



AUDITOR - GENERAL  
SOUTH AFRICA

Accounting officer  
OR Tambo District Municipality  
Private Bag X6043  
Mthatha  
5100

Reference: 60082REG19/20

Dear Madam

**Report of the Auditor-General on the financial statements and other legal and regulatory requirements of OR Tambo District Municipality for the year ended 30 June 2020**

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Municipal Finance Management Act of South Africa (MFMA)
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA, you are required to include the audit report in the OR Tambo District Municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
  - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
  - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.

6. Please notify the undersigned Business Executive / Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely



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Business Executive: Eastern Cape Business Unit

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# Report of the auditor-general to the Eastern Cape Provincial Legislature and the council on the OR Tambo District Municipality

## 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 OR Tambo District Municipality set out on pages ... to ..., which comprise the consolidated and separate statement of financial position as at 30 June 2020, the consolidated and separate statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial statements financial position of the OR Tambo District Municipality as at 30 June 2020, and the consolidated and separate financial statements financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 16 of 2019 (Dora).

### Basis for qualified of opinion

#### Irregular expenditure

3. The municipality did not fully record irregular expenditure in the notes to the financial statements, as required by section 125(2)(d)(1) of the MFMA. This was because expenditure incurred in contravention of the supply chain management (SCM) requirements was not detected and appropriately disclosed in the consolidated and separate financial statements financial statements. Consequently, I was unable to determine the full extent of the irregular expenditure, stated at R2 billion (2018-19: R1,3 billion) in note 54 to the consolidated and separate financial statements as it was impracticable to do so.

#### Property, plant and equipment

4. The municipality did not recognise all items of property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment*. Completed infrastructure assets were incorrectly recognised as infrastructure work in progress. Some infrastructure work in progress was recorded at incorrect amounts and some was transferred to the completed infrastructure assets at incorrect amounts. Consequently, infrastructure work in progress disclosed in note 8 to the consolidated and separate financial statements was overstated and infrastructure assets was understated by R193,6 million, (2018-19: R268,9 million). In addition, I was unable

to quantify the misstatement of the depreciation and accumulated depreciation as the municipality did not determine useful lives for these completed assets. I was unable to determine whether any adjustment was necessary to infrastructure work in progress as it was impractical to do so.

5. The municipality did not assign unique identifying codes for all completed infrastructure assets. As a result, I was unable to identify some of the completed infrastructure assets that belong to the municipality. Furthermore, some assets included in the completed infrastructure assets did not belong to the municipality. Consequently, completed infrastructure assets disclosed in note 8 to the consolidated and separate financial statements was overstated by R1,6 billion. Additionally, the residual values and useful lives of infrastructure assets were not reviewed at the reporting date in accordance with GRAP 17. I was therefore unable to determine the impact on the net carrying amount of property, plant and equipment as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments were necessary to completed infrastructure assets disclosed in note 8 to the consolidated and separate financial statements.
6. I was unable to obtain sufficient appropriate audit evidence to substantiate impairment on assets of R19,7 million disclosed in note 8 to the consolidated and separate financial statements due to the status of accounting records. I could not confirm the impairment of assets by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to completed infrastructure assets.

#### Receivables from exchange transaction

7. I was unable to obtain sufficient appropriate audit evidence that receivables from exchange transactions had been properly accounted for due to the lack of proper record keeping for some service debtors. I was unable to confirm the receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to receivables from exchange transactions, stated at R125 million in the consolidated and separate statement of financial position.

#### Prepayments

8. The municipality did not have a system in place to account for prepayments made for the year and the previous year. As a result, I was unable to obtain sufficient appropriate audit evidence that prepayments for the current and previous year had been properly accounted for. I was unable to confirm the prepayments by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to prepayments, stated at R132,7 million (2018-19: R209,8 million) in the consolidated and separate statement of financial position.

#### Capital commitments

9. The municipality recorded some of its capital commitments at incorrect amounts for the year under review. This was due to a lack of adequate systems and processes at the municipality to ensure that capital commitments were correctly recorded. Consequently, capital commitments disclosed in note 44 to the consolidated and separate financial statements were overstated by R67,8 million.

## Context for the opinion

10. 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 separate financial statements section of this auditor's report.
11. 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.
12. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

## Emphasis of matters

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

### Unspent conditional grants and receipts

14. As disclosed in note 18 to the consolidated and separate financial statements, the municipality has unspent conditional grants and receipts totalling R453 million (2018-19: R338,9 million). The unspent grants were cash backed by term deposits.

### Corresponding figure

15. As disclosed in note 46 to the consolidated and separate financial statements, the corresponding figures for 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.

### Events after the reporting date

16. As disclosed in note 50 to the consolidated and separate financial statements, the National Treasury has indicated that R234 million in unspent grants for 2018-19 will be withheld and deducted from the future equitable share transfers.

### Bulk water losses

17. As disclosed in note 59 to the consolidated and separate financial statements, material bulk water losses of R23,7 million (2018-19: R11,1 million) were incurred, which represents 42% (2018-19: 31%) of the total bulk water purchased. The water losses are due to leakages, meter tampering, the incorrect ratios used on bulk meters, faulty meters and illegal water connections.

## **Other matter**

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

## **Unaudited disclosure notes**

19. 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**

20. The accounting officer is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the SA Standards of 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.
21. In preparing the consolidated and separate financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

## **Auditor-general's responsibilities for the audit of the separate financial statements**

22. 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.
23. 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.

**Introduction and scope**

- 24. 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.
- 25. 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.
- 26. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priority presented in the municipality’s annual performance report for the year ended 30 June 2020:

Development priority	Pages in the annual performance report
Key performance area 1 (KPA 1) Basic service delivery and infrastructure	x – x

- 27. 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.
- 28. The material findings in respect of the usefulness and reliability of the selected development priority are as follows:

**KPA 1 – Basic service delivery and infrastructure**

*Indicator P038: number of treatment works with bulk meter installed*

- 29. The source information and evidence for achieving the planned indicator was not clearly defined. The portfolio of evidence supporting the achieved target is not aligned to the indicator description. I was unable to obtain sufficient appropriate audit evidence for the reported

achievements by alternative means. As a result, I was unable to determine whether any adjustments were required to the reported achievement.

*Various indicators*

30. The reported achievements for the following indicators were misstated as the reported achievement materially differed from the evidence obtained through physical verification of water projects. The system and processes implemented by the municipality to ensure valid, accurate and complete reported performance information were not effective:

Indicator	Reported Achievement	Audited value
Number of water tanks provided to communities (PO26)	182	131
Number of households with access to basic level of water services (PO28)	21 327	3 541
Number of water projects completed (PO31)	15	8
Purified megalitres of water carted and delivered to communities (PO27)	75,6	99,8

**Other matter**

**Achievement of planned targets**

31. Refer to the annual performance report on pages' x to x for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 28 to 30 of this report.
32. Report on the audit of compliance with legislation

**Introduction and scope**

33. 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.
34. The material findings on compliance with specific matters in key legislation are as follows:

**Annual financial statements, performance and annual reports**

35. The consolidated and separate financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements and



supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

### **Strategic planning and performance management**

36. The performance management system and related controls were not maintained, as they did not describe how the performance monitoring, review and reporting processes should be conducted, organised and managed, as required by municipal planning and performance management regulation 7(1).
37. Annual performance objectives and indicators were not established for the Ntinga Development Agency and included in the OR Tambo District Municipality's multi-year business plan, as required by section 93B(a) of the Municipal Systems Act.

### **Asset management**

38. An adequate management, accounting and information system that accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
39. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.
40. Capital assets were disposed of without the municipal council having a meeting open to the public, to decide on whether the assets were still needed to provide the minimum level of basic municipal services as required by section 14(2)(a) of the MFMA.

### **Expenditure management**

41. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed did not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph. Most of the irregular expenditure was caused by non-compliance with SCM regulations.
42. Reasonable steps were not taken to prevent unauthorised expenditure of R5,1 million as disclosed in note 52 to the consolidated and separate financial statements, in contravention of section 62(1)(d) of the MFMA.
43. Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R8,9 million as disclosed in note 53 to the consolidated and separate annual financial statements, in contravention of section 62(1)(d) of the MFMA. Most of the fruitless and wasteful expenditure was caused by expenditure on discontinued projects.

### **Procurement and contract management**

44. Some contracts 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 Preferential Procurement Regulations. Similar non-compliance was also reported in the prior year.

45. The performance of some contractors or providers was not monitored monthly, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year.
46. Awards were made to providers who were in the service of other state institutions or whose directors were in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM regulation 38(1).
47. Some contracts were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). Similar non-compliance was also reported in the prior year.

### Consequence management

48. Unauthorised expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(a) of the MFMA.
49. Irregular expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.
50. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.

### Conditional grants

51. The performance of programmes funded by the municipal infrastructure grant, the regional bulk infrastructure grant and the water services infrastructure grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of Dora.
52. A portion of funds received from the municipal infrastructure grant was transferred to the Amatola Water Board based on a payment schedule that was not approved by the National Treasury, as required by section 17(2) of Dora.
53. A portion of funds received from the regional bulk infrastructure grant was transferred to the Amatola Water Board based on a payment schedule that was not approved by the National Treasury, as required by section 17(2) of Dora.

### Other information

54. 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 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 in this auditor's report.

55. My opinion on the consolidated and separate 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.
56. 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 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.
57. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information and 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**

58. I considered internal control relevant to my audit of the consolidated and separate 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, the findings on the annual performance report and the findings on compliance with legislation included in this report.
59. Leadership did not implement all the disciplines necessary to enable effective oversight that promotes the achievement of credible reporting in financial management, service delivery and compliance with laws and regulations. The leadership did not appropriately monitor the implementation of corrective actions to address internal control deviations and compliance requirements, especially the compliance requirements on consequence management. This is evidenced by the re-occurrence of irregular expenditure.
60. Management did not implement daily and monthly controls in order to ensure the financial statements and annual performance reports are supported by accurate and complete underlying records. Furthermore, Management continued to display a lack of commitment to addressing the previous year's findings. This was evident in the audit action plan designed to address such issues not being implemented, which resulted in repeat audit findings on the consolidated and separate financial statements, annual performance report and compliance with applicable laws and regulations.

### **Material irregularities**

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

## Material irregularities in progress

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

## Other reports

63. In addition to the investigations relating to material irregularities, I draw attention to the following engagements conducted by various parties, which had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
64. The Directorate for Priority Crime Investigation (Hawks) is investigating allegations of fraudulent covid-19-related expenditure and of the fraudulent appointment of casual workers by the municipality in 2010.
65. These investigations were still in progress at the date of signing this report.

*Auditor-General*

East London

15 April 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 consolidated and separate 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 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 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 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 OR Tambo District 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 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 financial statements, including the disclosures, and determine whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

## **Communication with those charged with governance**

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.