

Report of the auditor-general to the Eastern Cape Provincial Legislature and council on the Dr Beyers Naude Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Dr Beyers Naude Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2021, the 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 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 auditor's report, the financial statements present fairly, in all material respects, the financial position of the Dr Beyers Naude Local Municipality as at 30 June 2021, and financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 4 of 2020 (Dora).

Basis for qualified opinion

Receivables from exchange transactions

3. I was unable to obtain sufficient appropriate audit evidence that receivables from exchange transactions had been properly accounted for as the municipality did not have adequate internal controls to maintain records for indigent debtors, some indigent debtors were provided benefit while they did not qualify. As a result, the municipality did not bill and record certain revenue owing to it for services rendered, as required by GRAP 9, Revenue from exchange transactions. I was unable to determine the extent of the misstatement, as it was impractical to do so. Consequently, I was unable to determine whether any adjustment was necessary to receivables from exchange transactions stated at R17,1 million and service charges stated at R184,1 million as disclosed in note 7 and 20 the the financial statements.

Irregular expenditure

4. The municipality did not identify and disclose all irregular expenditure in the financial statements, as required by section 125(2)(d)(i) of the MFMA. Expenditure in contravention of supply chain management (SCM) requirements resulted in irregular expenditure of R18,5 million being identified during the audit, which was not disclosed. Additionally, the corresponding balance for irregular expenditure was misstated by R12,6 million. I was unable to determine the full extent of the irregular expenditure that should have been disclosed as it was impracticable to do so. Accordingly, I could not determine the adjustment required to the

irregular expenditure, disclosed in note 46 to the financial statement at R217,9 million (2020: R190,5 million).

Context for the opinion

5. 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 my report.
6. 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.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Material uncertainty relating to going concern

8. I draw attention to the matter below. My opinion is not modified in respect of this matter.
9. As disclosed in note 55 to the financial statements, there are financial challenges that threaten the financial viability and going concern of the municipality. The municipality has identified certain financial risks that negatively impact its ability to sustain current levels of operations before taking government grants into account.

Emphasis of matters

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

Material allowance for impairment – receivables

11. As disclosed in note 6 to the financial statements, material allowance for impairment of receivables from non-exchange transactions of R21,5 million (2020: R19,7 million) were incurred as a result of non-payment by consumer debtors.
12. As disclosed in note 7 to the financial statements, material impairments for receivables from exchange transactions of R100,9 million (2020: R84,9 million) were incurred as a result of non-payment by trade debtors.

Restatement of corresponding figures

13. As disclosed in note 42 to the financial statements, the corresponding figures for 30 June 2020 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2021.

Distribution losses – electricity

14. As disclosed in note 51 to the financial statements, material electricity losses of R16,8 million (2020: R13,2 million) were incurred, which represents 16,43% (2020: 25,29%) of total electricity purchased.

Distribution losses – water losses

15. As disclosed in note 52 to the financial statements, material water losses of R29,8 million (2020: R20,1 million) were incurred, which represents 48,78% (2020: 29,50%) of total water production.

Other matter

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

Unaudited disclosure notes

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

Responsibilities of the municipality for the financial statements

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

20. My objectives are to obtain reasonable assurance about whether the 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 financial statements.
21. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Introduction and scope

22. 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 development priorities presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
23. 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.
24. 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 development priority presented in the municipality's annual performance report for the year ended 30 June 2021:

Development priorities	Pages in the annual performance report
Development priority 1 - service delivery and infrastructure development	x – x

25. 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.
26. I did not identify any material findings on the usefulness and reliability of the reported performance information for this development priority:
- Development priority 1 – service delivery and infrastructure development

Other matter

27. I draw attention to the matter below.

Achievement of planned targets

28. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the year.

Report on the audit of compliance with legislation

Introduction and scope

29. 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.
30. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements and annual report

31. 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 were subsequently corrected and the supporting records were subsequently provided, but the uncorrected material misstatements resulted in the financial statements receiving a qualified opinion.

Revenue management

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

Expenditure management

33. 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 deviations not in line with SCM Regulations.
34. Reasonable steps were not taken to prevent unauthorised expenditure of R44,1 million disclosed in note 44 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending the budgeted votes within the approved budget of the municipality.
35. Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R42,4 million disclosed in note 45 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest charged by creditors due to the municipality not paying invoices on due dates.

Consequence management

36. Some irregular expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.
37. Unauthorised expenditure of R44,1 million incurred by the municipality in prior years was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(a) of the MFMA.

Procurement and contract management

38. Some deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1). Similar non-compliance was also reported in the prior year.
39. Sufficient appropriate audit evidence could not be obtained that the performance of contractors or providers was monitored monthly as required by section 116(2) of the MFMA. A similar limitation was also reported in the prior year.
40. The contract performance and monitoring measures were not in place to ensure effective contract management, as required by section 116(2)(c)(ii) of the MFMA. Similar non-compliance was also reported in the prior year.

Other information

41. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported in this auditor's report.
42. My opinion on the 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.
43. 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 development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
44. 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

45. I considered internal control relevant to my audit of the 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 and the findings on compliance with legislation included in this report.
46. Management did not regularly exercise its oversight responsibility for the internal controls of the municipality. This is evidenced by the significant errors in the financial statements submitted for audit.
47. Material non-compliance with key legislation and municipal policies were identified. This indicated that the audit action plan was not effective, as matters communicated to management in the prior year were not addressed in the current reporting period.

Material irregularities

48. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit.

Material irregularities in progress

49. I identified material irregularities during the audit and notified the accounting officer of these, as required by material irregularity regulation 3(2). By the date of this auditor's report, the responses of the accounting officer were not yet due. These material irregularities will be included in the next year's auditor's report.

Other reports

50. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipality's 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.

51. The Directorate for Priority Crime Investigation (Hawks) is investigating alleged irregularities regarding the provision of printing equipment. At the date of reporting, the investigation was still in progress.

Auditor General

East London

31 January 2022



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 development priorities 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 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 Dr Beyers Naude Local 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 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 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.

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 communicate 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.