

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 xx to xx, which comprise the statement of financial position as at 30 June 2024, statement of financial performance, statement of changes in net assets, statement of cashflows 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 Dikgatlong Local Municipality as at 30 June 2024, and its financial performance and cash flows for the year then ended in accordance with the *Standards of Generally Recognised Accounting Practice* (GRAP) and the requirements of the *Municipal Finance Management Act 56 of 2003* (MFMA) and the *Division of Revenue Act 5 of 2023* (Dora).

Basis for qualified opinion

Revenue from exchange transactions

3. During 2023, the municipality did not account for revenue from sale of water in accordance with GRAP 9, *Revenue from exchange transactions*, as the municipality did not recognise revenue from sale of water in the period in which it occurred as required by the standard. In addition, the municipality did not recognise all revenue from sale of water, as the municipality did not maintain adequate and complete records for all services rendered to customers. I was unable to determine the full extent of the understatement of sale of water as it was impracticable to do so, my opinion on the financial statements for the period ended 30 June 2023 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 revenue from sale of water stated at R30 334 070 in note 20 to the financial statements and the related receivable stated at R75 902 178 in note 8 to the financial statements.
4. During 2023, sale of electricity revenue was not recognised as required by GRAP 9, *Revenue from exchange transactions*. Properties were identified for which electricity was not billed and recorded. In addition, the municipality did not recognise revenue from sale of electricity in the period in which it occurred as required by the standard. I was unable to determine the full extent of the understatement of sale of electricity as it was impracticable to do so. My opinion on the financial statements for the period ended 30 June 2023 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 revenue from sale of electricity stated at R25 968

077 in note 20 to the financial statements and the related receivable stated at R52 745 796 in note 8 to the financial statements.

Statutory receivables from non-exchange transactions

5. The municipality did not account for the allowance for impairment in accordance with GRAP 108, *Statutory receivables*. The municipality's methodology for the calculation of the impairment allowance for statutory receivables was not fully applied. Consequently, allowance for impairment was overstated by R45 155 800 and statutory receivables from non-exchange transactions was understated by the same amount.
6. Statutory receivables were not disclosed in accordance with GRAP 108, *Statutory receivables*. The Statutory receivables should be disclosed depicting how the transaction arises, with specific reference to applicable legislation, supporting regulations or similar means; how the transaction amount is determined; interest, other charges levied, including the basis and rate used; the basis used to assess and test whether a statutory receivable is impaired, including how receivables are grouped and assessed for collective impairment; the discount rate applied to the estimated future cash flows, where applicable, and how that discount rate was determined as required by the standard.

Property, plant and equipment - Landfill Site

7. I was unable to obtain sufficient appropriate audit evidence for the landfill site asset included in property, plant and equipment, as the carrying amount per the asset register provided for audit in the prior year materially disagreed with the amount disclosed on note 10 to the annual financial statements. I was unable to confirm the carrying amount of the landfill site asset by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the landfill site asset stated at R5 967 704 in note 10 to the financial statements.

Payables from exchange transactions

8. The municipality did not account for payables from exchange transactions – trade payables in accordance with GRAP 1, *presentation of financial statements* as an adequate system of internal controls was not in place to correctly recognise the payables from exchange transactions. I was unable to determine the full extent of the understatement of payables from exchange transactions as it was impracticable to do so.

Irregular expenditure

9. Irregular expenditure incurred during the previous financial years and related information on irregular expenditure was not included in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. Expenditure was incurred in contravention of the supply chain management requirements, resulting in irregular expenditure. I was unable to determine the full extent of the irregular expenditure that occurred during the previous financial years as it was impracticable to do so. As the opening balance of irregular expenditure is included in the closing balance of the current year, there was a resultant impact on the current year figures.

Net cash flows from operating activities

10. Net cash flows from operating activities were not correctly prepared and disclosed as required Standards of GRAP 2, *Cash flow statements*. This was due to multiple errors in determining cash flows from operating activities. I was not able to determine the full extent of the errors in the net cash flows from operating activities, as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to cash flows from operating activities as stated at R34 297 852 in the financial statements were necessary.

Context for opinion

11. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the responsibilities of the auditor-general for the audit of the financial statements section of my report.
12. 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.
13. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

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

Going concern

15. I draw attention to Note 45 to the annual financial statements, which indicates that the municipality experienced cash flow problems during the year resulted in major creditors not being paid timeously and the consumer days outstanding increased compared to prior year. The provisions for rehabilitation of landfill sites and employee benefit provisions are not cash backed.

Restatement of corresponding figures

16. As disclosed in note 50 to the financial statements, the corresponding figures for 30 June 2023 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2024.

Material losses - Electricity

17. As disclosed in note 57 to the financial statements, material electricity losses of R15 223 673 (2022-23: R17 830 741) were incurred, which represent 35% (2022-23: 46%) of total electricity purchased.

Other matter

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

Unaudited disclosure notes

19. In terms of section 125(2) (e) of the MFMA, the particulars of non-compliance with the MFMA should be disclosed in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

Responsibilities of the accounting officer for the financial statements

20. 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 the 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.

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

Responsibilities of the auditor-general for the audit of the financial statements

22. 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.

23. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report. This description, which is located at page X of the annexure to the auditor's report, forms part of our auditor's report.

Report on the annual performance report

24. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance information against predetermined objectives for the selected material performance indicators presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

25. I selected the following material performance indicators related to Basic Service Delivery and Infrastructure Development presented in the annual performance report for the year ended 30

June 2024. I selected those indicators that measure the municipality's performance on its primary mandated functions and that are of significant national, community or public interest:

- Upgrading of the Barkley West Substation
- Upgrading of the De-Beenhoogste Switching Station
- Electrification of 13 Infills in Bufferzone Barkly West
- Electrification of 8 Infills in Sewendelaan Delportshoop
- Review of Water Service Development Plan (WSDP)
- Renovation of access point on the Upgrading of sports facility in Barkley West: Mataleng
- Installation of Sprinkler System on the Upgrading of sports facility in Barkley West: Mataleng
- Grassing of soccer field on the Upgrading of sports facility in Barkley West: Mataleng
- Installation of grassed athletics field on the Upgrading of sports facility in Barkley West: Mataleng
- Construction of a multi-purpose court on the Upgrading of sports facility in Barkley West - Mataleng
- Renovation of spectator stand on the Upgrading of sports Facility in Barkly West: Mataleng
- Replacing of sports Facility fence on the Upgrading of sports Facility in Barkly West: Mataleng
- Building of Ablution facility on the Upgrading of sports Facility in Barkly West: Mataleng
- Number of production boreholes drilled on the Provision of boreholes (Phase 2)
- Number of water storage tanks constructed on the Provision of boreholes (Phase 2)
- Number of KMs of pipeline connected from the borehole to the tank constructed in Longlands on the Provision of boreholes (Phase 2)
- Number of KMs of pipeline connected from the borehole to the tank constructed in Gong-Gong on the Provision of boreholes (Phase 2)
- Number of kilometres of stormwater systems in Tidimalo & Rooikoppies upgraded.
- Number of kilometres of stormwater systems in Mataleng & Rooirand (constructed)
- Number of household refuse removal (once a week according to the weekly schedule) in Dikgatlong Area
- Number of toilets constructed in Dikgatlong Area (Phase 2)

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

27. I performed procedures to test whether:

- the indicators used for planning and reporting on performance can be linked directly to the municipality's mandate and the achievement of its planned objectives
- all the indicators relevant for measuring the municipality's performance against its primary mandated and prioritised functions and planned objectives are included
- the indicators are well defined to ensure that they are easy to understand and can be applied consistently, as well as verifiable so that I can confirm the methods and processes to be used for measuring achievements

- the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated
- the indicators and targets reported on in the annual performance report are the same as those committed to in the approved initial or revised planning documents
- the reported performance information presented in the annual performance report in the prescribed manner
- there is adequate supporting evidence for the achievements reported and for measures taken to improve performance.

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

29. I did not identify any material findings on the reported performance information for the selected indicators.

Other matters

30. I draw attention to the matters below.

Achievement of planned targets

31. The annual performance report includes information on reported achievements against planned targets and measures taken to improve performance.

Material misstatements

32. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for Basic Service Delivery and Infrastructure Development. Management subsequently corrected all the misstatements, and I did not include any material findings in this report.

33. The table that follows provides information on the achievement of planned targets and lists the key service delivery indicators that were not achieved as reported in the annual performance report. The measures taken to improve performance are included in the annual performance report on pages **x** to **x**.

Basic Service Delivery and Infrastructure Development

<i>Targets achieved: 80%</i>		
<i>Budget spent 100%</i>		
Key service delivery indicator not achieved	Planned target	Reported achievement
Upgrading of the Barkley West Substation	1	0

Number of water storage tanks constructed on the Provision of boreholes (Phase 2)	2	1
Number of kilometres of stormwater systems in Tidimalo & Rooikoppies upgraded.	7kms	0kms
.Number of kilometres of stormwater systems in Mataleng & Rooirand (constructed)	7kms	0kms

Report on compliance with legislation

34. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting officer is responsible for the municipality's compliance with legislation.
35. I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.
36. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the municipality, clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.
37. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statements, performance and annual reports

38. 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, current assets, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.
39. The 2022/23 annual report was not made public immediately after being tabled in the council, as required by section 127(5)(a)(i) of the MFMA, read in conjunction with Section 129(3) of the MFMA.
40. The local community was not invited immediately to submit representations in connection with the 2022/23 annual report, as required by section 127(5)(a)(ii) of the MFMA, read in conjunction with Section 129(3) of the MFMA.

Procurement and contract management

41. Some of the goods and services within the prescribed transaction values for formal written price quotations were procured without obtaining the required price quotations, in contravention of by SCM Regulation 17(1)(a) and (c).
42. 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. Similar limitation was also reported in the prior year.

Expenditure management

43. Money owed by the municipality was not always paid within 30 days as required by section 65(2) (e).
44. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1) (d) of the MFMA. The full extent of the irregular expenditure could not be quantified as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with supply chain management regulations.
45. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R15 388 826, as disclosed in note 44 to the annual financial statements, in contravention of section 62(1) (d) of the MFMA.

Revenue management

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

Other information in the annual report

47. The accounting officer is responsible for the other information included in the annual report. The other information referred to does not include the financial statements, the auditor's report and those selected objective presented in the annual performance report that have been specifically reported on in this auditor's report.
48. My opinion on the financial statements, the report on the audit of the annual performance report and the report on compliance with legislation do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.
49. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the financial statements and the selected objective presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
50. 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

51. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
52. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, and the material findings on compliance with legislation included in this report.
53. The accounting officer and senior management did not adequately review the financial statements that were submitted for audit, against the supporting schedules to ensure credibility of information contained in the financial statements.
54. Inadequate understanding of the applicable accounting reporting framework, leading to numerous instances where GRAP standards were either incorrectly applied or not applied at all as evidenced by material misstatements identified during the audit.
55. Insufficient oversight from senior management in monitoring the capturing and reviewing of transactions. Senior management should invest in designing processes to capture transactions and initiatives to enhance the capabilities of the officials.
56. There are deficiencies in the monitoring and review of compliance with applicable legislation by senior management, which resulted in material findings with laws and regulations.
57. Leadership did not effectively monitor the implementation of the action plan, resulting in a lack of assurance that measures were in place to prevent the recurrence of findings.

Kimberley
3 December 2024



A U D I T O R - G E N E R A L
S O U T H A F R I C A

Auditing to build public confidence

Annexure to the auditor's report

The annexure includes the following:

- The auditor-general's responsibility for the audit
- The selected legislative requirements for compliance testing

Auditor-general's responsibility for the audit

Professional judgement and professional scepticism

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 objective and on the municipality's compliance with selected requirements in key legislation.

Financial statements

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

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

Communication with those charged with governance

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.

I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003	<p>Sections: 1, 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 28(1), 29(1), 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii),</p> <p>Sections: 32(2)(b), 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 63(2)(a), 63(2)(c), 64(2)(b), 64(2)(c), 64(2)(e), 64(2)(f),</p> <p>Sections: 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), 122(2), 126(1)(a),</p> <p>Sections: 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, 171(4)(a), 171(4)(b)</p>
MFMA: Municipal budget and reporting regulations, 2009	Regulations: 71(1)(a), 71(1)(a)(b), 71(2)(a), 71(2)(b), 71(2)(d), 72(a), 72(b), 72(c)
MFMA: Municipal Investment Regulations, 2005	Regulations: 3(1)(a), 3(3), 6, 7, 12(2), 12(3)
MFMA: Municipal Regulations on financial Misconduct Procedures and Criminal Proceedings, 2014	Regulations: 5(4), 6(8)(a), 6(8)(b), 10(1)
MFMA: Municipal Supply Chain Management Regulations, 2017	<p>Regulations: 5, 12(1)(c), 12(3), 13(b), 13(c), 16(a), 17(1)(a), 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), 27(2)(e),</p> <p>Regulations: 28(1)(a)(i), 29(1)(a), 29(1)(b), 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c), 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i),</p> <p>Regulations: 38(1)(g)(ii), 38(1)(g)(iii), 43, 44, 46(2)(e), 46(2)(f)</p>
Construction Industry Development Board Act 38 of 2000	Section: 18(1)
Construction Industry Development Board Regulations, 2004	Regulations: 17, 25(7A)
Division of Revenue Act	Sections: 11(6)(b), 12(5), 16(1); 16(3)
Municipal Property Rates Act 6 of 2004	Section: 3(1)
Municipal Systems Act 32 of 2000	<p>Sections: 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 34(a), 34(b), 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2),</p> <p>Sections: 54A(1)(a), 56(1)(a), 57(2)(a), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 96(b)</p>
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations: 5(2), 5(3), 5(6), 8(4)

Legislation	Sections or regulations
MSA: Municipal Planning and Performance Management Regulations, 2001	Regulations: 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 7(1), 8, 9(1)(a), 10(a), 12(1), 15(1)(a)(i), 15(1)(a)(ii)
MSA: Municipal Performance Regulations for Municipal Managers and Managers Directly Accountable to Municipal Managers, 2006	Regulations: 2(3)(a), 4(4)(b), 8(1), 8(2), 8(3)
MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations: 17(2), 36(1)(a)
MSA: Municipal Staff Regulations	Regulations: 7(1),31
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section: 34(1)
Preferential Procurement Policy Framework Act 5 of 2000	Sections: 2(1)(a), 2(1)(f)
Preferential Procurement Regulations, 2017	Regulations: 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8), 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5), 9(1), 10(1), 10(2), Regulations: 11(1), 11(2)
Preferential Procurement Regulations, 2022	Regulations: 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4)