Report of the Auditor-General to the Eastern Cape Provincial Legislature and the council on Buffalo City Metropolitan Municipality and its municipal entity

Report on the audit of the consolidated and separate financial statements

Qualified opinion

1. I have audited the consolidated and separate financial statements of the Buffalo City Metropolitan Municipality and its municipal entity (the group) set out on pages.....to......, which comprise the statement of financial position as at 30 June 2023, statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as notes to the consolidated and separate 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 auditors report, the consolidated and separate statement financial statements present fairly, in all material respects, the financial position of the group as at 30 June 2023, and its financial performance and cash flows for the year then ended in accordance with South African Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act, (Act 56 of 2003)(MFMA) and the Division of Revenue Act of South Africa, (Act No.5 of 2022) (Dora)

Basis for the qualified opinion

Property, plant and equipment

3. I was unable to obtain sufficient appropriate audit evidence that property, plant and equipment was properly accounted for, due to the accounting records provided in support of these assets not being supported by sufficient appropriate audit evidence. I was unable to confirm these assets by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to property, plant and equipment stated at R24,9 billion (2022: R24,5 billion) in note 4 to the consolidated and separate financial statements.

Service charges

4. Service charges revenue was not recognised as required by *GRAP 9, Revenue from exchange transactions*. Properties were identified for which service charges were not billed and recorded. I was unable to determine the full extent of the understatement of service charges, stated at R3,8 billion in note 25 to the consolidated and separate financial statements, and related receivable from exchange transactions, stated at R2,1 billion in note 10 to the consolidated and separate financial statements, as it was impracticable to do so.

Commitments

5. Commitments were not accounted for in terms of *GRAP 17, Property, plant and equipment.* Commitments on capital assets in progress which are not commitments were disclosed. Consequently, commitments were overstated by R125,5 million in note 50 to the consolidated and separate financial statements.

Context for 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 responsibilities of the auditor-general for the audit of the consolidated and separate financial statements section of my report.

7. I am independent of the group 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.

Restatement of corresponding figures

10. As disclosed in note 53 to the consolidated and separate financial statements of the group, the corresponding figures for 30 June 2022 have been restated as a result of errors identified in the consolidated and separate financial statements of the group at, and for the year ended, 30 June 2023.

Material losses and impairments

11. As disclosed in note 11 to the consolidated and separate financial statements, material allowances for impairment of R4,1 billion (2022: R3,6 billion) was incurred as a result of long outstanding debts owed by consumer debtors.

12. As disclosed in note 41 to the consolidated and separate financial statements, material electricity losses of R375,4 million (2022: R413,4 million) were incurred, which represents 19% (2022: 20%) of total electricity purchased. The non-technical losses amounted of 9% (2022: 10%) and was due to theft faults and billing errors.

13. As disclosed in note 41 to the consolidated and separate financial statements, material water losses of R152,3 million (2022: R139,3 million) were incurred, which represents 38% (2022: 38%) of the total water cost. The non-technical losses amounted to 15% (2022: 16%) and was mainly due to theft or illegal access as well as technical and administrative inaccuracies associated with customer metering.

Underspending on conditional grants

14. As disclosed in note 17 to the consolidated and separate financial statements, the group underspent their conditional grants by R255,2 million (2022: R283,5 million).

Other matter

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

Unaudited disclosure note

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

Responsibilities of the accounting officer for the consolidated and separate financial statements

17. The accounting officer is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with 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 consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

18. In preparing the consolidated and separate financial statements, the accounting officer is responsible for assessing the group'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 group or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the auditor-general for the audit of the consolidated and separate financial statements

19. My objectives are to obtain reasonable assurance about whether the consolidated and separate 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 consolidated and separate financial statements.

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

Report on the audit of the annual performance report

21. 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 against predetermined objectives for the selected objectives presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

22. I selected the following objectives presented in the annual performance report for the year ended 30 June 2023 for auditing. I selected objectives that measure the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.

Strategic Outcome	Page numbers	Purpose
A Green City	XX	Sustain the environment with optimum benefits from natural assets. Clean and healthy city.
A Connected City	XX	High quality connections to ICT, electricity, and transport networks.
A Spatially Transformed City	XX	Overcome apartheid spatial divisions and fragmentations with townships economies becoming more productive.
A Well Governed City	XX	Smart and responsive municipality that plans and efficiently delivers high quality services and cost-effective infrastructure without maladministration and political disruptions.

23. I evaluated the reported performance information for the selected strategic outcomes 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.

24. 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 strategic outcomes.
- 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 is presented in the annual performance report in the prescribed manner.
- there is adequate supporting evidence for the achievements reported and for the reasons provided for any overachievement or underachievement of targets / measures taken to improve performance.

25. I performed the procedures for the purpose of reporting material findings only; and not to express an assurance opinion or conclusion.

26. The material findings on the reported performance information for the selected strategic outcomes are as follows:

A Green City

Various indicators

27. Some supporting evidence was not provided for auditing; and, where it was, I identified material differences between the actual and reported achievements. Consequently, the achievements might be more or less than reported and were not reliable for determining if the targets had been achieved.

Indicator	Target	Reported achievement
Number of coastal water samples taken for monitoring purposes	400	716
Number of inland water samples taken for monitoring purposes.	400	438

Number of inland water samples taken for monitoring purposes

28. The APR includes a duplicate indicator for inland water samples taken for monitoring purposes. One of the duplicated indicators was planned in the SDBIP as midland water samples taken for monitoring purposes but however was reported as inland water samples taken for monitoring purposes (ENV5.2 1(a)). Furthermore, an achievement of 259 inland water samples taken for

monitoring purposes was reported against a target of 200 inland water samples taken for monitoring purposes. However, some supporting evidence was not provided for auditing; and, where supporting evidence was provided, I identified material differences between the actual and reported achievements. Consequently, the achievement might be more or less than reported and was not reliable for determining if the target had been achieved.

A Connected City

Various Indicators

29. I could not determine whether the achievement of the below mentioned indicators were reported correctly against the respective targets, as there were no processes to consistently measure and report on achievements against planned indicators. Adequate supporting evidence was also not provided for auditing. Consequently, the reported achievements might be more or less than reported and was not reliable for determining if the target had been achieved.

Indicator	Target	Reported achievement
Percentage of surfaced municipal road lanes which has been resurfaced and resealed.	0.9%	1.3%
Installed capacity of approved embedded generators on the municipal distribution network	0	4,7MW
Percentage of unsurfaced road graded	4,4%	5,3%

Various Indicators

30. Based on audit evidence, the actual achievement for 2 indicators did not agree to the achievements reported. Consequently, the targets were not achieved, the under achievements on the targets were more than reported and the achievements against the target were lower than reported.

Indicator	Target	Reported achievement	Actual achievement
Percentage of valid customer application for new electricity connections processed	100%	100%	86%
Km's of new municipal road network	15km	19,138km	0.1 km

Percentage of planned maintenance performed

31. An achievement of 87.6% was reported against a target of 70%. However, some supporting evidence was not provided for auditing; and, where it was, I identified material differences between the actual and reported achievements. Consequently, the achievement might be more or less than reported and was not reliable for determining if the target had been achieved.

Km of gravel road upgraded to surface standard

32. The measures taken to improve performance against the target of 6km were not reported in the annual performance report. This would make it difficult for users to determine what actions will be taken to improve service delivery.

A Spatially Transformed City

Percentage of total water connections metered

33. An achievement of 91% was reported against a target of 95%. However, some supporting evidence was not provided for auditing; and, where it was, I identified material differences between the actual and reported achievements. Consequently, the achievement might be more or less than reported and was not reliable for determining if the target had been achieved.

34. Further the reasons for the underachievement of the reported achievement of 91% against the planned target of 95%, did not agree to the supporting evidence. The supporting evidence indicated the reasons to be, the flat rated consumer accounts were included in the BP92 report for the months of May to June 2023 and not excluded as indicated in the annual performance report.

A Well Governed City

Number of informal settlements enumerated and classified (in terms of NUSP or equivalent)

35. An achievement of 46 was reported against a target of 46. I could not determine if the reported achievement was correct, as adequate supporting evidence was not provided for auditing. Consequently, the achievement might be more or less than reported and was not reliable for determining if the target had been achieved.

Percentage of wastewater treatment capacity unused

36. An achievement of 56% was reported against a target of 40%. However, some supporting evidence was not provided for auditing; and, where it was, I identified material differences between the actual and reported achievements. Consequently, the achievement might be more or less than reported and was not reliable for determining if the target had been achieved.

Other matters

37. I draw attention to the matters below.

Achievement of planned targets

38. The annual performance report includes information on reported achievements against planned targets and provides explanations for overachievements or underachievements and measures taken to improve performance. This information should be considered in the context of the material findings on the reported performance information.

39. The municipality plays a key role in delivering services to South Africans. The tables that follow provide 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 reasons for any underachievement of targets / measures taken to improve performance are included in the annual performance report on pages [xx to xx].

A Connected City

Targets achieved: 94.1% *Budget spent: 96.6%*		
Key service delivery indicator not achieved	**Planned target**	**Reported achievement**
Km of gravel roads upgraded to surfaced standard	6km	5.9km

A Spatially Transformed City

Targets achieved: 81.8% *Budget spent: 56.2%*		
Key service delivery indicator not achieved	**Planned target**	**Reported achievement**
Percentage of total water connections metered	95%	91%
`Number of serviced sites	629	378

Material misstatements

40. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for A Green City, A Connected City, A Spatially Transformed City and A Well Governed City.

41. Management did not correct any of the misstatements and I reported material findings in this regard.

Report on compliance with legislation

42. 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.

43. 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.

44. 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.

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

Annual financial statements

46. 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 identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a qualified audit opinion.

Strategic planning and performance management

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

48. The SDBIP for the year under review did not include the service delivery targets for some quarters, as required by section 1 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.

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

Revenue management

51. An adequate management, accounting and information system which accounts for revenue was not in place, as required by section 64(2)(e) of the MFMA.

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

Expenditure management

53. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with section 112 of the MFMA.

Human resource management

54. 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.

Procurement and contract management

55. 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). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM Regulation 36(1).

56. Bid specifications for some of the tenders were drafted in a biased manner and did not allow all potential suppliers to offer their goods or services, in contravention of SCM Regulation 27(2)(a). This non-compliance was identified in the procurement processes for the CE 393: Supply, installation and management of a prepayment electricity vending system incorporating third party collection service for Buffalo City Metropolitan Municipality for a period of three years.

57. The preference point system was not applied procurement of goods and services as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act.

58. Some of the construction contracts were awarded to contractors that were not registered with the CIDB and/or did not qualify for the contract in accordance with section 18(1) of the CIDB Act.

59. 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.

60. The contract performance and monitoring measures and methods are inadequate as required by Section 116 (2)(c)(ii).

Consequence management

61. Irregular and fruitless and wasteful expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

62. Cases of irregular expenditure that constituted a criminal offence were not reported to the South African Police Service, as required by section 32(6) of the MFMA.

Environment management

63. The following wastewater treatment plants did not have valid operating licenses as required by section 22(1)(b) of the National Water Act:

■ Amalinda/Central ■ Berlin ■ Breidbach ■ Dimbaza ■ East Bank ■ Gonubie ■ Kayser's Beach ■ Kidd's Beach ■ Mdantsane ■ Potsdam ■ Schornville ■ Westbank.

Other information in the annual report

64. The accounting officer is responsible for the other information included in the annual report. The other information referred to does not include the consolidated and separate financial statements, the auditor's report and those selected strategic outcomes presented in the annual performance report that have been specifically reported on in this auditor's report.

65. My opinion on the consolidated and separate 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.

66. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the consolidated and separate financial statements and the selected strategic outcomes presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

67. I did not receive the other information prior to the date of this 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

68. I considered internal control relevant to my audit of the consolidated and separate financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.

69. 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 the annual performance report and the material findings on compliance with legislation included in this report.

70. Leadership's and management's oversight responsibility to ensure credible and reliable financial and performance reporting as well as compliance with legislation was limited due to inadequate coordination and monitoring between directorates of the municipality leading to financial and performance report and non-compliance with legislation findings being reported.

71. The SCM and performance management policies and procedures implemented by management were inadequate to ensure fairness, competitiveness and transparency when procuring goods and services. This, together with a lack of monitoring of contracts resulted in non-compliance with SCM regulations and the incurrence of irregular expenditure as well as resulting in the raising of material findings for performance reporting.

72. The daily and monthly disciplines required by management were inadequate to account for all the financial and performance processes of the municipality. Furthermore, management did not prepare regular, accurate and complete financial and performance reports supported and evidenced by reliable information.

Material irregularities

73. 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 material irregularities as previously reported in the auditor's report.

Material irregularities identified during the audit

74. The material irregularities identified are as follows:

Loss of revenue from rental of municipal properties

75. The municipality did not appropriately bill rental debtors in line with their lease agreements and did not appropriately apply escalation rates contained in lease agreements since inception of the lease agreement. The non-compliance was identified during October 2022 and related to the under-billing of rental debtors from the 2020-21 financial year onwards and there is still a continued loss of revenue as the municipality does not have an appropriate document management system to record and bill the rental debtors thereby resulting in non-compliance with section 64(2)(e) of the MFMA.

76. I notified the accounting officer of the material irregularity on 8 December 2022 and invited him to make a written submission on the actions taken. The accounting officer responded by providing a plan with timelines on actions that would be implemented to address the material irregularity.

77. The municipality is still in the process of updating and renewing lease agreements with corrected lease values, however there are legal processes that first needs to be followed to

ensure that no breach of contractual obligations is committed by the municipality as some contracts have an automatic renewal clause. This process is nearly at completion stage. The process to establish a documentation management system to better record and calculate revenue to be billed is also still in progress and expected to be concluded during the first quarter of the 2023-24 financial year.

78. Monthly workgroup meetings have been set up between the spatial development and finance department to facilitate monthly reviews of the lease register against the billing report to ensure that the debtor being correctly billed and that the lease register is valid, accurate and complete.

79. The accounting officer has also delegated relevant department heads to investigate the root causes that led to unbilled lease debtors. The outcome of the investigation is still pending and the outcome will determine whether any disciplinary actions will need to be taken against persons found responsible for losses emanating from the under-billing of the lease debtors.

80. A further follow up will be done in the next audit to determine progress made in implementing the remaining actions required by the municipality in addressing the material irregularity.

Material irregularities in progress

81. I identified another material irregularity during the audit and notified the accounting officer, 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 response from the accounting officer. This material irregularity will be included in next year's auditor's report.

Status of previously reported material irregularities

Vandalism and theft of completed asset

82. The municipality did not comply with section 63(2)(c) read together with section 63(1)(a) of the MFMA which requires that the accounting officer of a municipality be responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets. Management did not safeguard Phase 2 completed on 10 February 2020 of the Gonubie Beacon Bay link road post-handover from the contractor which resulted in vandalism and theft. The road will only be brought into use once all phases of the five phased project are complete. The non-compliance has resulted in a material financial loss of R4,1 million.

83. I notified the accounting officer of the material irregularity on 4 July 2022 and invited him to make a written submission on the actions taken. The accounting officer has responded by indicating that there is a lack of own revenue and grant revenue forecast to complete the remaining phases of the road in order to bring it into use and also concluded that no official could be held accountable for the loss.

84. On the basis of a preliminary investigation a cost-benefit analysis was performed in the 2021-22 financial year and in the 2022-23 financial year the municipality completed the fencing the of the road and submitted an application to Infrastructure South Africa on 3 July 2023 to secure

funding for phases 3 to 5 of the project. At the date of this report the outcome of this application has not been confirmed.

85. I will follow up this matter in the next audit.

Revenue for water services not calculated on a monthly basis

86. The municipality did not charge water service charges for 8 337 properties for the year ended 30 June 2020. This resulted in non-compliance with section 64(2)(b) of the MFMA which requires revenue due to the municipality to be calculated on a monthly basis. The non-compliance resulted in a financial loss of R29,4 million.

87. The accounting officer was notified of the material irregularity on 24 March 2021 and invited to make a written submission on the actions taken or to be taken to address the matter.

88. The following actions were implemented to resolve the material irregularity:

    - The municipality notified consumers during June 2021 of the under-billing and back charged the affected consumers from December 2020 until May 2021 to account for 6 months of lost revenue as per the municipality's credit control policy and thereafter continued billing the debtors on a monthly basis as required.
    - The accounting officer instituted an investigation into the matter to identify responsible officials. Disciplinary processes for the responsible employees were finalised in November 2021 in accordance with the municipality's disciplinary policy and processes.
    - The municipality had developed draft standard operating procedures and approved these procedures during the 2022-23 financial year to guide the flow of information from the source to the financial system and a service level agreement between Infrastructure, Spatial Planning and Development and Corporate Services directorates to isolate responsibilities and prevent future instances of losses.
    - The Finance directorate conducts monthly reconciliations between the valuation roll and billing system to identify any further properties not being billed for water services as an added control.

89. A further follow-up of actions was performed in the current year audit and no further occurrences of material loss of revenue from unbilled water was identified. Those consumers that were not billed for water services in the period when the material irregularity was identified, were billed monthly in the prior and current year.

90. Based on the considerations above, the actions that were taken were adequate to resolve the material irregularity.

Revenue for refuse removal services not calculated on a monthly basis

91. The municipality did not charge a number of properties for refuse removal service charges for the year ended 30 June 2021. This resulted in non-compliance with section 64(2)(b) of the MFMA which requires revenue due to the municipality to be calculated on a monthly basis. The non-compliance resulted in a financial loss of R23,7 million.

92. The accounting officer was notified of the material irregularity on 29 March 2022 and invited to make a written submission on the actions taken or to be taken to address the matter.

93. The following action has been taken to resolve the material irregularity:

- The municipality notified consumers during June 2021 of the under-billing and back charged the affected consumers from December 2020 until May 2021 to account for 6 months of lost revenue as per the municipality's credit control policy and thereafter continued billing the debtors on a monthly basis as required.
- The accounting officer instituted an investigation into the matter to identify responsible officials. Disciplinary processes for the responsible employees were finalised in November 2021 in accordance with the municipality's disciplinary policy and processes.
- The municipality had developed draft standard operating procedures and approved these procedures during the 2022-23 financial year to guide the flow of information from the source to the financial system and a service level agreement between Infrastructure, Spatial Planning and Development and Corporate Services directorates to isolate responsibilities and prevent future instances of losses.
- The Finance directorate conducts monthly reconciliations between the valuation roll and billing system to identify any further properties not being billed for refuse removal services as an added control.

94. A further follow-up of actions was performed in the current year audit and no further occurrences of material loss of revenue from unbilled refuse removal services was identified. Those consumers that were not billed for refuse removal services in the period when the material irregularity was identified, were billed monthly in the prior and current year.

95. Based on the considerations above, the actions that were taken were adequate to resolve the material irregularity.

Other reports

Investigations

96. I draw attention to the following engagements conducted by various parties. These reports did not form part of my opinion on the group's consolidated and separate financial statements or my findings on the reported performance information or compliance with legislation.

97. Five investigations were conducted by external parties relating to SCM irregularities and financial misconduct cases which cover the periods 2013-14 to 2019-20; all investigations were concluded. Two of the five investigations were handed over to SAPS Commercial Crimes Unit for action, one was under SAPS remedial action and the other was resolved due to limitations as per the Protected Disclosure Act. One other case was dissolved as the persons under investigation are now deceased.

98. There are two additional cases which were being investigated by external parties. One of the cases which is with the Special Investigating Unit relates to councillors qualifications obtained the University of Fort Hare and is still in progress at the date of this report. The other case

which was finalised by the Public Protector on 19 October 2023 related to alleged inadequate and/or lack of provision of essential services and basic infrastructure by various organs of state in certain villages in the province. The municipality has to provide a report to the Public Protector on the implementation of the remedial action within 60 calendar days from the date the report was finalised.

Auditor-General

East London

14 December 2023

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

1. 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

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

Consolidated and separate financial statements

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

- identify and assess the risks of material misstatement of the consolidated and separate 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 consolidated and separate 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 group 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 consolidated and separate financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the consolidated and separate 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 consolidated and separate financial statements, including the disclosures, and determine whether the consolidated

and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

Communication with those charged with governance

4. 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.

5. 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	Section 1 - Paragraph (a), (b) & (d) of the definition: irregular expenditure Section 1 - Definition: service delivery and budget implementation plan Sections 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 29(1), Sections 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b), 32(6)(a), Sections 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 62(1)(f)(i), 62(1)(f)(ii), Sections 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b), 64(2)(c), Sections 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), 72(1)(a)(ii), Sections 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), 122(2), 126(1)(a), Sections 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), 129(1), 129(3), Sections 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, 171(4)(a), 171(4)(b)
MFMA: Municipal budget and reporting regulations, 2009	Regulations 71(1), 71(2), 72
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	Regulations 5, 12(1)(c), 12(3), 13(b), 13(c), 13(c)(i), 16(a), 17(1)(a),, Regulations 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), Regulations 27(2)(e), 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a), 29(1)(b), 29(5)(a)(ii), Regulations 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1) (c), 38(1)(d)(ii), 38(1)(e), Regulations 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43, 44, 46(2)(e), 46(2)(f)

Legislation	Sections or regulations
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2), 5(3), 5(6), 8(4)
Annual Division of Revenue Act	Sections 11(6)(b), 12(5), 16(1); 16(3)
Construction Industry Development Board Act 38 of 2000	Section 18(1)
Construction Industry Development Board Regulations, 2004	Regulations 17, 25(7A)
Municipal Property Rates Act 6 of 2004	Section 3(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), Regulations 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)
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section 34(1)
National Water Act 36 of 1998	Section 22(1)(b)
National Environmental Management: Waste Act 59 of 2008	Section 20(b)
Environment Conservation Act, No. 73 of 1989	Section 20(1)
Municipal Systems Act 32 of 2000	Sections 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 34(a), 34(b), 38(a), Sections 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), 56(a), 57(2)(a), 57(4B) Sections 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 93J(1), 96(b) **Parent municipality with ME:** Sections 93B(a), 93B(b)

Legislation	Sections or regulations
	Parent municipality with shared control of ME: Section 93C(a)(iv), 93C(a)(v)
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), Regulations 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)