

Report of the auditor-general to the Free State Legislature and the council on the Dihlabeng Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Dihlabeng Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the 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 Dihlabeng Local Municipality as at 30 June 2019, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2018 (Act No. 1 of 2018) (Dora).

Basis for qualified opinion

Property, plant and equipment

3. The municipality did not recognise all items of property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment*. The fixed assets register included assets under investigation that had been impaired although the municipality did not perform an impairment assessment on these assets. I was also unable to physically verify these assets. Furthermore, depreciation and impairment was incorrectly calculated and work in progress was incorrectly recognised due to capital expenditure not being reconciled to supporting schedules. Consequently property, plant and equipment as stated in note 10 in the financial statements is understated by R298 033 547 (2018:R13 860 292). Additionally, there was an impact on depreciation and impairment expense, deficit for the period and accumulated surplus.

Investment property

4. I was unable to obtain sufficient appropriate audit evidence for investment property due to the status of the accounting records. I could not confirm whether all the municipal buildings held for rental were included in the investment register. I could not confirm the investment properties by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the investment property stated at R660 157 824 (2018: R660 157 824) in note 9 to the financial statements. In addition, the municipality incorrectly recognised land available for low cost housing as investment property contrary to the requirements of GRAP 12, *Inventory*. Consequently, investment property was overstated by R379 364 985 and inventory understated by R379 364 985.

Service charges

5. During 2018, I was unable to obtain sufficient appropriate audit evidence for revenue from sewerage and sanitation charges included in service charges due to the status of the accounting records. I could not confirm sewerage and sanitation charges by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the sewerage and sanitation charges revenue stated at R47 492 049 in note 21 to the financial statements. My audit opinion on the financial statements for the period ended 30 June 2018 was modified accordingly. My opinion on the current period's financial statements was also modified because of the possible effect on this matter on the comparability of the current period's figures.

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 this auditor's report.
7. I am independent of the municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* and, parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA codes) as well as the 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 codes.
8. 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

9. I draw attention to the matter below. My opinion is not modified in respect of this matter.
10. Note 46 to the financial statements indicates that the municipality incurred a net loss of R209 095 467 during the year ended 30 June 2019 and, as of that date, the municipality's current liabilities exceeded its current assets by R322 374 537. In addition, the municipality owed Eskom R263 047 090 (2018: R196 787 501), Bethlehem Hydro R27 502 989 (2018: R15 089 242), Free State Fleet Management Trading Entity R63 482 218 (2018: R57 356 911) and the Department of Water Affairs R8 464 543 (2018: R7 175 249) as at 30 June 2019, which is long overdue. These events or conditions, along with 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

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

Irregular expenditure

12. As disclosed in note 50 to the financial statements, irregular expenditure of R53 694 085 (2018: R36 618 626) was incurred due to non-compliance with supply chain management (SCM)

requirements. In addition, the full extent of irregular expenditure is still in the process of being determined.

Unauthorised expenditure

13. As disclosed in note 48 to the financial statements, unauthorised expenditure of R241 087 377 (2018: R170 591 172) was incurred, due to overspending the budget.

Fruitless and wasteful expenditure

14. As disclosed in note 49 to the financial statements, fruitless and wasteful expenditure of R12 611 666 (2018: R20 261 298) was incurred, mainly due to interest on arrear payments to creditors.

Restatement of corresponding figures

15. As disclosed in notes 44 and 45 to the financial statements, the corresponding figures for 30 June 2018 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2019.

Material uncertainty relating to claims against the municipality

16. With reference to note 42 to the financial statements, the municipality is the defendant in various claims against the municipality. The municipality is opposing these claims. The ultimate outcome of these matters could not be determined and no provision for any liabilities that may result were made in the financial statements.

Material losses

17. As disclosed in note 51 to the financial statements, material water distribution losses of R10 389 244 (2018: R6 542 104) and electricity distribution losses of R16 992 056 (2018: R3 166 032) were incurred by the municipality mainly due to leakages, burst water pipes, line losses, tampering and theft.

Material impairment of debtors

18. As disclosed in notes 6 to the financial statements, trade receivables were impaired by R705 447 290 (2018: R696 834 058) and as disclosed in note 5, other receivables were impaired by R60 795 639 (2018: R59 858 943).

Other matter

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

Service delivery

20. In 2014, the municipality appointed a service provider for the upgrading of the Clarens water treatment works - mechanical and electrical installation, at a contract value of R16 681 78. The municipality subsequently cancelled the contract, however, the service provider and the municipality are currently engaged in a legal dispute regarding the termination of the contract. No work-in-progress could be physically verified during a site visit, although the municipality has spent R9 529 787 on the project to date, which is included in the work-in-progress register.

21. During 2018, the municipality appointed a service provider for the construction of the Lomond tarred road at a contract value of R13 837 828. The project was completed during the year at an accumulated cost of R15 342 214. The conditional assessment performed by the municipality indicated the road was in fair but not good condition. An independent assessment indicated various faults that were not rectified by the service provider.

Unaudited disclosure notes

22. 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 thereon.

Unaudited supplementary schedules

23. The supplementary information set out on pages 93 to 101 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 thereon.

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 SA Standards of GRAP and the requirements of the MFMA and Dora, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
25. In preparing the financial statements, the accounting officer is responsible for assessing the Dihlabeng Local 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.

Introduction and scope

28. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 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 the selected key performance area (KPA) presented in the annual performance report. I was engaged to perform procedures to raise 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 KPA presented in the annual performance report of the municipality for the year ended 30 June 2019:

KPA	Pages in the annual performance report
KPA1- accelerated service delivery and infrastructure development	x – x

30. The material findings in respect of the usefulness and reliability of the the selected KPA are as follows:

KPA1 – Accelerated service delivery and infrastructure development

Various indicators

31. The source information, evidence and method of calculation for achieving the planned indicator was not clearly defined for the indicators listed below. In addition, the planned targets for these indicators were not specific in clearly identifying the nature and required level of performance, were not measurable and did not specify the period or deadline for delivery.

Key performance indicator	Planned target
Caledon abstraction upgraded by 2020	Upgrading of caledon raw water abstraction point in Fouriesburg.
32 723 & 85% of households with access to electricity	Construction of Bakenpark ext 5 phase 1- bulk infrastructure, 4 km line.
Upgrade of the faulty BTU's in 5 substations	Construction of Bakenpark ext 5 phase 1- bulk infrastructure, 4 km line.
Maintenance of streetlight, high mast lights and traffic signals	Replacement of the faulty parts of the LV and MV electricity network.
	Replacement of the faulty meters within DLM network.
	Procurement of materials.
Replacement of the faulty electricity meters and regular inspection of the meters	Replacement of the faulty BTU's in 5 substations

Key performance indicator	Planned target
Monthly reporting of waste information system	Waste information being reported on the WIS at the Department of Environmental Affairs as required by legislation.
Maintenance of cemeteries	Implementation of maintenance plan
Ensure that the required burial space is available	Regular digging of graves (average of 1 170 graves for the year).
Maintained parks, open spaces, nursery and environmental areas	Implementation of maintenance program.
Urban greening	Planting of 400 street trees in Dihlabeng.
	Ongoing maintenance of street trees.
Maintenance of nursery	Maintenance of nursery.
To submit a business plan and to monitor quarterly targets	Monitoring of implementation of conditional grants for public library services
A functional sport and recreation council with all sporting codes affiliated.	Procurement of sport resources for sport events and support Sport and recreation programmes support municipal and district OR Tambo games.
24 well-maintained sport and recreational facilities accessible for public use	Ongoing implementation of maintenance program.
A functional arts and culture council with all groupings affiliated	Arts and culture events.
To establish and maintain effective institutional arrangements	Interdepartmental disaster risk management committee (IDRMC) meetings held on a quarterly basis.
	Dihlabeng disaster risk management advisory forum meetings held on a quarterly basis.
To capacitate stakeholders by means of public education and awareness	Hold public education / awareness programmes in all units.
To minimise response time to reported incidents	Respond to incidents within 5 to 10 minutes in urban areas.
To extend services to all areas	Extend fire services to Fouriesburg.
To capacitate community by means of environmental education and awareness	Conducting public environmental awareness/education in all four units on a quarterly basis.
Daily maintenance and operation of registered and functional landfill site	Management of landfill site.
Development and implementation of maintenance plan	Construction of Bakenpark ext 5 phase 1 bulk infrastructure, 4 km line.
44 km raw water pipeline constructed by 2020	Construction of 44 Km raw water pipe line from Bethlehem to Fouriesburg.
Waste treatment works developed/upgraded by 2020 Fouriesburg Rosendal and Bohlokong	Upgrading of the 2,2 MI Waste water treatment works in Fouriesburg.
	Refurbishment of 4 sewer pump stations in Bethlehem/Bohlokong.

Key performance indicator	Planned target
	Upgrading of La Province sewer pump station and rising main.
Bohlokong upgrading of phase 7 sports facility	Construction of sports facility.
To construct sport and recreation facility in Bohlokong WARD 6 by 2019	Upgrading of 2nd sports and recreational facility at phase 7.
An adopted spatial development framework that guides future planning and development applications received	An adopted spatial development framework that guides future planning and development applications received.
Improved road safety by conducting 12 roadblocks per quarter	Improved road safety.
To comply with disaster risk management act by submitting of the approved disaster risk management plan	Review disaster risk plan.

Various indicators

32. The measures taken to improve performance against the targets for the following indicators were not included in the annual performance report.

Indicator description
1000 additional households to be provided with water connections by 2019 in Rosendal. Access to water increased from 96,8% to 98,9% by 2019
Waste treatment works developed / upgraded by 2020 Fouriesburg, Rosendal and Bohlokong
To extend services to all

Various indicators

33. The reported achievement for the following planned indicators and targets were not consistent with the planned targets as per the approved service delivery and budget implementation plan:

Indicator	Target	Reported achievement
1000 additional households to be provided with water connections by 2019 in Rosendal. Access to water increased from 96,8% to 98,9% by 2019.	Installation of water networks for 1000 sites.	30% Construction progress of project (Not realised)
Waste treatment works developed/upgraded by 2020 Fouriesburg, Rosendal and Bohlokong	Upgrading of the 2,2 ml wastewater treatments works in Fouriesburg	35% contraction (Not realised)
Waste treatment works developed / upgraded by 2020 Fouriesburg, Rosendal and Bohlokong	Upgrading of La Province sewer pump station and rising main	86% Complete

Indicator	Target	Reported achievement
1000 Households to be provided with sanitation connection by 2019 in Rosendal. Access to water increased from 96,8% by 2019.	Installation of sewer networks for 1000 sites in Rosendal by 2019	Appointment of contractor and 45% construction (Not realised)
32 723 and 85% of households with access to electricity	Construction of Bakenpark ext 5 phase 1 bulk infrastructure, 4km line	Construction of bulk feeder line is 85% in progress (Realised)
Upgrade of the faulty BTU's in 5 substations	Construction of Bakenpark ext 5 phase 1 bulk infrastructure, 4 km line	Construction of bulk feeder line is 85% in progress
Maintenance of streetlight, high mast lights and traffic signals	Replacement of the faulty parts of the LV and MV electricity network	Mini sub installed and energised (Realised)
	Procurement of materials	Installation of traffic signal R26 intersection (Realised)
	Procurement of materials	Construction of lines and installation of electricity in the houses of the farm dwellers (Realised)
Bohlokong resealing of Tsoella and De Villiers streets	Resealing of 4 km roads	100% construction progress of the project (Realised)
Extend fire services to Fouriesburg	Extend fire services to Fouriesburg.	90% completed (Not realised)
Improved road safety by conducting 12 roadblocks per quarter	Improved road safety	Scholar patrols were conducted on a daily basis at schools (Realised)
Development and implementation of the maintenance plan	Construction of Bakenpark ext 5 phase 1 bulk infrastructure, 4km line	75% construction of the 4 km line (Realised)
To minimise response time to reported incidents.	Respond to incidents within 5 to 10 minutes in urban areas	Respond to all emergencies within 10 - 15 minutes (Realised)

Indicator	Target	Reported achievement
To participate in the reading festival programme	To successfully participate in the reading festival programme	Library round took place on 13 June 2019 at Bohlokong public library (Realised)
Urban greening	Planting of 400 street trees in Dihlabeng	Ongoing maintenance of pruning of street trees at Middle town, Panorama and Morelig (Showground), Gedenk, Goldberg, Baartman, Lughawe, Buite, Ludik, Pretorious and Artbara spruit (Realised)
55 Illegal corner dumps cleaned quarterly in Bethlehem	Illegal dumps cleaned quarterly	Ongoing cleaning of corner dumps on a weekly basis (Realised)
An adopted spatial development framework that guides future planning and development applications received	Review the current SDF and submit to council for adoption	The project was delayed due to the service providers not adhering to the time frames. Phase 1-3 have been completed, we are now on phase 4 of the project (Not realised)
Monthly reporting of waste information system	Waste information being reported on WIS at the Department of Environmental Affairs as required by legislation.	Information regarding municipal waste tonnages was forwarded to DEA (Realised)

All indicators

34. A comparison between the planned and actual performance of the year under review and the previous year was not included in the annual performance report for all performance indicators and targets.

Various indicators

35. The reported achievement in the annual performance report did not agree to the supporting evidence provided for the indicators listed below. The supporting evidence provided indicated that the achievements of these indicators were as follows:

Indicator description	Reported achievement	Audited value
Bohlokong construction of Lomond 2,8 km tarred road and storm water channels	100 % completion, 2,8 km tarred road	100 % completion of 2,6 km per completion certificate

32 723 and 85% of households with access to electricity	Construction of bulk feeder line at 85% progress	73% completion stage as per progress report
Upgrade of the faulty BTU's in 5 substations (100% adherence to OHS Act) / (Maintain and repair both low voltage network and medium voltage network)	Construction of bulk feeder line at 85% progress	73% completion stage as per progress report
Development and implementation of the maintenance plan	Construction of bulk feeder line at 85% progress	73% completion stage as per progress report
Ensure that the required burial space is available	average of 1 170 graves	1 114 graves on all four quarters

Various indicators

36. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the indicators listed below. This was due to limitations placed on the scope of my work as no listings/progress reports on the status of the projects was submitted. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of performance achievement as reported in the annual performance report.

Indicator description	Planned target	Reported achievement
1000 additional households to be provided with water connections by 2019 in Rosendal. Access to water increased from 96,8% to 98,9% by 2019	Installation of water networks for 1000 sites	30% Construction progress of project (Not realised)
1000 Households to be provided with sanitation connection by 2019 in Rosendal. Access to water increased from 96,8% by 2019	Installation of sewer networks for 1000 sites in Rosendal by 2019	Appointment of contractor and 45% construction (Not realised)
Maintenance of streetlight, high mast lights and traffic signals	Replacement of the faulty parts of the LV and MV electricity network	Mini sub installed and energised (Realised)
	Replacement of the faulty lights, poles and LED lights for traffic signals	Replacement of 21 poles of streetlight, 82 complete streetlight fittings, 170 bulbs, 18 traffic signals LED's and poles etc. (Realised)
	Procurement of materials	Installation of traffic signal R26 intersection. (Realised)
	Procurement of materials	Construction of lines and installation of electricity in the houses of the farm dwellers (Realised)

Indicator description	Planned target	Reported achievement
46 857 of households with access to weekly refuse removal and solid waste disposal	Adherence to schedule	Refuse removal is collected as per schedule. (Realised)
Maintained parks, open spaces, nursery and environmental areas	Implementation of maintenance program.	Ongoing implementation of maintenance plan (Realised)
Urban greening	Planting of 400 street trees in Dihlabeng	Maintenance of street trees (Realised)
	Ongoing maintenance of street trees	Ongoing implementation of maintenance plan (Realised)
Maintenance of nursery	Maintenance of nursery	Maintenance of nursery (Realised)
To participate in the reading festival programme	To successfully participate in the reading festival programme.	Reading festival competition library round (Realised)
To promote usage and access within the libraries	8 Library events held	World book event day, lets apply early. (Realised)
A functional sport and recreation council with all sporting codes affiliated.	Ongoing implementation of maintenance plan	(Realised)
24 well-maintained sport and recreational facilities accessible for public use.	Arts and culture events	Support arts and culture artists/groups (Realised)
A functional arts and culture council with all groupings affiliated	Ongoing implementation of maintenance programme.	Ongoing implementation of maintenance plan. (Realised)
To establish and maintain effective institutional arrangements	Dihlabeng disaster risk management advisory forum meetings held on quarterly basis.	Hold advisory forum meeting (Realised)
To capacitate stakeholder by means of public education and awareness	Hold public education / awareness programmes in all units.	Conduct public education / awareness in Rosendal and Paul Roux (Realised)
To minimise response time to reported incidents	Review disaster risk plan	Approval of the plan (Not Realised)
To initiate community fire safety programmes	Respond to incidents within 5 to 10 minutes in urban areas.	Respond to all emergencies within 10 - 15 minutes (Realised)

Indicator description	Planned target	Reported achievement
To extend services to all areas	Conduct 48 fire inspections and 4 prevention initiatives at schools/ churches/ business and do 18 firebreaks.	(Realised)
Improved road safety by conducting 12 roadblocks per quarter.	Extend fire services to Fouriesburg.	Respond to all emergencies within 10 - 15 minutes. (Not realised)
To capacitate community by means of environmental education and awareness	Enforce traffic laws. Conduct 48 roadblocks.	To conduct 12 roadblocks (Realised)
Improved road safety by conducting 12 roadblocks per quarter	Improved road safety	To conduct scholar patrols daily at school (Realised)
Daily maintenance and operation of registered and functional landfill site	Management of landfill sites	Ongoing, maintenance and inspection of the landfill site, (Realised)
Maintenance of cemeteries well maintained	Implementation of maintenance plan	Ongoing maintenance of parks (Realised)
Resealing of 4 km roads (Tsetella and DeVilliers)	Resealing of 4 km road	100% Complete (Realised)
Waste treatment works developed/ upgraded by 2020 Fouriesburg , Rosendal and Bohlokong	Upgrading of the 2,2 ml waste water treatment works in Fouriesburg	35% Contraction
Maintenance of cemeteries	Implementation of maintenance plan	Maintenance was done on an ongoing basis. Grass cut at Muller -, Utopia -, Rigter - and Morelig Cemetery (Realised)
Replacement of faulty electricity meters and regular inspection of the meters	Replacement of the faulty BTU's and 5 substations	100% installation of BTU's (Realised)
Improved road safety by conducting 12 roadblocks per quarter	Enforce traffic laws by conducting 48 roadblocks.	Conducted 16 Roadblock: (Split per Quarter) (Realised)
	Improved road safety	
Cleaning of 40 streets in the CBD on a daily basis	Ensure that street sweepers clean the daily	Streets were cleaned in the CBD on a daily basis

Indicator description	Planned target	Reported achievement
		(Realised)
Daily maintenance and operation of registered and functional landfill site	Management of landfill sites	Service Provider is on site doing landfill site maintenance (Realised)
Maintenance of streetlight, high mast lights and traffic signals	Replacement of the faulty parts of LV and MV electricity network	Mini sub installed and energized (Realised)
	Replacement of the faulty lights, poles and LED lights for traffic signals	Replacement of 21 poles of streetlights, 82 complete streetlight fittings, 170 bulbs, 18 Traffic signals LED's and poles etc. (Realised)
	Procurement of materials	Construction of lines and installation of electricity in the houses of the farm dwellers (Realised)
55 illegal corner dumps cleaned quarterly in Bethlehem	55 Illegal corner dumps cleaned quarterly	Ongoing cleaning of corner dumps on a weekly basis. (Realised)

Other matters

37. I draw attention to the matters below.

Achievement of planned targets

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

Adjustment of material misstatements

39. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA1- accelerated service delivery and infrastructure development. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Introduction and scope

40. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
41. The material findings on compliance with specific matters in key legislations are as follows:

Annual financial statements

42. 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, liabilities, 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.

Expenditure management

43. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
44. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred, as required by section 65(2)(b) of the MFMA.
45. Reasonable steps were not taken to prevent irregular expenditure amounting to R53 694 085 as disclosed in note 50 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with SCM requirements.
46. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R12 611 666, as disclosed in note 49 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the fruitless and wasteful expenditure was incurred due to interest payable on overdue accounts.
47. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R241 087 377, as disclosed in note 48 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 of the approved budget.

Revenue management

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

Asset management

49. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.

Liability management

50. An adequate management, accounting and information system which accounts for liabilities was not in place, as required by section 63(2)(a) of the MFMA.

51. An effective system of internal control for liabilities (including a liability register) was not in place, as required by section 63(2)(c) of the MFMA.

Strategic planning and performance management

52. The service delivery and budget implementation plan (SDBIP) for the year under review did not include the monthly operational and capital expenditure by vote as required by section 1 of the MFMA.

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

54. Performance targets were not set for each of the KPIs for the financial year, as required by section 41(1)(b) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) and municipal planning and performance management regulation 12(1).

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

Procurement and contract management

56. 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(a) and (c). Similar non-compliance was also reported in the prior year.

57. Some of the quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). Similar non-compliance was also reported in the prior year.

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

59. Some of the competitive bids were adjudicated by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2). Similar non-compliance was also reported in the prior year.

60. The preference point system was not applied for some of the procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act of South Africa, 2000 (Act no. 5 of 2000) (PPPFA).

61. Some of the quotations were awarded to bidders based on preference points that were not calculated in accordance with the requirements of the PPPFA and its regulations.
62. 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.

Consequence management

63. Some of the irregular 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.
64. Some of the 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.
65. Allegations of fraud / forgery / uttering a forged document by consultancy firm which exceeded R100 000 were not reported to the South African Police Service, as required by section 34(1) of the Prevention and Combating of Corrupt Activities Act, 2004 (Act no. 12 of 2004).

Conditional grants

66. Performance in respect of programmes funded by the water services infrastructure grant was not evaluated, as required by section 12(5) of Dora.

Human resource management

67. The municipal manager did not sign performance agreements within the prescribed period, as required by section 57(2)(a) of the MSA.
68. Senior managers were appointed without submitting original / certified copies of academic and professional qualifications prior to signing employment contracts, as required by municipal performance regulation 4(4)(b).
69. Job descriptions were not established for all posts in which appointments were made, as required by section 66(1)(b) of the MSA.
70. 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.

Other information

71. 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 the selected KPA presented in the annual performance report that have been specifically reported in this auditor's report.
72. 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 thereon.

73. 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 KPA presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
74. 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

75. 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, findings on the annual performance report and the findings on compliance with legislation included in this report.
76. Leadership did not design and communicate an anti-fraud and corruption prevention plan to enable and support understanding and execution of internal control objectives, processes and responsibilities. This was due to slow response by political leadership as the municipal council has not implemented measures to counteract allegations of fraud in the municipality.
77. Leadership did not implement adequate oversight controls over the implementation of action plans designed to address prior year findings. The corrective actions were not adequately monitored to ensure successful implementation.
78. Leadership did not implement adequate human resource strategies to ensure that the municipality has an adequate, skilled and experienced work force.
79. Management did not implement adequate monthly and daily disciplines over financial and performance reporting. Errors and omissions were thus not timely identified and corrected.
80. Management did not implement adequate controls over filing of documentation in support of reported transactions and performance information.
81. Management did not implement adequate monitoring controls to ensure compliance with laws and regulations.
82. Management did not implement adequate risk management strategies and governance structures to identify, prevent and or mitigate risks to financial and performance reporting and non-compliance.
83. The internal audit function was not adequately staffed and did not complete the annual internal audit plan.
84. The audit committee was not appropriately constituted at the reporting date and did not report to council during the year due to limitation imposed by council.

Other reports

85. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
86. The municipality was under investigation by the Directorate for Priority Crime Investigation (Hawks) on allegations of irregularities in SCM and disposal of assets. The investigation commenced in the prior year and was still ongoing at the reporting date.
87. The Directorate for Priority Crime Investigation (Hawks) investigated an allegation of irregularities in the SCM processes relating to the appointment of a service provider for security services, which covered the period 2015 to 2017. The municipal manager has been charged in a court of law regarding this matter. These proceedings were in progress at the date of this auditor's report.

Auditor - General

Bloemfontein

30 November 2019



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 KPA 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 related to events or conditions that may cast significant doubt on the Dhlabeng Local Municipality’s ability 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 the 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 continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and 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 confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.