

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

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Dipaleseng Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2022, statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects 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 Dipaleseng Local Municipality as at 30 June 2022, 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 9 of 2021 (Dora).

Basis for qualified opinion

Receivables from non-exchange transactions

3. The municipality did not account for property rates in accordance with the requirements of GRAP 104, *Financial instruments*. Property rates were incorrectly levied on properties by the municipality. This resulted in receivables from non-exchange transactions – consumer debtors rates being overstated by R13,74 million (2020-21: R13,74 million) in note 11 to the financial statements. This also had an impact on the related allowance, surplus for the period and the accumulated surplus.

Receivables from exchange transactions

4. The municipality did not account for service charges in accordance with the requirements of GRAP 104, *Financial instruments*. The municipality incorrectly charged for sale of electricity, sale of water, sewerage and sanitation and other. This resulted in receivables from exchange transactions being overstated by R12,36 million (2020-21: R12,36 million) in note 10 to the financial statements. This also had an impact on the related allowance, surplus for the period and the accumulated surplus.

Irregular expenditure

5. 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 R239,80 million (2020-21: R163,98 million) in note 50 to the financial statements as it was impracticable to do so.

Context for the opinion

6. 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.
7. 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.
8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

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

Material losses – electricity

10. As disclosed in note 51 to the financial statements, material electricity losses of R25 055 660 (2020-21: R19 242 496) were incurred, which represented 28,99% (2020-2021: 24,87%) of total electricity purchased.

Material losses – water

11. As disclosed in note 51 to the financial statements, material water losses of R48 291 208 (2020-21: R47 214 106) were incurred, which represented 76% (2020-2021: 74%) of total water purchased.

Other matter

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

Unaudited disclosure notes

13. 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

14. 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 office determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

15. 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

16. 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.

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

Introduction and scope

18. 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.
19. 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.
20. 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.
21. 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.
22. 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.
23. I selected the following material performance indicators contained in basic service delivery and infrastructure presented in the municipality's annual performance report for the year ended 30 June 2022 set out on pages ... to I selected the indicators that measure the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.

KPA 2 – performance indicator basic service delivery and infrastructure
Average percentage access to basic services and compliance to legislations
Percentages of households with access to basic services
Number of households provided with water services
Level of Blue Drop Status
Level of Green Drop Status
Number of households provided with electricity services
Kms of roads upgraded
Kms of gravel roads upgraded
SMs of roads patched
Kms of stormwater drainage maintained
MVA bulk electricity capacity
Percentage reduction in technical and distribution water losses
Percentage reduction in technical and distribution electrical losses
Number of MIG projects
Number of INEP projects completed.
Number of household with access to waste removal

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

25.

Key performance indicator	Planned target	Reported achievement
Level of Blue Drop Status	50%	Not reported
Level of Green drop status	50%	Not reported
Percentage reduction in technical and distribution water losses	20%	Not reported
Percentage reduction in technical and distribution electrical losses	20%	Not reported

The planned indicators above as per the approved initial SDBIP and the performance against the planned target were not reported in the annual performance report.

26.

Key performance indicator	Planned target	Reported achievement
Number of households with access to waste removal	18000	18000

The reported target did not agree with the planned target as per the approved in the SDBIP.

27.

Key performance indicator	Planned target	Reported achievement
Number of households with access to waste removal	18000	18000
Average percentage access to basic services and compliance to legislations	95,3%	95,3%
Percentage of households with access to basic services	95,3%	95,3%

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 achievement of the above indicators reported against the above reported targets as included in the annual performance report.

28.

Performance indicator description	Planned target:	Reported achievement:
Kms of gravel roads upgraded	24	13,30
SMs of roads patched	3000	2994
Kms of stormwater drainage maintained	16	4,905
Number of households provided with electricity services	1200	772
Number of households provided with water services	300	7

I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance against targets as reported in the annual performance report. This was due to limitations placed on the scope of my work. I was unable to confirm the reported measures taken by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported measures taken to improve performance.

29.	Performance indicator	Target	Reported achievement	Audited value
	Number of households provided with electricity services	300	772	771
	SMS roads patched	3 000	2 944,16	1 492
	Kms stormwater drainage	16	4,905	6,7

The achievement of the above indicators was reported against the above targets in the annual performance report. However, the supporting evidence provided did not agree to the reported achievement and indicated an achievement of the audited values as noted above.

Other matters

30. I draw attention to the matters below.

Achievement of planned targets

31. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 24 to 29 of this report.

Report on the audit of 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:

Procurement and contract management

- 36. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).
- 37. Some of the contracts were awarded to 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).
- 38. 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.
- 39. 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.
- 40. Sufficient appropriate audit evidence could not be obtained that contracts were extended or modified with the approval of a properly delegated official as required by SCM regulation 5.
- 41. Invitation 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.

Expenditure management

- 42. 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.
- 43. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA.
- 44. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

Consequence management

- 45. 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.
- 46. Irregular expenditure incurred by the municipality were not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.
- 47. 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.

Assets management

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

Revenue management

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

Human resource management

50. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the MSA.

Financial statements, performance and annual reports

51. 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, non-current assets, liabilities and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and/or the 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.
52. The 2020-21 annual report was not made public after being tabled in council, as required by section 127(5)(a)(i) of the MFMA.
53. The local community was not invited to submit representations in connection with the 2020-21 annual report, as required by section 127(5)(a)(ii) of the MFMA.
54. The council failed to adopt an oversight report containing the council's comments on the 2020-21 annual report, as required by section 129(1) of the MFMA.

Other information

55. The accounting office 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 does 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 indicator 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 and 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, the findings on the annual performance report and the findings on compliance with legislation included in this report.
60. Implement effective human resource management to ensure that adequate and sufficiently skilled resources were in place and that performance was monitored.
61. Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information was accessible and available to support financial and performance reporting.
62. Implement controls over daily and monthly processing and reconciling of transactions.
63. Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.
64. Review and monitor compliance with applicable laws and regulations.

Material irregularities

65. 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 irregularities in progress

66. I identified a material irregularity during the audit and notified the accounting officer of this, 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.

Other reports

67. I draw attention to the following engagements conducted by various parties which had or could have, an impact on the matters reported in the municipality's financial statements, reported performance information and compliance with applicable legislation and other related matters. The report noted did not form part of the opinion on the financial statements or findings on the reported performance information or compliance with legislation.
68. The provincial department of cooperative governance and traditional affairs initiated an investigation into the municipality in terms of section 106 of the Municipal Systems Act 32 of 2000. The investigation was completed at the date of this auditor's report.

Auditor - General

Mbombela

9 December 2022



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs 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 local 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 local 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 Dipaleseng Local Municipality 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 local 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 communicate 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	<p>Section 1 (a), (b) & (d) of the definition: irregular expenditure</p> <p>Section 1 Definition of SDBIP</p> <p>Sections 11(1); 13(2); 14(1); 14(2)(a); 14(2)(b); 15</p> <p>Sections 24(2)(c)(iv); 29(1); 29(2)(b); 32(2)</p> <p>Sections 32(2)(a); 32(2)(a)(i); 32(2)(a)(ii); 32(2)(b)</p> <p>Sections 32(6)(a); 32(7); 53(1)(c)(ii); 54(1)(c)</p> <p>Sections 62(1)(d); 62(1)(f)(i); 62(1)(f)(ii); 62(1)(f)(iii)</p> <p>Sections 63(2)(a); 63(2)(c); 64(2)(b); 64(2)(c); 64(2)(e)</p> <p>Sections 64(2)(f); 64(2)(g); 65(2)(a); 65(2)(b); 65(2)(e)</p> <p>Sections 72(1)(a)(ii); 95(a); 112(1)(iii); 112(1)(j)</p> <p>Sections 116(2)(b); 116(2)(c)(ii); 117; 122(1); 122(2)</p> <p>Sections 126(1)(a); 126(1)(b); 127(2); 127(5)(a)(i)</p> <p>Sections 127(5)(a)(ii); 129(1); 129(3); 133(1)(a)</p> <p>Sections 133(1)(c)(i); 133(1)(c)(ii); 170; 171(4)(a); 171(4)(b)</p>
LG: MFMA: Municipal budget and reporting regulations, 2009	Regulations 71(1); 71(2); 72
LG: MFMA: Municipal investment regulations, 2005	Regulations 3(1)(a); 3(3); 6; 7; 12(2); 12(3)
LG: MFMA: Municipal regulations on financial misconduct procedures and criminal proceedings, 2014	Regulations 5(4); 6(8)(a); 6(8)(b); 10(1)

Legislation	Sections or regulations
LG: MFMA: Municipal supply chain management (SCM) regulations 2017	Regulations 5; 12(1)(b); 12(1)(c); 12(3); 13(b); 13(c); 13(c)(i) Regulations 16(a); 17(1)(a); 17(1)(b); 17(1)(c); 19(a) Regulations 21(b); 22(1)(b)(i); 22(2); 27(2)(a); 27(2)(e) Regulations 28(1)(a)(i); 28(1)(a)(ii); 29(1) (a) and (b) Regulations 29(5)(a)(ii); 29(5)(b)(ii); 32; 36(1) Regulations 38(1) (c); 38(1)(d)(ii); 38(1)(e); 38(1)(g)(i) Regulations 38(1)(g)(ii); 38(1)(g)(iii) Regulations 43; 44; 46(2)(e); 46(2)(f)
Municipal Systems Act 32 of 2000 (MSA)	Sections 25(1); 26(a); 26(c); 26(i); 26(h); 27(1) Sections 29(1)(b)(ii); 29(2)(a); 29(2)(c); 34(a); 34(b); Sections 38(a); 41(1)(a); 41(1)(b); 41(1)(c)(ii); 42; 43(2) Sections 56(a); 57(2)(a); 57(4B); 57(6)(a) Sections 66(1)(a); 66(1)(b); 67(1)(d); 74(1) Sections 93B(a); 93B(b); 93C(a)(iv); 93C(a)(v); 96(b)
LG: MSA: Municipal planning and performance management regulations 2001	Regulations 2(1)(e); 2(3)(a); 3(3); 3(4)(b); 3(5)(a); 7(1); 8 Regulations 9(1)(a); 10(a); 12(1); 15(1)(a)(i); 15(1)(a)(ii)
LG: 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)
LG: MSA: Regulations on appointment and conditions of employment of senior managers 2014	Regulations 17(2); 36(1)(a)
LG: MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2); 5(3); 5(6); 8(4)
Annual Division of Revenue Act (Dora)	Sections 11(6)(b); 12(5); 16(1); 16(3)
Construction Industry Development Board Act 38 of 2000 (CIDB)	Section 18(1)
CIDB regulations	Regulations 17; 25(7A)
Municipal Property Rates Act 6 of 2004 (MPRA)	Section 3(1)

Legislation	Sections or regulations
Preferential Procurement Policy Framework Act 5 of 2000 (PPPFA)	Sections 2(1)(a); 2(1)(f)
Preferential Procurement Regulations (PPR) 2011	Regulations 4(1); 4(3); 4(4); 4(5) Regulations 5(1); 5(2); 5(3); 5(5) Regulations 6(1); 6(2); 6(3); 6(4); 6(5) Regulations 7(1); 10; 11(2); 11(4); 11(5); 11(8)
Preferential Procurement Regulations (PPR) 2017	Regulations 5(1); 5(3); 5(6); 5(7) Regulations 6(1); 6(2); 6(3); 6(5); 6(6); 6(8) Regulations 7(1); 7(2); 7(3); 7(5); 7(6); 7(8) Regulations 8(2); 8(5); 9(1); 10(1); 10(2); 11(1)
Prevention and Combating of Corrupt Activities Act 12 of 2004 (Precca)	Section 34(1)