

Report of the auditor-general to Free State Provincial Legislature and council of the parent municipality on Centlec (SOC) Limited

Report on the audit of the financial statements

Opinion

1. I have audited the separate financial statements of the Centlec (SOC) Ltd set out on pages ... to ..., which comprise of the statement of financial position as at 30 June 2023, the statement of financial performance, the statement of changes in net assets, the cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as notes to the separate financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of Centlec (SOC) Ltd as at 30 June 2023, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Companies Act 71 of 2008 (Companies Act).

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 responsibilities of the auditor-general for the audit of the financial statements section of my report.
4. I am independent of the municipal entity 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.

Material uncertainty relating to going concern

6. I draw attention to the matter below. My opinion is not modified in respect of this matter.
7. Note 42 to the financial statements indicates that the municipal entity incurred a net loss of R251 046 051 during the year ended 30 June 2023 and, as of that date, the municipal entity's current liabilities R1 018 829 678 exceeded its current assets R832 833 567. The municipal entity owed Eskom R737 644 103 (2022: R428 996 909) as at 30 June 2023, which was long overdue. These events or conditions, along with other matters as set forth in note 42, indicate

that a material uncertainty exists that may cast significant doubt on the municipal entity's ability to continue as a going concern.

Emphasis of matters

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

Irregular expenditure

9. As disclosed in note 46 to the financial statements, irregular expenditure of R156 346 943 (2022: R195 620 781) was incurred, mainly due to overspending on the budget.

Fruitless and wasteful expenditure

10. As disclosed in note 45 to the financial statements, fruitless and wasteful expenditure of R49 260 614 (2022: R9 675 187) was incurred, mainly due to interest incurred on late payments of Eskom accounts.

Restatement of corresponding figures

11. As disclosed in note 40 to the financial statements, the corresponding figures for 30 June 2022 were restated as a result of errors in the financial statements of the municipal entity and for the year ended, 30 June 2023

Material losses

12. As disclosed in note 47 to the financial statements, material electricity losses of R213 876 959 (2022: R241 915 025) was incurred. Technical losses amounted to R142 584 639 (2022: R161 276 683) and was due to certain portion of electricity that is lost due to distribution. Non-technical losses amounted to R71 292 320 (2022: R80 638 342) and was due to theft, vandalism, faulty meters and variances in monthly consumption estimates.

Material Impairment

13. As disclosed in note 29 to the financial statements, property, plant and equipment was impaired by R41 385 930 (2022: R52 716).

Other matters

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

Unaudited disclosure notes

15. In terms of section 125(2) (e) of the MFMA the municipal entity 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 no opinion has been expressed on them.

Unaudited supplementary schedules

16. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. The schedule has not been audited and, accordingly, no opinion is expressed on them.

Responsibilities of the accounting officer for the separate financial statements

17. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with GRAP and the requirements of the MFMA and companies act; 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.
18. In preparing the financial statements, the accounting officer is responsible for assessing the municipal entity'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 municipal entity or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the auditor-general for the audit of the financial statements

19. 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.
20. 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

21. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for the selected programme presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.
22. I selected the following programme presented in the annual performance report for the year ended 30 June 2023 for auditing. I selected a programme that measures the municipal entity's performance on its primary mandated functions and that is of significant national, community or public interest.

Programme	Page numbers	Objective
Engineering wires	xx	Provision of electricity

23. I evaluated the reported performance information for the selected programme against the criteria developed from the performance management and reporting framework, as defined in the general notice. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users on the municipal entity's planning and delivery on its mandate and objectives.
24. I performed procedures to test whether:
- the indicators used for planning and reporting on performance can be linked directly to the municipal entity's mandate and the achievement of its planned objectives
 - the indicators are well defined to ensure that they are easy to understand and can be applied consistently, as well as verifiable so that I can confirm the methods and processes to be used for measuring achievements
 - the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated.
 - the indicators and targets reported on in the annual performance report are the same as those committed to in the approved initial or revised planning documents
 - the reported performance information is presented in the annual performance report in the prescribed manner
 - There is adequate supporting evidence for the achievements reported and for the measures taken to improve performance.
25. I performed the procedures for the purpose of reporting material findings only; and not to express an assurance opinion or conclusion.
26. The material findings on the reported performance information for the selected programme are as follows:

Engineering wires

5-2.2 (e) Percentage of valid customer applications for new electricity connections processed in terms of municipal services by June 2023:

27. An achievement of 54% customer connections was reported against a target of 70% customer connections. However, the audit evidence did not support this achievement. I could not determine the actual achievement, but I estimated it to be materially less than reported. Consequently, it is likely that the target was not achieved.

Other matters

28. I draw attention to the matters below.

Achievement of planned targets

29. The annual performance report includes information on reported achievements against planned targets and provides measures taken to improve performance. This information should be considered in the context of the material findings on the reported performance information.
30. The municipal entity plays a key role in delivering services to South Africans. The table that follows provides information on the achievement of planned targets and lists the key service delivery indicators that were not achieved as reported in the annual performance report. The reasons for any underachievement of targets and measures taken to improve performance are included in the annual performance report on pages xx - xx.

Engineering wires

<i>Targets achieved: 50%</i> <i>Budget spent: 90.5%</i>		
Key service delivery indicator not achieved	Planned target	Reported achievement
Planned scheduled interruptions supply should be restored as per NERSA license requirements in terms of NRS 047 2019 (4. 5.5.1) by 30 June 2023	Planned scheduled interruptions supply should be restored as per NERSA license requirements in terms of NRS 047 2019 (4. 5.5.1) by 30 June 2023	141 notices were issued as per the NERSA licence requirements in terms of NRS 047 2019 (4.5.5.1). 135 notices were submitted 48 hours before the execution of planned interruptions. 93 valid customer connections were not processed within the municipality standard timeframe. The average percentage success reported was 96%
Percentage of valid customer applications for new electricity connections processed in terms of municipal services by June 2023	70% of valid customer applications for new electricity connections processed as a percentage in terms of municipal service standards by June 2023	54% of valid customer connections processed 108 valid customer connections were processed within the municipal standard timeframe by 30 June 2023. 93 valid customer connections were not processed within the municipal standard time frame.

Material misstatements

31. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for engineering wires. Management subsequently corrected some of the misstatements and I did not include the findings in this report. Those that were not corrected are reported above.

Report on compliance with legislation

32. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting officer is responsible for the municipal entity's compliance with legislation.
33. I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.
34. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the municipal entity, clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.
35. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Expenditure management

36. Money owed by the municipal entity was not always paid within 30 days, as required by section 99(2)(b) of the MFMA.
37. Reasonable steps were not taken to prevent irregular expenditure of R156 346 943 as disclosed in note 46 to the annual financial statements, as required by section 95(d) of the MFMA. The majority of the irregular expenditure was caused by overspending of the budget.
38. Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R49 260 614 as disclosed in note 45 to the annual financial statements, in contravention of section 95(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest charged on overdue accounts.
39. Expenditure was incurred in excess of the approved budget, in contravention of section 87(8) of the MFMA.

Procurement and contract management

40. The preference point system was not applied some of the procurement of goods and services as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act 5 of 2020.

Other information in the annual report

41. The accounting officer is responsible for the other information included in the annual report, which includes the directors' report, the audit committee's report and the company secretary's certificate, as required by the Companies Act. The other information referred to 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 on in this auditor's report.
42. My opinion on the financial statements, the report on the audit of the annual performance report and the report on compliance with legislation do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.
43. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the financial statements and the selected programmes presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
44. I did not receive the final other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

45. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
46. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for my opinion.
47. Management did not implement proper recordkeeping procedures and controls, this resulted in information to support reported achievements not being sufficient and appropriate.

48. Management did not in all instances exercise oversight on financial and performance reporting, compliance and related internal controls.

Auditor-General

Bloemfontein

30 November 2023



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

1. The annexure includes the following:
 - The auditor-general's responsibility for the audit
 - The selected legislative requirements for compliance testing

Auditor-general's responsibility for the audit

Professional judgement and professional scepticism

2. 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 programmes and on the municipal entity's compliance with selected requirements in key legislation.

Financial statements

3. 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 municipal entity's internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made
 - conclude on the appropriateness of the use of the going concern basis of accounting in the preparation of the 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 municipal entity 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 municipal entity 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

4. 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.
5. I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

Compliance with legislation – selected legislative requirements

6. The selected legislative requirements are as follows:

Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003	Section 1 - Paragraph (a), (b) & (d) of the definition: irregular expenditure, Sections 87(5)(b), 87(5)(d), 87(5)(d)(i), 87(5)(d)(iii), 87(6)(c), Sections 87(8), 88(1)(a), 90(1), 90(2)(a), 90(2)(b), 95(d), Sections 96(2)(a), 96(2)(b), 97(e), 97(f), 97(h), 97(i), 99(2)(a), Sections 99(2)(b), 99(2)(c), 99(2)(g), 102(1), 102(2)(a), 112(1)(j), Sections 116(2)(b), 116(2)(c)(ii), 122(1), 126(2)(b), 133(1)(a), Sections 133(1)(c)(i), 133(1)(c)
MFMA: Municipal Budget and Reporting Regulations, 2009	Regulations 73(1), 73(2), 75(1), 75(2)
MFMA: Municipal Investment Regulations, 2005	Regulations 3(2), 3(3), 5(4), 6, 6(8)(b), 7, 10(1), 12(2), 12(3)
MFMA: Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014	Regulations 5(4), 6(8)(b), 10(1)
MFMA: Municipal Supply Chain Management Regulations, 2005	Regulations 5, 12(1)(c), 12(3), 13(b), 13(c), 13(c)(i), 16(a), Regulations 17(1)(a), 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), Regulations 22(2), 27(2)(a), 27(2)(e), 28(1)(a)(i), 28(1)(a)(ii), Regulations 29(1)(a), 29(1)(b), 29(5)(a)(ii), 29(5)(b)(ii), 32, Regulations 36(1), 36(1)(a), 38(1)(c), 38(1)(d)(ii), 38(1)(e), Regulations 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43, 44, Regulations 46(2)(e), 46(2)(f)
Municipal Systems Act 32 of 2000	Sections 93B(a), 93C(a)(iv), 93J(1)
Construction Industry Development Board Act 38 of 2000	Section 18(1)
Construction Industry Development Board Regulations, 2004	Regulations 17, 25(7A)
Preferential Procurement Policy Framework Act 5 of 2000	Sections 2(1)(a), 2(1)(f)
Preferential Procurement Regulations, 2017	Regulations 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), Regulations 6(8), 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5), 9(1), Regulations 10(1), 10(2), 11(1), 11(2)
Preferential Procurement Regulations, 2022	Regulations 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4)
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section 34(1)
Companies Act 71 of 2008	Sections 45(2), 45(3)(a)(ii), 45(3)(b)(i), 45(3)(b)(ii), 45(4) Sections 46(1)(a), 46(1)(b), 46(1)(c), 112(2)(a)