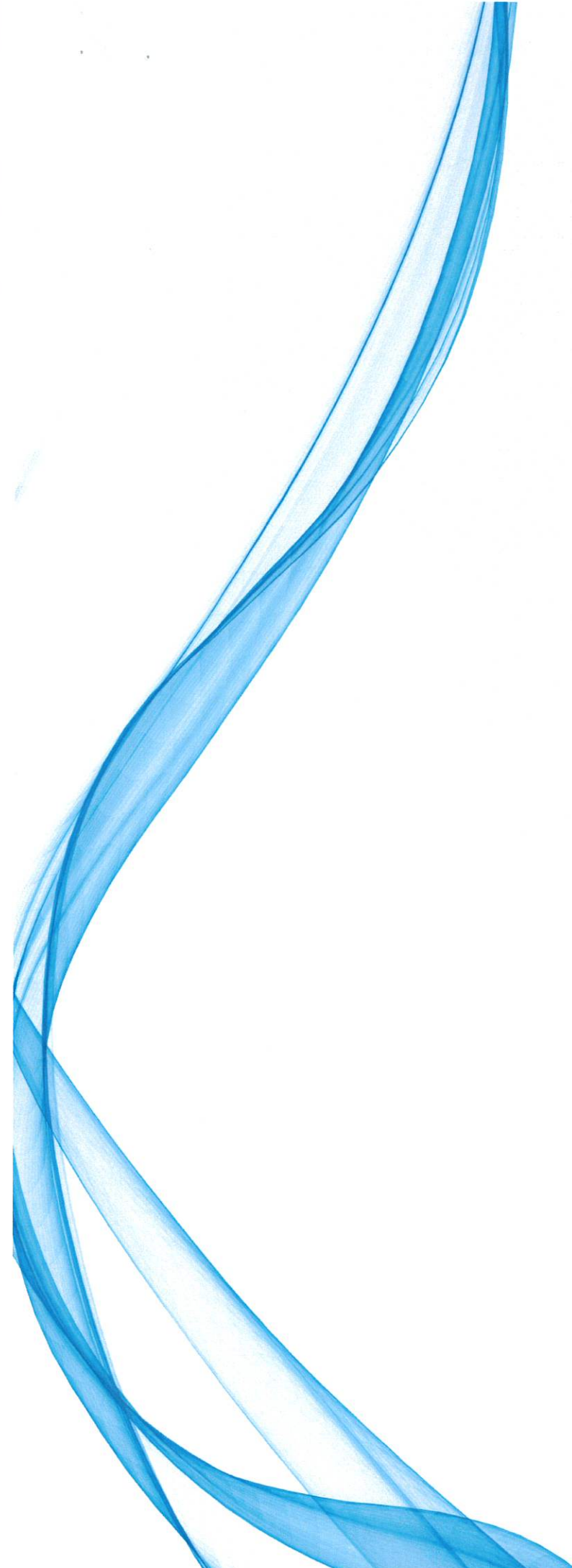




ALFRED NZO DISTRICT MUNICIPALITY (Cons.)

Audit Report

For the year ended 30 June 2023



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence

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

Report on the audit of the consolidated and separate financial statements

Opinion

1. I have audited the consolidated and separate financial statements of the Alfred Nzo District Municipality and its subsidiaries set out on pages to, which comprise the consolidated and separate statement of financial position as at 30 June 2023, consolidated and separate statement of financial performance, statement of changes in net assets, and cash flow statement and 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, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the Alfred Nzo District Municipality as at 30 June 2023 and their financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2022 (Act No.5 of 2022) (Dora).

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 responsibilities of the auditor-general for the audit of the consolidated and separate financial statements section of my report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matters

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

Restatement of corresponding figures

7. As disclosed in note 51 to the consolidated and separate financial statements, the corresponding figures for 30 June 2022 have been restated as a result of errors identified in the financial statements of the municipality at, and for the year ended, 30 June 2023.

Material losses - Water

8. As disclosed in note 4 to the consolidated and separate financial statements, the municipality incurred water losses totalling R9,8 million (2022: R26,9 million).

Impairment of receivables from exchange transactions

9. As disclosed in note 6 to the consolidated and separate financial statements, the municipality has an impairment of receivables from exchange transactions totalling R114,4 million (2022: R101,0 million).

Irregular expenditure

10. As disclosed in note 54 to the consolidated and separate financial statements, irregular expenditure – current year amounting to R1,4 million (2022: R20,6 million) and irregular expenditure incurred in the current year as a result of prior year irregular contracts amounting to R 32,7 million (2022: R84,9 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 2023 amounted to R252,7 million (2022: R356,1 million) after the write-off of R137,5 million which still remains to be investigated.

Other matter

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

Unaudited disclosure

12. 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 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

13. The accounting officer is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the Standards of GRAP and the requirements of the MFMA, and the 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.

14. In preparing the consolidated and separate 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.

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

15. 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.
16. 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

17. 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 programme presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.
18. I selected the following programme presented in the annual performance report for the year ended 30 June 2023 for auditing. I selected a programme that measures the municipality's performance on its primary mandated functions and that is of significant national, community or public interest.

Programme	Page numbers	Purpose
Basic Service Delivery	XX	To build, maintain and provide access to improved, sustainable and modernized infrastructure to the community by 2027.

19. I evaluated the reported performance information for the selected programme 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.

20. 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 objectives
- 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 over- or underachievement of targets / measures taken to improve performance.

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

22. I did not identify any material findings on the reported performance information for the selected programme.

Other matters

23. I draw attention to the matters below.

Achievement of planned targets

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

25. The municipality plays a key role in delivering services to South Africans. The table that follow provides 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 to

Basic Service Delivery

Targets achieved: 96,4%

Budget spent: 97,6%

Key service delivery indicator not achieved	Planned target	Reported achievement
Provide 6xtrubiudity meters, 12xpH meters, 12x chlorine meters, 6x COD metres, 12XConductivity metres and 12 Clorimetres for all 8 water treatment plants by 30 June 2023 in Alfred Nzo	Provide testing tools to superintendents for ANDM Water Treatment Plants by 30 June 2023 (6xtrubiudity meters, 12xpH meters, 12x chlorine meters, 6x COD	Tender that was advertised in October 2022 could not be awarded and no other procurement process was achieved.
Number of springs rehabilitated in Matatiele LM and Umzimvubu LM	3 Springs rehabilitated in Matatiele LM in ward 21 at Mvenyane location, Winnie Madikizela Mandela LM in ward 25 at Baleni location and Umzimvubu LM in ward 06 at Ndarhala location and ANDM Climate Change strategy Reviewal 30 June 2023	Not achieved

Material misstatements

26. I identified a material misstatement in the annual performance report submitted for auditing. The material misstatement was in the reported performance information for basic service delivery. Management subsequently corrected the misstatement and I did not include any material findings in this report.

Report on compliance with legislation

27. 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.
28. 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.
29. 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.
30. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Expenditure management

31. Reasonable steps were not taken to prevent irregular expenditure amounting to R34,1 million as disclosed in note 54 to the annual financial statements, as required by section 62(1)(d) of

the MFMA. The majority of the irregular expenditure was caused by SCM regulations not being followed.

Consequence management

32. 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.

Other information in the annual report

33. The accounting officer is responsible for the other 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 referred to does not include the consolidated and separate financial statements, the auditor's report and the selected programme presented in the annual performance report that has been specifically reported on in this auditor's report.
34. 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.
35. My responsibility is to read this other information and report, in doing so, consider whether it is materially inconsistent with the consolidated and separate financial statements and the selected programme presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

Internal control deficiencies

36. 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.
37. The matter reported below is limited to the significant internal control deficiencies that resulted in the material findings on compliance with legislation included in this report.
38. Leadership has not instituted all the disciplines necessary to enable effective oversight that promotes efficiency and effectiveness in compliance with laws and regulations.

Other reports

39. 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 consolidated

and separate financial statements or my findings on the reported performance information or compliance with legislation.

40. 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

6 December 2023



AUDITOR-GENERAL
SOUTH AFRICA

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Annexure to the auditor's report

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

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 programme and on the municipality's compliance with selected requirements in key legislation.

Financial statements

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 municipality and its subsidiaries 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

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.

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.