

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

Report on the financial statements

Introduction

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 2016, the 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 the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements 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, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2015 (Act No. 1 of 2015) (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.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Dhlabeng Local Municipality as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

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

Unauthorised expenditure

8. As disclosed in note 50 to the financial statements, the municipality incurred unauthorised expenditure of R76 123 483 (2015: R102 474 833) during 2015-16 due to expenditure that exceeded the limits provided for in the main divisions of the approved budget.

Irregular expenditure

9. As disclosed in note 52 to the financial statements, the municipality incurred irregular expenditure of R37 079 173 (2015: R37 635 488), which was mainly due to non-compliance with supply chain management (SCM) requirements in respect of procurement transactions. In addition, the full extent of irregular expenditure is still in the process of being determined.

Fruitless and wasteful expenditure

10. As disclosed in note 51 to the financial statements, the municipality incurred fruitless and wasteful expenditure of R11 887 300 (2015: R14 200 244) in 2015-16 due to interest and penalty charges on the late payment of suppliers.

Restatement of corresponding figures

11. As disclosed in note 46 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of errors discovered during 2015-16 in the financial statements of the municipality at, and for the year ended, 30 June 2015.

Material losses

12. As disclosed in note 23 to the financial statements, material water losses of 32,78% (2015: 26,70%) and electricity losses of 7,83% (2015: 13,25%) were incurred by the municipality due to leakages in the water networks as a result of an aging infrastructure and illegal connections in the electricity network.

Material impairments

13. As disclosed in note 7 to the financial statements, trade receivables from exchange and non-exchange transactions were impaired by R566 411 512 (2015: R530 625 337).

Going concern

14. Note 48 to the financial statements indicates that the municipality incurred a net loss of R54 274 727 (2015: R48 665 770) during the year ended 30 June 2016 and, as of that date, the municipality's current liabilities exceeded its current assets by R214 755 350 (2015: R158 489 350). In addition, the municipality owed Eskom R108 217 546 (2015: R75 235 752) as at 30 June 2016 which is long overdue. These conditions, along with other matters as set forth in note 48, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern and to meet its service delivery objectives.

Additional matters

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

Unaudited disclosure notes

16. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

Supplementary explanations of budget variances presented outside the financial statements

17. The supplementary explanations of budget variances contained in the accounting officer's report, as referred to in note 54, do not form part of the financial statements. We have not audited these explanations and, accordingly, we do not express an opinion on it.

Report on other legal and regulatory requirements

18. In accordance with the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives of selected key performance areas presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on them.

Predetermined objectives

19. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following selected key performance area presented in the annual performance report of the municipality for the year ended 30 June 2016:
 - Key performance area 1: Accelerated services delivery and infrastructure development on pages x to x

20. I evaluated the usefulness of the reported performance information to determine whether it was consistent with the planned key performance areas. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for Managing Programme Performance Information (FMPPi).
21. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
22. I did not identify material findings on the usefulness and reliability of the reported performance information for the following key performance area:
 - Key performance area 1: Accelerated services delivery and infrastructure development on pages x to x

Additional matters

23. Although I identified no material findings on the usefulness and reliability of the reported performance information of the selected key performance area, I draw attention to the following matters:

Adjustment of material misstatements

24. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of key performance area 1: Accelerated services delivery and infrastructure development. As management subsequently corrected the misstatements, I did not identify any material findings on the usefulness and reliability of the reported performance information.

Unaudited supplementary information

25. The supplementary information set out on pages xx to xx does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report on them.

Compliance with legislation

26. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Strategic planning and performance management

27. The service delivery and budget implementation plan for implementing the municipality's delivery of municipal services and annual budget did not indicate projections for each month of the revenue to be collected, by source and the operational and capital expenditure, by vote, as required by section 1 of the MFMA.

Annual financial statements

28. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 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 statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Human resource management and compensation

29. Sufficient appropriate audit evidence could not be obtained that job descriptions were established for all posts in which appointments were made in the current year, as required by section 66(1)(b) of Municipal Systems Act, 2000 (Act no. 32 of 2000) (MSA).

Expenditure management

30. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
31. Reasonable steps were not taken to prevent unauthorised, irregular, fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Procurement and contract management

32. Goods and services with a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).

Asset management

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

Consequence management

34. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
35. Irregular, 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.

Revenue management

36. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

Internal control

37. I considered internal control relevant to my audit of the financial statements, annual performance information report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on non-compliance with legislation included in this report.

Leadership

38. Management did not adequately exercise its oversight responsibility over compliance with laws and regulations as well as ensuring that the internal control environment is effective. There was no audit action plan during the year under review and this resulted in findings recurring in the current year.
39. Management did not monitor approved internal policies and procedures to address planning and implementation processes and events pertaining to performance management and reporting.

Financial and performance management

40. Inadequate monitoring and supervision over financial, performance and compliance reporting resulted in material corrections that had to be made to the financial statements and performance information.
41. Policies and procedures in respect of information technology management were not implemented adequately, due to lack of skilled staff with the information technology department.

Governance

42. Management did not in all instances implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.
43. The audit committee, although established, was not functional for a major part of the year. This resulted in the internal audit department not being able to report on any of its work performed during the year. This also contributed to some of the findings recurring in the current year.

Other reports

Investigation

44. An internal investigation was instituted by the municipality, into possible irregularities with the cash count process at certain units in the municipal area. At the time of reporting, the mandate of the investigation was not made available but, according to management the investigation covered the daily banking and the cash collection services at the units. The investigation is currently in progress.

Auditor-General

Bloemfontein

30 November 2016



AUDITOR-GENERAL
SOUTH AFRICA

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