

Report of the auditor-general to the Eastern Cape Provincial Legislature and the council on Nelson Mandela Bay Metropolitan Municipality and its subsidiary

Report on the audit of the consolidated and separate financial statements

Qualified opinion

1. I have audited the consolidated and separate financial statements of the Nelson Mandela Bay Metropolitan Municipality and its subsidiary (the group) set out on pages xx to xx, which comprise the consolidated and separate statement of financial position as at 30 June 2024 consolidated and separate statement of financial performance, consolidated and separate statement of changes in net assets, and consolidated and separate statement of cash flows 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, except for the effects and possible effects of the matters described in the basis for qualified opinion section of this auditor's report the consolidated and separate financial statements present fairly, in all material respects, the financial position of the group as at 30 June 2024 and its financial performance and cash flows for the year then ended in accordance with Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 and the Division of Revenue Act No.5 of 2023 (Dora).

Basis for qualified opinion

Non-current provisions- Other

3. A reliable estimate of the amount of the obligation for the provision for rehabilitation costs was not accurately determined in accordance with the requirements of GRAP 19, Provisions, contingent liabilities and contingent assets. The group did not determine the provision using the best estimate of the costs required to rehabilitate a river that was polluted. Consequently, I could not determine the full extent of the misstatement of the provision for rehabilitation costs stated at R267,15 million in note 3.2 in the consolidated and separate financial statements as it was impracticable to do so. There was also an impact on the movement in property, plant and equipment in the current year in the consolidated and separate financial statements.

Property, plant and equipment

4. Adequate internal controls were not in place to appropriately record infrastructure assets - assets under construction in the year when they were completed. Assets completed in previous financial years were incorrectly disclosed as completed in the current year. Consequently, I could not determine the full extent of the misstatement on infrastructure assets - assets under construction completed in the current year stated at R1,32 billion in note 55.1 in the consolidated and separate financial statements as it was impracticable to do so. Additionally, there was an impact on the infrastructure assets – assets under construction for the prior

period, surplus for the period and on the accumulated surplus in the consolidated and separate financial statements.

Debt Impairment-receivables

5. I was unable to obtain sufficient and appropriate audit evidence to confirm that the bad debts expenses for water consumption and interest-expense amounts met the required write-off criteria to be recorded as an expense, due to the status of the accounting records. I was unable to confirm these bad debts expenses by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the debt impairment -receivables stated at R4,15 billion in the consolidated and separate financial statements.

Context for opinion

6. 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.
7. I am independent of the group 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.
8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

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

Restatement of corresponding figures

10. As disclosed in note 40 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 at, and for the year ended, 30 June 2024.

Material losses and impairments

11. As disclosed in note 15 to the consolidated and separate financial statements, material impairment allowances of R12,73 billion (2022-23: R11,63 billion) were made against trade receivables – exchange and non-exchange transactions respectively.
12. As disclosed in note 16 to the consolidated and separate financial statements, material impairment allowances of R347,60 million (2022-23: R291,69 million) were made against other receivables- exchange and non-exchange respectively.

13. As disclosed in note 35.10 of the consolidated and separate financial statements, material electricity losses of R1,19 billion (2023: R986,1 million) were incurred, which represents 26.34% (2022-23: 25.90%) of total electricity purchased.
14. As disclosed in note 35.9 to the financial statements, material water losses of R368,6 million (2022-23: R252,95 million) were incurred, which represented 48,66% (2022-23: 42,77%) of the total water cost.

Underspending on conditional grants and other grants

15. As disclosed in note 7 to the consolidated and separate financial statements, the group underspent their conditional grants and other grants by R336,84 million (2022-23: R190,38 million).

Other matter

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

Unaudited disclosure note

17. 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

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

20. 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.

21. 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. This description, which is located at page xx to xx, forms part of our auditor's report.

Report on the audit of the annual performance report

22. 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 development priority presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

23. I selected the following development priority presented in the annual performance report for the year ended 30 June 2024 for auditing. I selected a development priority that measures the municipality's performance on its primary mandated functions and that is of significant national, community or public interest.

Development priority	Page numbers	Purpose
Basic service delivery	XX	To provide key basic services

24. I evaluated the reported performance information for the selected development priority 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.

25. 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 for the measures taken to improve performance

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

27. The material findings on the reported performance information for the selected development priority are as follows:

Basic service delivery

Various indicators

28. I could not determine the accuracy of various reported achievements as adequate processes had not been established to consistently measure and reliably report on various indicators. I could not verify the methods and processes used to measure the achievements by alternative means. Consequently, the reported achievements might be more or less than reported and were not reliable for determining if the targets had been achieved.

Indicator	Target	Reported achievement
Percentage of unsurfaced road graded	0.730%	1.439%
Percentage of surfaced municipal road lanes which has been resurfaced and resealed	0.400%	0.486%

Percentage of total water connections metered

29. An achievement of ninety-seven percent (97%) was reported against a target of ninety-seven percent (97%). However, the audit evidence did not support this achievement. I could not determine the actual achievement, but I estimated it to be materially more than reported. Consequently, it is likely that the achievement against the target was better than reported.

Number of serviced sites

30. An achievement of 588 was reported against a target of 1911. However, the audit evidence did not support this achievement. I could not determine the actual achievement, but I estimated it to be materially less than reported. Consequently, it is likely that the underachievement on the target was more than reported.

Infrastructure leakage index

31. An achievement of 9,51 was reported against a target of 7. I could not determine if the reported achievement was correct, as the extent of the errors in the source data could not be

determined. Consequently, the achievement might be more or less than reported and was not reliable for determining if the target had been achieved.

Other matters

32. I draw attention to the matters below.

Achievement of planned targets

33. The annual performance report includes information on reported achievements against planned targets and provides explanations for measures taken to improve performance. This information should be considered in the context of the material findings on the reported performance information.
34. The tables 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

<i>Targets achieved: 63%</i>		
<i>Budget spent: 89%</i>		
Key service delivery indicator not achieved	Planned target	Reported achievement
KPI 2: Percentage of total residential electricity provision allocated as Free Basic Electricity (FBE)	7%	6%
KPI 3: Percentage of planned maintenance performed	95%	46%
KPI 5: Percentage non-technical electricity losses (electricity losses as a result of non-technical causes attributed to either electricity theft/ non-metered electricity/meter tempering/ meter failures and/or illegal connections)	14% of total electricity losses	18.36% of total electricity losses
KPI 66: Number of new sewer connections meeting minimum standards	2000	1103
KPI 67: Number of new water connections meeting minimum standards	2000	1103
KPI 46: Number of serviced sites	1911	588
KPI 71: Infrastructure leakage index	7	9.51
KPI 73: Percentage real water losses as defined by the International Water Association (Physical losses of water from the distribution system, including leakage and storage overflows)	31%	34,8%

Material misstatements

35. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for basic service delivery. Management did not correct all of the misstatements and I reported material findings in this regard.

Report on compliance with legislation

36. 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.
37. 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.
38. 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.
39. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial Statements

40. 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 non-current assets, current assets, current liabilities, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Revenue Management

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

Strategic and performance management

42. The performance management system and related controls were not maintained or were inadequate as it did not describe how the measurement, review and reporting processes

should be managed as required by municipal planning and performance management regulation 7(1).

Asset management

43. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Environmental Management

44. The Rocklands, Fishwater Flats and Driftsands wastewater treatment works did not have valid operating licences, as required by section 22(1) (b) of the National Water Act.

Expenditure management

45. Reasonable steps were not taken to prevent irregular expenditure amounting to R1,58 billion as disclosed in note 44.2 to the consolidated and separate annual financial statements, as required by section 62(1)(d). The majority of the irregular expenditure was caused by non-compliance with supply chain management (SCM) regulation 36(1).
46. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R17,08 million as disclosed in note 44.3 to the annual financial statements, in contravention of section 62(1) (d). The majority of the disclosed fruitless and wasteful expenditure was caused by salaries paid to suspended officials.
47. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R1,44 billion, as disclosed in note 44.1 to the consolidated and separate annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending on the votes.
48. An adequate management, accounting and information system was not in place which accounted for creditors, as required by section 65(2)(b) of the MFMA.

Procurement and Contract management

49. Some of the goods and services within the prescribed transaction value for competitive bids were procured without inviting competitive bids, as required by SCM Regulation 19(a). 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.
50. Some of the contracts were awarded to bidders based on points given for legislative requirement that differed from those stipulated in the original invitation for bidding, in contravention of SCM regulations 21(b) and 28(1)(a)(i) and the Preferential Procurement Regulations. Similar non-compliance was also reported in the prior year.
51. Some of the contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM Regulation 43.

52. Some of the contracts and quotations were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act and 2022 Preferential Procurement Regulation 4(4) and 5(4). Similar non-compliance was also reported in the prior year.
53. Some of the construction contracts were awarded to contractors that were not registered with the Construction Industry Development Board (CIDB) and did not qualify for the contract in accordance with section 18(1) of the CIDB Act and CIDB Regulations 17 and 25(7A).
54. Sufficient appropriate audit evidence could not be obtained that the performance of contractors or providers was monitored on a monthly basis as required by section 116(2) of the MFMA. Similar limitation was also reported in the prior year.
55. Sufficient appropriate audit evidence could not be obtained that contract performance and monitoring measures were in place to ensure effective contract management as required by section 116(2)(c)(ii) of the MFMA. Similar limitation was also reported in the prior year.
56. Persons in the service of the municipality who had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of the code of conduct for staff members issued in terms of the Municipal Systems Act.
57. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of the code of conduct for staff members issued in terms of the Municipal Systems Act.

Consequence management

58. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
59. Irregular 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.
60. Losses resulting from irregular expenditure were certified by council as irrecoverable without having conducted an investigation to determine the recoverability of the expenditure, in contravention of section 32(2)(b) of the MFMA.
61. 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

62. The accounting officer is responsible for the other information included in the annual report. The other information referred to does not include the consolidated and separate financial statements, the auditor's report and the selected development priority presented in the annual performance report that has been specifically reported on in this auditor's report.

63. 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.
64. 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 development priority presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
65. 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

66. 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.
67. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the material findings on the annual performance report and the material findings on compliance with legislation included in this report.
68. Management failed to consistently implement financial and performance management practices on a daily, weekly, and monthly basis. Key risks related to financial and performance reporting, as well as SCM, were not actively managed. Additionally, the municipality's audit plan was ineffective, resulting in recurring audit findings across the financial statements, performance report, and compliance areas.

Material irregularities

69. 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 material irregularities as previously reported in the auditor's report.

Material irregularities in progress

70. I identified another material irregularity during the audit and notified the accounting officer, as required by material irregularity regulation 3(2). By the date of this auditor's report, I had not yet completed the process of evaluating the response from the accounting officer. This material irregularity will be included in next year's auditor's report.

Status of previously reported material irregularities

Unused software licence

71. The municipality has a contract for software licences. In 2021-22 financial year, I identified that the municipality paid an amount of R50,3 million for unused software licences as there were no users using those licences, as a result the municipality incurred a financial loss. This resulted in fruitless and wasteful expenditure being incurred by the municipality and non-compliance with section 62(1) (a) of the MFMA.
72. A material irregularity notification letter was issued to the accounting officer on 23 November 2022 requiring the accounting officer to make a written submission on the actions taken or to be taken to address the matter. The accounting officer responded on 10 March 2023 to the notification letter and submitted supporting documents. After evaluation of the information submitted, I quantified the value of loss to be R34,1 million. The amount was disclosed on the fruitless and wasteful expenditure note to the consolidated and separate annual financial statements. The accounting officer started with the process of investigation to determine the loss and submitted section 32 reports to the municipal public accounts committee (MPAC) sub-committee on 18 September 2023. The accounting officer also reduced the number of users on a new contract entered on 10 January 2023 to be in line with our recommendation in order to prevent future loss. The accounting officer committed to have the outcomes of investigation submitted to council on 7 December 2023.
73. Based on the actions taken by the accounting officer so far, the matter has been investigated by the MPAC subcommittee and referred to MPAC on 7 October 2023. MPAC considered the matter on 24 October 2023 and referred it to council for 7 December 2023. Council reached a conclusion on 7 December 2023 to write off the amount of the loss to the value of R34.1 million, as no responsible person could be identified.
74. The implementation of the planned actions was reviewed in the current year. Based on my evaluation of the information and evidence provided, the steps taken by the accounting officer are appropriate and the material irregularity is therefore resolved.

Payment for services not received: Stormwater drain cleaning: Supplier 1

75. The municipality paid R10, 1 million on 19 December 2018 for the provision of stormwater drain cleaning services which were not rendered to the municipality. This resulted in non-compliance with section 65(2) (a) of the MFMA which requires that the municipality to maintain an effective system of expenditure control relating to the approval, authorisation, and payment of funds. The non-compliance with legislation is likely to result in a material financial loss if the municipality does not recover the money paid to the service provider.
76. The accounting officer was notified of the material irregularity on 13 December 2019 and invited to make a written submission on the actions taken or to be taken to address the matter.
77. An investigation into the matter by the Directorate for Priority Crime Investigation (Hawks) commenced in January 2020 and the municipality have been co-operating with the

investigation. The municipality appointed a forensic investigator to assist in quantifying the value of the financial loss incurred and to compile further evidence for the submission to the Hawks. On conclusion of the investigation, the municipality intends to pursue the recovery of losses incurred and consequence management against the identified responsible official(s). The forensic investigation report was finalised on 28 February 2022 and handed over to the Hawks for further investigation. The Hawks along with National Prosecuting Authority (NPA) finished their investigation on 29 August 2023 and concluded that they would not prosecute the matter further, due to insufficient evidence that the drains were not cleaned.

78. In the current year, the accounting officer prepared a report detailing reasons for closing on the matter and such report is planned to be considered by council in the next council meeting scheduled on 5 Dec 2024.

79. I will follow up on the implementation of the planned actions during my next audit cycle.

Payment for services not received: Stormwater drain cleaning: Supplier 2

80. The municipality paid R10, 1 million on 19 December 2018 for the provision of stormwater drain cleaning services which were not rendered to the municipality. This resulted in non-compliance with section 65(2) (a) of the MFMA which requires that the municipality have and maintain an effective system of expenditure control relating to the approval, authorisation, and payment of funds. The non-compliance with legislation is likely to result in a material financial loss if the municipality does not recover the money paid to the service provider.

81. The accounting officer was notified of the material irregularity on 13 December 2019 and invited to make a written submission on the actions taken or to be taken to address the matter.

82. An investigation into the matter by the Hawks commenced in January 2020 and the municipality have been co-operating with the investigation. The municipality appointed a forensic investigator to assist in quantifying the value of the financial loss incurred and to compile further evidence for the submission to the Hawks. On conclusion of the investigation, the municipality intends to pursue the recovery of losses incurred and consequence management against the identified responsible official(s). The forensic investigation report was finalised on 28 February 2022 and handed over to the Hawks for further investigation. The Hawks along with National Prosecuting Authority (NPA) finished their investigation on 29 August 2023 and concluded that they would not prosecute the matter further, due to insufficient evidence that the drains were not cleaned.

83. In the current year, the accounting officer prepared a report detailing reasons for closing on the matter and such report is planned to be considered by council in the next council meeting scheduled on 5 December 2024.

84. I will follow up on the implementation of the planned actions during my next audit cycle.

Revenue for water and sanitation services not calculated on a monthly basis

85. The municipality did not bill for service charges for the year ended 30 June 2020. It was found that 7 255 properties were not billed for the sale of water, sanitation and sewerage services provided by the municipality. This resulted in non-compliance with section 64(2)(b) of the

MFMA which requires revenue due to the municipality to be calculated on a monthly basis. The municipality is likely to suffer a material financial loss if service are not being billed.

86. The accounting officer was notified of the material irregularity on 1 September 2021 and invited to make a written submission on the actions taken or to be taken to address the matter.
87. The following actions have been taken to resolve the material irregularity:
88. The service level agreement (SLA) between budget and treasury, infrastructure and engineering and human settlements directorates was signed on 7 July 2021. The SLA outlines the value chain process between human settlements, infrastructure and engineering directorate and budget and treasury directorate in respect of the installation of new water meters, as well as linking them to the billing system.
89. The accounting officer further planned to implement the following actions to resolve the material irregularity:
 - Monthly reporting to identify properties without water-related services on the billing system.
 - The monthly report will be sent to the infrastructure and engineering directorate for investigation.
 - Infrastructure and engineering directorate is in the process of reviewing their internal business processes relating to the transfer of meter installation information to the billing system.
 - Internal Audit and Risk Assurance to include as part of their audit readiness assessment for 2021-22, the review of the internal controls that have been implemented through the SLA and subsequent standard operating procedures between budget and treasury, infrastructure and engineering and the human settlements directorates.
90. Infrastructure and engineering directorate is in the process of procuring additional resources to enable the physical verification of water meters on properties and to enable an improved turnaround time.
91. The billing will be rectified in subsequent accounts based on the actual tariffs applicable during the period.
92. A commitment and a detailed project plan were thus obtained from the accounting officer and it was indicated that the date committed to have fully addressed the material irregularity is 30 June 2025.
93. The implementation of the planned actions was followed up in the current year audit and it was noted that the accounting officer has made slow progress in addressing the material irregularity and did not fulfil the commitment made to fully resolve the material irregularity.
94. The implementation of the above planned actions will be followed in the next audit cycle.

Revenue for water and sanitation services not calculated on a monthly basis

95. The municipality did not bill for service charges for the year ended 30 June 2019. It was found that 1 237 properties were not billed for the sale of water, sanitation and sewerage services

provided by the municipality. This resulted in non-compliance with section 64(2)(b) of the MFMA which requires revenue due to the municipality to be calculated on a monthly basis. The municipality is likely to suffer a material financial loss if service charges are not being billed.

96. The accounting officer was notified of the material irregularity on 13 December 2019 and invited to make a written submission on the actions taken or to be taken to address the matter.

97. The following actions has been taken to resolve the material irregularity:

- The SLA between budget and treasury, infrastructure and engineering and human settlements directorates was signed on 7 July 2021. The SLA outlines the value chain process between human settlements, infrastructure and engineering directorate and budget and treasury directorate in respect of the installation of new water meters, as well as linking them to the billing system.
- Monthly reporting to identify properties without water related services on the billing system.
- The monthly report will be sent to the infrastructure and engineering directorate for investigation.
- Monthly meeting to be held between revenue management customer care sub-directorate, infrastructure, and engineering directorate.
- The billing will be rectified in subsequent accounts based on the actual tariffs applicable during the period.
- A commitment and a detailed project plan was thus obtained from the accounting officer and it was indicated that the date committed to have fully addressed the material irregularity is 30 June 2023.

98. The implementation of the planned actions was reviewed in the current year. Based on my evaluation of the information and evidence provided, the steps taken by the accounting officer are appropriate and the material irregularity is therefore resolved.

Revenue for water and sanitation services not calculated on a monthly basis

99. The municipality did not charge for service charges for the year ended 30 June 2022. It was found that 3 512 properties were not billed for the sale of water, sanitation and sewerage services provided by the municipality. This resulted in non-compliance with section 64(2)(b) of the MFMA which requires revenue due to the municipality to be calculated on a monthly basis. The municipality is likely to suffer a material financial loss if service charges are not being billed.

100. The accounting officer was notified of the material irregularity on 25 November 2022 and invited to make a written submission on the actions taken or to be taken to address the matter.

101. The following actions have been taken to respond to the material irregularity:

- An SLA between budget and treasury, infrastructure and engineering and human settlements directorates was signed off on 7 July 2021.

- Budget and treasury directorate prepares a monthly report that gives a status of all properties on the consolidated billing system and whether there are water meters linked or not. This report also indicates if this is a sectional title property or a multipurpose property. This report is made available to the infrastructure and engineering directorate for their review and further action.
- Infrastructure and engineering directorate is busy reviewing their internal business processes relating to the transfer of meter installation information to the consolidated billing system.
- Infrastructure and engineering directorate is busy procuring additional resources to enable the physical verification of water meters on properties to enable an improved turnaround time.

102. The accounting officer further planned to implement the following actions to resolve the material irregularity:

- Regular correspondence between the waterworks division and revenue management and customer care sub-directorate is in place regarding the anomalies identified on route numbers that need to be created on the consolidated billing system.
- Monthly meetings between Infrastructure and Engineering and Budget and Treasury Directorate are in place, where actions are implemented and monitored for progress. Human Settlements Directorate will also be integrated in these monthly meetings to ensure alignment of processes envisaged in line with the signed service level agreement (SLA).

103. The billing will be rectified in subsequent accounts based on the actual tariffs applicable during the period.

104. A commitment thus obtained from the accounting officer and it was indicated that the date committed to have fully addressed the material irregularity is 30 June 2024. Management did not fulfil the commitment made to fully resolve the material irregularity.

105. The implementation of the planned actions was followed up in the current year audit and it was noted that the accounting officer has made slow progress in addressing the material irregularity and did not fulfil the commitment made to fully resolve the material irregularity.

106. The implementation of the above planned actions will be followed in the next audit cycle.

Other reports

107. In addition to the investigations relating to material irregularities, I draw attention to the following engagement conducted. This report 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.
108. The President of South Africa promulgated an investigation by the Special Investigating Unit (SIU) on possible procurement irregularities. The investigation is still in progress at the date of this report.

Auditor - General

East London

13 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 development priority 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 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 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.

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>Sections: 1, 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 28(1), 29(1), 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii),</p> <p>Sections: 32(2)(b), 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b), 64(2)(c), 64(2)(e), 64(2)(f),</p> <p>Sections: 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), 122(2), 126(1)(a),</p> <p>Sections: 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, 171(4)(a), 171(4)(b)</p>
MFMA: Municipal budget and reporting regulations, 2009	Regulations: 71(1)(a), 71(1)(a)(b), 71(2)(a), 71(2)(b), 71(2)(d), 72(a), 72(b), 72(c)
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), 16(a), 17(1)(a), 17(1)(b), 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), 29(1)(a), 29(1)(b), 29(5)(a)(ii), 29(5)(b)(ii), 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)
Division of Revenue Act	Sections: 11(6)(b), 12(5), 16(1); 16(3)
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 Regulations, 2017	<p>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), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5), 9(1), 10(1), 10(2),</p> <p>Regulations: 11(1), 11(2)</p>

Preferential Procurement Regulations, 2022	Regulations: 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4)
Preferential Procurement Policy Framework Act 5 of 2000	Sections: 2(1)(a), 2(1)(f)
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section 34(1)
National Water Act 36 of 1998	Section 22(1)(b)
National Environmental Management: Waste Act 59 of 2008	Section 20(b)
Municipal Systems Act 32 of 2000	Sections: 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 34(a), 34(b), 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), Sections: 54A(1)(a), 56(1)(a), 57(2)(a), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 96(b)
MSA: Municipal Planning and Performance Management Regulations, 2001	Regulations: 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 7(1), 8, 9(1)(a), 10(a), 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)
MSA: Municipal Staff Regulations	Regulations: 7(1), 31