

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 2022, the statement of financial performance, the statement of changes in net assets, the 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 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 2022, and its 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 9 of 2021 (Dora).

Basis for qualified opinion

Irregular expenditure

3. 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. This was due to expenditure incurred in contravention of the supply chain management (SCM) requirements not being detected and appropriately disclosed in the financial statements. 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 47 to the financial statements at R261,1 million.

Context for the opinion

4. 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.
5. 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.

6. 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

7. I draw attention to the matter below. My opinion is not modified in respect of this matter.
8. As disclosed in note 56 to the annual financial statements, which indicates that the municipality incurred a net deficit of R107,8 million during the year ended 30 June 2022 and, as of that date, the municipality's current liabilities exceed its total assets. These events and conditions, along with other matters as set forth in note 56, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern. The steps taken by management to address the risk and ensure the municipality's financial sustainability are also highlighted in note 56 to the financial statements.

Emphasis of matters

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

Material allowance for impairment – receivables

10. As disclosed in note 6 to the financial statements, material allowance for impairment of receivables from non-exchange transactions of R27,4 million (2021: R21,4 million) was incurred as a result of non-payment by consumer debtors.
11. As disclosed in note 7 to the financial statements, material impairments for receivables from exchange transactions of R145,4 million (2021: R100,9 million) were incurred as a result of non-payment by trade debtors.

Restatement of corresponding figures

12. As disclosed in note 43 to the financial statements, the corresponding figures for the 30 June 2021 financial year were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2022.

Distribution losses – electricity

13. As disclosed in note 52 to the financial statements, material electricity losses of R5,9 million (2021: R16,5 million) were incurred, which represents 6,5% (2021: 16,4%) of total electricity purchased.

Distribution losses – water losses

14. As disclosed in note 53 to the financial statements, material water losses of R26,5 million (2021: R29,8 million) were incurred, which represents 27,4% (2021: 48,8%) of total water production.

Other matter

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

Unaudited disclosure notes

16. 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 accounting officer for the financial statements

17. 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.
18. 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

19. 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.
20. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

21. 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.
22. 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.
23. 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 priorities presented in the municipality's annual performance report for the year ended 30 June 2022:

Development priorities	Pages in the annual performance report
Development priority 1 – infrastructure development	x – x

24. I performed procedures to determine whether the reported performance information was properly presented and whether the 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.
25. I did not identify any material findings on the usefulness and reliability of the reported performance information for this development priority.

Other matters

26. I draw attention to the matters below.

Achievement of planned targets

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

Adjustment of material misstatements

28. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of Development priority 1 – infrastructure development. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

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:

Expenditure management

31. 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 comprised deviations not in line with SCM regulations.
32. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R61,0 million, as disclosed in note 45 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending of the budgeted votes within the approved budget of the municipality.
33. Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R21,2 million as disclosed in note 46 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.
34. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

Consequence management

35. Some irregular expenditure incurred by the municipality were not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.
36. Unauthorised expenditure of R455,9 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.
37. Fruitless and wasteful expenditure of R42,4 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. Some contracts were awarded to bidders based on preference points that were not allocated in accordance with the requirements of section 2(1)(a) of the Preferential Procurement Policy Framework Act and its regulations.

Other information

40. 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.
41. My opinion on the financial statements and findings on the reported performance information and compliance with legislation does not cover the other information and I do not express an audit opinion or any form of assurance conclusion on it.
42. 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.
43. 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

44. 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.
45. Management did not perform their oversight responsibility over the internal controls of the municipality on a regular basis. This is evidenced by the significant errors in the annual financial statements submitted for audit.
46. Material non-compliance with key legislations and policies of the municipality was identified. This indicates 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

47. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit and on the status of the material irregularities reported in the previous year's auditor's report.

Status of previously reported material irregularities

Interest paid on late payments of Eskom invoices

48. The municipality paid interest to Eskom on invoices which were not paid within 30 days. The payments not made within 30 days constitutes non-compliance with section 65 (2)(e) of the MFMA, which requires the accounting officer to take all reasonable steps to ensure that all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure.
49. The interest paid is a financial loss to the municipality, as the payment of interest could have been avoided if the payments were made within the required 30 days from receipt of invoices. The non-compliance has resulted in a material financial loss of R22,1 million as at 30 June 2022 and is likely to result in further material financial losses for the municipality.
50. The accounting officer was notified of the material irregularity on 18 January 2022. The accounting officer performed a preliminary investigation and identified that some of the issues with Eskom debt is non-payment by customers and there is no individual person or group that can be held accountable for the municipality incurring interest from Eskom or the inability to make payments as the municipality has been in financial distress. The municipality has been in dispute with Eskom regarding the outstanding balance. The

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.

arbitration process is still ongoing at year-end. The matter will be followed up during the next audit.

Interest paid on late payments of Sars invoices

51. The municipality did not pay employees tax, deducted from employees, over to the South African Revenue Service (Sars) within seven days after the end of the month during which the amount was deducted. This was in contravention of section 2(1) of the fourth schedule of the Income Tax Act and section 210 of the Tax Administration Act. The municipality was required to pay interest and penalties to Sars due to non-compliance with the Income Tax Act and Tax Administration Act.
52. The interest and penalties paid are a financial loss to the municipality as the payment of interest and penalties could have been avoided if the payments were made within the required seven days from receipt of invoices. The non-compliance has resulted in a material financial loss of R11,6 million as at 30 June 2022 and is likely to result in further material financial losses for the municipality.
53. The accounting officer was notified of the material irregularity on 31 January 2022. The municipality has entered into a payment arrangement with Sars to service the outstanding debts. In addition, the municipality has implemented revenue-enhancing strategies and cost-containment measures to improve its financial position. The matter will be followed up during the next audit.

Auditor General

East London

30 November 2022



AUDITOR - GENERAL
SOUTH AFRICA

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