

# Report of the auditor-general to the Western Cape Provincial Parliament and the council on the Kannaland Municipality

## Report on the audit of the financial statements

### Qualified opinion

1. I have audited the financial statements of the Kannaland Municipality set out on pages 7 to 111, which comprise the statement of financial position as at 30 June 2021, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information and actual amounts for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects and possible effects of the matters described in the basis for qualified section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Kannaland Municipality as at 30 June 2021, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 4 of 2020 (Dora).

### Basis for qualified opinion

#### Employee benefits

3. I was unable to obtain sufficient appropriate audit evidence that employee benefits for the current and corresponding figures had been properly accounted for, due to the status of the accounting records. I was unable to confirm the employee benefits by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to employee benefits stated at R13 111 000 (2019-20: R11 593 000) in the financial statements.

#### Payables from exchange transactions

4. I was unable to obtain sufficient appropriate audit evidence that all trade and other payables had been recorded, as the municipality did not have adequate systems in place and I could not confirm this by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to trade and other payables, stated at R54 878 952 (2019-20: R2 757 881) in the financial statements.
5. The municipality did not accurately record payables from exchange transactions in corresponding figures which resulted in trade and other payables disclosed in note 13 to the financial statements being overstated by R227 627, VAT payable disclosed in note 16 being overstated by R29 963, contracted services disclosed in note 39 being understated by R407 802, operational costs disclosed in note 43 being understated by R2 091 741, interest paid disclosed in note 37 being overstated by R1 525 751, operating leases disclosed in note

42 being understated by R186 995 and inventory consumed disclosed in note 40 being overstated by R1 418 377.

6. As per note 13 to the financial statements, payables from exchange transactions, the municipality incorrectly disclosed the exchange payables with debit balances as trade payables in the corresponding figures. Consequently, the payables from exchange transactions – trade creditors for the previous year is overstated by R2 132 724 and the payables from exchange transactions – exchange payables with debit balances is understated by R2 132 724.

#### **VAT payable**

7. I was unable to obtain sufficient appropriate audit evidence that all VAT payables had been recorded, as the municipality did not have adequate systems in place and I could not confirm this by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to VAT payable, stated at R2 266 859 in the financial statements.

#### **Receivables from exchange transactions**

8. As per note 3 to the financial statements, receivables from exchange transactions, the municipality incorrectly disclosed the exchange payables with debit balances as water debtors in the previous year, consequently, the receivables from exchange receivables – water for the previous year is overstated by R2 132 724 and the receivables from exchange transactions – exchange payables with debit balances is understated by R2 132 724.

#### **Statutory receivables from non-exchange transactions**

9. As per note 5.2 to the financial statements, ageing of statutory receivables from non-exchange transactions, the municipality incorrectly disclosed the ageing of the fines receivable for the previous year. Consequently, the ageing of fines receivable for current (0 – 30 days) is overstated by R8 537 576 and the ageing of fines receivable for +90 days is understated by R8 537 576.
10. As per note 5.3 to the financial statements, Reconciliation of provision for impairment, the municipality incorrectly duplicated the disclosure of the impairment losses recognised in the reconciliation of provision for impairment for both the current and prior year. Consequently, even though the closing balance is correctly stated, the impairment losses in the disclosure of the reconciliation of provision for impairment reflects a duplicate amount of R3 894 520 (2019-20: R8 096 650).

#### **Revenue from non-exchange transactions – transfers and subsidies**

11. I was unable to obtain sufficient appropriate audit evidence that revenue from non-exchange transactions for transfers and subsidies for the current year had been properly accounted for, due to the status of the accounting records. I was unable to confirm the revenue from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to revenue from non-exchange transactions transfers and subsidies stated at R62 159 165 in the financial statements.

## Employee related costs

12. I was unable to obtain sufficient appropriate audit evidence that the employee related costs – salaries-basic amounting to R6 565 747 had been recorded, as the municipality did not have adequate systems in place and I could not confirm this by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to employee related cost salaries – basic, stated at R43 574 637 in note 33, employee related costs, in the financial statements.
13. The municipality did not accurately record all employee related costs transactions, which resulted in employee related costs disclosed in note 33 to the financial statements being overstated by R2 287 415, provisions disclosed in note 20 being overstated by R365 494, payables from exchange transactions disclosed in note 13 being overstated by R432 551, receivables from non-exchange transactions disclosed in note 4 being understated by R1 346 370 and interest paid disclosed in note 37 being understated by R143 000.

## Cash flows from operating activities

14. Cash flows from exchange payables was incorrectly included in the calculation of external interest paid. Consequently, external interest paid in the cash flow from operating activities was understated by R1 845 998 (2019-20: R2 788 998) and other payments in the cash flow from operating activities is overstated by R1 845 998 (2019-20: R2 788 998).
15. In note 43.1 the operational costs allocated to other payments did not disclose non-cash items amounting to R6 782 337 (2019-20: R1 525 752), even though the total is reflected correctly as R10 371 016 (2019-20: R9 020 284).
16. I was unable to obtain sufficient appropriate evidence for the amount of R469 512 disclosed in cash generated by operations, minor variances on other non-cash transactions, in note 49 to the financial statements and other payments in the cash flow statement. The disclosure of the corresponding figures for interest, dividends and rent on land disclosed in the cash generated by operations in note 49 to the financial statements was overstated by R2 788 998, the operations costs was overstated by R262 505 and the minor variance on other non-cash transactions was understated by R3 051 503.

## Statement of comparison of budget and actual amounts

17. The municipality did not disclose the reasons for material variances for payables from exchange transactions and VAT payable in the statement of comparison of budget and actual amounts – Financial position as required by GRAP 24, Presentation of budget information in financial statements.
18. The municipality did not disclose the reasons for material variances for licence and permits – exchange and variances between the approved and final budget for service charges and rental from fixed assets in the statement of comparison of budget and actual amounts – Financial performance as required by GRAP 24, Presentation of budget information in financial statements.
19. The municipality did not disclose the reasons for material variances for the increase in long-term loans (loans taken-on) in the statement of comparison of budget and actual amounts –

Cash flow statement as required by GRAP 24, Presentation of budget information in financial statements.

20. The municipality did not disclose the reasons for variances between the approved and final budget for employee related costs, remuneration of councillors and increase in long-term loans in the statement of comparison of budget and actual amounts – Cash flow statement as required by GRAP 24, Presentation of budget information in financial statements.
21. Included in the statement of comparison of budget and actual amounts – Financial performance, the municipality incorrectly disclosed the variance for loss on disposal of property plant and equipment in the financial statements. Consequently, the variance was overstated by R1 793 838.
22. Included in the statement of comparison of budget and actual amounts – Cash flow statement, the municipality incorrectly disclosed the variance for the cash and cash equivalents at the beginning of the year in the financial statements. Consequently, the variance was overstated by R375 709 068.
23. Included in the statement of comparison of budget and actual amounts – Cash flow statement, the municipality did not disclose the variance for the cash and cash equivalents at the end of the year in the financial statements. Consequently, the variance was understated by R78 163 634.
24. Included in the statement of comparison of budget and actual amounts – Cash flow statement, the municipality incorrectly disclosed the receipts from cash flows from operating activities as cash outflows in the financial statements. Consequently, the receipts from cash flows from operating activities was understated by R297 545 434.
25. Included in the statement of comparison of budget and actual amounts – Cash flow statement, the municipality incorrectly disclosed the repayment of loans as an increase in long-term loans instead of a decrease in long-term loans. Consequently, the original budget, final budget and actual outcome for the increase in long term loans and the decrease in long term loans are understated by R640 572, R2 621 068 and R572 312 respectively and the variance for the increase in long term loans is overstated by R2 048 756 and the variance for the decrease in long term loans is understated by R2 048 756.

### Going concern

26. The municipality's disclosure in the financial statements with regards to the material uncertainty relating to going concern was incorrect as note 62.1, provincial intervention, refers to the fact that the municipality is subject to section 139 of the MFMA where a mandatory provincial intervention has taken place to prepare an appropriate recovery plan for the municipality. The section 139 of the MFMA provincial intervention at the municipality was however declared unlawful and unconstitutional by a South African court. In addition, the financial statement note 62 disclosure is not consistent with that of note 63, going concern assessment, which indicates that the municipality continues to experience serious financial constraints and has put in place a budget funding plan. These events or conditions, along with the other matters set forth in note 63 to the financial statements, indicate that a material

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

### **Correction of error**

27. Included in the correction of error in terms of GRAP 3, as per corresponding figures in note 47.4, reclassification of cash flow statement, to the financial statements, the amount disclosed for service charges and suppliers paid in the correction of error note did not agree to the amounts disclosed in the cash flow statement. Consequently, the correction of error – service charges is overstated by R2 132 724 and the correction of error – suppliers paid is overstated by R2 132 724.

### **Unauthorised expenditure**

28. As per note 51.1 of the financial statements I was unable to obtain sufficient appropriate audit evidence that unauthorised expenditure for the current and corresponding figures had been properly accounted for, due to the status of the accounting records. I was unable to confirm the unauthorised expenditure by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to unauthorised expenditure stated at R6 699 423 (2019-20: R6 786 374) in the financial statements.

### **Irregular expenditure**

29. The municipality did not include irregular expenditure in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. This was due to payments made in contravention of the supply chain management requirements, which resulted in irregular expenditure of R3 095 728 not being disclosed.
30. The municipality did not accurately reflect the narrative disclosures relating to the incidents of non-compliance with the Municipal Supply Chain Management Regulations, 2005 (SCM) in note 51.3 to the financial statements as the amount of R3 317 334 was included in the amount of R12 466 203 as non-compliance with SCM regulation 32, however none of the irregular expenditure identified for the financial year related to SCM regulation 32.

### **Financial instruments**

31. The municipality did not accurately disclose the bank and cash balances in note 54.6, credit risk management, to the financial statements. The bank and cash balances – Standard Bank is overstated by R10 176 258.
32. I was unable to obtain sufficient appropriate audit evidence that the non-interest bearing financial instruments, as disclosed in note 54.1 to the financial statements – Liquidity risk management, had been properly accounted for, due to the status of the accounting records. I was unable to confirm the disclosure by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the disclosure of non-interest bearing (1 – 6 months) financial instruments stated at R35 286 660 (2019-20: R30 519 724) and non-interest bearing (6 – 12 months) financial instruments stated at R11 816 287 (2019-20: R24 463 884) in the financial statements.

### Contingent liabilities

33. I was unable to obtain sufficient appropriate audit evidence that all contingent liabilities had been recorded, as the municipality did not have adequate systems in place and I could not confirm this by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to contingent liabilities, stated at R2 275 400 (2019-20: R2 207 004) in the financial statements.

### Context for the opinion

34. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.
35. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
36. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### Emphasis of matters

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

### Restatement of corresponding figures

38. As disclosed in note 47 to the financial statements, the corresponding figures for 30 June 2020 were restated as a result of an error in the financial statements of the municipality at, and for the year ended 30 June 2021.

### Material losses and impairments

39. As disclosed in note 3 to the financial statements, the municipality provided for impairment of receivables from exchange transactions amounting to R75,7 million (2019-20: R58,7 million).
40. As disclosed in note 5 to the financial statements, the municipality provided for impairment of statutory receivables from non-exchange transactions amounting to R34,4 million (2019-20: R30,5 million).
41. As presented in the statement of financial performance, the municipality incurred impairment losses of R22,2 million (2019-20: R26,7 million).

### Material underspending of the conditional grants

42. As disclosed in note 15 to the financial statements, the municipality underspent its conditional grants by R30,9 million (2019-20: R27,2 million).

## **Other matter**

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

## **Unaudited disclosure notes**

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

## **Responsibilities of the accounting officer for the financial statements**

45. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with GRAP and the requirements of the MFMA and Dora, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
46. 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**

47. 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.
48. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

<b>Report on the audit of the annual performance report</b>
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## **Introduction and scope**

49. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected objectives presented in



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

50. My procedures address the usefulness and reliability of the reported performance information, which must be based on the municipality's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the municipality enabled service delivery. My procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
51. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the municipality's annual performance report for the year ended 30 June 2021:

Objectives	Pages in the annual performance report
Key performance area 2 – To provide adequate services and improve our public relations	11 – 13

52. I performed procedures to determine whether the reported performance information was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
53. The material findings on the usefulness of the performance information of the selected objectives are as follows:

**NKPI 1 – Number of formal residential properties that receives piped water connected to the municipal water infrastructure network as at 30 June 2021.**

54. The target of 4 940 per the approved service delivery budget implementation plan was changed without the necessary approval.

**NKPI 2 – Number of formal residential properties connected to the municipal electrical infrastructure network (excluding Eskom areas) (prepaid and conventional) as at 30 June 2021.**

55. The target of 3 791 per the approved service delivery budget implementation plan was changed without the necessary approval.



## **Other matters**

56. I draw attention to the matters below.

### **Achievement of planned targets**

57. Refer to the annual performance report on pages 11 to 13 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 of the reported performance information in paragraphs 51 to 52 of this report.

### **Adjustment of material misstatements**

58. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of key performance area 2: To provide adequate services and improve our public relations. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness of the reported performance information. Those that were not corrected are reported above.

## **Report on the audit of compliance with legislation**

### **Introduction and scope**

59. 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.

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

### **Annual financial statements, performance and annual reports**

61. 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 of non-current assets, current assets, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, however the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

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

63. The 2019-20 annual report was not tabled in the municipal council after the end of the financial year, as required by section 127(2) of the MFMA.

64. The 2019-20 annual report was not made public after being tabled to council, as required by section 127(5) of the MFMA.

- 65. The local community was not invited to submit representations in connection with the 2019-20 annual report, as required by section 127(5)(a) of the MFMA.
- 66. The council failed to adopt an oversight report containing the council's comments on the 2019-20 annual report, as required by section 129(1) of the MFMA.

### **Strategic planning and performance management**

- 67. The Service Delivery Budget Implementation Plan (SDBIP) for the year under review did not include monthly revenue projections by source of collection and the monthly operational and capital expenditure by vote, as required by section 1 of the MFMA.
- 68. A mid-year performance assessment was not performed, as required by section 72(1)(a)(ii) of the MFMA.
- 69. The SDBIP was revised during the year without the approval of the council following approval of an adjustments budget, as required by section 54(1)(c) of the MFMA.
- 70. The performance management system and related controls were inadequate as it did not describe how the performance measurement and review processes should be organised and managed, as required by the Municipal Planning and Performance Management Regulations 2001, regulation 7(1).

### **Expenditure management**

- 71. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
- 72. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred and accounted for creditors, as required by section 65(2)(b) of the MFMA.
- 73. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the unauthorised expenditure incurred as indicated in the basis of opinion paragraph. The majority of the unauthorised expenditure was as a result of spending in excess of the budget.
- 74. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R3,4 million, as disclosed in note 51.2 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the fruitless and wasteful expenditure was caused by late payments which attracted penalties and interest.
- 75. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph. The majority of the irregular expenditure was caused by non-compliance with the municipality's supply chain management policy.

## Consequence management

- 76. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
- 77. Irregular expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.
- 78. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.
- 79. Allegations of financial misconduct against senior managers were not always investigated, as required by the Local Government: Disciplinary Regulations for Senior Managers 2011, regulation 5(3) and section 171(4) of the MFMA.
- 80. Allegations of financial misconduct laid against officials of the municipality were not investigated by the disciplinary board, relevant treasury or an independent investigator or team of investigators appointed by council, as required by the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings 2014, regulation 5(4).
- 81. Allegations of fraud which exceeded R100 000 were not reported to the South African Police Service, as required by section 34(1) of the Prevention and Combating of Corrupt Activities Act, 2004 (PRECCA).

## Procurement and contract management

- 82. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of SCM Regulation 17(1)(a) and (c). Similar non-compliance was also reported in the prior year.
- 83. Some of the contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM Regulation 43. Similar non-compliance was also reported in the prior year.
- 84. Some of the contracts and quotations were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of the Preferential Procurement Policy Framework Act 5 of 2000 and the Preferential Procurement Regulations 2017, regulation 11.
- 85. Some of the 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.

<h2>Other information</h2>
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- 86. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not

include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.

87. 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.
88. 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 objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
89. I did not receive the other information prior to the date of the auditor's report. When I do receive and read the 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

90. 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 qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
91. Leadership did not exercise adequate oversight regarding the implementation of action plans to address prior year audit findings and internal control deficiencies, which resulted in repeat audit findings on compliance with laws and regulations and material misstatements in the financial statements and the annual performance report. This can be attributed to the instability at leadership level that has also impacted on the municipality's culture of adherence to prescripts, policies and processes, resulting in a lack of consequence management when non-compliance arises.
92. Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is available and accessible to support financial reporting. Skills shortages at senior management levels, over reliance on consultants and management's lack of accountability to implement and monitor adherence to policies and processes to ensure that the financial statements are supported by valid, accurate and complete supporting information, resulted in material misstatements of the financial statements in non-compliance with section 122 of the MFMA.
93. The continuing instability and capacity challenges in key positions that has resulted in a lack of effective monitoring and oversight over internal controls that could have ensured the correct and timely approval of adjustments to targets within the SDBIP.

94. The design and implementation of controls are inadequate to ensure compliance with laws and regulations, resulting in non-compliance with sections of the MFMA and its regulations as well as the Municipal Systems Act 32 of 2000 and its regulations that has resulted in the continued incurrence of unauthorised, irregular and fruitless and wasteful expenditure. The municipality does not have the capacity and skills necessary to ensure that processes are implemented effectively to facilitate compliance with prescribed legislation.
95. There is an absence of an established internal audit unit in order to assist management in ensuring that there is an effective process for the identification of internal control deficiencies as well as to recommend corrective action in order to improve the internal control environment at the municipality and address the recommendations of the prior year.

#### Other reports

96. 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 report did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
97. An independent consultant investigated an allegation of financial misconduct at the request of the municipality. The investigation was concluded and resulted in a settlement being reached. These proceedings were finalised by the date of this auditor's report.
98. An independent consultant investigated allegations of fraud within the municipality. These proceedings were ongoing by the date of this auditor's report.

*Auditor General*

Cape Town

12 March 2022



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

## **Annexure – Auditor-general’s responsibility for the audit**

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected objectives 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 Kannaland Municipality to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a municipality to cease operating as a going concern
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

### **Communication with those charged with governance**

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and

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