

Report of the auditor-general to the Eastern Cape Provincial Legislature and council on the 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 as at 30 June 2020, 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. The municipality did not account for items of property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment*, as there were differences in the depreciation calculated for the year. Consequently, property, plant and equipment was overstated by R2 million and depreciation was understated by the same amount.
4. I was unable to obtain sufficient appropriate audit evidence for property plant and equipment and depreciation as the underlying records did not agree with the amount disclosed in the financial statements. Furthermore, the existence of certain assets could not be confirmed through physical verification. In addition, management could not provide supporting evidence for expenditure incurred on work-in-progress. I was unable to confirm property, plant and equipment by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to property, plant and equipment of R863,9 million (2019: R827,8 million) and depreciation and amortisation, stated at R27,9 million in the financial statements.

Investment property

5. The municipality did not account for all the land owned by the municipality in accordance with GRAP 16, *Investment property*, as the land classified as investment property owned by the municipality was not included on the fixed asset register. Consequently, investment property was understated by R4,4 million and accumulated surplus by R5,6 million, and depreciation was understated by R1,2 million.

6. I was unable to obtain sufficient appropriate audit evidence for investment property, as the municipality did not have adequate supporting documentation to prove ownership of the land. Furthermore, the existence of certain assets could not be confirmed through physical verification. 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 R183,8 million (2019: R187,9 million) in the statement of financial position.

Receivables from exchange transactions

7. The municipality did not disclose the debt impairment losses on receivables from exchange transactions and the reconciliation of allowance for impairment of receivables from exchange transactions, as required by GRAP 104, *Financial instruments*. As the impairment losses was not disclosed, I was unable to determine the VAT portion of the impairment loss that should be reversed from the VAT liability. I have not included the omitted information in this auditor's report as it was impracticable to do so.
8. I was unable to obtain sufficient appropriate audit evidence that receivables from exchange transactions for the current and previous year had been properly accounted for due to the status of the accounting records and the billing system. 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 R70 million (2019: R21,7 million) in the statement of financial position.

Receivables from non-exchange transactions

9. The municipality did not disclose the debt impairment losses on receivables from non-exchange transactions and the reconciliation of allowance for impairment of receivables from non-exchange transactions, as required by GRAP 104, *Financial instruments*. The impairment losses and the reconciliation of an allowance for impairment of receivables from non-exchange transactions should be disclosed. I have not included the omitted information in this auditor's report as it was impracticable to do so.
10. I was unable to obtain sufficient appropriate audit evidence that receivables from non-exchange transactions for the current and previous year had been properly accounted for due to the status of the accounting records and the billing system. 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 (2019: R21,3 million) in the statement of financial position.

Payables from exchange transactions

11. I was unable to obtain sufficient appropriate audit evidence for the amounts recognised under 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. I was unable confirm the payables from exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to payables from exchange transactions, stated at R161,2 million (2019: R196,6 million) in the statement of financial position.

Employee benefit obligation

12. 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.

Accumulated surplus

13. I was unable to obtain sufficient appropriate audit evidence for the balance of accumulated surplus. This was because prior year adjustments had been processed in the financial statements but not reflected in the statement of changes in net assets and not substantiated and supported by adequate documentation. In addition, the corresponding accumulated surplus in the statement of financial position did not agree with the restated balance at 1 July 2019 in the statement of changes in net assets. Consequently, I was unable to determine whether any adjustments were necessary to accumulated surplus, stated at R824,5 million (2019: R719,6 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 provision for leave. This was due to a lack of adequate systems and processes for leave management. I could not confirm the provision for leave by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the provision for leave stated at R16,7 million (2019: R12,3 million) and employee costs stated at R190,6 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 therefore did not recognise all revenue due to the municipality. Consequently, revenue from exchange transactions was understated by R17,2 million and receivables from exchange transactions understated by the same amount.
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 for the calculation of estimated consumption. Furthermore, the interest charged on outstanding debtors had not been split between interest relevant to revenue from exchange transactions and revenue non-exchange transactions. I was unable to confirm the revenue from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to revenue from exchange transactions, stated at R279,8 million (2019: R299,2 million) in the financial statements.

Irregular expenditure

17. 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. 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 R339,8 million (2019: R299,2 million), as disclosed in note 51 to the financial statements.

Unauthorised expenditure

18. I was unable to obtain sufficient appropriate audit evidence regarding unauthorised expenditure 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 were necessary to unauthorised expenditure of R577,4 million (2019: R556,9 million), as disclosed in note 49 to the financial statements.

Cash flow statement

19. The municipality did not prepare the cash flow statement in accordance with the requirements of GRAP 2, *Cash flow statements*. 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 previous year as it was impracticable to do so.

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 36 to the financial statements. This was due to a 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 auditor's report as it was impracticable to do so.

Prior year adjustments

21. 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 were made. 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 the 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.

Corresponding figures

Contracted services

22. The municipality did not correctly classify expenditure for contracted services in accordance with GRAP 1, *Presentation of financial statements*. This was due to items of expenditure that were incorrectly classified as contracted services. Consequently, contracted services was overstated by R9,7 million and property, plant and equipment understated by R3,4 million; grants and subsidies was understated by R4,6 million and accumulated surplus overstated by R1,7 million.
23. I was unable to obtain sufficient appropriate audit evidence for general expenses due to the lack of adequate systems and processes for the verification and certification of goods and services received. Additionally, the journals processed on the accounting system did not have adequate supporting documentation to confirm that the journal was valid. I could not confirm the expenditure on contracted services by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to contracted services, stated at R56,1 million in the statement of financial performance and in note 37 to the financial statements.

General expenses

24. The municipality did not correctly classify expenditure for general expenses in accordance with GRAP 1, *Presentation of financial statements*. Expenditure transactions were incorrectly classified as general expenses, which did not meet the classification criteria in terms of the municipal standard chart of accounts, and general expenditure was recorded in the incorrect financial year. Additionally, journals were processed at incorrect amounts that did not agree with the relevant supporting documentation. Consequently, general expenses was overstated by R12,8 million (2018: R7,9 million) and contracted services understated by R3,8 million (2018: R7,9 million); and grants and subsidies was understated by R2,5 million, accumulated surplus overstated by R5,2 million and payables from exchange transactions understated by R1,3 million.
25. I was unable to obtain sufficient appropriate audit evidence for general expenses due to the lack of adequate systems and processes for the verification and certification of goods and services received. Additionally, the journals processed on the accounting system did not have adequate supporting documentation to confirm that the journal was valid. Differences between the underlying records and the financial statements were not substantiated and supported by evidence. 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 R29 million in the statement of financial performance and in note 38 to the financial statements.

Employee related costs

26. The municipality did not ensure that overtime worked by municipal officials was correctly paid in accordance with the municipality's overtime policy and that salaries and allowances were paid in accordance with the applicable bargaining council agreement. The overtime hours paid to employees did not correlate with overtime hours worked, resulting in payments being made to employees that were in excess of what was due. Consequently, employee-related costs was overstated and receivables from exchange transactions was understated by R4,8 million.
27. Additionally, the municipality did not have adequate internal controls to maintain records for overtime payments and allowances to employees. Consequently, I was unable to obtain sufficient audit evidence for overtime payments and some allowances. I was unable to determine whether any further adjustment was necessary to employee-related costs, stated at R165,7 million in the financial statements.

Bulk purchases

28. I was unable to obtain sufficient appropriate audit evidence to confirm that bulk purchases were actually received by the municipality because of a lack of adequate systems and processes to verify the units of electricity and water purchased. I could not confirm the expenditure on bulk purchases by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to bulk purchases, stated at R108,8 million in the financial statements.

Aggregation of immaterial uncorrected misstatements

Total revenue and total expenditure

29. Total revenue and total expenditure was misstated by R383 655 due to the cumulative effect of individually immaterial uncorrected misstatements in the following items:
- Revenue from non-exchange transactions, stated at R224,6 million, was overstated by R2,6 million
 - Depreciation, stated at R29,8 million, was overstated by R1,4 million
 - Finance costs, stated at R24,2 million, was overstated by R1,7 million.
30. In addition, I was unable to obtain sufficient appropriate audit evidence to confirm total revenue by alternative means for the following:
- Revenue from non-exchange transactions of R5,3 million, as included in the disclosed balance of R224,7 million.
31. Consequently, I was unable to determine whether any further adjustment was necessary to total revenue and total expenditure.

Material uncertainty relating to going concern/ financial sustainability

32. I draw attention to the matter below. My opinion is not modified in respect of this matter.
33. I draw attention to note 47 to the financial statements, which indicates that the municipality has a current ratio of 0,53. This is below the public sector norm of 1,5. 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. As stated in note 47, these events or conditions, along with other matters as set forth in note 47, 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

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

Restatement of corresponding figures

35. As disclosed in note 44 to the financial statements, the corresponding figures for 30 June 2019 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2020.

Fruitless and wasteful expenditure

36. As disclosed in note 50 to the financial statements, the municipality incurred fruitless and wasteful expenditure of R28,7 million (2019: R26,4 million) as a result of interest paid on overdue payments, which was not in compliance with section 65(e) of the MFMA.

Other matters

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

Unaudited disclosure notes

38. 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.

Unaudited supplementary appropriation statement

39. The supplementary appropriation statement set out on pages 13 to 17 does not form part of the financial statements and is presented as additional information. I have not audited this statement and, accordingly, I do not express an opinion on it.

Responsibilities of the accounting officer for the financial statements

40. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA 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 the financial statements that are free from material misstatement, whether due to fraud or error.
41. 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

42. 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.
43. 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

44. 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 material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I was engaged to perform procedures to identify findings but not to gather evidence to express assurance.
45. I was engaged to evaluate the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priority presented in the annual performance report of the municipality for the year ended 30 June 2020:

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

46. 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.
47. The material findings in respect of the usefulness and reliability of the selected development priority are as follows:

Development priority one – Basic service delivery and infrastructure development

Various indicators

48. I was unable to obtain sufficient appropriate audit evidence to support the reported achievement of the targets listed below. This was due to inadequate technical indicator descriptions and the lack of proper performance management systems and processes, and formal documented systems descriptions that predetermined how the achievement would be measured, monitored and reported. I was unable to confirm the reported achievement of the indicators listed below by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of the indicators listed below as reported in the annual performance report.

Performance indicator	Planned targets	Reported achievement
1. Percentage of water samples complying to SANS 241 standards	100%	0%
2. Percentage of waste water samples complying to general standards	100%	0%
3. Percentage of Waainek Bulk Water Supply refurbishment completed	100%	32%
4. Number of milestones completed towards the refurbishment of Belmont Valley Wastewater Treatment Works	4	4
5. Number of milestones completed towards the replacement of asbestos pipes	4	3
6. Number of milestones completed towards the upgrading of Mayfield WWTW by June 2020	4	4
7. Number of milestones completed towards the upgrading of Ncame Street	4	1
8. Percentage of Jameson Dam refurbished	100%	48%
9. Percentage completion Riebeeck East Water Treatment Works	100%	93%
10. Percentage completion of Alicedale Water Treatment Works	100%	73%
11. Number of borehole sites tested	15	17
12. Number of milestones achieved towards the purchasing of James Kleynhans Pump Set	1	1

Performance indicator	Planned targets	Reported achievement
13. Percentage completion of fencing of the Bothas Hill reservoirs	90%	40%
14. Percentage of Sewer Pump stations upgraded/refurbished	60%	30%
15. Number of milestones reached towards the operationalisation of the refurbished 66 KV line	2	2
16. Number of 11 KV mini-substations completed	4	2

Various indicators

49. I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance against the targets listed below 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 by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported measures taken to improve performance.

Performance indicator	Planned target	Reported achievement	Reason for deviation	Correction measure provided
1. Percentage of water samples complying to SANS 241 standards	100%	0%	Both our treatment plants are not functioning and we already refurbishing Belmont with the refurbishment of Mayfield to start in the next financial year (June 2020)	Treatment plants to be refurbished in the next financial year (June 2020)
2. Percentage of waste water samples complying to general standards	100%	0%	Both our treatment plants are not functioning and we already refurbishing Belmont with the refurbishment of Mayfield to start in the next financial year (June 2020)	Treatment plants to be refurbished in the next financial year (June 2020)
3. Percentage of Waainek Bulk Water Supply refurbishment completed	100%	32%	Contractor suspended works (June 2020)	The contractor ceded the work and the municipality is looking at options to complete the work (June 2020)
5. Number of milestones completed towards the replacement of asbestos pipes	4	3	0% project on hold due to procurement disputes (Court order was issued to stop the project) (June 2020)	Municipality is currently challenging the issued court order and the matter will be heard before court on the 11th November 2020 in order to commence work on the project (June 2020)
14. Percentage of Sewer Pump stations upgraded/refurbished	60%	30%	30% due to delay caused by the National Lockdown (June 2020)	Extension of time has been granted (June 2020)

Other matters

50. I draw attention to the matters 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. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 51 to 52 of this report.

Adjustment of material misstatements

52. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of basic service delivery and infrastructure development. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Report on the audit of compliance with legislation

Introduction and scope

53. 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.

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

Annual financial statements and annual reports

55. 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.

Revenue management

56. 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.

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

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

Expenditure management

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

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

61. 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 paragraphs. The majority of the disclosed irregular expenditure was caused by non-compliance with SCM regulations.

62. Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R28 million, as disclosed in note 50 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by non-payment of service providers within 30 days.

63. 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 basis for disclaimer of opinion paragraphs. The majority of the disclosed unauthorised expenditure was caused by expenditure exceeding the budget and weak budgetary controls.

Asset management

64. 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.

65. 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

66. Unauthorised expenditure, irregular expenditure and 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)(a) and(b) of the MFMA.

Procurement and contract management

67. 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).

68. 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).

Utilisation of conditional grants

69. Performance in respect of programmes funded by the 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 1 of 2018).

Strategic planning and performance management

70. The Service Delivery and Budget Implementation Plan (SDBIP) for the year under review was not approved by the mayor, as required by section 53(1)(c)(ii) of the MFMA.
71. The performance management system and related controls were inadequate as they did not describe how the performance planning, monitoring, measurement, review and reporting processes should be conducted, organised and managed, as required by municipal planning and performance management regulation 7(1).

Other information

72. 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, 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 this auditor's report.
73. 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 it.
74. 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 priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
75. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

76. 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.
77. Management did not continually evaluate adherence to the code of conduct by employees or demonstrate that it continually communicated and enforced integrity and ethical values. This was evidenced by the lack of corrective actions to address compliance and internal control deviations. Leadership did not effectively fulfil its oversight responsibilities of implementing and monitoring internal controls and compliance with laws and regulations and, especially, the compliance requirements on consequence management. The audit intervention plan was not effectively monitored and implemented to ensure that the previous year's external audit findings were addressed and did not recur.
78. 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 also did not prepare regular accurate and credible quarterly financial and performance information that would be incorporated in the annual financial statements and annual performance reports. Further, management did not implement an efficient records management system to ensure that financial and non-financial information was easily retrievable. Consequently, the annual financial and annual performance reports contained material audit findings identified during the audit.
79. The internal audit unit was not adequately resourced and had significant instability during the year under review. Due to the late approval of the internal audit plan and vacancies, the internal audit did not effectively carry out its duties and responsibilities and, consequently, the audit committee did not effectively provide oversight of the municipality's internal control environment.

Other reports

80. I draw attention to the following engagements 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.
81. The South African Police Service was 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

15 April 2021



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