

Report of the auditor-general to the Eastern Cape Provincial Legislature and the Council on the Alfred Nzo District Municipality

Report on the audit of the consolidated and separate financial statements

Opinion

1. I have audited the consolidated and separate financial statements of the Alfred Nzo District Municipality set out on pages ... to ..., which comprise the consolidated and separate statement of financial position as at 30 June 2020, consolidated and separate 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 consolidated and separate financial statements, including a summary of significant accounting policies.
2. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Alfred Nzo District Municipality as at 30 June 2020, and its financial performance and cash flows for the year then ended in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2019 (Act No.16 of 2019) (Dora).

Basis for opinion

3. 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 consolidated and separate financial statements section of this auditor's report.
4. I am independent of the municipality in accordance with the *International Code of Ethics for Professional Accountants (including International Independence Standards)* of the International Ethics Standards Board for Accountants (IESBA codes) as well as the 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 codes.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matters

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

Restatement of corresponding figures

7. As disclosed in note 44 to the financial statements, the corresponding figures for 30 June 2019 have been restated as a result of errors identified in the financial statements of the municipality at, and for the year ended, 30 June 2020.

Material losses –Water

8. As disclosed in note 4 to the financial statements, the municipality incurred water losses totalling R21,2 million (2019: R23,0 million) which represents 28% (2019: 30%) of total water purchased as a result of leakages on the distribution system as well as illegal connections.

Impairment of receivables from exchange transactions

9. As disclosed in note 5 to the financial statements, the municipality has an impairment of receivables from exchange transactions totalling R94,4 million (2019: R91,8 million).

Irregular expenditure

10. As disclosed in note 47 to the financial statements, irregular expenditure – current year amounting to R2,9 million (2019: R1,5 million) and irregular expenditure incurred in the current year as a result of prior year irregular contracts amounting to R 85,6 million (2019: R141,0 million) was incurred due to supply chain management transgressions that occurred in the current and prior financial years. The cumulative balance as at 30 June 2020 amounted to R1,4 billion (2019: R1,3 billion) that has not been recovered, written off or condoned.

Other matter

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

Unaudited disclosure note

12. In terms of section 125(2)(e) of the MFMA, the entity is required to disclose particulars of non-compliance with this legislation. 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 Accounting Officer for the financial statements

13. The accounting officer is responsible for the fair presentation of the consolidated and separate financial statements in accordance with SA standards of GRAP and the requirements of the MFMA and the Division of revenue act (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.
14. 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 consolidated and separate financial statements

15. 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.

16. 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.

Report on the audit of the annual performance report

Introduction and scope

17. In accordance with the Public Audit Act of South Africa 2004 (Act No. 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 programmes presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
18. My procedures address the usefulness and reliability of the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures 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.
19. 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 programme presented in the annual performance report of the municipality for the year ended 30 June 2020:

Programmes	Pages in the annual performance report
KPA 2- Basic Service Delivery and Infrastructure Development	x – x

20. 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.
21. The material findings in respect of the usefulness and reliability of the selected programme are as follows:

Key Performance Area 2 - Basic Service Delivery and Infrastructure Development

Various indicators

22. The achievements reported in the annual performance report materially differed from the supporting evidence provided for the indicators listed below. The supporting evidence provided indicated that the achievements of these indicators were as follows:

Indicator	Audited value	Reported achievement
Number of kilometres of internal reticulation and reservoir completed	<p>Tshisa Reservoir – 90 % Mango Reservoir – 72.5 %</p> <p>>11 km reticulation-100% > 6km bulk pipeline-105%</p> <p>>Installation of sandpipes-0%</p> <p>>Construction of 1.0km access road to resevoirs=0%</p> <p>> Construction of pump station at Tshisa village=95%</p>	<p>>Construction of 2x 2ml reservoirs is at 75% complete</p> <p>>16,14 km village reticulation is completed</p> <p>>installation of 33 standpipes is completed</p> <p>>construction of 1.0 km of access roads to the reservoirs is at 100% completion</p> <p>>construction of 1 Pump station at Tshisa Village is at 35% completion.</p>
Number of reservoirs, pipe kilometres, pump stations and standpipe completed	<p>>Work done on 3 reservoirs and 2 are outstanding-60% complete</p> <p>>No update on the stand pipes</p>	<p>>Construction of 1xnew reservoirs completed , completion of 5x half reservoirs completed</p> <p>>105 stand pipes completed</p>
Number of reservoirs, kilometres of pipeline, borehole & pump station and standpipes completed	<p>Construction of a 200kl reservoir in Rholweni Village completed, bulk and reticulation pipelines completed, equipping of borehole completed, construction of pump house and installation of 16 standpipes complete. However the overall progress is reported as 97%</p>	<p>Construction of a 200kl reservoir in Rholweni Village completed, 10km of bulk and reticulation pipelines completed, equipping of borehole completed, construction of pump station and installation of 7standpipes complete</p>
Kilometres of bulk line, kilometres of reticulation, number of Reservoirs, number of standpipes completed	<p>>26,16 km Bulk line completed</p> <p>>118.73 km Reticulation completed</p>	<p>>Construction of 26,2 km Bulk line completed & 3,8km Bulk line constructed at 80% completed</p> <p>>20,9km Reticulation completed</p> <p>>7 reservoirs completed</p>

	<p>> 13 reservoirs completed</p> <p>>455 standpipes completed</p>	>243 standpipes completed
Number of interim water supply schemes completed	<p>Dumsi reticulation extension and additional spring protection - 91%</p> <p>Nontlanga borehole equipping and water supply- 100% complete</p> <p>Nobamba borehole equipping and water supply- 100% complete</p> <p>Mkhambathini Spring protection and water supply- 72% complete</p> <p>Cluster 2 projects- Baleni water supply- incomplete. No report on the other water supply projects</p>	0 interim water supply schemes completed in Mbizana LM, however 80% of work has been completed
Number of interim water supply schemes completed in Ntabankulu LM	<p>1. Mazeni / Thembani Water Supply Project- 100% complete</p> <p>2. Vulindlela Phase 2 Water Supply Project-The scheme is 98% complete</p> <p>3. Mbangweni Water Supply Project-The scheme is 100% complete</p> <p>4. Vane Water Supply Refurbishment Project and mbhongweni completion-The scheme is 90% complete</p>	1 interim water supply completed, 95% of 2 interim water supply scheme has been completed the 4th interim water supply is at 40% completion.
Number of reservoirs completed, number kilometres of pipeline completed, number of valves & chambers completed, number of taps completed	<p>No detailed report of actual progress.</p> <p>85% complete</p>	Construction of 1x100kl Steel reservoir is completed, 8kilometres of pipeline is complete, installation of 14 valves and chambers is completed, 34 communal taps is completed and extension to the Bomvini Water Treatment Works is 20% complete.

Number of kilometres of pipeline, Precast 1x SBS Tanks; Borehole, pump stations with 2highlift electric pump stations with standby diesel generator completed	2X800kl SBS Tank-85% Complete	1x SBS Tanks is completed
Number of new Waste Water Treatment Works started	>Drying beds-84% Complete >Bulk sewer-48% >Operation houses-97% Complete >Chlorination Building-8%	>Drying beds are completed >3km of bulk sewer completed >Construction of Operators houses at 98% >Chlorination building 98% complete
Number of WWTW completed and 471 RDP Sewer & water retic.	Overall progress is 82% on sewer & water reticulation	Completion of 471 RDP Sewer & water reticulation is at 95% completion

Other matters

23. I draw attention to the matters below.

Achievement of planned targets

24. Refer to the annual performance report on pages ... to ... 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 21 to 22 of this report.

Adjustment of material misstatements

25. 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 only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Report on the audit of compliance with legislation

Introduction and scope

26. 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.

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

Annual Financial statements

28. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of disclosure items identified by the auditors in the submitted financial statement were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

Strategic planning and performance management

29. The performance management system and related controls were not maintained as it did not describe how the performance monitoring, review and reporting processes should be conducted and managed, as required by municipal planning and performance management regulation 7(1).

Expenditure management

30. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
31. Reasonable steps were not taken to prevent irregular expenditure amounting to R 2.9 million as disclosed in note 47 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by awards made where the SCM processes were not followed and declaration of interest were not submitted.

Consequence management.

32. 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.
33. Irregular and fruitless and wasteful expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Other information

34. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes executive mayor's report, the audit committee's report and the accounting officer's report. The other information does not include the consolidated and separate financial statements, the auditor's report and those selected key performance areas presented in the annual performance report that have been specifically reported in this auditor's report.
35. 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 thereon.
36. 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 key performance areas presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a

material misstatement of this other information I am required to report that fact. I have nothing to report in this regard.

Internal control deficiencies

37. 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 findings on the annual of performance report and the findings on compliance with legislation included in this report:

- The municipality does not have an effective system in place to collate and report on predetermined objectives.
- Recommendations of the internal audit in respect of financial and performance information were not implemented by management

Other reports

38. 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.

39. The President of South Africa promulgated in 2017 that an investigation be conducted by the Hawks based on the allegation of possible procurement irregularities. This investigation was still in progress at the date of this report.

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 consolidated and separate financial statements and the procedures performed on reported performance information for selected programmes 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 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 Alfred Nzo 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 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
 - 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

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, actions taken to eliminate threats or safeguards applied.

Explanatory information and examples

General