Report of the auditor-general to 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 2022 , the statement of financial performance, statement of changes in net assets,and 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 2022, 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 56 of 2003 (MFMA) and the Division of Revenue Act 9 of 2021 (Dora).

Basis for qualified opinion

Service Charges

3. The municipality did not recognise all revenue from exchange transactions relating to sale of water,sale of electricity, sewerage and sanitation charges and refuse removal 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, sale of electricity, sewerage and sanitation charges and refuse removal 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, sale of electricity, sewerage and sanitation charges and refuse removal stated at R52 347 606 in note 21 of the financial statements. In addition, there was a resultant impact on the surplus for the period, receivables from exchange transactions and VAT payable.

4. The municipality did not account for the sale of water in accordance with GRAP 9, Revenue from exchange transactions, as the municipality did not measure revenue at the fair value of the consideration received or receivable, as required by the standard. The municipality did not maintain adequate records of sale of water due to broken meters. I was unable to determine the full extent of the overstatement misstatement of sale of water stated at R16 835 532 in note 21 of the financial statements. In addition, there was a resultant impact on the surplus for the period, receivables from exchange transactions and VAT payable.

Payables from exchange transactions

5. I was unable to obtain sufficient appropriate audit evidence that the sundry creditors included in payables from exchange transactions for the current and prior year 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 R5 043 813 (2021: R2 239 593) in note 16 to the financial statements, was necessary.

Irregular expenditure

6. 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 R7 194 988 (2021: R19 267 818) in note 51 of the financial statements.

Context for the opinion

7. 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.

8. 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.

9. 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

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

11. I draw attention to note 46 to the financial statements, which indicates that the municipality experienced cash flow problems during the year, average debtors' payment days increased. As stated in note 46, these events or conditions, along with the other matters as set forth in note 46, 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

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

Restatements of corresponding figures

13. As disclosed in note 42 to the financial statements, the corresponding figures for 30 June 2021 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2022.

Material losses – electricity

14. As disclosed in note 52 to the financial statements, material electricity losses of R19 536 534 (2020-2021: R7 059 009) was incurred, which represents 49% (2020-2021: 21%) of total electricity purchased.

Material losses – water

15. As disclosed in note 52 to the financial statements, material water losses of R4 140 099 (2020-2021: R907 156) was incurred, which represents 49% (2020-2021: 11%) of total water purchased. Losses incurred were as a result of deteriorating water infrastructure and poor management of the networks.

Other matter

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

Unaudited disclosure notes (MFMA 125)

17. 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

18. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the Standards of GRAP and the requirements of the MFMA and Dora, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

19. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

20. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a

material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Report on the annual performance report

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

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

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

25. My procedures address the usefulness and reliability of the reported performance information on the selected performance indicators, which must be based on the municipality's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the municipality enabled service delivery. My procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

26. I performed procedures to determine whether the reported performance information was properly presented and whether the performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the selected performance indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

27. I selected the following material performance indicators contained in Basic services delivery and infrastructure development presented in the municipality's annual performance report for the year ended 30 June 2022 set out on pages X to X. I selected the indicators that measure the municipality's performance on its primary mandated functions and which are of significant national, community or public interest.

Performance indicators development priorities
Electrification of 50 Houses in 7nde laan

Performance indicators development priorities
Construction of Dry Sanitation Toilets for Dikgatlong (Phase 2)
Spending of MIG grant allocated for the Upgrading of bulk water supply in Barkly West (Phase 1)
Spending of MIG grant allocated for the Upgrading of stormwater systems in Iris Street in Debeershoogte
Upgrading of stormwater systems in Iris Street in Debeershoogte
Installation of High Mast Lights
Spend 100% of the amount budgeted for the installation of High Mast Lights

28. I did not identify any material findings on the usefulness and reliability of the reported performance information for the selected material performance indicators.

Other matters

29. I draw attention to the matters below.

Achievement of planned targets

30. Refer to the annual performance report on pages X to X for information on the achievement of planned targets for the year and management's explanations provided for the under achievement of targets.

Adjustment of material misstatements

31. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of basic service delivery and infrastructure development. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Report on compliance with legislation

32. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the municipality's compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting officer is responsible for the municipality's compliance with legislation.

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

34. I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the municipality, clear to allow consistent measurement and evaluation, while also sufficiently detailed and adequately available to report in an understandable manner. The selection is done through an established AGSA process. The selected legislative requirements are included in the annexure to this auditor's report.

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

Annual financial statements, performance and annual reports

36. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets and current assets identified by the auditors in the submitted financial statements were subsequently corrected and supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Expenditure management

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

38. 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.

39. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, amounting to R7 420 248 as disclosed in note 50 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.

40. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R37 012 025 as disclosed in note 49 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 a vote.

Revenue management

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

42. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

Procurement and contract management

43. 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).

44. 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.

45. 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.

Utilisation of conditional grants

46. 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 Division of Revenue Act (Act 9 of 2021).

47. 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 Division of Revenue Act (Act 9 of 2021).

48. The Water Services Infrastructure Grant was not spent for its intended purposes in accordance with the applicable grant framework, as required by section 16(1) of the Division of Revenue Act (Act 9 of 2021).

49. Performance in respect of programmes funded by the Water Services Infrastructure Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act (Act 9 of 2021).

Consequence management

50. 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.

51. Authorisation of unauthorised expenditure amounting to R37 012 025 was not done through an adjustment budget, as required by section 32(2)(a)(i) of the MFMA.

52. 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.

53. 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 .

54. 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

55. 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 material indicators in the scoped-in programme presented in the annual performance report that have been specifically reported in this auditor's report.

56. My opinion on the financial statements and material findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion on it.

57. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the material indicators in the scoped-in programme presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

58. 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

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

60. 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.

61. 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.

62. 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.

63. 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

30 November 2022

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs and the AGSA audit methodology, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected performance indicators and on the municipality's compliance with selected requirements in key legislation.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:

   - identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
   - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
   - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
   - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the 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.

Compliance with legislation - selected legislative requirements

5. The selected legislative requirements are as follows:

Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003 (MFMA) and regulations issued in terms of the act	Sections
LG: MFMA: Municipal budget and reporting regulations, 2009	Regulations
LG: MFMA: Municipal investment regulations, 2005	Regulations
LG: MFMA: Municipal regulations on financial misconduct procedures and criminal proceedings, 2014	Regulations
LG: MFMA: Municipal supply chain management (SCM) regulations, 2017	Regulations
Municipal Systems Act 32 of 2000 (MSA)	Sections
LG: MSA: Municipal planning and performance management regulations, 2001	Regulations
LG: MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations
Annual Division of Revenue Act (DoRA)	Sections
Construction Industry Development Board Act 38 of 2000 (CIDB)	Sections
CIDB regulations	Regulations
Municipal Property Rates Act 6 of 2004 (MPRA)	Section
Preferential Procurement Policy Framework Act 5 of 2000 (PPPFA)	Sections
Preferential Procurement regulations (PPR), 2011	Regulations
Preferential Procurement regulations (PPR), 2017	Regulations
Prevention and Combating of Corrupt Activities Act 12 of 2004 (PRECCA)	Section