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

Report on the audit of the consolidated and separate financial statements

Disclaimer of opinion

1. I was engaged to audit the consolidated and separate financial statements of the Amathole District Municipality and its subsidiary set out on pages … to …, which comprise the consolidated and separate statement of financial position as at 30 June 2022, the consolidated and separate statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

2. I do not express an opinion on the financial statements of the municipality. Because of the significance of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated and separate financial statements.

Basis for disclaimer of opinion

Property, plant and equipment

3. I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment, depreciation amortisation and impairments as the amounts disclosed in the consolidated and separate financial statements did not agree with the underlying records. Furthermore, the municipality did not have an adequate internal control system and did not maintain an asset register for infrastructure assets. I was unable to confirm the property, plant and equipment by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to property, plant and equipment, stated at R4,9 billion (2021: R4,7 billion), and depreciation, amortisation and impairment, stated at R96 million (2021: R195 million) in the consolidated and statement of financial performance and note 34 to the consolidated and separate financial statements.

Inventory

4. I was unable to obtain sufficient appropriate audit evidence to support the VIP toilets inventory balance. This was due to the non-submission of the underlying records to support the amount disclosed in the consolidated and separate financial statements. I was unable to confirm the inventory balance by alternative means. In addition, I was unable to obtain sufficient appropriate audit evidence to support inventory consumed relating to VIP structures. This was due to the non-submission of the underlying records to support the disclosed amount. I was unable to determine the full extent of inventory consumed as it was impractical to do so. Consequently, I was unable to confirm whether any adjustments were necessary to the inventory balance stated at R132,5 million (2021: R16,3 million) in note 11 and VIP toilet

structures disclosed at R80,9 million (2021: R262,2 million) in note 39 to the consolidated and separate financial statements.

Receivables from exchange transactions

5. The municipality did not recognise and account for the debt impairment in accordance with *GRAP 104, Financial Instruments* and did not apply the municipal accounting policy in the determination of the recovery rate that is applied to determine the estimated irrecoverable amounts. I was unable to obtain sufficient appropriate audit evidence for the provision for impairment as the amount disclosed in the consolidated and separate financial statements did not agree to the underlying records. Furthermore, the amounts written off as uncollectable-debts were not supported by a schedule indicating the amounts to be written off and were not supported by a council resolution approving the write-off. In addition, the interest charged on outstanding receivables could not be recalculated due to the status of the accounting records, including the non-submission of the interest schedule. I was unable to confirm these amounts by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the trade receivables, stated at R226,3 million in note 12 to the consolidated and separate statement of financial position, the debt impairment stated at R473 million and interest earned on outstanding receivables stated at R54 million in the consolidated and separate statement of financial performance.

Value-Added Tax (VAT) payable

6. I was unable to obtain sufficient appropriate audit evidence that the municipality had properly accounted for VAT due to the status of the underlying records. I was unable to confirm the payable by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the VAT payable of R154,7 million disclosed in the consolidated and separate statement of financial position and in note 21 to the consolidated and separate financial statements.

Payables from exchange transactions

7. I was unable to obtain sufficient appropriate audit evidence for trade payables as the municipality did not have adequate systems in place for the retrieval of the supporting documents. I could not confirm these by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to payables from exchange transactions disclosed at R542,2 million (2021: R516,4 million) in note 20 to the consolidated and separate financial statements.

Service charges

8. I was unable to obtain sufficient appropriate audit evidence for service charges. This was due to inadequate systems in place for revenue management as revenue was billed using estimated consumption units and the reasons for the use of estimates could not be validated. Furthermore, I was unable to confirm the revenue from exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to service charges, stated at R524, 3 million in the consolidated and separate statement of financial performance, and receivables from exchange transactions stated at R228, 8 million in the consolidated and separate statement of financial position.

Government grants and subsidies

9. The municipality did not recognise all the grant expenditure in accordance with *GRAP 23, Revenue from non-exchange*. Expenditure was either not spent in accordance with the conditions of grants or supported by valid appropriate evidence. In addition, I was unable to obtain sufficient appropriate audit evidence to support government grants and subsidies due to the non-submission of records. Consequently, I was unable to determine whether any adjustments were necessary to the government grants and subsidies stated at R1,5 billion in the consolidated and separate statement of financial performance and the unspent conditional grants stated at R120,9 million in the consolidated and separate statement of financial position.

Operational costs

10. The municipality did not accurately recognise operational expenditure in line with *GRAP 1, Presentation of financial statements*. Operational costs were recognised either in the incorrect accounting period or at incorrect amounts. As a result, operational costs are overstated by R50,3 million and accumulated surplus was understated by R38,9 million. In addition, I was unable to obtain sufficient appropriate audit evidence for the occurrence of transport costs, due to the lack of adequate systems and processes in place to verify the fuel purchased. I was unable to confirm the operational costs by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to operational costs stated at R225,9 million (2021:R210,3 million) in the consolidated and separate statement of financial performance.

Cash flows from operating activities

11. The municipality did not correctly prepare and disclose the cash flows from operating activities as required by GRAP 2, *Cash flow statements*. This was due to multiple errors in determining cash flows from operating activities. I was not able to determine the full extent of the errors in the cash flows from operating activities as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments were necessary to cash flows from operating activities stated at R397,7 million (2021: R127,7 million) in the consolidated and separate financial statements.

Cash flows from investing activities

12. The municipality did not prepare and disclose the cash flows from investing activities as required by GRAP 2, *Cash flow statements*. This was due to multiple errors in determining cash flows from investing activities. I was not able to determine the full extent of the errors in the cash flows from investing activities as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments were necessary to cash flows from investing activities stated at R264,5 million (2021: R231 million) in the consolidated and separate financial statements.

Statement of comparison of budget and actual amounts

13. The municipality did not accurately disclose the budget and the actual amounts as required by GRAP 24, *Presentation of budget information in financial statements.* The budgeted amounts

disclosed in the consolidated and separate financial statements did not agree to the approved budget. As a result, the budgeted expenditure is overstated by R25,9 million.

Unauthorised expenditure

14. I was unable to obtain sufficient appropriate audit evidence to support the unauthorised expenditure. This was due to inaccurate amounts utilised to determine the amount disclosed in the consolidated and separate financial statements. Additionally, expenditure was not incurred in terms of an approved budget and within the limits of the amounts appropriated for the different votes. I was unable to determine the full extent of unauthorised expenditure as it was impractical to do so. Consequently, I was unable to confirm whether any adjustments were necessary to the closing balance of unauthorised expenditure stated at R69,4 million (2021: R136,4 million) in note 51 to the consolidated and separate financial statements.

Irregular expenditure

15. The municipality did not fully record irregular expenditure in the notes to the consolidated and separate 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 note 53 to the consolidated and separate financial statements. In addition, irregular expenditure was written off without a proper investigation having been conducted. I was unable to determine the full extent of the understatement of irregular expenditure as it was impractical to do so.

Reportable segments

16. I was unable to obtain sufficient appropriate audit evidence regarding the reportable segments presented in the consolidated and separate financial statements, as the reportable segments presented for auditing purposes were not based on accurate and complete underlying accounting records. I was unable to audit the reportable segments in the consolidated and separate financial statements by alternative means.

Contingent liabilities

17. I was unable to obtain sufficient appropriate audit evidence that the municipality had correctly accounted for contingent liabilities due to the inability to obtain external confirmations. I was unable to confirm the contingent liabilities by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to contingent liabilities of R185,1 million disclosed in note 46 to the consolidated and separate financial statements.

Prior period errors

18. The municipality did not prepare, present and disclose the disclosure note for the prior period errors in accordance with the requirements of *GRAP 3, Accounting policies, changes in accounting estimates and errors.* The prior period errors disclosed did not correspond to the movements in the prior year balances and inadequate disclosures were made. The nature of the items affected were not adequately disclosed and the amount of the correction at the beginning of the earliest previous period was not disclosed. Additionally, the amount of the correction for each financial statement line item affected in the consolidated and separate cash flow statement was not disclosed. I was unable to obtain sufficient appropriate evidence for the

prior period errors disclosed, as the supporting information was not provided. I was unable to confirm these disclosures by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the prior period errors disclosed in note 48 to the consolidated and separate financial statements.

Aggregation of immaterial uncorrected misstatements

19. Total current assets was materially misstated by R19,5 million due to the cumulative effect of individually immaterial uncorrected misstatements in following items:

- Cash and cash equivalents stated at R231,7 million was understated by R0,8 million
- Other receivables from exchange transactions disclosed in note 12 of the consolidated and separate financial statement were understated by R2,5 million.
- Receivables from non-exchange transactions stated at R32,9 million was understatement by R16,2 million

Payables from exchange transactions

20. During 2021, the municipality did not have a system in place to accurately record payables from exchange transactions as accruals were recognised at amounts which did not agree to the underlying supporting documentation. Consequently, accruals disclosed in note 20 of the corresponding figures to the consolidated and separate financial statements were overstated by R20,4 million, while the corresponding figure for operational costs stated at R210,3 million in the consolidated and separate statement of financial performance was understated by the same amount. My audit opinion on the consolidated and separate financial statements for the period ended 30 June 2021 was modified accordingly. My opinion on the current year consolidated and separate financial statements was also modified because of the possible effect of this matter on the comparability of the accruals for the current period.

Repairs and maintenance

21. During 2021, repairs and maintenance expenditure was understated as the municipality incorrectly capitalised repairs and maintenance to the total costs of assets. Consequently, repairs and maintenance costs stated at R23,9 million in the corresponding figures in the consolidated and separate statement of financial performance are understated by R28,3 million. My audit opinion on the consolidated and separate financial statements for the period ended 30 June 2021 was modified accordingly. My opinion on the current year consolidated and separate financial statements was also modified because of the possible effect of this matter on the comparability of the repairs and maintenance for the current period.

Commitments

22. During 2021, the municipality did not correctly recognise its contractual commitments for the acquisition of property, plant and equipment as required by *GRAP 17, Property, plant and equipment (PPE)*. This was due to a lack of systems and processes to ensure that commitments are correctly disclosed. Consequently, the corresponding figure for commitments disclosed in note 45 to the consolidated and separate financial statements are overstated by R21,8 million. My audit opinion on the consolidated and separate financial statements for the

period ended 30 June 2021 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the commitments for the current period.

Material uncertainty relating to financial sustainability

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

24. I draw attention to note 62 to the consolidated and separate financial statements, which indicates that the municipality is facing financial risks which include the inability to pay creditors within due dates, inability to collect revenue billed and a net current liability position. These events or conditions, along with the other matters as set forth in this note, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Other matters

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

Unaudited disclosure notes (MFMA125)

26. 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 consolidated and separate financial statements. 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 on it.

Unaudited supplementary schedules

27. The supplementary information set out on pages XX to XX does not form part of the consolidated and separate financial statements and is presented as additional information. I have not audited these schedule and, accordingly, I do not express an opinion on them.

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

28. The accounting officer is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the General 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 02 of 2021 (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.

29. 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

30. My responsibility is to conduct an audit of the consolidated and separate financial statements in accordance with the International Standards on Auditing and to issue an auditor's report. However, because of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated and separate financial statements.

31. 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 the other ethical requirements that relevant to my audit of the consolidated and separate financial statements in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

Report on the audit of the annual performance report

Introduction and scope

32. 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 was engaged to perform procedures to identify findings but not to gather evidence to express assurance.

33. I was engaged to evaluate 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 priorities presented in the municipality's annual performance report for the year ended 30 June 2022:

Development priorities	Pages in the annual performance report
KPA 2: basic service delivery and infrastructure investment	x – x

34. I performed procedures to determine whether the reported performance information 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.

35. The material findings on the usefulness and reliability of the performance information of the selected development priorities are as follows:

KPA 2 – basic service delivery and infrastructure investment

SDI 2/3: No. of wastewater infrastructure facilities refurbished

36. The reported indicator did not agree with the planned indicator as per the approved service delivery agreement. In addition, I was unable to obtain sufficient appropriate audit evidence for the achievement of 2 wastewater Infrastructure facilities refurbished reported against target of 3 wastewater Infrastructure facilities refurbished in the annual performance report, due to the lack of accurate and complete records. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement.

Various indicators

37. I was unable to obtain sufficient appropriate audit evidence for the reported achievements of the indicators listed below. This was due to the lack of accurate and complete records. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements in the annual performance report for the indicators listed below:

Indicator Reference	Indicator Description
KPI 11 – SDI 1/1	No. of households provided with access to basic level of water supply to improve living standards
KPI 12 – SDI ½	No. of municipalities provided with water service level backlog verification survey
KPI 13 – SDI 1/3	No. of households provided with access to a higher level of service to improve living standards
KPI 14 – SDI ¼	% of sampling points complying with SANS 241
KPI 15 – SDI 2/1	No. of households with access to basic level of sanitation services to improve living conditions
KPI 16 – SDI 2/2	% coverage of sampling points program complying with general authorisation standards

Other matter

38. I draw attention to the matter below.

Achievement of planned targets

39. 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 35 to 37 of this report.

Report on the audit of compliance with legislation

Introduction and scope

40. 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.

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

Annual financial statements and annual reports

42. 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 identified by the auditors in the submitted consolidated and separate financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the consolidated and separate financial statements receiving a disclaimer audit opinion.

43. The separate annual financial statements were not submitted to the Auditor-General, for auditing, within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.

44. The consolidated financial statements were not submitted to the Auditor-General, for auditing, within three months after the end of the financial year, as required by section 126(1)(b) of the MFMA.

45. The separate annual financial statements were not submitted to the Auditor-General within two months after the end of the financial year and council did not investigate the reasons for the failure to submit annual financial statements, as required by section 133(1)(c) of the MFMA.

46. The 2020/21 annual report was not made public after being tabled in council, as required by section 127(5)(a)(i) of the MFMA.

47. The local community was not invited to submit representations in connection with the 2020/21 annual report, as required by section 127(5)(a)(ii) of the MFMA.

48. The oversight report adopted by the council on the 2020/21 annual report was not made public, as required by section 129(3) of the MFMA.

Expenditure management

49. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

50. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred and accounted for creditors, as required by section 65(2)(b) of the MFMA.

51. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the irregular expenditure could not be quantified as indicated in the basis for disclaimer paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with supply chain management regulations.

52. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R61,4 million as disclosed in note 52 to the consolidated and separate financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest paid on overdue accounts.

53. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by the municipality exceeding the budget at vote level. The full extent of the unauthorised expenditure could not be quantified as indicated in the basis for disclaimer paragraph.

Strategic planning and performance management

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

Assets management

55. An effective system of internal control for assets including an asset register was not in place, as required by section 63(2)(c) of the MFMA.

56. I was unable to obtain sufficient appropriate audit evidence that capital assets were only transferred or disposed of after the municipal council, in a meeting open to the public, has decided that the asset is not needed to provide the minimum level of basic municipal services, as required by section 14(2)(a) of the MFMA.

Revenue management

57. I was unable to obtain sufficient appropriate audit evidence that accounts for service charges were prepared on a monthly basis, as required by section 64(2)(c) of the MFMA.

58. I was unable to obtain sufficient appropriate audit evidence that revenue due to the municipality was calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

Human resource management

59. I was unable to obtain sufficient appropriate audit evidence that the municipal manager and senior managers signed performance agreements within the prescribed period, as required by section 57(2)(a) of the MSA.

Consequence management

60. 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.

61. Losses resulting from unauthorised expenditure were written-off as irrecoverable without being certified by council as irrecoverable, in contravention of section 32(2)(a)(ii) of the MFMA.

62. Unauthorised expenditure was certified by council as irrecoverable without having conducted an investigation to determine the recoverability of the expenditure, in contravention of section 32(2)(a)(ii) of the MFMA.

63. 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.

64. Losses resulting from irregular expenditure were certified by council as irrecoverable without having conducted an investigation to determine the recoverability of the expenditure, in contravention of section 32(2)(b) of the MFMA.

65. 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.

66. Some of the fruitless and wasteful expenditure was certified by council as irrecoverable without having conducted an investigation to determine the recoverability of the expenditure, in contravention of section 32(2)(b) of the MFMA.

Procurement and contract management

67. Some of the contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding, in contravention of Supply Chain Management (SCM) regulations 21(b) and 28(1)(a)(i) and the Preferential Procurement Regulations.

68. Sufficient appropriate audit evidence could not be obtained that councillors of the municipality participated in committees evaluating or approving tenders or attended meetings of committees evaluating or approving tenders, in contravention of section 117 of the MFMA

69. Some of the construction contracts were awarded to contractors that did not qualify for the contract in accordance with section 18(1) of the Construction Industry Development Board (CIDB) Act and CIDB Regulations 17 and 25(7A).

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

71. 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.

72. Awards were made to providers who were in the service of other state institutions or whose directors / principal shareholders were in the service of other state institutions, in contravention of MFMA 112(1)(j) and SCM Regulation 44.

Utilisation of conditional grants

73. The Municipal Infrastructure Grant was not spent for its intended purposes in accordance with the applicable grant framework, as required by section 16(1) of the Division of Revenue Act (Act 9 of 2021).

74. The Water Services Infrastructure Grant was not spent for its intended purposes in accordance with the applicable grant framework, as required by section 16(1) of the Division of Revenue Act (Act 9 of 2021).

Internal control deficiencies

75. I considered internal controls 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 disclaimer of opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

76. Leadership did not implement all the disciplines necessary to enable effective oversight that promotes the achievement of credible reporting in financial, performance management and compliance with laws and regulations. Furthermore, management 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.

77. The municipality did not implement a proper record management system that maintains information that supported the reported information in the consolidated and separate financial statements and the annual performance report. Furthermore, management continued to display a lack of commitment to addressing the previous year's findings. This was evident in the slow progress of implementation of the audit action plan designed to address such issues, which resulted in repeat audit findings in the consolidated and separate financial statements, annual performance report and compliance with applicable laws and regulations.

78. The lack of accountability resulted in management not implementing daily and monthly controls in order to ensure that the consolidated and separate financial statements and annual performance reports are supported by accurate and complete underlying records and all applicable laws and regulations are adhered to.

Material irregularities

79. 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 identified during the audit

80. The material irregularities identified are as follows:

Incorrect awarding of a tender to a contractor

81. The municipality awarded a contract for the construction of a phase two bulk services upgrade project. One of the bidders for the construction contract, achieved the minimum qualifying score for functionality, but was not evaluated further for preference points. This led to the award of the contract being awarded to a supplier that did not score the highest points in contravention of the Preferential Procurement Policy Framework Act (PPPFA) section 2(1)(f). Subsequent to the appointment, the contractor that was inappropriately disqualified, contested the award.

82. The accounting officer was notified of this material irregularity on 31 March 2022 and was invited to make a written submission on the actions taken/that will be taken to address the matter. The accounting officer responded and implemented the following actions:

- The accounting officer appointed an independent firm to investigate the matter to identify the responsible person that caused the irregularity.
- The preliminary report identified a responsible official and recommended that the matter be investigated by the municipal disciplinary board on grounds of gross misconduct pertaining to fiduciary and statutory duties while the official was appointed as the chairperson of the municipality's Bid Evaluation Committee (BEC) during the evaluation process of two tenders.
- The accounting officer reported the matter to the South African Police Services (SAPS) as required by the Prevention and Combating of Corrupt Activities Act, No 12 of 2004.
- The responsible official has since resigned from the employ of the municipality.
- The court has set aside the original award and the municipality awarded the contract to the correct bidder.

83. Therefore the material irregularity has been resolved

Non-submission of annual financial statements

84. The annual financial statements for year-end 30 June 2022 were not submitted to the auditor-general for auditing within two months after the end of the financial year (31 August 2022), as required by section 126 (1) of the MFMA. The non-submission of the annual financial statements for auditing, and the subsequent non-tabling of the annual report, is likely to result in substantial harm to the municipality, as there is a lack of accountability and transparency for

the fiscal and financial affairs of the municipality. This is due to the legislative processes that follow after the submission of the annual financial statements relating to the financial year ending 30 June 2022 being delayed or not implemented.

85. The acting accounting officer was notified of this material irregularity on 2 November 2022 and invited to make a written submission on the actions taken and that will be taken to address the matter. The acting accounting officer submitted the annual financial statements for auditing on 7 December 2022.

86. Therefore the material irregularity has been resolved.

Material irregularities in progress

87. 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, 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.

Auditor - General.

East London

29 April 2023

AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence