Report of the auditor-general to Mpumalanga Provincial Legislature and the council on the Dipaleseng Local Municipality

Report on the audit of the financial statements

Disclaimer of opinion

1. I was engaged to audit the financial statements of the Dipaleseng Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2021, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

2. I do not express an opinion on the accompanying financial statements of the municipality. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs of my report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 4 of 2020 (Dora).

Basis for disclaimer of opinion

Property, plant and equipment

3. I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment. The municipality did not have adequate systems in place to maintain records of its work in progress, community assets, infrastructure assets and municipal buildings, as supporting documents could not be provided and balances could not be reconciled. Additionally, restatements that were made to property, plant and equipment impacting on the prior year opening balance were not supported. I was unable to confirm the balances by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to property and equipment stated at R763, 11 million (2020: R657, 02 million) in note 4 to the financial statements.

Receivables from exchange transactions – other debtors

4. I was unable to obtain sufficient appropriate audit evidence for other debtors included in receivables from exchange transactions due to the status of accounting records. I was unable to confirm the balance of other debtors by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to other debtors stated at R7,49 million in note 8 to the financial statements. Receivables from exchange transactions included in risk management in note 45 to the financial statements also included this amount.

Receivables from non-exchange transactions – fines

5. I was unable to obtain sufficient appropriate audit evidence for fines included in receivables from non-exchange transactions due to the status of accounting records. I was unable to confirm the fines by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to fines stated at R7,38 million in note 9 to the financial statements. Receivables from non-exchange transactions included in risk management in note 45 to the financial statements also included this amount.

Cash and cash equivalents

6. During 2020, I was unable to obtain sufficient appropriate audit evidence for cash and cash equivalents as the municipality could not support reconciling items in the bank reconciliation. I was unable to confirm the cash and cash equivalents by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the cash and cash equivalents for the prior year stated at R3,12 million in the financial statements. My audit opinion on the financial statements for the period ended 2020 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the cash and cash equivalents for the current period. Cash and cash equivalents included in risk management in note 45 to the financial statements also included this amount.

Payables from exchange transactions

7. The municipality did not account for payables from exchange transactions in accordance with the requirements of GRAP 1, *Presentation of financial statements*. Supporting documentation differed with recorded amounts, some transactions were not recorded and others were classified incorrectly. This resulted in trade payables being understated by R7,39 million in note 13 to the financial statements; work in progress being understated by R4,74 million in note 4 to the financial statements; bulk purchases being understated by R3,96 million in note 33 to the financial statements; general expenses being understated by R5,20 million in note 35 to the financial statements; accrued expenses being understated by R0,57 million in note 13 to the financial statements and retentions being understated by R4,74 million in note 13 to the financial statements. Additionally, there was an impact on the surplus for the period and on the accumulated surplus. Payables from exchange transactions included in risk management in note 45 to the financial statements also included this amount.

8. I was unable to obtain sufficient appropriate audit evidence for payables from exchange transactions due to the status of accounting records. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to payables from exchange transactions stated at R170,06 million (2019-20: R123,74 million) in note 13 to the financial statements. Payables from exchange transactions included in risk management in note 45 to the financial statements also included this amount.

Property rates revenue

9. The municipality did not account for property rates in accordance with the requirements of GRAP 23, *Revenue from non-exchange transactions.* Property rates were levied on municipal properties. This resulted in revenue from property rates being overstated by R13,74 million.

The related consumer debtors – rates in note 9 to the financial statements was overstated by the same amount. This also had an impact on the surplus for the period and on the accumulated surplus.

Service charges revenue

10. The municipality did not account for service charges in accordance with the requirements of GRAP 9, *Revenue from exchange transactions.* The municipality charged its own properties for sale of electricity, sale of water and sewerage and sanitation. This resulted in service charges revenue being overstated by R4,99 million in note 17 to the financial statements and the related consumer debtors in note 8 to the financial statements being overstated by the same amount. Additionally, the sale of electricity in the prior year was understated by R4,91 million and consumer debtors – electricity was understated by the same amount as a result of incorrect calculations performed. This also had an impact on the surplus for the period and on the accumulated surplus.

11. I was unable to obtain sufficient appropriate audit evidence for service charges revenue in the prior year. The municipality did not have adequate systems in place to maintain records of its revenue, as supporting documents for journals passed, as well as invoices, could not be provided. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the comparative figure of service charges of R107,15 million as disclosed in note 17 to the financial statements.

Interest received – investment

12. The municipality did not account for interest received in accordance with the requirements of GRAP 9, *Revenue from exchange transactions*. The municipality charged interest on service charges relating to own consumption. This resulted in interest received revenue being overstated by R7,37 million in note 16 to the financial statements and the related consumer debtors – other in note 8 to the financial statements being overstated by the same amount. Additionally, interest received in the comparative figures as identified in the current year was overstated by R5, 21 million and consumer debtors – other was overstated by the same amount as a result of incorrect calculations performed. This also had an impact on the surplus for the period and on the accumulated surplus.

Contracted services

13. During 2020, I was unable to obtain sufficient appropriate audit evidence for contracted services. The municipality did not have adequate systems in place to maintain records of contracted services as supporting documents journals could not be provided. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the contracted services for the prior year stated at R16,71 million as disclosed in note 34 to the financial statements. My audit opinion on the financial statements for the period ended 2020 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of contracted services for the current period.

Debt impairment

14. I was unable to obtain sufficient appropriate audit evidence for debt impairment. The municipality did not have adequate systems in place to maintain records of its provisions as details of the calculation for impairment could not be provided. I was unable to confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment were necessary to the debt impairment stated at R51,04 million (2020: R33,25 million) in note 32 to the financial statements.

Expenditure

15. I was unable to obtain sufficient appropriate audit evidence and to confirm total expenditure of the comparative amounts by alternative means:

- Bulk purchases of R59,73 million as included in the disclosed balance of R68.68 million.
- General expenditure of R4,12 million as included in the disclosed balance of R20,19 million.
- Employee-related costs of R17,98 million as included in the disclosed balance of R61,80 million.
- Loss on disposal of assets and liabilities of R1,18 million as included in the disclosed balance of R1, 18 million.
- Depreciation of R0, 28 million as included in the disclosed balance of R25,15 million.

16. Consequently, I was unable to determine whether any further adjustment was necessary to total expenditure for the prior year.

Commitments

17. The municipality did not account for commitments in accordance with the requirements of GRAP 17, *Property, plant and equipment* and the accounting policy of the municipality. Not all commitments were included in the current year; expenditure incurred against commitments was overstated and, in some instances, the disclosed contract amounts were incorrect. This resulted in commitments being understated by R10,30 million in note 40 to the financial statements.

18. Furthermore, I was unable to obtain sufficient appropriate audit evidence for commitments, as the municipality did not maintain an accurate and complete schedule of commitments. I could not confirm the commitments by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the commitments stated at R69,16 million (2020: R88,80 million).

Unauthorised expenditure

19. I was unable to obtain sufficient appropriate evidence for unauthorised expenditure due to the status of accounting records. I was unable to confirm unauthorised expenditure by alternative means. Consequently, I was unable to determine whether any further adjustment was required to unauthorised expenditure stated at R243,20 million (2020: R217,12 million), as disclosed in note 48 to the financial statements.

Irregular expenditure

20. The municipality did not fully record irregular expenditure in the notes to the financial statements, as required by section 125(2) (d) of the MFMA. This was because expenditure incurred in contravention of the supply chain management (SCM) legislation was not detected and appropriately disclosed in the financial statements. Consequently, I was unable to determine the full extent of the understatement of irregular expenditure, stated at R163,98 million (2019-20: R160,66 million) in note 50 to the financial statements as it was impracticable to do so.

Statement of changes in net assets

21. There were differences noted in the recalculation of the statement of changes in net assets as well as adjustments made to the statement of changes in net assets which could not be supported by sufficient appropriate audit evidence. I could not confirm the reasons for these differences as well as the adjustments made by alternative means. Consequently, I was unable to determine whether any further adjustment was required to the statement of changes in net assets. These misstatements also occurred in the prior year.

Prior period errors

22. The municipality did not properly disclose prior period errors in note 43 to the financial statements as required by GRAP 3, *Accounting policies, estimates and errors*. The nature of the restatements and the amount of the correction at the beginning of the earliest previous period for some financial statement items were not disclosed. Furthermore, the amount of the correction for some financial statement items was not correctly disclosed. I was unable to determine the full extent of the misstatement to the prior period error disclosure as it was impracticable to do so.

Cash flows from operating activities

23. The municipality did not prepare the cash flow statement in accordance with GRAP 2, *Cash flow statements*. Cash flows from operating activities were misstated in the current and prior year due to unexplained differences in the calculations. I was unable to determine the full extent of the misstatement to the current and prior year cash flows from operating activities as it was impracticable to do so.

Statement of comparison of budget and actual amounts

24. The municipality did not prepare the statement of comparison of budget and actual amounts, in accordance with GRAP 24, *Presentation of budget information in financial statements*. The statement of comparison of budget and actual amounts was misstated in the current and prior year due to unexplained differences in the calculations and the amounts used. I was unable to determine the full extent of the misstatement to the statement of comparison of budget and actual amounts for the current and prior year, as it was impracticable to do so.

Material distribution losses – water

25. I was unable to obtain sufficient appropriate audit evidence for material distribution losses relating to water, as the amounts disclosed could not be supported by appropriate evidence. I was unable to confirm the water material distribution losses balance by alternative means. Consequently, I was unable to determine whether any further adjustments were required to water material distribution losses of R0,22 million (2020: R0,37 million), disclosed in note 51 to the financial statements.

Segment reporting

26. The municipality did not present the segment information in accordance with GRAP 18, *Segment reporting*. The municipality omitted the segment information in the financial statements. I was unable to determine the full extent of the misstatement to the financial statements as it was impracticable to do so.

27. 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.

28. 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.

Material uncertainty relating to going concern/ financial sustainability

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

30. Note 46 to the financial statements indicates that the municipality's current liabilities exceeded its current assets by R5,8 million, that the municipality had challenges in paying its creditors within the 30-day payment policy and that there was also a challenge with the collection of debts during the 2021 financial year. The note further indicates how covid-19 affected the municipality to date, and the implementation of projects and other operations in the municipality. These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern. My opinion is not modified in respect of this matter.

Emphasis of matter

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

Material losses – electricity

32. As disclosed in note 51 to the financial statements, material electricity losses of R19,24 million (2019-20: R9,30 million) were incurred.

Other matter

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

Unaudited disclosure notes

34. 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

35. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA 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.

36. 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

37. 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.

Report on the audit of the annual performance report

Introduction and scope

38. 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 area presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

39. My procedures address the usefulness and reliability of the reported performance information, 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.

40. I evaluated 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 key performance area presented in the municipality's annual performance report for the year ended 30 June 2021:

Development priorities	Pages in the annual performance report
Key performance area 2 (KPA 2) – service delivery and Infrastructure development	x – x

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

42. The material findings on the usefulness and reliability of the performance information of the selected key performance area are as follows:

KPA 2 – service delivery and Infrastructure development

Average percentage access to basic services and compliance to legislations

43. The method of calculation for measuring the planned indicator was not clearly defined and related systems and processes were not adequate to enable consistent measurement and reliable reporting of performance against the predetermined indicator definitions. As a result, limitations were placed on the scope of my work and I was unable to audit the reliability of the reported achievement of 95,3 per cent average percentage access to basic services and compliance with legislation reported against target of 95,3 per cent average percentage access to basic services and compliance with legislation in the annual performance report.

44. The reported indicator of average percentage access to basic services and compliance with legislation did not agree with the planned indicator of percentage of households with access to basic services as per the approved in the service delivery and budget implementation plan.

Level of implementation of bulk supply infrastructure programme

45. I was unable to audit the usefulness and reliability of the reported indicator and the target of 40 per cent, since it was not predetermined and included in the approved service delivery and budget implementation plan for the year under review.

Various indicators

46. The targets for the indicators listed below were changed without obtaining the necessary approval.

Indictor description	Initial target	Revised target
Number of households provided with water services	300	700
Number of RBIG projects implemented	2	1

Other matter

47. I draw attention to the matter below.

Achievement of planned targets

48. 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 43 to 46 of this report.

Adjustment of material misstatements

49. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of KPA 2 – service delivery and Infrastructure development. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Report on the audit of compliance with legislation

Introduction and scope

50. 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.

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

Annual financial statements

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

Procurement and contract management

53. Some of the quotations were accepted from bidders whose tax matters had not been declared by the South African Revenue Service (SARS) to be in order, in contravention of SCM regulation 43. Similar non-compliance was also reported in the prior year.

54. Invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM regulation 22(1) and 22(2).

55. Contracts were awarded to providers whose tax matters had not been declared by the SARS to be in order, in contravention of SCM regulation 43. Similar non-compliance was also reported in the prior year.

56. Invitations to tender for procurement of commodities designated for local content and production did not stipulate the minimum threshold for local production and content, as required by the 2017 preferential procurement regulation 8(2). Similar non-compliance was also reported in the prior year.

57. Some of the quotations were accepted from bidders who did not submit 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).

Expenditure management

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

59. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the unauthorised expenditure incurred. The majority of the disclosed unauthorised expenditure was caused by overspending on some projects.

Strategic planning and performance management

60. A mid-year performance assessment was not performed, as required by section 72(1) (a) (ii) of the MFMA.

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

Consequence management

62. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(a) of the MFMA.

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

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

Revenue management

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

Utilisation of conditional grants

66. Performance in respect of programmes funded by the municipal infrastructure grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Dora.

67. Performance in respect of programmes funded by the regional bulk infrastructure grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Dora.

Assets management

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

Other information

69. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported in this auditor's report.

70. 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.

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

72. As a result of the disclaimer of opinion expressed on the financial statements, I do not conclude on material misstatements of the other information relating to the financial statements. If, based on the work I have performed relating to the audit of performance

information and compliance with legislation, I conclude that there is a material misstatement of this other information, I am required to report that fact.

73. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information and if I conclude that it contains any material misstatements, 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, this will not be necessary if it is corrected.

Internal control deficiencies

74. 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 disclaimer of opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

75. The council did not ensure stability in the accounting officer position as the position has been vacant for the past two years.

76. The accounting officer did not exercise oversight responsibility regarding financial and performance reporting and compliance as well as ensuring a sound control environment.

77. The audit committee was hindered in its efforts of promoting accountability through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment including financial, performance reporting and compliance with legislation.

78. The internal audit unit is under-capacitated, resulting in it not being able to execute its responsibilities to the expected level of performance.

Material irregularities

79. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit and on the status of the material irregularities reported in the previous year's auditor's report.

Material irregularity identified during the audit

80. The material irregularity identified is as follows:

Material irregularity in progress

81. I identified a material irregularity during the audit and notified the accounting officer, as required by material irregularity regulation 3(2). By the date of this auditor's report, I had not

yet completed the process of evaluating the responses from the accounting officer. This material irregularity will be included in the next year's auditor's report.

Auditor - General

Mbombela

28 February 2022

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence