

# Report of the auditor-general to the Northern Cape Provincial Legislature and the council on Dikgatlong Local Municipality

## Report on the audit of the financial statements

### Qualified opinion

1. I have audited the financial statements of the Dikgatlong Local Municipality set out on pages X to X, 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 information with actual information 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 Dikgatlong Local Municipality as at 30 June 2021, and its financial performance and cash flows for the year then ended in accordance with *Standards of Generally Recognised Accounting Practice (Standards of GRAP)* and the requirements of the *Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003)* (MFMA) and the *Division of Revenue Act of South Africa, 2020 (Act No. 4 of 2020)* (Dora).

### Basis for qualified opinion

#### Services Charges

3. The municipality did not account for sale of water and sale of electricity in accordance with GRAP 9, *Revenue from exchange transactions* as the municipality did not correctly bill properties for sale of water and sale of electricity. Consequently, sale of water and sale of electricity in service charges was overstated by R32 988 409, water and electricity included in receivables from exchange transactions was overstated by R37 577 877 and VAT payable was overstated by R4 285 277 in the current year. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.
4. The municipality did not recognise all revenue from exchange transactions relating to sale of water and sale of electricity in accordance with GRAP 9, *Revenue from exchange transactions*. The municipality did not maintain adequate and complete records for services rendered to consumers. I was unable to determine the full extent of the understatement of sale of water and sale of electricity included in service charges, as it was impracticable to do so. Consequently, I was unable to determine whether any further adjustments were necessary to sale of water stated at R40 025 963 (2020: R21 489 646) and sale of electricity stated at R51 884 867 (2020: R25 041 588) in note 21 of the financial statement. In addition, there was a resultant impact on the surplus for the period, receivables from exchange transactions and VAT payable.
5. During 2020; the municipality did not account for sale of water in accordance with GRAP 9, *Revenue from exchange transactions*. The municipality did not use the council approved tariffs

for billing of consumer accounts and did not ensure accurate billing of consumer accounts. Consequently, sale of water included in service charges was understated by R25 889 477, water included in receivables from exchange transactions was understated by R29 772 898 and VAT payable was overstated by R3 883 422. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

### Property Rates

6. During 2020, the municipality did not account for all property rates in accordance with GRAP 23, *Revenue from non-exchange transactions*. The municipality did not have adequate systems in place to ensure accurate billing of consumer accounts and internal controls to confirm that all properties are included on the revenue system for billing purposes. This resulted in property rates being understated by R6 088 581 and statutory receivables from non-exchange transactions being understated with the same amount. Additionally, there was an impact on the surplus for the period and on the accumulated surplus.

### Payables from exchange transactions

7. I was unable to obtain sufficient appropriate audit evidence that the cash suspense accounts included in payables from exchange transactions for the current and prior year had been properly accounted for, due to the status of accounting records. I was unable to confirm the cash suspense accounts by alternative means. Consequently, I was unable to determine whether any further adjustment to cash suspense account stated at R6 621 169 (2020: R6 373 719) in note 16 to the financial statements, was necessary.
8. I was unable to obtain sufficient appropriate audit evidence that the sundry creditors included in payables from exchange transactions for the current had been properly accounted for, the adjustments made could not be substantiated by supporting audit evidence. I was unable to confirm the sundry creditors by alternative means. Consequently, I was unable to determine whether any further adjustment to sundry creditors stated at R2 239 593 (2020: R1 189 782) in note 16 to the financial statements, was necessary.

### Receivables from exchange transactions

9. I was unable to obtain sufficient appropriate audit evidence that allowance for impairment included in receivables from exchange transactions had been properly accounted for, due to the status of the accounting records. I was unable to confirm allowance for impairment by alternative means. The municipality did not consistently apply its accounting policy pertaining to the allowance for impairment as per the financial statements. Consequently, I was unable to determine whether any further adjustments to allowance for impairment stated at R505 243 775 (2020: R367 492 731) in note 8 to the financial statements, were necessary. Since the receivables from exchange transactions is included in the determination of net cash flows from operating activities reported in the cash flow statement. I was unable to determine whether any adjustments were necessary in the cash flow from operating activities stated at R16 289 656 (2020: R31 983 487) in the financial statements.

## Statutory receivables from non-exchange transactions

10. I was unable to obtain sufficient appropriate audit evidence that impairment included in statutory receivables from non-exchange transactions had been properly accounted for, due to the status of the accounting records. I was unable to confirm impairment by alternative means. The municipality did not consistently apply its accounting policy pertaining to the impairment as per the financial statements. Consequently, I was unable to determine whether any further adjustments to impairment stated at R90 083 502 (2020: R54 760 451) in note 6 to the financial statements, were necessary. Since the receivables from non-exchange transactions is included in the determination of net cash flows from operating activities reported in the cash flow statement. I was unable to determine whether any adjustments were necessary in the cash flow from operating activities stated at R16 289 656 (2020: R31 983 487) in the financial statements.

## Unauthorised expenditure

11. The municipality incorrectly calculated unauthorised expenditure in the current year by overstating the expenditure incurred per vote, resulting in the current year unauthorised expenditure being overstated by R82 385 816 in note 48 of the financial statements.

## Irregular expenditure

12. The municipality did not include the required information on irregular expenditure in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. The municipality incurred expenditure in contravention of the supply chain management (SCM) requirements resulting in an understatement of irregular expenditure by R19 267 818 (2020: R12 572 532), in note 50 of the financial statements.

## Context for the opinion

13. 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.

14. 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.

15. 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

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

17. I draw attention to note 45 of the financial statements, which indicates that the municipality incurred a net deficit of R16 595 175 during the year ended 30 June 2021 and, as of that date

the municipality's current liabilities exceeded its current assets by R40 676 941. These events or conditions, along with other matters 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**

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

### **Restatement of corresponding figures**

19. As disclosed in note 42 to the financial statements, the corresponding figures for 30 June 2020 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2021

### **Material losses - Electricity**

20. As disclosed in note 51 to the financial statements, material electricity losses of R7 059 009 (2020: R10 054 823) which represents 21% (2020: 36%) of the total electricity purchased.

### **Other matters**

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

### **Unaudited supplementary schedules**

22. The supplementary information set out on pages X to X does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

### **Unaudited disclosure notes**

23. 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**

24. 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.

25. 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

26. 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.
27. 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

28. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected key performance areas presented in the annual performance report. I was engaged to perform procedures to identify findings but not to gather evidence to express assurance.
29. 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 key performance area presented in the annual performance report of the municipality for the year ended 30 June 2021:

| Key performance area  | Pages in the annual performance report |
|---|--|
| KPA 2 – Basic service delivery and infrastructure development | x – x                                  |

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

## **KPA 2 – Basic service delivery and infrastructure development**

### **Provision of toilets Dikgatlong Area (Phase 1)**

32. I was unable to obtain sufficient appropriate audit evidence for the achievement of 197 toilets reported against target 400 toilets in the annual performance report, due to the lack of accurate and complete records. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement.

### **Water Reticulation and Connection to existing water Networks**

33. I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined source information, evidence, method of collection or that related systems and processes were established to enable consistent measurement and reliable reporting of the actual achievement for the indicator. This was due to a lack of measurement definitions and processes. I was unable to test whether the indicator was well-defined and verifiable by alternative means. As a result, I was unable to audit the reliability of the achievement of 45% reported against target 100% in the annual performance report.

### **Other matters**

34. I draw attention to the matters below.

### **Achievement of planned targets**

35. Refer to the annual performance report on pages X to X for information on the achievement of planned targets for the year of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraph(s) x to x of this report.

### **Adjustment of material misstatements**

36. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of KPA 2 – basic services 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**

37. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the Dikgatlong Local Municipality's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
38. The material findings on compliance with specific matters in key legislation are as follows:

## Annual financial statements

39. 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 revenue, expenditure, payables, receivables 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 or supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.
40. The annual financial statements were not submitted to the Auditor-General, for auditing, within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.

## Expenditure management

41. 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 qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with supply chain regulations.
42. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, amounting to R381 339 as disclosed in note 49 of the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest and penalties charged by SARS.
43. 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 as indicated in the basis for qualification paragraph. The majority of the disclosed unauthorised expenditure was caused by overspending on votes.

## Revenue management

44. An effective system of internal control for revenue was not in place, as required by section 64(2)(f) of the MFMA
45. An adequate management, accounting and information system which accounts for revenue was not in place, as required by section 64(2)(e) of the MFMA.

## Strategic planning and performance management

46. The SDBIP for the year under review did not include monthly revenue projections by source of collection and the monthly operational and capital expenditure by vote, as required by section 1 of the MFMA.

## Procurement and contract management

47. Some of the invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM Regulation 22(1) and 22(2). Similar non-compliance was also reported in the prior year.
48. Some of the contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding and quotations, in contravention of SCM regulations 21(b) and 28(1)(a)(i) and the Preferential Procurement Regulations.
49. Some of the contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM Regulation 43. This non-compliance was identified in the procurement processes for the supply and delivery 200 VIP and 200DSA precast concrete toilets.
50. Some of the contracts were not awarded in an economical manner and the prices of the goods or services were not reasonable as required by MFMA sec 62(1)(a). This non-compliance was identified in the procurement processes for the supply and delivery 200 VIP and 200DSA precast concrete toilets.
51. Some of the invitation to tender for procurement of commodities designated for local content and production, did not stipulated 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.
52. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year.
53. The contract performance and monitoring measures and methods were not sufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA. Similar non-compliance was also reported in the prior year.

## Consequence management

54. 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.
55. Authorisation of unauthorised expenditure amounting to R103 093 132 was not done through an adjustment budget, as required by section 32(2)(a)(i) of the MFMA.
56. Irregular expenditure and fruitless and wasteful 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.
57. Allegations of financial misconduct against senior managers were not always investigated, as required by disciplinary regulations for senior managers 5(3) and section 171(4) of MFMA.

## Other information

58. 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.
59. 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.
60. 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.
61. 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

62. 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.
63. Leadership did not effectively exercise oversight responsibilities and did not effectively provide leadership as the municipality conducted its business in an unstable environment of vacancies and instability in key positions. These positions are key to creating a strong control environment.
64. The municipality developed an action plan to address internal and external audit findings, but the appropriate level of management did not monitor adherence to and successful implement of the action plan. This resulted to a number of repeat findings during the current year audit.
65. Senior management did not protect the municipality by creating effective controls to enable credible transactions, reporting and accountability. Audit revealed material findings in financial and performance reports as well as areas of laws and regulations.
66. The municipality did not adequately review the financial and performance reports before submission for auditing. This resulted in various misstatements in the reports submitted for

auditing. As much as there is an improvement in the audit opinion, audit revealed new findings as well as some that re-occurred.

67. The municipality did not review and monitor compliance with applicable legislation. Material findings were identified in areas scoped for the audit. There was no evidence of consequences management by the municipality.

*Auditor-General*

Kimberley

03 February 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 selected development priorities 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 Dikgatlong 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

### **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.