the municipality's bank accounts without the approval of the accounting officer as required by section 11(1) of the MFMA.

49. Reasonable steps were not taken to prevent irregular expenditure amounting to R176 318 274 as disclosed in note 55 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the disclosed irregular expenditure was caused non-compliance with SCM regulations..

50. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R41 114 932 as disclosed in note 54 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 interest on late payments made to suppliers.

51. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R276 107 670 as disclosed in note 53 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 allocated votes.

#### **Consequence management**

52. 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.
53. 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.
54. 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**

55. The municipal infrastructure grant was not spent for its intended purposes in accordance with the applicable grant framework, as required by section 16(1) of the Dora.

#### **Strategic planning and performance management**

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

#### **Procurement and contract management**

57. 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.
58. 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).
59. Sufficient appropriate audit evidence could not be obtained that the performance of contractors or providers was monitored on a monthly basis as required by section 116(2) of the MFMA.
60. Sufficient appropriate audit evidence could not be obtained that contract performance and monitoring measures were in place to ensure effective contract management as required by section 116(2)(c)(ii) of the MFMA.
61. Some of the goods and services procured under contracts secured by other organs of state were not procured in accordance with SCM Regulation 32 as the prices paid were not the same as the original contract and there were reasons to believe that the contract was not validly procured by the other organ of state.

62. Sufficient appropriate audit evidence could not be obtained that all contracts and quotations were awarded in accordance with the legislative requirements due to non-submission of information for audit purposes.

#### Other information

63. 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 KPAs presented in the annual performance report that have been specifically reported in this auditor's report.
64. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion on it.
65. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected KPAs presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
66. I did not receive the other information prior to the date of the 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. Should those other information not be corrected, the impact of not doing the adjustments the impact thereof will be considered on the auditor's report.

#### Internal control deficiencies

67. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
68. Leadership and management of the municipality did not exercise adequate oversight over financial and performance reporting and compliance with legislation. The leadership did not take effective steps to ensure that there were consequences for poor performance and transgressions of laws and regulations, as limited steps were taken to prevent unauthorised, irregular and fruitless and wasteful expenditure during the current and prior period.
69. The action plan which was designed to address findings previously reported and to prevent repeat findings were not adequately implemented. This was due to instability in key positions.

70. Senior management did not implement adequate process to ensure regular updating of schedules, adequate reviews and monitoring of action plan are in place.
71. The audit committee was not appropriately constituted, which affected them executing their oversight roles.

### Other reports

72. I draw attention to the following engagements conducted by various parties which had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
73. The municipality was under investigation by the Directorate for Priority Crime Investigation on allegations of irregularities in SCM and disposal of assets. The investigation commenced during 2017/18 financial year and was still ongoing at the reporting date.
74. The special investigations unit were investigating allegations of irregularities in the implementation of capital projects approved by the National Treasury to address emergency service delivery needs as a result of the national state of disaster due to the Covid-19 pandemic. The investigations were ongoing at the reporting date.

*Auditor General*

Bloemfontein

02 December 2022



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

## **Annexure – Auditor-general’s responsibility for the audit**

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for the selected KPA and on the municipality’s compliance with respect to the selected subject matters.

### **Financial statements**

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
  - identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
  - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
  - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the Dihlabeng Local Municipality to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a municipality to cease operating as a going concern
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
  - obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

## **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.