

Auditor-General of South Africa

**Buffalo City Metropolitan
Municipality and its municipal
entity**

**Audit report for the year ending
30 June 2022**

Report of the auditor-general to the Eastern Cape Provincial Legislature and the council on Buffalo City Metropolitan Municipality and its municipal entity

Report on the audit of the consolidated and separate financial statements

Opinion

1. I have audited the consolidated and separate financial statements of the Buffalo City Metropolitan Municipality and its municipality entity (the group) set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2022, the 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 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 financial position of the group as at 30 June 2022, and their financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Account Practice (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 9 of 2021 (Dora).

Context for the 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 my report.
4. 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.
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 52 to the consolidated and separate financial statements, the corresponding figures for 30 June 2021 have been restated as a result of errors identified in the consolidated and separate financial statements of the group at, and for the year ended, 30 June 2022.

Material losses and impairments

8. As disclosed in notes 12 and 13 to the consolidated and separate financial statements, material impairment allowances of R1 billion (2021: R750,2 million) and R2,9 billion (2021: R1,9 billion) were made against receivables from non-exchange and exchange transactions respectively. The net movement in these impairment allowances together with the bad debt write-offs resulted in an impairment expense of R1,4 billion (2021: R911,7 million).
9. As disclosed in note 39 to the consolidated and separate financial statements, material electricity losses of R413,4 million (2021: R368,2 million) were incurred, which represents 20% (2021: 23%) of total electricity purchased. The non-technical losses amounted of 10% (2021: 17%) and was due to illegal connections, meter tampering, electrical faults and billing errors.
10. As disclosed in note 39 to the consolidated and separate financial statements, material water losses of R139,3 million (2021: R125,5 million) were incurred, which represents 38% (2021: 36%) of the total water cost. The non-technical losses amounted to 16% (2021: 17%) and was mainly due to theft or illegal access as well as technical and administrative inaccuracies associated with customer metering.

Underspending on conditional grants

11. As disclosed in note 16 to the consolidated and separate financial statements, the municipality had an unspent portion of conditional grants of R274,3 million (2021: R264,7 million).

Other matter

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

Unaudited disclosure note

13. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with this legislation. 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 thereon.

Responsibilities of the accounting officer for the consolidated and separate financial statements

14. The accounting officer is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with 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.
15. 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.

Auditor-general's responsibilities for the audit of the consolidated and separate financial statements

16. 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.
17. 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

18. 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 strategic outcomes presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

19. My procedures address the usefulness and reliability of the reported performance information, which must be based on the municipality's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the municipality enabled service delivery. My procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
20. 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 strategic outcomes presented in the municipality's annual performance report for the year ended 30 June 2022:

Strategic outcome	Pages in the annual performance report
Strategic outcome 3: A Connected City	x – x
Strategic outcome 4: A Spatially Transformed City	x – x

21. 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.
22. The material findings on the usefulness and reliability of the performance information of the selected strategic outcomes are as follows:

Strategic outcome 3: A Connected City

Various indicators

23. I was unable to obtain sufficient appropriate audit evidence for the reported achievements in the annual performance report as well as the reasons for variances between the planned targets and reported achievements. This was due to a lack of proper performance management systems and processes and formal standard operating procedures that predetermined how the achievement would be measured, monitored and reported. I was unable to confirm reported achievements and the reasons for variances by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements and the reasons for the variances for the indicators listed below.

Indicator description	Reported Achievement
Number of dwellings provided with connections to the mains electricity supply	643
Percentage of planned maintenance performed	84.8%
Installed capacity of embedded generators on the municipal distribution network	1750.56kW

Strategic outcome 4: A Spatially Transformed City

Number of sites serviced

24. I was unable to obtain sufficient appropriate audit evidence for the reported achievement in the annual performance report as well as the reason for the variance between the planned target and reported achievement. This was due to a lack of proper performance management systems and processes and formal standard operating procedures that predetermine how the achievement would be measured, monitored and reported. I was unable to confirm the reported achievement and the reason for variance by alternative means. Consequently, I was unable to determine whether any adjustment was required to the reported achievement and the reason for the variance.

Other matters

25. I draw attention to the matters below.

Achievement of planned targets

26. 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 paragraph 23 of this report. The Buffalo City Metropolitan Municipality achieved 68% of the planned targets for the year in the selected Strategic outcome 3: A Connected City. The planned target that was not achieved relates to a key service delivery indicator on electricity, per the table below.

	Indicator	Planned Target	Reported Achievement
1.	Number of dwellings provided with connections to the mains electricity supply	780	643

27. 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 paragraph 24 of this report. The Buffalo City Metropolitan Municipality achieved 46% of the planned targets for the year in the selected Strategic outcome 4: A Spatially Transformed City. Some of the planned targets that were not achieved relate to key service delivery indicators for water and sanitation, per the table below:

	Indicator	Planned Target	Reported Achievement
1.	Number of new water connections meeting minimum standards	500	347
2.	Number of serviced sites	800	322
3.	Number of ablution facilities constructed (seats)	99 (seats)	97 (seats)

28. Reasons for the underachievement of targets are included in the annual performance report on pages xx to xx.

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 A Connected City and A Spatially Transformed City. 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

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(1) of the MFMA. Material misstatements of current assets, non-current assets, expenditure and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Strategic planning and performance management

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

Asset management

34. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.

Expenditure management

35. Reasonable steps were not taken to prevent irregular expenditure of R6.1 billion as disclosed in note 58 to the financial statements of the municipality, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was incurred on management's use of annual contracts outside of the supply chain management (SCM) regulations.

36. Reasonable steps were not taken to prevent unauthorised expenditure of R163,7 million, as disclosed in note 56 to the financial statements of the municipality, in contravention of section 62(1)(d) of the MFMA. The unauthorised expenditure was caused by over expenditure on debt impairment.

Human resource management

37. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the Municipal Systems Act 32 of 2000 (MSA).

Procurement and contract management

38. Some of the goods and services with a transaction value of above R200 000 were procured without inviting competitive bids by the municipality, as required by SCM Regulation 19(a) and (b). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM Regulation 36(1). Similar non-compliance was also reported in the prior year.
39. Contracts and quotations were awarded to bidders based on functionality criteria that were not weighted for each criterion in the original invitation for bidding and quotations, in contravention of the 2017 preferential procurement regulation 5(3). This non-compliance was identified in the procurement processes of the municipality for the key project relating to provision of maintenance, repairs and construction of 32kv, 11kv, 400v overhead mains, streetlight overhead mains and underground cables in the municipal area of supply.
40. Some of the invitation to tender for procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by the 2017 preferential procurement regulation 8(2). This non-compliance was identified in the procurement processes of the municipality for the projects related to construction of 275 top structures and provision of internal engineering services for Cambridge West Ciskei National Independent Party victims' housing project as well as the re-alignment of the R 72 sleeper site: Phase 2.
41. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5.
42. The performance of contractors or providers were not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year.
43. The contract performance and monitoring measures were not in place to ensure effective contract management, as required by section 116(2)(c)(ii) of the MFMA. Similar non-compliance was also reported in the prior year.
44. 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 MSA.

Consequence management

45. 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.
46. Some of the 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.

Environmental management

47. The following wastewater treatment plants did not have valid operating licences as required by section 22(1)(b) of the National Water Act 36 of 1998:
 - Amalinda/Central ■ Berlin ■ Breidbach ■ Dimbaza ■ East Bank ■ Gonubie ■ Kayser's Beach ■ Kidd's Beach ■ Mdantsane ■ Potsdam ■ Schornville ■ Westbank

Other information

48. 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 those selected strategic outcomes presented in the annual performance report that have been specifically reported in this auditor's report.
49. 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.
50. 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 strategic outcomes presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
51. 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

52. 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 performance report and the findings on compliance with legislation included in this report.
53. Leadership's oversight responsibility to ensure credible and reliable financial and performance reporting as well as compliance with legislation was limited due to inadequate coordination and monitoring between directorates of the municipality.
54. The SCM policies and procedures implemented were inadequate to ensure fairness, competitiveness and transparency when procuring goods and services. This, together with a lack of monitoring of contracts resulted in non-compliance with SCM regulations and the incurrence of irregular expenditure.
55. The daily and monthly disciplines required by management were inadequate to account for all the financial and performance processes of the municipality. Furthermore, management did not prepare regular, accurate and complete financial and performance reports supported and evidenced by reliable information.

Material irregularities

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

Material irregularity identified during the audit

57. The material irregularity identified is as follows:

Vandalism and theft of completed asset

58. The municipality did not comply with section 63(2)(c) read together with section 63(1)(a) of the MFMA which requires that the accounting officer of a municipality be responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets. Management did not safeguard Phase 2 of the Gonubie Beacon Bay link road post handover from the contractor which resulted in vandalism and theft. The road will only be brought into use once all phases of the five phased project are complete. The non-compliance has resulted in a material financial loss of R4,1 million.
59. I notified the accounting officer of the material irregularity on 4 July 2022 and invited him to make a written submission on the actions taken. The accounting officer has responded by indicating that there is a lack of own revenue and grant revenue forecast to complete the remaining phases of the road in order to bring it into use.

60. In the short term, the accounting officer conducted a cost-benefit analysis in order to safeguard the completed phase 2 of the project as there are no funds available to continue with the remaining phases in order to bring the road into use.
61. The accounting officer has committed to secure funding for the remaining phases by 30 June 2023, the contractor to be procured by 30 June 2024 and the project to be initialised and completed by 30 June 2027.
62. A follow-up will be done in the next audit to assess the appropriateness of the actions taken by the accounting officer upon receipt of the investigation report.

Material irregularities in progress

63. 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, the response of the accounting officer was not yet due. This material irregularity will be included in the next year's auditor's report.

Status of previously reported material irregularities

Revenue for water services not calculated on a monthly basis

64. The municipality did not charge water service charges for 8 337 properties for the year ended 30 June 2020. 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 non-compliance resulted in a material financial loss as a result of the services not being billed.
65. The accounting officer was notified of the material irregularity on 24 March 2021 and invited to make a written submission on the actions taken or to be taken to address the matter.
66. The following action has been taken to resolve the material irregularity:
 - The municipality notified and commenced billing the affected consumers from the 2020-21 financial year, as per the municipality's credit control policy.
 - The accounting officer instituted disciplinary investigations to identify the persons responsible for the material irregularity.
 - The municipality developed standard operating procedures to guide the flow of information from the source to the financial system as at 30 June 2022.
67. The accounting officer further planned to implement the following actions to resolve the material irregularity:
 - A service level agreement (SLA) has been developed but is still to be signed between Infrastructure, Spatial Planning and Development and Corporate Services directorates. The SLA outlines the value chain process between these directorates, including performing investigations to confirm whether water lines and water points do exist for all properties to determine which properties should be billed for water and to link all properties to the billing system.

- The Finance directorate to perform monthly reconciliations between the valuation roll and billing system to identify any further properties not being billed for water services.
 - Monthly reports will be sent to the Infrastructure Directorate for investigation.
 - Monthly meetings to be held with all relevant directorates to assess progress made in addressing any exceptions identified.
68. The implementation of the planned actions was followed up in the current year audit and it was noted that the accounting officer has made some progress in addressing the material irregularity.
69. 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.
70. The implementation of the above planned actions and committed deadline will be followed up in the next audit cycle.

Revenue for refuse removal services not calculated on a monthly basis

71. The municipality did not charge a number of properties for refuse removal service charges for the year ended 30 June 2021. 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 non-compliance resulted in a material financial loss as a result of the services not being billed.
72. The accounting officer was notified of the material irregularity on 29 March 2022 and invited to make a written submission on the actions taken or to be taken to address the matter.
73. The following action has been taken to resolve the material irregularity:
- The municipality notified and commenced billing the affected consumers from the 2020-21 financial year, as per the municipality's credit control policy. The municipality is however, still recognising revenue foregone and not billing the customers in line with the credit control policy.
 - The accounting officer instituted disciplinary investigations to identify the persons responsible for the material irregularity.
 - The municipality developed standard operating procedures to guide the flow of information from the source to the financial system as at 30 June 2022.
74. The accounting officer further planned to implement the following actions to resolve the material irregularity:
- A SLA has been developed but is still to be signed between Infrastructure, Spatial Planning and Development and Finance directorates to perform investigations and assign responsibilities for the linking of refuse removal services on the billing system.
 - The integration of the service departments systems to the financial system to cater for controls such as audit trails and segregation of duties.

- The Finance directorate to perform monthly reconciliations between the valuation roll and billing system to identify any further properties not being billed for refuse removal services.
- Monthly meetings to be held with all relevant directorates to assess progress made in addressing any exceptions identified.

75. The implementation of the planned actions was followed up in the current year audit and it was noted that the accounting officer has made some progress in addressing the material irregularity.

76. 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.

77. The implementation of the above planned actions and committed deadline will be followed up in the next audit cycle.

Other reports

78. 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 group's consolidated and separate financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports 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.

Investigations

79. There were five investigations conducted by external parties during the year under review relating to SCM irregularities and financial misconduct cases which cover the periods 2013-14 to 2019-20. These investigations were ongoing at year end and therefore no recommendations have yet been communicated to management.

Auditor-General

East London

12 December 2022



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 strategic outcomes and on the municipality's compliance with respect to the selected subject matters.

Consolidated and separate 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 group 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 and separate 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 provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence, and to 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.