



MAKANA LOCAL MUNICIPALITY

Audit Report

For the year ended 30 June 2023



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence

Report of the auditor-general to Eastern Cape Provincial Legislature and the 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 2023, the 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 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 and amortisation as the amounts disclosed in the financial statements did not agree with the underlying records. Furthermore, I was unable to confirm whether the presentation and disclosures as required by *GRAP 17: Property, plant and equipment* were made. I was unable to confirm property, plant and equipment and depreciation and amortisation by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to property, plant and equipment of R943,6 million (2022: R945,9 million) and depreciation and amortisation, stated at R31,7 million (2022: R33,6 million) in the financial statements.

Investment property

4. During 2022, the municipality did not present and disclose the investment property and did not apply the accounting policy note consistently in accordance with *GRAP 16: Investment property*. I was unable to obtain sufficient appropriate audit evidence for investment property as the amounts disclosed did not agree with the underlying records. Consequently, I was unable to determine whether any adjustments were necessary to the investment property, stated at R187,9 million. My audit opinion on the financial statements for the period ended 2022 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effects of this matter on the recorded amount of investment property in the current period of R187,9 million in the financial statements.

Heritage assets

5. During 2022, I was unable to obtain sufficient appropriate audit evidence for heritage assets as the amounts disclosed did not agree with the underlying records. Consequently, I was unable to determine whether any adjustments were necessary to heritage assets, stated at R32,8 million. My audit opinion on the financial statements for the period ended 2022 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effects of this matter on the recorded amount of heritage assets in the current period of R32,8 million in the financial statements.

Receivables from exchange transactions

6. I was unable to obtain sufficient appropriate audit evidence for receivables from exchange transactions and debt impairment and write off, 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 R73,7 million (2022: R66,2 million) and debt impairment and write off stated at R182,7 million (2022: R191 million) in the financial statements.

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 R20,8 million (2022: R24,6 million) in the financial statements.

Inventories

8. I was unable to obtain sufficient appropriate audit evidence for inventories, as the amounts disclosed in the financial statements did not agree with the underlying records and some items of inventory were not included in the underlying records submitted. Furthermore, I was unable to confirm whether the presentation and disclosures as required by *GRAP 12: Inventories* were made. I was unable to confirm the inventories by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to inventories, stated at R8,6 million (2022: R6,7 million) in the financial statements.

Payables from exchange transactions

9. I was unable to obtain sufficient appropriate audit evidence for payables from exchange transactions, as the amounts disclosed in the financial statements did not agree with the underlying records. 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 R276 million (2021: R264 million) in the financial statements.

Value added tax payable

10. I was unable to obtain sufficient appropriate audit evidence for value-added tax payable, as the amounts disclosed in the financial statements did not agree with the underlying records. I was unable to confirm the value-added tax payable by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to value-added tax payable stated at R52,5 million (2022: R54,7 million) in the financial statements.

Unspent conditional grants

11. I was unable to obtain sufficient appropriate audit evidence for unspent conditional grants, as the amounts disclosed in the financial statements did not agree with the underlying records. I was unable to confirm the unspent conditional grants by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to unspent conditional grants stated at R42,4 million in the financial statements.

Provisions

12. During 2022, I was unable to obtain sufficient appropriate audit evidence for provisions as the amounts disclosed did not agree with the underlying records. Consequently, I was unable to determine whether any adjustments were necessary to provisions, stated at R48,5 million. My audit opinion on the financial statements for the period ended 2022 was modified accordingly. Consequently, I was unable to determine whether any adjustments were necessary to provisions stated at R51,7 million (2022: R48,5 million) in the financial statements.

Accumulated surplus/(deficit)

13. I was unable to obtain sufficient appropriate audit evidence for the balance of the accumulated surplus. This was due to prior period adjustments that were processed in the financial statements and were not supported by adequate documentation. I was unable to confirm accumulated surplus by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to accumulated surplus stated at R779,9 million (2022: R795,4 million) in the financial statements.

Revenue from exchange transactions

14. I was unable to obtain sufficient appropriate audit evidence that revenue from exchange transactions had been properly charged and accounted for the current and previous year, as the amounts disclosed in the financial statements did not agree with the underlying records. Furthermore, I was unable to confirm the reasonability of the estimated consumption of water and electricity due to the lack of adequate systems and processes to calculate the estimated consumption. Additionally, I was unable to confirm interest revenue charged on outstanding debtors due to limitations on receivables from exchange transactions. I could not 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 R390,5 million (2022: R336,9 million) in the financial statements.

Revenue from non-exchange transactions

15. I was unable to obtain sufficient appropriate audit evidence that revenue from non-exchange transactions had been properly and completely accounted for in the current year due to the status of the accounting records. Furthermore, property values in the underlying records did not agree with values per the valuation roll and the values presented and disclosed in the financial statement. I could not confirm the revenue from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to revenue from non-exchange transactions stated at R263,1 million (2022: 314,6 million) in the financial statements.

Employee related costs

16. I was unable to obtain sufficient appropriate evidence for employee related costs due to lack of adequate systems and processes for records management. I was unable to confirm employee related costs by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to employee related costs of R199,4 million (2022: R199,5 million) in the financial statements.

Finance costs

17. The municipality did not recognise interest incurred on employee benefits obligations in accordance with *GRAP 1: Presentation of financial statements*. Additions to finance costs were incorrectly recognised as employee related costs. Consequently, finance cost was understated by R9 million, and employee related costs were overstated by R9 million in the financial statements.

Contracted services

18. I was unable to obtain sufficient appropriate evidence for contracted services due to lack of adequate systems and processes for records management. I was unable to confirm contracted services by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to contracted services of R30,6 million (2022: R43,3 million) in the financial statements.

Bulk purchases

19. I was unable to obtain sufficient appropriate evidence for bulk purchases due to lack of adequate systems and controls to account for records management. I was unable to confirm bulk purchases by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to bulk purchases of R135,6 million in the financial statements.

Operating expenditure

20. I was unable to obtain sufficient appropriate evidence for operating expenditure due to lack of adequate systems and processes for records management. I was unable to confirm operating expenditure by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to operating expenditure of R42,2 million (2022: R40,5 million) in the financial statements.

Inventory consumed

21. I was unable to obtain sufficient appropriate evidence for inventory consumed due to lack of adequate systems and controls to account for consumption of inventory, as a result, the amounts recorded and disclosed in the financial statements could not be substantiated. I was unable to confirm inventory consumed by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to inventory consumed of R27,7 million in the financial statements.

Irregular expenditure

22. The municipality did not fully record irregular expenditure in the notes to the financial statements, as required by section 125(2) (d) of the MFMA. Expenditure incurred was in contravention with supply chain management requirements, I was unable to determine the full extent of the impact as it was impracticable to do so. In addition, I was unable to obtain sufficient appropriate audit evidence to confirm the irregular expenditure included in note 58 to the financial statements as the amount disclosed was not based on accurate and complete underlying accounting records. Additionally, irregular expenditure written off was omitted from the financial statement disclosure 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 stated at R407 million (2022: R370 million) in the financial statements.

Fruitless and wasteful expenditure

23. I was unable to obtain sufficient appropriate audit evidence to confirm the fruitless and wasteful expenditure included in note 57 to the financial statements as the amount disclosed was not based on accurate and complete underlying accounting records. 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 fruitless and wasteful expenditure stated at R4,7 million (2022: R7,8 million) in the financial statements.

Unauthorised expenditure

24. I was unable to obtain sufficient appropriate audit evidence to confirm the unauthorised expenditure as disclosed in note 56 to the financial statements, as the disclosure did not include particulars of unauthorised expenditure incurred in the current year as required by section 125(2)(d) of the MFMA. 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 so. 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 the unauthorised expenditure stated at R779,3 million (2022: R779,3 million) in the financial statements.

Bulk electricity losses

25. I was unable to obtain sufficient appropriate audit evidence regarding the bulk electricity losses as disclosed in note 40 to the financial statements as the disclosure was not based on accurate and complete underlying accounting records. I was unable to audit the disclosure by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to

the bulk electricity losses. I was unable to determine the impact on the disclosure note for the current and prior year, as it was impracticable to do so.

Related parties

26. I was unable to obtain sufficient appropriate audit evidence regarding the related parties disclosed in note 51 to the financial statements, as the disclosure presented relating to key management remuneration was not based on accurate and complete underlying accounting records. I was unable to audit the disclosure by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to related parties. I was unable to determine the impact on related parties as it was impracticable to do so.

Additional disclosures in terms of the MFMA

27. I was unable to obtain sufficient appropriate audit evidence regarding the additional disclosures in terms of the MFMA as disclosed in note 59 to the financial statements as the disclosure was not based on accurate and complete underlying accounting records. I was unable to audit the disclosure by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the additional disclosures in terms of the MFMA. I was unable to determine the impact on the disclosure note for the current and prior year, as it was impracticable to do so.

Financial instruments and risk management

28. I was unable to obtain sufficient appropriate audit evidence regarding the financial instruments and risk management disclosed in notes 48 and 53 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. 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 financial instruments and risk management disclosed in notes 48 and 53 to the financial statements.

29. The municipality's disclosures of financial instruments and risk management disclosed in notes 48 and 53 to the financial statements were not in line with *GRAP 104: Financial Instruments*. I was unable to determine the impact on the disclosure note for the current and prior year, as it was impracticable to do so.

Contingencies

30. The municipality did not recognise and disclose all potential obligations in note 50 to the financial statements in accordance with *GRAP 19: Provisions, contingent liabilities and contingent assets*. I was unable to determine the full extent of the contingencies as it was impracticable to do so.

Other cash item

31. I was unable to obtain sufficient appropriate audit evidence to confirm the other cash item as disclosed in cash flows from operating activities. I was unable to audit the disclosure by alternative means. Consequently, I was unable to determine whether any adjustments were

necessary to the other cash item stated at R489,4 million (R445,5 million) in the cash flow statements.

Cash and cash equivalents at the end of the year

32. 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 disclose the cash and cash equivalents at year-end, as the amounts included in the cash flow did not agree with the balance disclosed in the statement of financial position. This was due to the multiple errors in determining the cash and cash equivalent at the end of the year. I was unable to determine the full extent of the errors for the current and prior year, as it was impracticable to do so.

Segment reporting

33. I was unable to obtain sufficient appropriate audit evidence regarding the segment reporting disclosed in note 60 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. 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 segment reporting. I was unable to determine the impact on segment reporting for the current and prior year, as it was impracticable to do so.

Statement of budget and actual

34. I was unable to obtain sufficient appropriate audit evidence regarding the statement of budget and actual as disclosed in the financial statements, as the disclosure presented in the financial statements for auditing purposes was not based on accurate and complete underlying accounting records. I was unable to audit the disclosure by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the statement of budget and actual amounts. I was unable to determine the impact on the financial statement, as it was impracticable to do so.

Statement of changes in net assets

35. I was unable to obtain sufficient appropriate audit evidence regarding the statement of changes in net assets as disclosed in the financial statements, as the disclosure presented in the financial statements for auditing purposes was not based on accurate and complete underlying accounting records. I was unable to audit the disclosure by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the statement of net assets. I was unable to determine the impact on the financial statements, as it was impracticable to do so.

Prior year adjustments

36. 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 to the movements in the prior year balances and inadequate disclosures were made and 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. 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 note 52 of the financial statements.

Going concern

37. The municipality is implementing a mandatory financial recovery plan due to the financial crisis it faces and the lack of long-term financial sustainability including potential reduction in grant funding. A deficit of R15,5 million was incurred during the year and significant deterioration in the value of assets used to provide basic services and generate revenue were noted. The municipality did not disclose these principle events in the financial statements.

Corresponding figures

Cash and cash equivalents

38. During 2022, I was unable to obtain sufficient appropriate audit evidence for cash and cash equivalents as the amounts disclosed did not agree with the bank balances. Consequently, I was unable to determine whether any adjustments were necessary to cash and cash equivalents, stated at R48,3 million. My audit opinion on the financial statements for the period ended 2022 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effects of this matter on the recorded provisions in the current period of R56,2 million in the financial statements.

Deviations from supply chain management regulations

39. During 2022, I was unable to obtain sufficient appropriate audit evidence for deviations from SCM in the notes to the financial statements, as required by SCM regulation 36(2). Consequently, I was unable to determine whether any adjustments were necessary to the balance as it was impracticable to do so. My audit opinion on the financial statements for the period ended 2022 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effects of this matter on the recorded amount stated at R9,5 million in note 59 of the financial statements.

Other matter

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

41. In terms of section 125(2)(e) of the MFMA, the particulars of non-compliance with the MFMA should be disclosed 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 financial statements

42. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the Standards of 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.

43. 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.

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

44. 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.
45. 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

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

Development priority	Page numbers	Purpose
KPA: Basic Service delivery and Infrastructure Development	[XX]	To provide basic services and infrastructure to all the communities within the Makana municipality.

48. I evaluated the reported performance information for the selected development priority against the criteria developed from the performance management and reporting framework, as defined in the general notice. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users on the municipality's planning and delivery on its mandate and objectives.

49. I performed procedures to test whether:

- the indicators used for planning and reporting on performance can be linked directly to the municipality's mandate and the achievement of its planned objectives.
- the indicators are well defined to ensure that they are easy to understand and can be applied consistently, as well as verifiable so that I can confirm the methods and processes to be used for measuring achievements.
- the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated.
- the indicators and targets reported on in the annual performance report are the same as those committed to in the approved initial or revised planning documents.
- the reported performance information is presented in the annual performance report in the prescribed manner.
- there is adequate supporting evidence for the achievements reported and for the taken to improve performance.

50. I performed the procedures for the purpose of reporting material findings only; and not to express an assurance opinion or conclusion.

51. The material findings on the reported performance information for the selected development priority are as follows:

KPA: Basic Service Delivery and Infrastructure Development

MSC 1.2 –Percentage of ageing asbestos pipes in Phase 3

52. An achievement of 60% was reported against a target of 100%. However, the audit evidence showed the actual achievement to be only 42%. Consequently, the underachievement on the target was more than reported.

MSC 1.3 Percentage of Refurbishment of Belmont Valley Wastewater Treatment Works completed.

53. An achievement of 9% was reported against a target of 100% but the audit evidence showed the actual achievement to be 27%. The achievement against the target was better than reported.

MSC 1.5 Percentage of Waainek WT W refurbishment Cathodic protection completed.

54. An achievement of 75% was reported against a target of 50%. I could not determine if the reported achievement was correct, as adequate supporting evidence was not provided for auditing. Consequently, the achievement might be more or less than reported and was not reliable for determining if the target had been achieved.

MSC 1.6 Percentage of upgraded Ncame Street from tar blocks paving completed.

55. An achievement of 75% was reported against a target of 100%. I could not determine if the reported achievement was correct, as adequate supporting evidence was not provided for auditing. Consequently, the achievement might be more or less than reported and was not reliable for determining if the target had been achieved.

Other matters

56. I draw attention to the matters below.

Achievement of planned targets

57. The annual performance report includes information on reported achievements against planned targets and provides measures taken to improve performance. This information should be considered in the context of the material findings on the reported performance information.

Material misstatements

58. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for Basic Service Delivery and Infrastructure Development. Management did not correct all of the misstatements and I reported material findings in this regard.

Report on compliance with legislation

59. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting officer is responsible for the municipality's compliance with legislation.

60. I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.

61. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the municipality, clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.

62. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statements and annual reports

63. 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.

64. The oversight report adopted by the council on the 2021/22 annual report was not made public, as required by section 129(3) of the MFMA.

Revenue management

65. An adequate management, accounting and information system that accounts for revenue and debtors was not in place, as required by section 64(2)(e) of the MFMA.
66. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.
67. 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.
68. I was unable to obtain sufficient appropriate audit evidence that accounts for municipal tax and charges for municipal services and service charges were prepared on a monthly basis, as required by section 64(2)(c) of the MFMA.
69. 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

70. 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 of opinion paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with SCM regulations.
71. Reasonable steps were not taken to prevent fruitless and wasteful expenditure as required by section 62(1)(d) of the MFMA. The full extent of the fruitless and wasteful expenditure could not be quantified, as indicated in the basis for disclaimer of opinion paragraph. The majority of the disclosed fruitless and wasteful expenditure was caused by interest incurred on long overdue accounts.
72. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the unauthorised expenditure could not be quantified as indicated in the disclaimer of opinion paragraph. The majority of the unauthorised expenditure was caused by budget overspending.
73. An adequate management, accounting and information system was not in place which accounted for creditors and accounted for payments made, as required by section 65(2)(b) of the MFMA.

Asset management

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

75. 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.

Consequence management

76. Allegations of financial misconduct laid against officials of the municipality were not investigated, as required by section 171(4)(a) of the MFMA.

Procurement and contract management

77. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM Regulation 17(1)(a) and (c). Similar non-compliance was also reported in the prior year.
78. 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). Similar non-compliance was also reported in the prior year.
79. Some of the quotations were accepted from bidders whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43.
80. Some goods and services with a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1). Similar non-compliance was also reported in the prior year.
81. Sufficient appropriate audit evidence could not be obtained that contracts were extended or modified with the approval of a properly delegated official as required by SCM Regulation 5.
82. Sufficient appropriate audit evidence could not be obtained that the performance of contractors or providers was monitored on a monthly basis as required by section 116(2) of the MFMA.
83. Sufficient appropriate audit evidence could not be obtained that contract performance and monitoring measures were in place to ensure effective contract management as required by section 116(2)(c)(ii) of the MFMA.
84. Persons in the service of the municipality who had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of the code of conduct for councillors issued in terms of the Municipal Systems Act.

Utilisation of conditional grants

85. Performance in respect of programmes funded by the Municipal Infrastructure Grant and Water Services Infrastructure Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act (Act 5 of 2022).

Strategic planning and performance management

86. No KPIs were set in respect of the provision of basic electricity, as required by section 43(2) of the MSA and municipal planning and performance management regulation 10(a).

87. The performance management system and related controls were inadequate as the described processes of performance measurement and reporting were not conducted as intended as required by municipal planning and performance management regulation 7(1).

Human resource management

88. Financial interests were not disclosed by the senior managers within 60 days from date of appointment, as required by regulation 36(1)(a) on appointment and conditions of employment of senior managers.

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

90. The municipal manager and senior managers did not sign performance agreements within the prescribed period, as required by section 57(2)(a) of the MSA.

Other information in the annual report

91. The accounting officer is responsible for the other information included in the annual report. The other information referred to does not include the financial statements, the audit of the report and those selected development priorities presented in the annual performance report that have been specifically reported on in this auditor's report.

92. My opinion on the financial statements, the report on the audit of the annual performance report and the report on compliance with legislation do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.

93. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

94. 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.

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

Internal control deficiencies

96. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.

97. Leadership did not effectively fulfil its oversight responsibilities on the implementation and monitoring of internal controls and compliance with laws and regulations. The audit action plan was not effectively monitored and implemented to ensure that the prior year audit findings and instances of material non-compliance were addressed and prevented.
98. 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 relevant, accurate and complete information to support financial and performance reporting.
99. Management did not implement an efficient records management system to ensure that financial and performance information was easily retrievable. Consequently, the financial statements and performance report contained material audit findings.

Material irregularities

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

Status of previously reported material irregularities

Full and proper records not kept

101. 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.
102. 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.
103. Progress in the implementation of the planned actions as previously reported was requested from the accounting officer on 27 October 2023. The accounting officer reflected on the following actions that have been fully implemented.
- An intervention in line with section 139(2) of the MFMA was implemented through the Mandatory Financial Recovery Plan approved on 11 February 2022 by the Minister of Executive Council (MEC) of finance.
 - Only investigations relating to UIFW were conducted through the Municipal Public Accounts Committee (MPAC) with the assistance of Internal Audit from 2020/21 and reported on 27

June 2023. The council wrote off some amounts as irrecoverable with some still under investigation.

104. The implementation of the following actions was still in progress as year-end.

- The Financial Recovery Plan (FRP) was prepared and implemented in February 2022. However, slow progress has been made as the municipality is still in phase one – rescue phase, which is anticipated to last only six months from the approval date of the FRP.
- Action plan to address the lack of full and proper records – The municipality reviewed and approved the standardised file plan and the records management policy on 12 December 2022 and 30 June 2023 respectively. The challenges noted by the municipality were due to invoices that were not timeously submitted by the user-departments to the finance unit.

105. The accounting officer plans to take appropriate steps based on the outcome of the above actions. I will follow up on the implementation of the planned actions in progress during my next audit.

Auditor-General

East London

30 November 2023



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

The annexure includes the following:

- The auditor-general's responsibility for the audit
- The selected legislative requirements for compliance testing

Auditor-general's responsibility for the audit

Professional judgement and professional scepticism

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 priorities and on the municipality's compliance with selected requirements in key legislation.

Financial statements

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
- conclude on the appropriateness of the use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the 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

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.

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

Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Compliance theme	Sections or regulations
Municipal Finance Management Act 56 of 2003	Revenue management	Section 62(1)(f)(i) Section 62(1)(f)(ii) Section 62(1)(f)(iii) Section 64(2)(b) Section 64(2)(c) Section 64(2)(e) Section 64(2)(f) Section 64(2)(g)
	AFS, APR and Annual report	Section 122(1) Section 122(2) Section 126(1)(a) Section 126(1)(b) Section 127(2) Section 127(5)(a)(i) Section 127(5)(a)(ii) Section 129(1) Section 129(3) Section 133(1)(a) Section 133(1)(c)(i) Section 133(1)(c)(ii)
	Expenditure management	Section 11(1) Section 15 Section 29(1) Section 29(2)(b) Section 62(1)(d) Section 65(2)(a) Section 65(2)(b) Section 65(2)(e)
	Asset management	Section 13(2) Section 14(1) Section 14(2)(a) Section 14(2)(b) Section 63(2)(a) Section 63(2)(c)

Legislation	Compliance theme	Sections or regulations
	Strategic planning	Section 1 - Definition: service delivery and budget implementation plan, Section 24(2)(c)(iv) Section 53(1)(c)(ii) Section 54(1)(c) Section 72(1)(a)(ii)
	Consequence management	Section 1 - Definition: service delivery and budget implementation plan, Section 24(2)(c)(iv) Section 53(1)(c)(ii) Section 54(1)(c) Section 72(1)(a)(ii)
	Consequence management	Section 1 - Paragraph (a), (b) & (d) of the definition: irregular expenditure Section 32(2) Section 32(2)(a) Section 32(2)(a)(i) Section 32(2)(a)(ii) Section 32(2)(b) Section 32(6)(a) Section 32(7) Section 170 Section 171(4)(a) Section 171(4)(b)
	Environmental management	Section 63(1)(a)
	SCM	Section 116(2)(b) Section 116(2)(c)(ii) Section 117
MFMA: Municipal Budget and Reporting Regulations, 2009	Expenditure management	Regulation 71(1) Regulation 71(2) Regulation 72
MFMA: Municipal Investment Regulations, 2005	Asset management	Regulation 3(1)(a) Regulation 3(3) Regulation 6 Regulation 7

Legislation	Compliance theme	Sections or regulations
		Regulation 12(2) Regulation 12(3)
MFMA: Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014	Consequence management	Regulation 5(4) Regulation 6(8)(a) Regulation 6(8)(b) Regulation 10(1)
MFMA: Municipal Supply Chain Management Regulations, 2017	SCM	Regulation 5 Regulation 13(b) Regulation 13(c) Regulation 13(c)(i) Regulation 17(1)(a) Regulation 17(1)(b) Regulation 17(1)(c) Regulation 19(a) Regulation 21(b) Regulation 22(1)(b)(i) Regulation 22(2) Regulation 27(2)(a) Regulation 28(1)(a)(i) Regulation 28(1)(a)(ii) Regulation 29(1)(a) and (b) Regulation 29(5)(b)(ii) Regulation 32 Regulation 36(1) Regulation 36(1)(a) Regulation 38(1)(c) Regulation 38(1)(d)(ii) Regulation 38(1)(e) Regulation 38(1)(g)(i) Regulation 38(1)(g)(ii) Regulation 38(1)(g)(iii) Regulation 43 Regulation 44 Regulation 46(2)(e) Regulation 46(2)(f)
Municipal Systems Act 32 of 2000	Revenue management	Section 74(1) Section 96(b)
	Strategic planning	Section 25(1)

Legislation	Compliance theme	Sections or regulations
		Section 26(a) Section 26(c) Section 26(h) Section 26(i) Section 29(1)(b)(ii) Section 29(3)(b) Section 34(a) Section 34(b) Section 38(a) Section 41(1)(a) Section 41(1)(b) Section 41(1)(c)(ii) Section 42 Section 43(2) Parent municipality with ME: Section 93B(a) Section 93B(b) Parent municipality with shared control of ME: Section 93C(a)(iv) Section 93C(a)(v)
	HR management	Section 56(a) Section 57(2)(a) Section 57(4B) Section 57(6)(a) Section 66(1)(a) Section 66(1)(b) Section 67(1)(d) Section 93J(1)
MSA: Municipal Planning and performance Management Regulations, 2001	Strategic planning	Regulation 2(1)(e) Regulation 2(3)(a) Regulation 3(3) Regulation 3(4)(b) Regulation 3(6)(a) Regulation 7(1) Regulation 8 Regulation 9(1)(a)

Legislation	Compliance theme	Sections or regulations
		Regulation 10(a) Regulation 12(1) Regulation 15(1)(a)(i) Regulation 15(1)(a)(ii)
MSA: Municipal Performance Regulations for Municipal Managers and Managers directly Accountable to Municipal Managers, 2006	HR management	Regulation 2(3)(a) Regulation 4(4)(b) Regulation 8(1) Regulation 8(2) Regulation 8(3)
MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	HR management	Regulation 17(2) Regulation 36(1)(a)
MSA: Disciplinary Regulations for Senior Managers, 2011	Consequence management	Regulation 5(2) Regulation 5(3) Regulation 5(6) Regulation 8(4)
Annual Division of Revenue Act	Conditional grants	Section 11(6)(b) Section 12(5) Section 16(1) Section 16(3)
Construction Industry Development Board Act 38 of 2000	SCM	Section 18(1)
Construction Industry Development Board Regulations	SCM	Regulation 17 Regulation 25 (7A)
Municipal Property Rates Act 6 of 2004	Revenue management	Section 3(1)
Preferential Procurement Policy Framework Act 5 of 2000	SCM	Section 2(1)(a) Section 2(1)(f)
Preferential Procurement Regulations, 2017	SCM	Regulation 4(1) Regulation 4(2) Regulation 5(1) Regulation 5(3) Regulation 5(6) Regulation 5(7) Regulation 6(2)

Legislation	Compliance theme	Sections or regulations
		Regulation 6(3) Regulation 6(6) Regulation 7(1) Regulation 7(2) Regulation 7(3) Regulation 7(6) Regulation 8(2) Regulation 8(5) Regulation 9(1) Regulation 11(1) Regulation 11(2)
Prevention and Combating of Corrupt Activities Act 12 of 2004	Consequence management	Section 34(1)