Report of the auditor-general to the Mpumalanga Provincial Legislature and council on the Emakhazeni local municipality

Report on the audit of the financial statements

Adverse opinion

1. I have audited the financial statements of the Emakhazeni 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 and cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.

2. In my opinion, because of the significance of the matters described in the basis for adverse opinion section of this auditor’s report, the financial statements do not present fairly, in all material respects, the financial position of the Emakhazeni Local Municipality as at 30 June 2021 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 Division of Revenue Act 4 of 2020 (Dora).

Basis for adverse opinion

Investment property

3. The municipality did not have the adequate system of records to account for investment properties required by GRAP 16, *Investment property*, as it recognised assets that were not under the control of the municipality. In addition, in the prior year, the municipality incorrectly classified community parks used for service delivery as investment property instead of property, plant and equipment. I was unable to determine the impact on investment property as it was impracticable to do so. Furthermore, not all disposal of investment properties were recorded, resulting in investment properties being overstated by R5 900 000 and receivable from exchange transaction being understated by the same amount. This also had an impact on the surplus and on the accumulated surplus for the period.

4. I was unable to obtain sufficient appropriate audit evidence that the municipality used appropriate data to determine the fair value of investment property as it could not be substantiated by supporting audit evidence. In addition, some of the investment properties selected from the asset register could not be physically verified and some investment properties selected from the valuation roll could not be traced to the asset register due to inadequate systems. Consequently, I was unable to determine whether any adjustment was necessary to fair value adjustments, stated at R1 690 000 (2019-20: R1 690 000) and investment property, stated at R252 840 035 (2019-20: R256 601 000) in note 3 to the financial statements.

Property, plant and equipment

5. In terms of GRAP 17, *Property, plant and equipment*, the municipality should recognise all the assets in its control at the end of the financial year. However, the municipality recognised land that is not under the control of the municipality*;* some property, plant and equipment could not be positively verified; depreciable assets were not depreciated; and some projects were duplicated between work-in-progress and infrastructure. This resulted in property, plant and equipment being overstated by R201 272 675 (2019-20: R82 488 401), assets not verified of R119 615 794 (2019-20: R68 794 829), accumulated depreciation being understated by R75 747 542 (2019-20: R7 784 233) and work in progress being overstated by R 5 909 339 (2019-20: R5 909 339). Furthermore, other assets and land of R27 920 348 could not be traced to the asset register because systems were inadequate. This resulted in other assets and land being understated by the same amount. This also had an impact on the surplus for the period and on the accumulated surplus.

6. The municipality did not appropriately account for projects completed under work-in-progress in infrastructure assets, as disclosed in note 4 to the financial statements, in accordance with GRAP 17, *Property, plant and equipment*. This resulted in work in progress being overstated by R18 284 237 and infrastructure assets being understated by the same amount. This also had an impact on the surplus and on the accumulated surplus for the period.

7. The municipality did not accurately account for the additions to the property, plant and equipment in infrastructure assets and other assets, as reported in note 4 to the financial statements. This resulted in infrastructure and other assets being understated by R8 656 462 and trade payables being understated by the same amount. This also had an impact on the surplus and on the accumulated surplus for the period.

8. In 2019-20, the municipality did not recognise property, plant and equipment at its cost, as required by GRAP 17, *Property, plant and equipment*, as the cost of landfill site rehabilitation was capitalised on accumulated surplus. Furthermore, the actual cost incurred on completed projects and donated assets were not capitalised. I was unable to determine the impact on property, plant and equipment as it was impracticable to do so.

9. I was unable to obtain sufficient appropriate audit evidence of property, plant and equipment for an unreconciled difference of R5 648 335 (2019-20: R22 401 106) between the fixed asset register and the annual financial statements, the disposal of the assets and impairment of assets. I was unable to confirm the reconciling differences by alternative means. Consequently, I was unable to determine whether property, plant and equipment of R1 559 217 336 (2019-20: R1 501 768 127) disclosed in note 4 to the financial statements and the depreciation expense of R54 519 462 (2019-20: R49 150 571) disclosed in note 30 to the financial statements were fairly stated.

Receivables from non-exchange transactions and exchange transactions

10. I was unable to obtain sufficient appropriate audit evidence for the reconciling difference between the schedule for allowance for impairment and the amount of allowance for impairment disclosed in the financial statements, as I was not provided with supporting evidence. I was unable to confirm the differences by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to receivables from exchange

transactions, stated at R31 810 699 (2019-20: R34 983 961) in note 9, and non-exchange transactions, stated at R133 952 093 (2019-20: R135 471 477) in note 10 to the financial statements.

11. In terms of GRAP 104, *Financial instruments*, an entity is required to assess individually significant financial assets for impairment where there are indicators of impairment, and to collectively assess significant financial assets with groups of assets with similar credit-risk characteristics. Contrary to this requirement, the municipality did not assess individual property rates and service charges, or debtors' payment history, in calculating the debtors' impairment, while the methods and assumptions used were also not reasonable. I could not confirm the municipality's allowances for impairment for property rates and consumer debtors by alternative means. Furthermore, the invoices were not correctly aged on the debtors' age analysis. The risk management disclosure in the financial statements also included this amount. Consequently, I was unable to determine whether any adjustment was necessary to allowances for impairment of R240 413 290 (2019-20: R201 236 284) disclosed in note 11, as well as the risk management disclosure in note 43 to the financial statements.

12. I was unable to obtain sufficient appropriate audit evidence for the consumer debtors – traffic fines as I was not provided with the supporting schedules. I was unable to confirm the consumer debtors – traffic fines by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the consumer debtors – traffic fines, stated at R171 923 749 (2019-20: R170 288 657) in note 11 to the financial statements.

13. In terms of GRAP 104, *Financial instruments*, all financial assets measured at amortised cost, or cost, are subject to an impairment review. I was unable to obtain sufficient appropriate audit evidence for the impairment provision for consumer debtors – other traffic fines, as I was not provided with the methods and assumptions used to determine this. I was unable to confirm the impairment provision by alternative means. The risk management disclosure in the financial statements also included this amount. Consequently, I was unable to determine whether any adjustment was necessary to the impairment provision, stated at R69 023 151 (2019-20: R69 023 151) in note 11, as well as the risk management disclosure in note 43 to the financial statements.

14. I was unable to obtain sufficient appropriate audit evidence for accrued income as I was not provided with supporting evidence. I was unable to confirm the accrued income by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to accrued income, stated at R6 729 423 (2019-20: R6 767 098) in note 10 to the financial statements.

15. In the prior year, the municipality did not charge interest on overdue consumer accounts as required by the municipality's tariff policy. I was unable to determine the impact of the misstatement on interest charged on trade and other receivables, and consumer debtors, as it was impracticable to do so. Furthermore, the municipality did not accurately account for interest on overdue accounts in accordance with the municipality's tariff policy. This resulted in revenue from interest charged on trade and other receivables being overstated by R10 321 101 and consumer debtors being overstated by the same amount. This also had an impact on the surplus for the period and on the accumulated surplus.

Inventory

16. The municipality did not measure the inventory at the lower of cost and current replacement cost in terms of GRAP 12, *Inventory*. Consequently, inventory was understated by R3 260 365. In addition, I was unable to obtain sufficient and appropriate audit evidence for the valuation of water inventory, as the municipality does not perform water measured at year end. I could not confirm the inventory valuation method by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to inventory, stated at R7 978 878 (2019-20: R5 121 018) in note 8 to the financial statements.

Cash and cash equivalent

17. I was unable to obtain sufficient appropriate audit evidence for cash and cash equivalents. This was because the municipality did not implement sufficient controls to ensure that its main bank account reconciled to the bank statement. I could not obtain the required evidence by alternative means. The risk management disclosure in the financial statements also included this amount. Consequently, I was unable to determine whether any adjustments were required to cash and cash equivalents, stated at R35 690 470 (2019-20: R29 418 606) in the statement of financial position and note 12, as well as well as the risk management disclosure in note 43 to the financial statements.

Payables from exchange transactions

18. The municipality did not recognise all outstanding amounts meeting the definition of a liability in accordance with GRAP 1, *Presentation of financial statements*, as the municipality did not maintain adequate records of outstanding payments for goods and services received but not yet paid at year-end. I was unable to determine the full extent of the understatement of trade payables and retentions as it was impracticable to do so. In addition, the municipality did not record all retention amounts in the financial statements, resulting in the understatement of payables from exchange transactions by R5 229 692 and property, plant and equipment being understated by the same amount. This also had an impact on the surplus for the period and on the accumulated surplus.

19. The municipality's debtors with credit balances were due to errors in the revenue billing system, resulting in negative billings. Consequently, payables from exchange transactions was overstated and receivables from exchange and non-exchange services and revenue from exchange and non-exchange transactions were understated by R24 746 263 (2019-20: R11 733 319). This also had an impact on the surplus for the period and on the accumulated surplus.

Revenue from non-exchange and exchange transactions

20. The municipality did not reliably measure revenue in accordance with GRAP 9, *Revenue from exchange transactions* and GRAP 23, *Revenue from non-exchange transactions*. The municipality did not charge property rates and service charges in terms of its tariff policy. As a result, service charges were understated by R15 857 474 (2019-20: overstated by R23 564 751 and property rates were overstated by R36 158 918 (2019-20: overstated by R19 534 244). Consumer debtors and VAT payables were also overstated by R20 301 444 (2019-20: R43 098 995). This also had an impact on the surplus for the period and on the

accumulated surplus. In addition, property rates and services charges were not charged on some consumer debtors accounts. Consequently, I was unable to determine the impact of the revenue from exchange and non-exchange transactions, as it was impracticable to do so.

21. The municipality did not reliably measure revenue in accordance with GRAP 23, *Revenue from non-exchange transactions.* The municipality did not accurately account for revenue from conditional grants, as disclosed in note 26 to the financial statements, as the amounts recognised in the financial statements does not agree to the supporting evidence. This resulted in revenue from non-exchange transactions being understated by R7 556 665 and infrastructure assets being understated by the same amount. This also had an impact on the surplus for the period and on the accumulated surplus.

22. I was unable to obtain sufficient appropriate audit evidence for the reconciling difference between the billing report, and the service charges and property rates disclosed in the financial statements, as I was not provided with supporting evidence. I was unable to confirm the difference by alternative means. Consequently, I was unable to determine whether any adjustment was necessary relating to service charges and property rates, stated at R133 381 032 (2019-20: R99 650 387) in note 19 and R62 308 662 (2019-20: R62 132 060) in note 25 to the financial statements.

23. The municipality did not estimate the amount of unused prepaid electricity at the reporting date. I was unable to obtain sufficient appropriate audit evidence for unused prepaid electricity, as I was not provided with the supporting documents. I was unable to confirm the unused prepaid electricity and payables from exchange transactions by alternative means as it was impractical to do so. Consequently, I was unable to determine whether any adjustment was necessary relating to prepaid electricity, stated at R133 381 032 (2019-20: R99 650 387) in note 19, and receivables from exchange transactions, stated at R62 308 662 (2019-20: R62 132 060) in note 25 to the financial statements.

24. I was unable to obtain sufficient appropriate audit evidence for the traffic fines as disclosed in the financial statements, as I was not provided with supporting evidence. I was unable to confirm traffic fines by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to traffic fines revenue, stated at R1 711 055 (2019-20: R45 626 897) in note 18 to the financial statements.

25. The municipality did not recognise revenue in accordance with GRAP 9, *Revenue from exchange transactions*. The municipality recognised revenue on accounts from which it is not probable that the economic benefits or service potential associated with the transaction will flow to the municipality, as the municipality charged property rates and service charges on properties that could not be traced to the valuation roll. Consequently, I was unable to determine the impact on revenue from property rates, revenue from service charges, and receivables from exchange and non-exchange transaction, as it was impracticable to do so.

Irregular expenditure

26. The municipality did not include all irregular expenditure in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. This was due to payments made in contravention of the supply chain management (SCM) requirements, which resulted in irregular expenditure being understated by R18 617 716.

27. I was unable to obtain sufficient appropriate audit evidence for the opening balance of irregular expenditure. This was due to the municipality not performing investigations to determine the full extent of the irregular expenditure incurred in the previous year. I was unable to confirm this by alternative means. In addition, I was unable to obtain sufficient appropriate audit evidence for irregular expenditure for an unreconciled difference of R99 781 516 between the irregular expenditure register and the annual financial statements. Furthermore, I was unable to obtain sufficient appropriate audit evidence of the irregular expenditure written off, amounting to R5 056 013. I was unable to confirm this amount by alternative means. Consequently, I could not determine whether any adjustments were required to the irregular expenditure, disclosed at R160 390 522 (2019-20: R201 355 319) in note 48 to the financial statements.

Cash flow from operating and investing activities

28. The municipality did not correctly prepare and disclose the net cash flows from operating and investing activities, as required by GRAP 2, *Cash flow statements*. This was due to multiple errors in determining cash flows from operating activities and cash flows from investing activities. I was not able to determine the full extent of the errors in the net cash flows from operating activities and investing activities as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to cash flows from operating activities and cash flows from investing activities, stated at R116 312 625 (2019-20: R142 380 877) and R94 987 723 (2019-20: R153 642 672) respectively in the financial statements.

Prior-year adjustments

29. The municipality did not disclose all prior-year adjustments in note 42 to the financial statements, as required by GRAP 3, *Accounting policies, estimates and errors*. The amount of the correction for revenue from exchange and non-exchange transactions, receivables from exchange and non-exchange transactions, payables from exchange transactions, and property, plant and equipment and depreciations was not accurately disclosed. In addition, I was unable to obtain sufficient appropriate audit evidence for the previous period errors disclosed, as 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-year adjustments disclosed in the financial statements.

Distribution loss

30. I was unable to obtain sufficient appropriate audit evidence for distribution water and electricity losses because the municipality did not have adequate control measures in place to accurately determine the extent of these losses, as required by section 125(2)(d)(i) of the MFMA, I was unable to confirm these losses by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to material water and electricity losses, stated at R391 796 (2019-20: R2 685 052) and R19 239 764 (2019-20: R1 517 697) in notes 49 and 33 respectively to the financial statements.

Context for the opinion

31. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report.

32. 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.

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

Other matter

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

Unaudited disclosure notes

35. 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

36. 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 Dora, 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.

37. 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

38. 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.

39. 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

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

41. 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.

42. 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
Key performance area 1 – basic service delivery and infrastructure development.	x – x

43. 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.

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

Key performance area 1- basic service delivery and infrastructure development

Number of reports on inspections of water losses and tempering of meters submitted to Council

45. I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined method of collection to be used when measuring the actual achievement for the indicator. This was due to insufficient measurement definitions and processes. I was unable to test whether the indicator was well-defined by alternative means.

46. I was unable to obtain sufficient appropriate audit evidence for the achievement of four water sample analysis reports submitted to the council against the target of four water sample analysis reports submitted to the council in the annual performance report, due to the lack of valid and accurate 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

47. I draw attention to the matter below.

Achievement of planned targets

48. 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 45 to 46 of this report.

Report on the audit of compliance with legislation

Introduction and scope

49. 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.

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

Annual financial statements and annual reports

51. 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.

52. Material misstatements of liabilities, revenue and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving an adverse audit opinion.

Strategic planning and performance

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

Expenditure management

54. 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 qualification paragraph. The majority of the irregular expenditure was caused by non-compliance with the SCM regulations.

55. Reasonable steps were not taken to prevent unauthorised expenditure of R294 760 as disclosed in note 46 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.

Revenue management

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

Assets management

57. 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.

Consequences management

58. Some unauthorised expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(a) of the MFMA.

59. Some irregular expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.

60. Some fruitless and wasteful expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Procurement and contract management

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

62. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to bidders that scored the highest points in the evaluation process, as required by section 2(1)(f) of the Preferential Procurement Policy Framework Act and the 2017 preferential procurement regulation 11.

63. Contracts above R30 million did not include a condition for mandatory subcontracting to advance designated groups, as required by the 2017 preferential procurement regulation 9(1). This non-compliance was identified in the procurement processes for the refurbishment and upgrading of Machadodorp water treatment works, upgrading of rising main and construction of ground reservoir phase 1 and implementation of the installation and commissioning of New Paardeplaats 132/11kV 20MVA electricity substation phase 4 project.

64. Some commodities designated for local content and production were procured from suppliers who did not meet the prescribed minimum threshold for local production and content, as required by the 2017 preferential procurement regulation 8(5). Similar non-compliance was also reported in the prior year.

65. Persons in the service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of SCM regulation 46(2)(e).

66. Sufficient appropriate audit evidence could not be obtained that contracts were only awarded to providers whose tax matters had been declared by the South African Revenue Service to be in order, as required by SCM regulation 43.

67. Some contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43.

Conditional grants

68. The water services infrastructure grant was not spent for its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of Dora.

69. The integrated national electrification programme grant was not spent for its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of Dora.

Other information

70. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report and the audit committee’s report. The other information does not include the financial statements, the auditor’s report and those selected development priorities presented in the annual performance report that have been specifically reported in this auditor’s report.

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

72. 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.

73. If based on the work I have performed, I conclude that there is a material misstatement in this other information, I am required to report that fact.

74. I have nothing to report in this regard

Internal control deficiencies

75. 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 adverse opinion, the findings on the performance report and the findings on compliance with legislation included in this report.

76. Management did not exercise oversight responsibility regarding financial and performance reporting and compliance, as well as for related internal controls.

77. Management did not develop and monitor the implementation of action plans to address internal control deficiencies.

78. Management did not implement controls over daily and monthly processing and reconciling transactions

79. Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

80. Management did not review and monitor compliance with applicable legislation

81. Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting

Auditor - General

18 January 2022

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Audit committee
Head of internal audit unit
Executive authority

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 the 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 Emakhazeni local municipality to continue as a going concern. If I conclude that a material uncertainty exists, I are 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 us 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 to communicate with them all relationships and

other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied