

Report of the auditor-general to the Eastern Cape Provincial Legislature and the council of 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 2020, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the impact of the matters described in the basis for the qualified opinion section of this report, the financial statements present fairly, in all material respects the financial position of the Dr Beyers Naude Local Municipality as at 30 June 2020, and its financial performance and cash flows for the year then ended, in accordance with the South African Standards on Generally Recognised Accounting Practice (SA 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, 2019 (Act No. 16 of 2019) (Dora).

Basis for qualified opinion

Investment Property

3. I was unable to obtain sufficient appropriate audit evidence for investment property as the municipality did not maintain adequate records for the majority of its property values reflected in the investment property register. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to investment property stated at R69 million (2019: R69 million) in the financial statements.

Irregular expenditure

4. The municipality did not identify and disclose all irregular expenditure in the financial statements, as required by 125(2) (d) (i) of the MFMA. Expenditure incurred in contravention of the supply chain management (SCM) requirements resulted in irregular expenditure of R12,5 million being identified during the audit, which was not disclosed. Additionally, the corresponding balance for irregular expenditure was misstated by R8,2 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 at R189 million (2019: R165 million) in note 47 to the financial statements.

Receivables from exchange transactions

5. I was unable to obtain sufficient appropriate audit evidence for the corresponding figure for receivables from exchange transactions because I could not inspect the indigent debtors' application forms to determine whether they qualified to be categorised as indigent debtors. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the receivables from exchange transactions corresponding figure stated at R16,3 million in the financial statements.

Cash Flow Statement

6. The municipality incorrectly classified and incorrectly calculated various line items in the cash flow statement. This resulted in the following line items being misstated as described:
 - Cash receipts from customers was understated by R39 million (2019: R49,2 million understatement)
 - Cash paid to suppliers and employees overstated by R4 million (2019: R49,8 million understatement)

Context for the opinion

7. 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 this auditor's report.
8. 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.
9. 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 financial sustainability

10. I draw attention to note 56 to the financial statements, which indicates that the municipality's current liabilities exceed the current assets by R257 million and they have incurred a deficit of R54.5 million. This matter has an impact on the financial viability of the municipality, and may cast doubt on its ability to continue as a going concern. My opinion is not modified in respect of this matter.

Emphasis of matters

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

Fruitless and Wasteful Expenditure

11. As disclosed in note 46 to the financial statements, the municipality accumulated R24,75 million (2019: R16,3 million) in fruitless and wasteful expenditure that has not been recovered, written off or condoned. Fruitless and wasteful expenditure of R24,75 million (2019: R16,3 million) incurred during the current year is included in the amount disclosed as a result of the interest incurred or paid to suppliers.

Unauthorised Expenditure

12. As disclosed in note 45 to the financial statements, the municipality accumulated R431,8 million (2019: R328,6 million) in unauthorised expenditure that has not been recovered, written off or condoned. Unauthorised expenditure of R431,8 million (2019: R328,6 million), incurred during the current year is included in the amount disclosed as a result of overspending of votes within the approved budget.

Debt Impairment

13. As disclosed in note 32 to the financial statements, debt impairments of R47,2 million (2019: R37 million) were made to receivables from exchange and non-exchange transactions.

Restatement of corresponding figures

14. As disclosed in note 43 to the financial statements, the corresponding figures for the year ended 30 June 2019 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2020.

Distribution Losses – Electricity

15. As disclosed in Note 52 to the financial statements, material electricity losses of R13,2 million (2019 – R13,2 million) were incurred, which represents 25.29% (2019 – 13.84%) of total electricity purchased.

Distribution Losses – Water

16. As disclosed in Note 53 to the financial statements, material water losses of R20,2 million (2019 – R8.6 million) were incurred, which represents 29.50% (2019 – 26.69%) of total water production.

Other matter

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

Unaudited disclosure notes

18. 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 thereon.

Responsibilities of the accounting officer for the financial statements

19. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA, 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.
20. 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

21. 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.
22. 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

23. 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 programme presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
24. 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 also do not extend to any disclosures or assertions relating to 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.

25. 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 programmes presented in the municipality's annual performance report for the year ended 30 June 2020:

Programme	Pages in the annual performance report
Basic Service Delivery and Infrastructure Development	x – x

26. 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.

27. I did not identify any material findings on the usefulness and reliability of the reported performance information for these development priorities:

- Basic Service Delivery and Infrastructure Development

Other matters

28. I draw attention to the matter below.

Adjustment of material misstatements

29. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of Basic Service Delivery and 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

30. 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.

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

Annual financial statements

32. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(2) of the MFMA. Material

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

Expenditure Management

33. Money owed by the municipality was not always paid within 30 days, as required by section 65(2) (e) of the MFMA.
34. 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 caused by contravention of SCM legislation. Irregular expenditure amounting to R 11 824 227 was incurred on Tender 66/2018: Supply and delivery of new lease vehicles.
35. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R8,4 million, as disclosed in note 46 to the annual financial statements, in contravention of section 62(1) (d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by contravention of section 65(2) (e) of the MFMA. Fruitless and wasteful expenditure amounting to R 4 882 269 was incurred on late payments for electricity purchases (Eskom).
36. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R 83, 2 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 amount appropriated in the municipality's approved budget.

Procurement and contract management

37. Some of the contracts were not awarded in an economical manner and/or the prices of the goods or services were not reasonable as required by MFMA sec 62(1)(a) and MFMA sec 95(a)
38. Some of the goods and services of a transaction value above R200 000 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).
39. Some of the competitive bids were adjudication by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2). Similar non-compliance was also reported in the prior year.
40. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5. Similar non-compliance was also reported in the prior year.

41. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2) (b) of the MFMA.

Conditional Grants

42. Performance in respect of programmes funded by the Municipal Disaster Relief Grant, Municipal Infrastructure Grant and Regional Bulk Infrastructure Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act (Act 16 of 2019).

Consequence management

43. 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.
44. Some of the 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.
45. 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

46. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report, which includes the audit committee's report. The other information does not include the financial statements, the auditor's report and those selected programmes presented in the annual performance report that have been specifically reported in this auditor's report.
47. 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.
48. 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 programme presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
49. I did not receive the other information prior to the date of this 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

50. 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 audit opinion, the findings on the basic service delivery and infrastructure development programme and the findings on compliance with legislation included in this report.
51. Management did not adequately perform their oversight responsibility over the internal controls of the municipality on a regular basis. This is evidenced by the significant errors on the annual financial statements (AFS) and annual performance report (APR) submitted for audit.
52. Material non-compliances with key legislations and polices of the municipality were identified during the audit. This indicates that the action plan was not effective as matters communicated to management were raised in the prior year.
53. In addition, the internal audit unit was not fully effective during the year due to capacity constraints, this resulted in a poor control environment where internal controls have not been entirely implemented over the monthly financial and performance reporting processes, including year-end reporting, as a number of disclosures in the financial statements were misstated.

Auditor General
East-London

31 March 2021



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 programme 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 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 confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other

matters that may reasonably be thought to have a bearing on my independence and, where applicable, the actions taken to eliminate threats or the safeguards applied.