Report of the auditor-general to the Eastern Cape Provincial Legislature and Council on Makana Local Municipality

Report on the audit of the financial statements

Disclaimer of opinion

1. I was engaged to audit the financial statements of the Makana Local Municipality set out on pages … to …, which comprise the statement of financial position as at 30 June 2021, 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 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 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 and depreciation as the amounts disclosed in the financial statements did not agree with the underlying records. I was unable to confirm property, plant and equipment and depreciation by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to property, plant and equipment of R905,7 million (2020: R886,1 million) and depreciation and amortisation, stated at R35,2 million (2020: R33,6 million) in the financial statements.

Investment property

4. The municipality did not account for all the land owned by the municipality in accordance with GRAP 16, *Investment property*, as land classified as investment property owned by the municipality was not included on the fixed asset register. Consequently, investment property is understated by R7, 9 million, inventory overstated by R4, 1 million and accumulated surplus by R3, 8 million.

5. I was unable to obtain sufficient appropriate audit evidence for investment property, as the municipality did not have adequate supporting documentation for the adjustments made to the opening balance of investment property. I was unable to confirm investment property by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to investment property, stated at R172,4 million (2020: R173,0 million) in the statement of financial position.

Receivables from exchange transactions

6. I was unable to obtain sufficient appropriate audit evidence for receivables from exchange transactions as the amounts disclosed in the financial statements did not agree with the underlying records. I was unable to confirm the receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to receivables from exchange transactions, stated at R71,0 million (2020: R49,3 million) in the statement of financial position.

Receivables from non-exchange transactions

7. I was unable to obtain sufficient appropriate audit evidence for receivables from non-exchange transactions as the amounts disclosed in the financial statements did not agree with the underlying records. I was unable to confirm the receivables from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to receivables from non-exchange transactions, stated at R24,4 million (2020: R13,1 million) in the statement of financial position.

Heritage assets

8. The municipality did not calculate the impairment loss on heritage assets, as required by GRAP 21, *Impairment of non-cash generating assets*. The heritage asset register and the conditional assessment schedule did not include a calculation of the impairment loss showing the amount by which the carrying amount exceeds the recoverable service amount for the assets. As the calculations for impairment loss and the basis for the conditional assessments were not provided, I was unable to determine the amount of impairment loss that should be recognised and disclosed. I was unable to confirm heritage assets by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to heritage assets, stated at R24,9 million in the statement of financial position.

Payables from exchange transactions

9. The municipality did not recognise payables from exchange transactions in accordance with GRAP 1, *Presentation of financial statements*. The balances per the accruals listing and retentions register did not agree to the creditors statements. Additionally, expenditure incurred on contracted services, inventory consumed were incorrectly recorded in the accounting records. Consequently, payables from exchange transactions is understated by R2,3 million, contracted services understated by R589 874,inventory consumed overstated by R1,4 million and accumulated surplus overstated by R3,2 million.

10. I was unable to obtain sufficient appropriate audit evidence for the amounts recognised as payables from exchange transactions for the current and previous financial year. This was due to a lack of adequate underlying records to support these amounts. Additionally, journals processed in the accounting records were not supported by adequate documentation. I was unable to confirm the payables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to payables from exchange transactions stated at R199,1 million (2020: R189,6 million) in the statement of financial position.

Debt impairment

11. The municipality did not account for and disclose the bad debts written off in accordance with GRAP 104, *Financial instruments*. The amount of bad debts written off as per the billing system was not accounted for on the allowance for impairment and was not presented on the face of the statement of financial performance and financial statement note on receivables from exchange and non-exchange transactions. Consequently, the bad debts written off was understated by R5,5 million and the allowance for impairment was overstated by the same amount.

12. I was unable to obtain sufficient appropriate audit evidence for debt impairment as the amounts disclosed in the financial statements did not agree with the underlying records. I was unable to confirm the debt impairment by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to debt impairment, stated at R123,8 million (2020: R105,8 million) in the statement of financial performance.

Accumulated surplus

13. I was unable to obtain sufficient appropriate audit evidence for the balance of accumulated surplus. This was due to prior period adjustments that were processed in the financial statements and could not be supported by adequate documentation. Furthermore, the opening balance, as disclosed in the statement of changes in net assets, did not agree with the balance reported in the prior year financial statements, and no explanation was provided for the difference. In addition, the correction of errors presented in the statement of changes in net assets did not agree with the amounts included in the prior period errors note. Consequently, I was unable to determine whether any adjustments were necessary to accumulated surplus, stated at R758,6 million (2020: R773,2 million) in the statement of financial position and the statement of changes in net assets.

Provisions

14. I was unable to obtain sufficient appropriate audit evidence for some of the amounts recognised as part of the leave and bonus provisions as the amounts disclosed in the financial statements did not agree with the underlying records. This was due to a lack of adequate systems and processes for leave provision and bonus provision management. I could not confirm the leave provision and bonus provision by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the leave provision stated at R9,3 million (2020: R4,2 million), bonus provision stated at R18,0 million (2020: R15,6 million), and employee costs stated at R208,0 million (2020: R188,6 million), in the financial statements.

Revenue from exchange transactions

15. The municipality did not recognise and account for revenue from exchange transactions in accordance with GRAP 9, *Revenue from exchange transactions*. The municipality did not bill all revenue from service charges and did not recognise all revenue from prepaid electricity sales and other revenue due to the municipality. In addition, the municipality did not correctly classify interest charged on receivables from non-exchange transactions. Consequently, revenue from exchange transactions was understated by R15,9 million, receivables from exchange

transactions understated by R20,1 million, cash and cash equivalents understated by R947 460, and revenue from non-exchange transactions understated by R5,2 million.

16. I was unable to obtain sufficient appropriate audit evidence that revenue from exchange transactions had been properly charged and accounted for in the current year due to the status of the accounting records. Additionally, I was unable to confirm the reasonability of the estimated consumption for water and electricity due to the lack of adequate systems and processes to calculate estimated consumption. In addition, I was unable to confirm interest revenue charged on outstanding debtors due to the lack of adequate systems and processes to account and recognise debtors. 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 revenue from exchange transactions, stated at R266,5 million (2020: R237,8 million) in the statement of financial performance.

General expenses

17. The municipality did not recognise all the expenditure for general expenses in accordance with GRAP 1, *Presentation of financial statements*. Expenditure relating to general expenses was recognised in the incorrect financial year and some expenditure was not recognised. Consequently, general expenses was understated by R9,7 million and payables from exchange transactions understated by the same amount.

18. I was unable to obtain sufficient appropriate audit evidence for general expenses due to the lack of adequate systems and processes to verify and certify goods and services received. Additionally, some expenditure could not be confirmed due to a lack of supporting documentation. I could not confirm the general expenses by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to general expenses, stated at R27,7 million in the statement of financial performance.

Irregular expenditure

19. I was unable to obtain sufficient appropriate audit evidence regarding the irregular expenditure disclosed in note 51 to the financial statements, as the disclosure presented in the financial statements for auditing purposes was not based on accurate and complete underlying accounting records. Additionally, the municipality recognised payments as irregular expenditure but management could not provide evidence for the related non-compliance with the supply chain management (SCM) requirements and/or relevant supporting documents. Further, the accounting policy note for irregular expenditure included in the notes to the financial statements was not consistent with the prior year accounting policy note. I was unable to audit the disclosure in the financial statements by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to irregular expenditure of R323,9 million (2020: R339,8 million) disclosed in note 52 to the financial statements.

Distribution losses

20. The municipality did not include the particulars of distribution losses in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. The municipality did not disclose the water losses for the current financial year and water losses and electricity losses for the

previous financial year. In addition, the municipality did not quantify the units and percentage of electricity losses presented in note 56 to the financial statements. This was due to the lack of adequate processes and systems to monitor and report on the water and electricity losses incurred by the municipality. I have not included the omitted information relating to the current and previous financial years in this audit report as it was impracticable to do to so.

Cash flow statement

21. The municipality did not prepare the cash flow statement in accordance with the requirements of GRAP 2, *Cash flow statements*. The municipality did not correctly prepare and disclose the net cash flows from operating activities, as errors were identified in determining the cash flows from operating activities. Net cash flows from operating activities and net cash flows used in investing activities were materially misstated due to unexplained differences in the cash flow calculations. I was unable to determine the impact on the cash flow statement for the current and prior year as it was impracticable to do so. I was not able to determine the full extent of the errors in the net cash flows from operating activities as it was impracticable to do so.

Contingencies

22. I was unable to obtain sufficient appropriate audit evidence regarding the contingent liabilities disclosed in note 43 to the financial statements, as the disclosure was not based on accurate and complete supporting documents. In addition, the adjustments made in the disclosure note could not be confirmed due to the lack of supporting documents. Further, the accounting policy note for contingencies included in the notes to the financial statements was not consistent with the prior year accounting policy note. I was unable to audit the disclosure in the financial statements by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to contingent liabilities of R38,7 million disclosed in note 43 to the financial statements.

Deviations from supply chain management regulations

23. The municipality did not include the required information on deviations from supply chain management in the notes to the financial statements, as required by SCM regulations 36(2). The municipality approved deviations from supply chain management of R11,7 million. I have not included the omitted information relating to the current and previous financial years in this audit report as it was impracticable to do to so.

Corresponding figures

Employee benefit obligation

24. I was unable to obtain sufficient appropriate audit evidence that the employee benefit obligation was properly presented and disclosed. This was due to the lack of detail documented in the management expert report on the basis for the assumptions and discount rates used to determine and value the employee benefit obligation for medical aid contributions and long service awards. I could not confirm the employee benefit obligations by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the employee benefit obligation, stated at R68,5 million in the statement of financial position.

Prior year adjustments

25. The municipality did not prepare, present and disclose the disclosure note for the prior year adjustments in accordance with the requirements of GRAP 3, *Accounting policies, changes in accounting estimates and errors*. The prior year adjustments disclosed did not correspond with the movements in the prior year balances and inadequate disclosures did not adhere to the requirements of GRAP 3. The nature of the items affected was not adequately disclosed and the amount of the correction at the beginning of the earliest previous period was not disclosed. In addition, the amount of the correction for each financial statement line item affected in the cash flow statement was not disclosed. I was unable to obtain sufficient appropriate evidence for the prior year errors disclosed, as supporting information provided did not agree with the prior year corrections made. I was unable to confirm these disclosures by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the prior year adjustments disclosed in the financial statements.

Unauthorised expenditure

26. I was unable to obtain sufficient appropriate audit evidence regarding the unauthorised expenditure as disclosed in note 49 to the financial statements, as the disclosure was not based on accurate and complete supporting documents. I was unable to audit the disclosure in the financial statements by alternative means. Consequently, I was unable to determine whether any adjustments to the unauthorised expenditure of R577,4 million (2019: R556,9 million) as disclosed in note 50 to the financial statements were necessary.

Context for the opinion

27. 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 financial statements section of my report.

28. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

29. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my disclaimer of opinion.

Material uncertainty relating to going concern

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

31. I draw attention to note 47 to the financial statements, which indicates that the municipality's total liabilities exceeded its total assets by R813 million and had a current ratio of 0,29. Management had identified certain financial risks that had a negative impact on its ability to sustain current levels of operations before taking government grants into account. The financial statements note further indicates that the municipality was placed under a mandatory financial recovery plan after the minister of finance approved the request of the provincial MEC. These

events or conditions indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matters

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

Fruitless and wasteful expenditure

33. As disclosed in note 50 to the financial statements, the municipality incurred fruitless and wasteful expenditure of R5,5 million (2019-20: R28,7 million) as a result of interest paid on overdue payments, which is not in compliance with section 65(e) of the MFMA.

Restatement of corresponding figures

34. As disclosed in note 45 to the financial statements, the corresponding figures for 30 June 2020 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2021.

Other matter

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

Unaudited disclosure notes (MFMA 125)

36. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

Responsibilities of the accounting officer for the financial statements

37. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the GRAP and the requirements of the MFMA, 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.

38. In preparing the 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 financial statements

39. 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.

40. 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

Introduction and scope

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

42. 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.

43. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priority presented in the municipality's annual performance report for the year ended 30 June 2021:

Development priority	Pages in the annual performance report
KPA 1 – Basic service delivery and infrastructure development	x – x

44. 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.

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

KPA 1 – basic service delivery and infrastructure development

Various indicators

46. The source information and data for measuring the planned indicator was not clearly defined and adequate systems and processes were not established to enable consistent measurement and reliable reporting of performance against predetermined objectives. The source data used to measure the indicators was inconsistent with the planned source data as approved from the technical indicator descriptions to enable consistent measurement of performance against predetermined indicator definitions.

Performance indicator	Technical indicator descriptor	KPI listing
Percentage of households with access to sanitation Percentage of households with access to basic water supply Percentage of households with access to electricity Percentage of households with basic refuse removal services or better	Denominator data sources: Total number of households in the municipality: the total number of households from the IDP	Denominator data sources: Total number of households in the municipality: the total number of households from the general valuation
The percentage of indigent households with access to free basic services	Denominator data sources: Total number of households registered for FBS	Denominator data sources: 2) Total number of households in the municipality: total number of households registered for FBS
Percentage of Makana bulk sewer upgrade phase 1 construction completed	Indicator formula: Average of percentage of work completed / overall project scope *100	(1) Sum of (progress to date divided by contract quantity x 100) x weighting

KPI 5 – Percentage of drinking water compliance to SANS 241

47. I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance against the target of 56% as reported in the annual performance report. This was due to limitations placed on the scope of my work. I was unable to confirm the reported measures taken to improve performance by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported measures taken to improve performance.

KPI 44 – number of boreholes connected to the package plant

48. I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined source information and evidence to be used when measuring the actual achievement for the indicator. Furthermore, I was unable to obtain sufficient appropriate audit evidence that systems and processes were established to enable consistent measurement and reliable reporting of performance against the predetermined indicator definitions. This was due

to a lack of measurement definitions and processes. I was unable to test whether the target for this indicator was clearly defined or to validate the existence of systems and processes by alternative means.

49. I was unable to obtain sufficient appropriate audit evidence for the achievement of three reported against a target of three 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.

Other matter

50. I draw attention to the matter below.

Achievement of planned targets

51. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the year and management's explanations provided for the under/over achievement of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 42 to 45 of this report.

Report on the audit of compliance with legislation

Introduction and scope

52. 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.

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

Annual financial statements and annual reports

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

55. The financial statements were not submitted to the auditor-general for auditing within two months of the end of the financial year, as required by section 126(1)(a) of the MFMA.

56. The financial statements were not submitted to the auditor-general within two months of the end of the financial year and a written explanation setting out the reasons for the failure was not tabled in council, as required by section 133(1)(a) of the MFMA.

Asset management

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

58. 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.

Revenue management

59. An adequate management, accounting and information system that accounted for revenue and debtors was not in place, as required by section 64(2)(e) of the MFMA.

60. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.

61. I was unable to obtain sufficient appropriate audit evidence that interest had been charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

Expenditure management

62. An adequate management, accounting and information system that accounted for creditors made was not in place, as required by section 65(2)(b) of the MFMA.

63. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for disclaimer of opinion paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with SCM regulations and the Preferential Procurement Regulations.

64. Reasonable steps were not taken to prevent unauthorised expenditure of R100,1 million disclosed in note 50 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by expenditure exceeding the budget and weak budgetary controls.

Procurement and contract management

65. Some goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(1)(a) and (c). Similar non-compliance was also reported in the prior year.

66. Some quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).

67. Some contracts and quotations were awarded to bidders based on preference points that were not allocated and/or calculated in accordance with the requirements of section 2(1)(a) of the Preferential Procurement Policy Framework Act and its regulations.

68. Some quotations were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act and 2017 preferential procurement regulation 11.

69. Some tenders that failed to achieve the minimum qualifying score for functionality criteria were not disqualified as unacceptable tenders in accordance with 2017 preferential procurement regulation 5(6).

70. Some tenders that achieved the minimum qualifying score for functionality criteria were not evaluated further in accordance with 2017 preferential procurement regulation 5(7).

Consequence management

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

Strategic planning and performance management

72. The performance management system and related controls were not maintained as they 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).

Other information

73. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report, which includes the mayor's foreword and executive summary, the audit committee's report, governance and organisational development performance. The other information does not include the financial statements, the auditor's report and the selected development priority presented in the annual performance report that has been specifically reported in the auditor's report.

74. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion on them.

75. 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 financial statements and the selected development priority presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

76. As a result of the disclaimer of opinion expressed on the financial statements, I do not conclude on material misstatements of the other information relating to the financial statements. If, based on the work I have performed relating to the audit of performance information and compliance with legislation, I conclude that there is a material misstatement of this other information, I am required to report that fact.

77. I am unable to conclude whether the other information is materially misstated because I was unable to obtain sufficient appropriate audit evidence of the reported performance information presented in the annual performance report.

Internal control deficiencies

78. I considered internal control relevant to my audit of the 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.

79. Leadership did not effectively fulfil its oversight responsibilities of the implementation and monitoring of internal controls and compliance with laws and regulations, especially the compliance requirements on consequence management. The audit intervention plan was not effectively monitored and implemented to ensure that the prior year external audit findings were addressed and that they do not recur.

80. Management did not design and implement daily and monthly controls to ensure the financial statements and annual performance reports were supported by accurate and complete underlying records. Management further did not prepare regular, accurate and credible quarterly financial reports that would be incorporated in the financial statements.

81. Management did not implement an efficient records management system to ensure that financial and non-financial information was easily retrievable. Consequently, the financial statements contained material audit findings identified during the audit.

Material irregularities

82. 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

83. The material irregularities identified are as follows:

Full and proper records not kept (2019-20)

84. Reasonable steps were not taken in the 2019-20 financial year to ensure that full and proper records were kept of property plant and equipment, distribution losses, revenue from exchange transactions, all the performance indicators included in the basic service delivery and infrastructure development and material uncertainty relating to going concern as required by section 62(1)(b) of the MFMA. The non-compliance contributed to a disclaimer of audit opinion as I could not obtain sufficient appropriate audit evidence to support the amounts and disclosures in the financial statements.

85. The lack of full and proper records is likely to result in substantial harm to the municipality as it contributed to the material uncertainty regarding its ability to continue operations. This, in turn, is likely to have a negative impact on the municipality's ability to discharge its service delivery mandate.

86. The accounting officer was notified of the material irregularity on 11 June 2021 and invited to make a written submission on the actions taken, and that will be taken, to address the matter. The accounting officer planned the following to address the material irregularity:

- Notified the MEC for local government, MEC for finance and organised local government (SALGA) of its financial problems (if not already known by them)
- Prepared a financial recovery or similar action plan
- Prepared an action plan to address the lack of full and proper records – if actions were committed to during the audit process to be implemented or to commence by the time the MM responded to the notification, it can also be included as expected actions.
- Commenced with a preliminary investigation and concluded that there are no officials responsible for the non-compliance with the MFMA

87. I will follow up on the implementation of the planned actions during my next audit.

Other reports

88. I draw attention to the following engagement conducted by various parties which had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

89. Another organ of state is investigating various cases of alleged financial misconduct against an erstwhile senior manager of the municipality. At the date of this report, the investigation was still in progress.

Auditor-General

East London

31 January 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 financial statements and the procedures performed on reported performance information for selected development priority and on the municipality's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the 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 municipality's internal control
   - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
   - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the Makana Local Municipality to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease operating as a going concern
   - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 communicate 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.