Report of the auditor-general to Eastern Cape Provincial Legislature on the Council on the Alfred Nzo District Municipality

Report on the audit of the consolidated and separate financial statements

Opinion

1. I have audited the financial statements of the Alfred Nzo District Municipality set out on pages ... to ... which comprise the consolidated and seperate statement of financial position as at 30 June 2021, the statement of financial performance, statement of changes in net assets, cash flow statement and the of statement of comparison of budget information with actual information for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.

2. In my opinion, the consolidated and seperate financial statements present fairly, in all material respects, the financial position of the Alfred Nzo District Municipality as at 30 June 2021, and its financial performance and cash flows for the year then ended in accordance with 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 MFMA) and Division of Revenue Act of South Africa, (Act No. 4 of 2020).

Basis for opinion

3. 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.

4. I am independent of the municipality in accordance with the *International Code of Ethics for Professional Accountants (including International Independence Standards)* of the International Ethics Standards Board for Accountants (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.

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

Emphasis of matters

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

Restatment of corresponding figures

6. As disclosed in note 44 to the financial statements, the corresponding figures for 30 June 2020 have been restated as a result of errors identified in the financial statements of the municipality at, and for the year ended, 30 June 2021.

Material losses - Water

7. As disclosed in note 4 to the financial statements, the municipality incurred water losses totalling R30,6 million (2020: R21,2 million).

Impairment of recievables from exchange transactions

8. As disclosed in note 6 to the financial statements, the municipality has an impairment of receivables from exchange transactions totalling R94,5 million (2020: R94,4 million).

Irregular expenditure

9. As disclosed in note 48 to the financial statements, irregular expenditure – current year amounting to R8,3 million (2020: R5,6 million) and irregular expenditure incurred in the current year as a result of prior year irregular contracts amounting to R 79,3 million (2020: R85,7 million) was incurred due to supply chain management transgressions that occurred in the current and prior financial years. The cumulative balance as at 30 June 2021 amounted to R470,9 million (2020: R1,4 billion) after the write-off of R1,1 billion which still remains to be investigated.

Other matter

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

Unaudited disclosure

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

Responsibilities of the Accounting Officer for the consoliated and seperate financial statements

12. The accounting officer is responsible for the preparation and fair presentation of the consolidated and seperate financial statements in accordance with the SA standards of GRAP and the requirements of the MFMA, and for such internal control as the accounting officer determines is necessary to enable the preparation of consolidated and seperate financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor-general's responsibilities for the audit of the consolidated and seperate financial statements

14. My objectives are to obtain reasonable assurance about whether the consolidated and seperate 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 seperate financial statements.

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

Report on the audit of the annual performance report

Introduction and scope

16. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected programmes presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

17. My procedures address the usefulness and reliability of the reported performance information, which must be based on the Municipality's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the Municipality enabled service delivery. My procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

18. I evaluated 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 programmes presented in the Municipality's annual performance report for the year ended 30 June 2021:

Programme	Pages in the annual performance report
KPA 1 – Basic Service Delivery	x – x

19. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

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

KPA 1 – Basic Service Delivery

Various indicators

21. The achievements reported in the annual performance report materially differed from the supporting evidence provided for the indicators listed below. The supporting evidence provided indicated that the achievements of these indicators were as follows:

No.	Indicator	Planned target per SDBIP	Planned target per APR	Reported actual achievement
1.	Number of interim water supply schemes completed in Matatiele LM	Construction of 4 interim water supply schemes in Matatiele LM by 30 June 2021	Construction of 4 interim water supply schemes in Matatiele LM by 30 June 2021	Construction of 5 interim water supply schemes in Matatiele LM by 30 June 2021
2.	Number of kilometres of bulk line completed	Construction of 2x 2ml reservoirs, construction of 16,14 km village reticulation, installation of 33 standpipes, construction of 1.0 km of access roads to the reservoirs, fencing of reservoir sites and construction of 1 Pumpstation at Tshisa Village by 30 June 2021	Construction of 9,1 km Bulk line by 30 June 2021	Construction of 13km Bulk line by 30 June 2021
3.	Number of pipe kilometres and reservoir base completed	Construction 10km pressure line by the 31 June 2021	construction 10km pressure line by the 31 June 2021	Construction of 28.135km pressure line by 31 June 2021
4.	Construction of 1 Pump house, Construction of Storm water lines inside the WWTW and Road Box Cut around the plant , Construction of perimeter fence in the plant, Construction of perimeter fence in the plant	1 New Waste Water Treatment Works under construction by 30 June 2021	1 New Waste Water Treatment Works under construction by 30 June 2021	1 New Waste Water Treatment Works is under construction .No planned activities undertaken in Quarter 4 due to environmental compliance, only M&E equipment procured

No.	Indicator	Planned target per SDBIP	Planned target per APR	Reported actual achievement
5.	Number of interim water supply schemes completed and Water Source Development in Ntabankulu LM	3 interim water supply schemes constructed and completed and 1 village for Water Source Development in Ntabankulu LM by 30 June 2020	3 interim water supply schemes constructed and completed and 1 village for Water Source Development in Ntabankulu LM by 30 June 2020	2 interim water supply schemes completed and 1 village for Water Source Development completed, the third water project carries over to the 2021-22 FY
6.	Number of kilometres of pipeline constructed	Hand over and Construction of 10 km reticulation pipeline by 30 June 2021	Hand over and Construction of 10 km reticulation pipeline by 30 June 2021	Project was Handed over and 36.1 km of reticulation pipeline was constructed
7.	Number of kilometres of pipeline constructed and 1 x reservoir base constructed	Handover and Construction of 8km reticulation, Construction of 120kl Reservoir base by 30 June 2021	Handover and Construction of 8km reticulation, Construction of 120kl Reservoir base by 30 June 2021	12 km of reticulation pipeline Constructed, Project has been handed over and the reservoir is not part of the project scope
8.	Number of kilometres of Bulk line	Construction of 5km Bulkline by 30 June 2021	Construction of 5km Bulk line by 30 June 2021	Construction of 10.610 km of reticulation pipeline completed
WSP				
1.	Number of drought relief schemes completed	3 Drought releif projects completed by 30 June 2021	3 Drought relief projects completed by 30 June 2021	Tender advertised and awarded bot no drought relief work could commence.
2.	Number of water schemes maintained	76 Matatiele water schemes maintained 100% by 30 June 2021	76 Matatiele water schemes maintained 100% by 30 June 2021	91 Matatiele water schemes maintained
3.	Number of Mzimvubu water schemes maintained	75 Umzimvubu water schemes maintained 100% by 30 June 2021	75 Umzimvubu water schemes maintained 100% by 30 June 2021	107 Umzimvubu water schemes maintained 100% by 30 June 2021.
4.	Number of schemes refurbished in Ntabankulu	Refurbishment of 1 water supply scheme in Ntabankulu by 30 June 2021	Refurbishment of 1 water supply scheme in Ntabankulu by 30 June 2021	Refurbishment of 3 water scheme in Ntabankulu by 30 June 2021

No.	Indicator	Planned target per SDBIP	Planned target per APR	Reported actual achievement
5.	Number of boreholes equipped and pump house build	Equipping 1x artisian borehole at Saphukanduku, buliding if a new pumphouse and and conection to the existing scheme	Equipping 1x artesian borehole at Saphukanduku, building if a new pump house and connection to the existing scheme	No work commenced so the target has not been achieved
6.	Number of water supply schemes refurbished in Ntabankulu LM	Refurbishment of 4 water supply schemes in Ntabankulu by 30 June 2021	Refurbishment of 4 water supply schemes in Ntabankulu by 30 June 2021	Refurbishment of 5 water supply schemes in Ntabankulu by 30 June 2021
WSA				
1.	Number of indigent households verified on the indigent register	40 0000 Indigent households verified on the indigent register by 29 June 2021	40 0000 Indigent households verified on the indigent register by 29 June 2021	44314 Umzimvubu LM 13104 households verified; Ntabankulu LM 4463 households verified; Bizana LM 25783 households verified ; Matatiele LM 965 .The total number verified is 44315 in the 2020/ 2021 financial year, and 1 awareness campaign was conducted
2.	Number of Grid tied PV Solar energy system installed	Installation of solar energy in all ANDM and Local Municipality buildings completed by 29th June 2021	Installation of solar energy in all ANDM and Local Municipality buildings completed by 29th June 2021	100
WCDM				
1.	Number of Telemetry systems installed	Installation of New Telemetry systems	Installation of New Telemetry systems and repairs of existing systems	2 all planned telemetry purchases, installations and commissioning has been successfully conducted at 100%.

No.	Indicator	Planned target per SDBIP	Planned target per APR	Reported actual achievement
PMU				
1.	Number of ISD functional Meetings held	18 ISD functional Meetings (ISD Meetings) held by 30 June 2021	18 ISD functional Meetings (ISD Meetings) held by 30 June 2021	32 ISD Functional Meetings were held by 30 June 2021
WSP				
1.	Number of electricity bills for the operation of pumps paid	608 electricity bills for the operation of pumps paid by 30 June 2021	608 electricity bills for the operation of pumps paid by 30 June 2021	A total of 1094 electricity bills have been received and paid in the year 2020/2021. The Q4 remittance includes all the 1094 Eskom invoices.
2.	Number of laboratory test kits procured for ANDM WTW and WWTW	Laboratory test kits procured for ANDM WTW and WWTW by 30 June 2021	Laboratory test kits procured for ANDM WTW and WWTW by 30 June 2021	Laboratory test kits have note procured for ANDM WTW and WWTW by 30 June 2021
3.	Number of raw bulk water supply bill payments monitored	20 raw bulk water supply bill payments monitored by 30 June 2021	20 Raw bulk water supply bill payments monitored by 30 June 2021	24 Bulk Water Purchases bills monitored and paid.
4.	Number of supplier agreements signed	Signing of 3 supplier agreements with Eskom by 30 June 2021	Signing of 3 supplier agreements with Eskom by 30 June 2021	A total of 13 Eskom agreements have been signed for the year 2020/2021
Disaster Management Unit				
1.	Number of satellite disaster centres constructed	Construction of Phase 1 of satellite disaster centre by 30 June 2021	Construction of Phase 1 of satellite disaster centre by 30 June 2021	Terms of reference were designed and the advert was issued.

22. Number of reservoirs, pipe kilometres, pumpstations and standpipe completed- Matatiele Ward 18 & 22

- The indicator is not time-bound as the time the target is set to be met is not specified.

23. Number of Admin Block, Filter rooms and sludge ponds constructed.

- The indicator is not specific in identifying intended performance and the area and nature of the intended performance.

24. Indicators reported in the annual performance report do not agree to the portfolio of evidence. The details of the indicators is as follows:

No.	Name of Indicator	PoE	Reported
1	Number of VIP sanitation Toilets Completed - Matatiele LM	Beneficiary Lists from Pote, Manzi and Esifolweni noted that the total of the VIP sanitation toilets completed totalled 423; however, 425 VIP toilets were reported on the APR.	425
2	Number of kilometres of bulk line completed	As per the June Progress, the contractor managed to lay 90% of bulk pipeline, through inspection of the APR noted that the 13km of bulk line were completed and these figures did not agree.	9.1 km
3	Number of kilometres of bulk line, kilometres of reticulation, number of Reservoirs, number of standpipes completed in the Greater Mbizana Water Scheme	Inspected the June progress report and noted that the 68,62km reticulation was completed 3 reservoirs completed 96 standpipes completed	>>5 km of bulk line >>2,375 km pipeline >>42,50 km Reticulation >>3 Reservoirs and >> 85 standpipes completed in the Greater Mbizana Water Scheme by 30 June 2021
4	Construction of 1 Pump house, Construction of Storm water lines inside the WWTW and Road Box Cut around the plant, Construction of perimeter fence in the plant, Construction of perimeter fence in the plan	Inspected the progress report for quarter 4, dated 30 June 2021 and noted that the report is inconsistent with the APR. The target per the progress report is not met and the target is met as per the APR.	Equipping 1x artesian borehole at Saphukanduku, building if a new pump house and connection to the existing scheme.
5	Number of kilometres of pipeline constructed	Reticulation of 36,1km of is not on the progress report.	Hand over and Construction of 10 km reticulation pipeline by 30 June 2021
6	Number of VIP Sanitation Toilets completed (Umzimvubu LM).	Number of VIP Sanitation Toilets completed 330.	Construction of 300 VIP Sanitation Toilets completed by 30 June 2021
7	Number of water schemes maintained - Matatiele	Total number of water schemes maintained as per progress reports of 73 does not agree with the 91 that has been reported on the APR.	76 Matatiele water schemes maintained 100% by 30 June 2021
8	Number of Mzimvubu water schemes maintained	Total number of water schemes maintained as per progress reports of 371 does not agree	75 Umzimvubu water schemes maintained 100% by 30 June 2021

No.	Name of Indicator	PoE	Reported
		with the 107 that has been reported on the APR.	
9	Number of Mbizana water schemes maintained	Number of water schemes maintained as per progress reports of 107.	47 Mbizana water schemes maintained 100% by 30 June 2021
10	Number of Ntabankulu water schemes maintained	Water schemes maintained 67.	41 Ntabankulu water schemes maintained 100% by 30 June 2021

Other matter

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

Achievement of planned targets

26. Refer to the annual performance report on pages x to x for information on the achievement of planned targets for the year. This information should be considered in the context of the qualified opinions expressed on the usefulness and reliability of the reported performance information in paragraphs 21 to 24 of this report.

Responsibilities of the accounting officer for the reported performance information

27. The accounting officer is responsible for the preparation of the annual performance report in accordance with the prescribed performance management and reporting framework set out in annexure D to this report, and for such internal control as the accounting officer-determines is necessary to enable the preparation of performance information that is free from material misstatement in terms of its usefulness and reliability.

Auditor-general's responsibilities for the reasonable assurance engagement on the reported perrmance information

28. Our objectives are to obtain reasonable assurance about whether the reported performance information for the selected programmepresented in the annual performance report is free from material misstatement, and to issue a management report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that the assurance engagement conducted in accordance with the relevant assurance standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if they could reasonably be expected to influence the relevant decisions of users taken on the basis of the reported performance information.

29. Our procedures address the usefulness and reliability of the reported performance information, which must be based on the approved performance planning documents of the municipality. We have not evaluated the appropriateness of the performance indicators established and included in the planning documents. Our procedures do not examine whether the actions taken by the municipality enabled service delivery. Our procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance

strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, our opinion does not extend to these matters.

30. A further description of our responsibilities for the reasonable assurance engagement on reported performance information is included in annexure E to this report.

Report on the audit of compliance with legislation

Introduction and scope

31. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the Municipality's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

32. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements

33. 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 disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure Management

34. Reasonable steps were not taken to prevent irregular expenditure amounting to R87,6 million as disclosed in note 48 to the annual financial statements, as required by section 62(1)(d) of the MFMA.

Other information

35. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report, which includes the executive mayor's report, the audit committee's report and the accounting officer report. The other information does not include the separate financial statements, the auditor's report and those selected programme presented in the annual performance report that have been specifically reported in the auditor's report.

36. My opinion on the consolidated and separate 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 on it.

37. 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 programmes presented in the annual performance report , or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

Internal control deficiencies

38. I considered internal control relevant to my audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the Annual Performance Report and the findings on compliance with legislation included in this report.

39. The matters above, as they relate to the basis for the unqualified opinion, findings on the annual performance report and findings on compliance with legislation, will be summarised in the auditor's report as follows:

40. The municipality does not have an effective system in place to collate and report on predetermined objectives.

41. Recommendations of the internal audit in respect of financial and performance information were not implemented by management.

Other reports

42. I draw attention to the following engagements conducted by various parties which had, or could have, an impact on the matters reported in the municipality's consolidated and separate 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.

43. The President of South Africa promulgated in 2017 that an investigation be conducted by the Directorate for Priority Crime Investigation based on the allegation of possible procurement irregularities. This investigation was still in progress at the date of this report.

Auditor-General

East London

18 December 2021

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 programmes 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 Council which constitutes the accounting officer.
   - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the Alfred Nzo District Municipality and its subsidiary to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality's to cease operating as a going concern
   - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
   - 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

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

4. I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence, and to 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.