

Report of the auditor-general to Eastern Cape Provincial Legislature and 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 consolidated and separate financial statements of the Alfred Nzo District Municipality set out on pages to , which comprise the statement of consolidated and separate financial position as at 30 June 2024, consolidated and separate statement of financial performance, statement of changes in net assets, 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 2024 and its 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 the Division of Revenue Act of South Africa, 2023 (Act No.5 of 2023) (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 45 to the consolidated and separate financial statements, the corresponding figures for 30 June 2023 have been restated as a result of errors identified in the consolidated and separate financial statements of the municipality for the year ended 30 June 2024.

Contingent liabilities

8. As disclosed in note 44 to the financial statements, the entity has contingent liabilities amounting to R794,9 million.

Irregular expenditure

9. As disclosed in note 49 to the consolidated and separate financial statements an amount of R6,4 million (2023: R1,4 million) was incurred in the current year. An amount of R152,9 million was written off in the current year. The cumulative amount of R105,5 million is still under investigation.

Fruitless and Wasteful expenditure

10. As disclosed in note 48 to the consolidated and separate financial statements an amount of R2,5 million was incurred in the current year. An amount of R17,0 million was written off in the current year. The cumulative amount of R7,0 million (2023: 21,6 million) was as a result of interest incurred.

Subsequent events

11. I draw attention to note 54 of the consolidated and separate financial statements, which deals with subsequent events and specifically the effects of the dismissal of the municipal manager on the municipality.

Other matter

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

Unaudited Disclosure notes

13. In terms of section 125(2)(e) of the MFMA, the particulars of non-compliance with the MFMA should be disclosed in the consolidated and separate financial statements. 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 on it.

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

14. 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.

15. 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

16. 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.
17. 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

18. 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 key performance area presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.
19. I selected the following key performance area presented in the annual performance report for the year ended 30 June 2024 for auditing. I selected a key performance area that measures the municipality's performance on its primary mandated functions and that is of significant national, community or public interest.

Key performance area	Page numbers	Purpose
Basic Service Delivery	xx	To build, maintain and provide access to improved, sustainable and modernized infrastructure to the community by 2027.

20. I evaluated the reported performance information for the selected key performance area 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

21. 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
- all the indicators relevant for measuring the municipality's performance against its primary mandated and prioritised functions and planned objectives are included
- 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 and is comparable and understandable.
- there is adequate supporting evidence for the achievements reported and measures taken to improve performance.

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

23. I did not identify any material findings on the reported performance information for the selected key performance area.

Other matters

24. I draw attention to the matters below.

Achievement of planned targets

25. 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.

26. The table that follows 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 measures taken to improve performance are included in the annual performance report on pages xx to xx.

Basic Service Delivery

<p><i>Targets achieved: 83%</i></p> <p><i>Budget spent: 90.05%</i></p>		
Key indicators not achieved	Planned target	Reported achievement
<p>Construction of 1x1ML Reservoirs (Nyaniswa), Construction of 83 km pipeline, Installation of 50 No. of standpipes, Construction of 6 km of access roads, Construction of 1x Booster Pump stations in Matatiele LM for Mount Hagreaves, Siberia, Sijoka in ward 17, Zimpofu, Nomahlaku, Zingcuka, Nomadlangeni in ward 24, Bhubesi, Nyanisweni, Sidakeni and KwaKheswa, in Ward 18 by 30 June 2024.</p>	<p>Construction of 1 x 1ML reservoirs (Nyaniswa), Construction of 83 km of pipeline, Installation of 50 standpipes, Construction of 6 km of access roads, Construction of 1 x booster pump station</p>	<p>Constructed of 1 x 1ML reservoirs (Nyaniswa) not completed, constructed of 83 km of pipeline, installed 50 standpipes Constructed 6 km of access roads, Constructed 1 x booster pump station</p>
<p>Construction Steel reservoir: 15,2km Pipelines, 15 x community standpipes in Ntabankulu LM, Ncama Village, ward 11 by 30 June2024.</p>	<p>Construction of a Steel Reservoir 15.2 km Pipelines,15 x Community Standpipes</p>	<p>Not achieved: Consultant Panel only appointed on March 30, 2024. The target was changed to Quarter 1 of the 24/25 Fin year at the midterm adjustment.</p>
<p>1 Site Establishment completed in Tyeni-Nguse Village by 30 June 2024.</p>	<p>1 Site Establishment completed in Tyeni-Nguse Village by 30 June 2024.</p>	<p>Project is at tender stage</p>
<p>Refurbishment of Matatiele Bulk Water Supply in Ward 20 by 30 June 2024.</p>	<p>Construction of 80 km pipeline and 2 reservoirs in WMMLM for Sizintyaneni, Smakadeni, Mampingeni, and Swane by 30 June 2024.</p>	<p>Refurbishment of Matatiele Bulk Water supply in Ward 20 was not achieved due to environmental authorization in the financial year 2023 - 2024, however the following were achieved which were not part of the project scope</p>
<p>Number of indigent households verified on indigent register</p>	<p>300,000 households verified on indigent register by 30 June 2024</p>	<p>For the 2023-2024 Financial Year 28 414 households were verified. The following activities were undertaken:</p> <p>Q1: One Awareness campaign was conducted in Winnie Madikizela on the 16th August 2023.</p> <p>Q2: 10 257 Indigent households verified in Umzimvubu LM by 30th December 2023.</p> <p>Q3: 12 592 Indigent Households were captured and verified manually.</p> <p>Q4: 5 565 Indigent households were verified in Matatiele LM.</p>
<p>Refurbishment of Mhleleni Water Treatment Plant in Ntabankulu LM, Mhleleni village, ward 2 by 30 June 2024</p>	<p>Refurbishment of Mhleleni Water Treatment Plant in Ntabankulu LM, Mhleleni village, ward 2: Rehabilitation of the access road, refurbishment of the abstraction point and installation of submersible pumps, refurbishment of the existing Water Treatment Plant and</p>	<p>Rehabilitation of the access road and finalization of designs scope during the 2023/24 financial year</p>
<p>1. Complete Sealing of 1 lei dam, installation of 1 by-pass pie, installation of 1 backwash pump to 1 sand filter, refurbishment of 1 sand filter, installation of 2 valve chambers in Umzimvubu LM (Mt Frere Water Treatment Works) by 30 June 2024.</p> <p>2. Rehabilitation of the Mt Frere WWTW by constructing a sewer pond collapsed wall by 30 June 2024.</p>	<p>1. Complete Sealing of 1 lei dam, installation of 1 by-pass pipe, installation of 1 backwash pump to 1 sand filter, refurbishment of 1 sand filter, installation of 2 valve chambers in Umzimvubu LM Mt Frere Water Treatment Works by 30 June 2024.</p>	<p>Completed sealing of the lei dam, completed installation of 1 by-pass pipe and rehabilitation of the Mt. Frere WWTW completed in the 2023/24.</p>

	2. Rehabilitation of the Mt Frere WWTW by constructing a sewer pond collapsed wall by 30 June 2024.	
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Material misstatements

27. 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

28. 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.
29. 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.
30. 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.
31. I did not identify any material non-compliance with the selected legislative requirements.

Other information in the annual report

32. 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 key performance area presented in the annual performance report that has been specifically reported on in this auditor's report.
33. 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.
34. 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 key performance area presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

35. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

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. I did not identify any significant deficiencies in internal control.

Other reports

38. I draw attention to the following engagements conducted by various parties. 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.
39. 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.
40. On 08 November 2024, the President issued a proclamation under section 2(1) of the Special Investigating Units and Special Tribunals Act, authorizing the Special Investigating Unit (SIU) to investigate allegations of maladministration, irregularities, and/or corruption relating to seven infrastructure projects, procurement processes, and contracts. The proclamation specifically identifies the municipality and mandates the SIU to probe instances of irregular, unauthorised, fruitless and wasteful expenditure and improper conduct. The investigation has yet to be performed.

Auditor-General

East London

11 December 2024



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

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 key performance area 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 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.

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.

Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003	<p>Section 1 - Paragraph (a), (b) & (d) of the definition: irregular expenditure</p> <p>Section 1 - Definition: service delivery and budget implementation plan</p> <p>Sections 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 29(1),</p> <p>Sections 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b), 32(6)(a),</p> <p>Sections 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 62(1)(f)(i), 62(1)(f)(ii),</p> <p>Sections 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b), 64(2)(c), 64(2)(e),</p> <p>Sections 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), 72(1)(a)(ii), 112(1)(j),</p> <p>Sections 116(2)(b), 116(2)(c)(ii), 117, 122(1), 122(2), 126(1)(a), 126(1)(b),</p> <p>Sections 127(2), 127(5)(a)(i), 127(5)(a)(ii), 129(1), 129(3), 133(1)(a),</p> <p>Sections 133(1)(c)(i), 133(1)(c)(ii), 170, 171(4)(a), 171(4)(b)</p>
MFMA: Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014	Regulations 5(4), 6(8)(a), 6(8)(b), 10(1)
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	<p>Regulations 5, 12(1)(c), 12(3), 13(b), 13(c), 13(c)(i), 16(a), 17(1)(a), 17(1)(b),</p> <p>Regulations 17(1)(c). 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), 27(2)(e),</p> <p>Regulations 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a) and (b), 29(5)(a)(ii), 29(5)(b)(ii),</p> <p>Regulations 32, 36(1), 36(1)(a), 38(1)(c), 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i),</p> <p>Regulations 38(1)(g)(ii), 38(1)(g)(iii), 43, 44, 46(2)(e), 46(2)(f)</p>
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2), 5(3), 5(6), 8(4)

Legislation	Sections or regulations
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), 7(1), Regulations 7(2), 7(3), 7(6), 7(8), 8(2), 8(5), 9(1), 10(1), 10(2), 11(1), 11(2)
Municipal Systems Act 32 of 2000	Sections 25(1), 26(a), 26(c), 26(h), 26(i), 27(1), 29(1)(b)(ii), 29(2)(a), Sections 29(2)(c), 34(a), 34(b), 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, Sections 43(2), 56(a), 57(2)(a), 57(4B), 57(6)(a), 66(1)(a), 66(1)(b), Sections 67(1)(d), 74(1), 93J(1), 96(b) Parent municipality with ME: Sections 93B(a), 93B(b) Parent municipality with shared control of ME: Sections 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), 3(5)(a), 7(1), 8, 9(1)(a), 10(a), Regulations 12(1), 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)