

Report of the auditor-general to the Eastern Cape Provincial Legislature and the council on Buffalo City Metropolitan Municipality and its municipal entity

Report on the audit of the consolidated and separate financial statements

Qualified opinion

1. I have audited the consolidated and separate financial statements of the Buffalo City Metropolitan Municipality and its municipal entity (the group) set out on pages.....to....., which comprise the consolidated and separate statement of financial position as at 30 June 2024, consolidated and separate statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as notes to the consolidated and separate financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion section of this auditors report, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the group as at 30 June 2024, and the group's financial performance and cash flows for the year then ended in accordance with South African 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, (No.5 of 2023) (Dora).

Basis for qualified opinion

Property, plant and equipment

3. I was unable to obtain sufficient appropriate audit evidence that property, plant and equipment was properly accounted for in the group, due to the accounting records provided in support of these assets not being supported by sufficient appropriate audit evidence. I was unable to confirm these assets by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to property, plant and equipment stated at R30,44 billion (2023: R25,70 billion) in note 4 to the consolidated and separate financial statements or to the revaluation reserve, accumulated depreciation, depreciation, amortisation and impairment in the consolidated and separate financial statements.

Repairs and maintenance

4. The group incorrectly applied GRAP 1, *Presentation of financial statements* as it classified expenditure of a capital nature relating to Community buildings disclosed in note 4 as repairs and maintenance. Consequently, community buildings in note 4 to the consolidated and separate financial statements was understated by R151,20 million, while repairs and maintenance in note 44 is overstated by the same amount. Additionally, there was an impact

on the surplus for the period and on the accumulated surplus in the consolidated and separate financial statements.

Service charges

5. Service charges from sewerage and sanitation (pans) was not recognised in accordance with GRAP 9, *Revenue from exchange transactions* by the group. Service charges from sewerage and sanitation (pans) were not billed at the correct amounts resulting in an overstatement of services charges by R51,93 million and overstatement of receivables from exchange transactions by the same amount. In addition, I was unable to obtain sufficient appropriate audit evidence for service charges from sewerage and sanitation (pans). I was unable to confirm the service charges from sewerage and sanitation (pans) by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to service charges from sewerage and sanitation (pans), stated at R137,84 million in note 25 to the consolidated and separate financial statements, respectively.

Context for opinion

6. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the responsibilities of the auditor-general for the audit of the consolidated and separate financial statements section of my report.
7. I am independent of the group 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.
8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

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

Restatement of corresponding figures

10. As disclosed in note 56 to the consolidated and separate financial statements of the group, the corresponding figures for 30 June 2023 have been restated as a result of errors identified in the consolidated and separate financial statements of the group at, and for the year ended, 30 June 2024.

Material losses and impairments

11. As disclosed in note 11 to the consolidated and separate financial statements, material allowances for impairment of R4,99 billion (2023: R4,03 billion) was incurred as a result of long outstanding debts owed by consumer debtors.

12. As disclosed in note 43 of the consolidated and separate financial statements, material electricity losses of R556,02 million (2023: R375,44 million) were incurred, which represents 24.20% (2023: 19.21%) of total electricity purchased. The non-technical losses amounted of 14.20% (2023: 9.21%) and was due to theft, faults and billing errors.
13. As disclosed in note 43 of the consolidated and separate financial statements, material water losses of R147,96 million (2023: R143,45 million) were incurred, which represents 37.74% (2023: 37.66%) of the total water cost. The non-technical losses amounted to 14.91% (2023: 15.06%) and was mainly due to theft, faults and billing errors.

Underspending on conditional grants

14. As disclosed in note 16 to the consolidated and separate financial statements, the municipality underspent their conditional grants for Land Affairs by R253,91 million (2023: R235,13 million) which Buffalo City Metropolitan Municipality (BCMM) administers on behalf of the department of Land Affairs and which has not been spent due to slow progress in the restitution processes.

Other matters

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

Unaudited disclosure note

16. In terms of section 125(2)(e) of the MFMA, the group is required to disclose particulars of non-compliance with this legislation. This disclosure requirement did not form part of the audit of the consolidated and separate financial statements and, accordingly, I do not express an opinion thereon.

Responsibilities of the accounting officer for the consolidated and separate financial statements

17. The accounting officer is responsible for the preparation and fair presentation of the consolidated and separate 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 consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.
18. In preparing the consolidated and separate financial statements, the accounting officer is responsible for assessing the group'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 group or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the auditor-general for the audit of the consolidated and separate financial statements

19. My objectives are to obtain reasonable assurance about whether the consolidated and separate 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 consolidated and separate financial statements.

20. A further description of my responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to this auditor's report. This description, which is located at page XX, forms part of our auditor's report.

Report on the audit of the annual performance report

21. 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 strategic outcomes presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

22. I selected the following strategic outcomes presented in the annual performance report for the year ended 30 June 2024 for auditing. I selected strategic outcomes that measure the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.

Strategic outcome	Page numbers	Purpose
A Green City	XX	To promote an environmentally sustainable city with optimal benefits from our natural assets.
A Connected City	XX	To maintain a world class logistics network.
A Spatially Transformed City	XX	To develop and maintain world class infrastructure and utilities.
A Well Governed City	XX	Promote sound financial and administrative capabilities

23. I evaluated the reported performance information for the selected strategic outcomes 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.

24. 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.
- all the indicators relevant for measuring the municipality's performance against its primary mandated and prioritised functions and planned objectives are included.
- 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 and is comparable and understandable.
- there is adequate supporting evidence for the achievements reported and for the measures taken to improve performance.

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

26. The material findings on the reported performance information for the selected strategic objectives are as follows:

A Connected City

Various indicators

27. Adequate processes had not been established to consistently measure and reliably report on various indicators. Consequently, the municipality would have found it difficult to determine the correct achievements to be reported against the planned targets.

Indicator	Target	Detail
Percentage of unplanned outages that are restored to supply within industry standard timeframes	100%	Management did not take into account all the unplanned outages that occurred on all applicable pieces of equipment that were out of service during the year. Unplanned outages were considered on pieces of equipment that supplied 66kV and 132kV and not unplanned outages that affect lower voltage equipment.
Percentage of planned maintenance performed	70,0%	Management only reported on maintenance of substations and excluded the maintenance of all other electrical systems.

Indicator	Target	Detail
Percentage of unsurfaced road graded	4,48%	No information has been submitted for the preparation and approval of the budgeted planned or preventative maintenance of all electrical systems. We were unable to verify the total kilometres of unsurfaced municipal roads. The road network is outdated and last measured by service providers during 2012.
Percentage of surfaced municipal road lanes which has been resurfaced and resealed	0,5% (8km)	We were unable to verify the total kilometres of surfaced municipal road lanes. The road network is outdated and last measured by service providers during 2012.

Installed capacity of approved embedded generators on the municipal distribution network

28. An achievement of 9.523 MW was reported against a target of 0 MW. However, the audit evidence showed the actual achievement to be only 9.052 MW. Consequently, the achievement against the target was lower than reported.

Km of gravel Roads upgraded to Surfaced Standard

29. An achievement of 11,616km was reported against a target of 8km. 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.

A Well Governed City

Various indicators

30. Adequate processes had not been established to consistently measure and reliably report on various indicators. Consequently, the municipality would have found it difficult to determine the correct achievements to be reported against the planned targets.

Indicator	Target	Detail
Percentage of Complaints/Callouts responded to within 48 hours (Sanitation/Wastewater)	100%	The population of the callouts comprises of 3 regions namely, (Coastal) areas around the East London CBD, (Midland) areas around Mdantsane (Inland) and areas around King Williams Town. The population of the (Inland) region is omitted. The reported achievement in the Annual Performance Report (APR)

Indicator	Target	Detail
		does not represent the entire Metro and is not complete.
Percentage of reported pothole complaints resolved within standard municipal response time.	60%	<p>The call complaints schedule contained all potholes that were maintained for the period under review, this is not in line with the requirements of the indicator which requires us to only focus on the pothole complaints reported, to track the efficiency with which the municipality resolves pothole complaints.</p> <p>Management did not make use of job cards to initiate the process of resolving and patching potholes as well as job completion forms to confirm when the job was done.</p> <p>We could not determine whether the potholes reported were completed within the standard municipal response times.</p>
Percentage of wastewater treatment capacity unused	40%	<p>The municipality has 15 wastewater treatment works (WWTWs) in the BCMM area.</p> <p>The WWTWs are located within the 3 different regions namely Coastal, Midland, and Inland.</p> <p>We could not confirm measurements for 8 WWTWs as they were not taken during the period under review and 4 of the WWTWs are vandalised and no measurements were taken on these sites. Only 3 of the 15 WWTWs were measured, however measurements were only taken in the fourth quarter despite the indicator being a cumulative indicator which requires annual reporting.</p> <p>The reported achievements on the APR were not complete.</p>

Number of informal settlements upgraded to Phase 2

31. An achievement of 22 was reported against a target of 22. However, some supporting evidence was not provided for auditing; or, where it was, I identified material differences between the actual and reported achievements. Consequently, the achievement might be more or less than reported and was not reliable for determining if the target had been achieved.

Number of informal settlements assessed (enumerated and classified)

32. An achievement of 31 was reported against a target of 31. However, the audit evidence showed the actual achievement to be only 2. Consequently, the target was not achieved and the achievement against the target was lower than reported.

Other matters

33. I draw attention to the matters below.

Achievement of planned targets

34. 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.

35. The tables that follow, provides information on the achievement of planned targets and lists the key service delivery indicators that were not achieved as reported in the annual performance report. The measures taken to improve performance are included in the annual performance report on pages xx to xx.

A Green City

<p><i>Targets achieved: 90.91 %.</i> Budget spent: 151.19%.</p>		
Key service delivery indicator not achieved	Planned target	Reported achievement
Percentage of Air Quality (AQ) monitoring stations providing data over a reporting year	75%	0%

A Connected City

<p><i>Targets achieved: 68.75%.</i> Budget spent: 94.42%</p>		
Key service delivery indicators not achieved	Planned target	Reported achievement

Percentage of unplanned outages that are restored to supply within industry timeframes	100%	91.67%
Percentage of valid customer applications for new electricity connections processed in terms of municipal service standards	100%	88%
KMs of new municipal road network	7 km	0 km

A Spatially Transformed City

<i>Targets achieved: 41.67%.</i>		
Budget spent: 98.00%		
Key service delivery indicators not achieved	Planned target	Reported achievement
Number of new sewer connections meeting minimum standards	300	234
Number of new water connections meeting minimum standards	300	234
Number of serviced sites	643	197

A Well Governed City

<i>Targets achieved: 61.11%.</i>		
Budget spent : 113.33%.		
Key service delivery indicators not achieved	Planned target	Reported achievement
Percent of Complaints/Callouts responded to within 48 hours (Sanitation/Wastewater)	100%	95%
Percentage of water treatment capacity unused	10%	7%
Percentage of wastewater treatment capacity unused	40%	23%
Infrastructure leakage index	<7.3	7.7

Material misstatements

36. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for A Connected

City and A Well Governed City. Management did not correct all the misstatements, and I reported material findings in this regard.

Report on compliance with legislation

37. 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.
38. 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.
39. 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.
40. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statements

41. 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, revenue and expenditure identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

Strategic planning and performance management

42. The performance management system and related controls were not maintained and were inadequate as it did not describe how the performance planning, monitoring, measurement, review, reporting and improvement processes should be conducted and organised and managed, as required by municipal planning and performance management regulation 7(1).
43. The 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.
44. Performance targets were not set for each of the KPIs for the financial year, as required by section 41(1)(b) of the MSA and municipal planning and performance management regulation 12(1).

Asset management

45. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
46. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Revenue management

47. An adequate management, accounting and information system which accounts for revenue was not in place, as required by section 64(2)(e) of the MFMA.
48. An effective system of internal control for revenue was not in place, as required by section 64(2)(f) of the MFMA.

Expenditure management

49. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
50. Reasonable steps were not taken to prevent irregular expenditure amounting R1,32 billion as disclosed in note 63 to the consolidated and separate annual financial statements as required by section 62(1)(d) of the MFMA.
51. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R403,50 million, as disclosed in note 61 to the consolidated and separate annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure relates to derecognition of assets not approved by council.

Human resource management

52. 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 and regulation 31 of Municipal Staff Regulations.

Procurement and contract management

53. Some of the goods and services of a transaction value above R750 000 for competitive bids 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.
54. Some of the invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM Regulation 22(1) and 22(2).
55. 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.

56. 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.
57. 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 SCM Regulation 46(2)(e) and the code of conduct for staff members issued in terms of the Municipal Systems Act.
58. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of SCM regulation 46(2)(e) and the code of conduct for staff members issued in terms of the Municipal Systems Act.

Consequence management

59. 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.

Environment management

60. The Reeston, Zwelitsha and Schornville waste water treatment works (WWTWs) were not safeguarded and maintained to prevent defective, depleted, malfunctioning, vandalised infrastructure and theft to operate as intended as required by section 63(1)(a) of the MFMA.
61. I was unable to obtain sufficient appropriate audit evidence that the Amalinda/Central, Berlin, Breidbach, Bisho, Dimbaza, East Bank, Kayser's Beach, Kidd's Beach, Mdantsane, Potsdam, Schornville and Westbank waste water treatment works had valid operating licences, as required by section 22(1)(b) of the National Water Act (NWA).

Other information in the annual report

62. The accounting officer is responsible for the other information included in the annual report. The other information referred to does not include the consolidated and separate financial statements, the auditor's report and those selected strategic outcome presented in the annual performance report that have been specifically reported on in this auditor's report.
63. My opinion on the consolidated and separate 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.
64. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the consolidated and separate financial statements and the selected strategic outcomes presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
65. I did not receive the other information prior to the date of this 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

66. I considered internal control relevant to my audit of the consolidated and separate financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
67. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion and, the material findings on the annual performance report and the material findings on compliance with legislation included in this report.
68. Leadership did not provide effective oversight responsibility regarding compliance, financial and performance reporting. The slow progress in implementing prior year key audit recommendations has resulted in repeat findings.
69. Leadership and senior management did not effectively implement the audit intervention plan to adequately address previous findings on consolidated and separate financial statements, predetermined objectives and compliance with legislation.
70. Senior management did not implement proper document management and record-keeping systems to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

Material irregularities

71. 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.

Material irregularities identified during the audit

72. The material irregularities identified are as follows:

Pollution of water resource not prevented - Nahoon bulk outflow sewer (NBOS) pipeline (East Bank Waste Water Treatment Works)

73. The Nahoon Bulk Outflow Sewer (NBOS) wastewater pipeline, which pumps sewerage to the East Bank Waste Water Treatment Plant (WWTW), is inadequate and not upgraded to manage increased volumes from human activities. The old infrastructure has limited life expectancy, and inadequate funding for replacement, and uncontrollable expansion of informal settlements have further overwhelmed the current reticulation systems. Residents of informal settlements deliberately or negligently block the sewer network, resulting in sewerage overflows, hotspots,

and spills into the Nahoon River, Nahoon Estuary, and Nahoon Beach. This has led to non-compliance with Section 28(1) of the National Environmental Management Act 107 of 1998 (NEMA) and Section 19(1) of the National Water Act 36 of 1998 (NWA).

74. I notified the accounting officer of the material irregularity on 23 May 2023 and invited him to make a written submission on the actions taken. The accounting officer responded on 8 June 2023 by advising on the core reasons for the material irregularity as well as steps taken to address the material irregularity and future planned steps:

- Consultants were appointed on 29 April 2022 to investigate and support capacity issues within the NBOS, with one of six recommendations currently implemented to find solutions to the problem that the NBOS waste water pipeline is inadequate to manage increased volumes.
- The Acting Director: Infrastructure Services submitted a report to the Accounting Officer "The Mitigations of River Pollution: WWTWs and Pump Stations Improvement Plan" dated 24 June 2024, proposing to reallocate capital funding for wastewater infrastructure upgrades within three years, focusing on WWTWs and pump stations to deal with funding for replacement of old infrastructure.
- Infrastructure development programmes are put on hold since 8 June 2023 until adequate funding is secured to deal with the inadequate funding for replacement of old infrastructure.
- Regular awareness campaigns and educational efforts was conducted to low-cost housing developments and informal settlements and signposts erected in various areas where land invasions may incur to deal with the deliberate or negligent blockage of sewers by residents of informal settlements. In addition, there was a revision of the Municipal Land Management Policy to address the human settlement challenges.
- Nahoon beach closed on three occasions in 2023 and once in 2024 as a precautionary measure due to increased pollution levels and therefore beach closures occur as a precautionary measure.
- The municipality-initiated security improvements to include installation of alarm systems, pepper gas spray, and cameras to pump stations and WWTWs in response to vandalism and theft. In addition, the municipality initiated plans to implement a 24-hour security monitoring Centre linked to a private armed security services. Standby Generators are also supplied to WWTWs and large pump stations with the feasibility of back-up generators at smaller pump stations are still being evaluated.
- Nompumelelo informal settlement had raw sewage spillages. Recommendations to suspend approval of development proposals within the Nahoon Bulk Outfall Sewer Catchment until measures to increase bulk infrastructure capacity are completed is under consideration to deal with Nompumelelo informal settlement raw sewerage spillages.

- Current work-in-progress is continuing to stop sewage overflows from the pipeline (project start date: 30 May 2022 and completion date: 30 March 2027) to deal with Lower Ridge Road sewage flowing directly into a tributary stream.
- Sample sites along the Nahoon River are monitored weekly or monthly, depending on the specific sample site.

75. A follow up visit performed on 29 April 2024 on the NBOS wastewater pipeline confirmed the status of the NBOS waste water pipeline as follows:

- The Ihlanza Main Wastewater Pump Station and Ihlanza Bridge are experiencing cable theft and vandalism.
- The Torgue Road Pump Station is experiencing wastewater build-up due to design flaws and heavy rains.
- Overflows from the Nompumelelo Township continue to pollute the Nahoon River.
- The Dorchester Heights Pump Station faces blockages and overflows due to overgrown vegetation. Solid waste dumping and sewer blockages are also reported.
- The Maldives Housing Project pump station is non-functional, causing wastewater overflows and pollution.
- The T4 Wastewater Pump Station needs maintenance and repair.
- The Cambridge Pump Station is also non-functional, with major wastewater blockages and overflows in the immediate environment.
- Pollution continues along the NBOS waste water pipeline, as confirmed by tested samples. Water quality monitoring samples submitted included samples exceeding total coliforms, faecal coliforms, and E-coli levels above the MPN/100 ml within the Nahoon River, Nompumelelo storm water inflow, playwater, and picnic site.

76. A further follow up will be done in the next audit to determine progress made in implementing the remaining actions required by the municipality in addressing the material irregularity.

Status of previously reported material irregularities

Loss of revenue from rental of municipal properties

77. The municipality did not appropriately bill rental debtors in line with their lease agreements and did not appropriately apply escalation rates contained in lease agreements since inception of the lease agreement. The non-compliance was identified during October 2022 and related to the under-billing of rental debtors from the 2020-21 financial year onwards and there is still a continued loss of revenue as the municipality does not have an appropriate document management system to record and bill the rental debtors thereby resulting in non-compliance with section 64(2)(e) of the MFMA.

78. I notified the accounting officer of the material irregularity on 8 December 2022 and invited him to make a written submission on the actions taken. The accounting officer responded by providing a plan with timelines on actions that would be implemented to address the material irregularity.
79. There has been slow progress in implementing the key controls around the leasing, recording and billing of lease debtors and a number of remedies included in the accounting officer's response has not been completed.
80. The accounting officer had delegated relevant department heads to investigate the root causes that led to unbilled lease debtors on 10 February 2023; however, the outcome of the investigation is still pending, and the consequence management processes has therefore not yet commenced.
81. The implementation of the above planned actions will be followed in the next audit cycle.

Vandalism and theft of completed asset

82. The municipality did not comply with section 63(2)(c) read together with section 63(1)(a) of the MFMA which requires that the accounting officer of a municipality be responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets. Management did not safeguard Phase 2 completed on 10 February 2020 of the Gonubie Beacon Bay link road post-handover from the contractor which resulted in vandalism and theft. The road will only be brought into use once all phases of the five phased project are complete. The non-compliance has resulted in a material financial loss of R4,1 million.
83. I notified the accounting officer of the material irregularity on 4 July 2022 and invited him to make a written submission on the actions taken. The accounting officer responded by indicating that there is a lack of own revenue and grant revenue forecast to complete the remaining phases of the road in order to bring it into use and also concluded that no official could be held accountable for the loss.
84. On the basis of a preliminary investigation a cost-benefit analysis was performed in the 2021-22 financial year and in the 2022-23 financial year the municipality completed the fencing the of the road and submitted an application to Infrastructure South Africa on 3 July 2023 to secure funding for phases 3 to 5 of the project. At the date of this report the outcome of this application has not been confirmed.
85. The municipality has initiated a project that will commence early next year (2025), the focus area or the pressure point to implement will be where the link road joins up with the Gonubie Main Road. This decision was taken due to a large outcry by the developers as well as the ever-growing community along that corridor. The municipality is currently in discussions with the Department of Transport to fund part of the project with a R30 million budget allocation. The funding will be used for phase 1 of the project which will cover the construction of 0.9km from Gonubie Main Road to the intersection 200 meters past Gonubie Palms.
86. The implementation of the above planned actions will be followed in the next audit cycle.

Other reports

87. I draw attention to the following engagements conducted by various parties. These reports did not form part of my opinion on the consolidated and separate financial statements or my findings on the reported performance information or compliance with legislation.

88. Three cases are under investigation by external organizations:

- Two cases, one in relation to councillors' qualifications at an institution of higher learning and the other in relation to procurement irregularities in the electricity department are being investigated by the SIU and are both still in progress at the date of this report.
- The third case is being investigated by the Hawks relates to unlawful appointment of a legal firm through a deviation from normal procurement processes and is still in progress at the date of this report.

89. A case pertaining to structures under COVID-19 was investigated by the SIU and has been finalised. The matter must still be referred to the Disciplinary Board of Council.

Auditor - General

East London

14 December 2024



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 consolidated and separate financial statements and the procedures performed on reported performance information for selected strategic outcomes and on the municipality's compliance with selected requirements in key legislation.

Consolidated and separate financial statements

In addition to my responsibility for the audit of the consolidated and separate financial statements as described in this auditor's report, I also:

- identify and assess the risks of material misstatement of the consolidated and separate 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 consolidated and separate 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 group 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 consolidated and separate financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the consolidated and separate 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 consolidated and separate financial statements, including the disclosures, and determine whether the consolidated

and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

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	Sections or regulations
Municipal Finance Management Act 56 of 2003.	<p>Sections: 1, 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 28(1), 29(1), 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii),</p> <p>Sections: 32(2)(b), 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b), 64(2)(c), 64(2)(e), 64(2)(f),</p> <p>Sections: 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), 122(2), 126(1)(a),</p> <p>Sections: 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, 171(4)(a), 171(4)(b)</p>
MFMA: Municipal budget and reporting regulations, 2009	Regulations: 71(1)(a), 71(1)(a)(b), 71(2)(a), 71(2)(b), 71(2)(d), 72(a), 72(b), 72(c)
MFMA: Municipal Investment Regulations, 2005	Regulations: 3(1)(a), 3(3), 6, 7, 12(2), 12(3)
MFMA: Municipal Regulations on financial Misconduct Procedures and Criminal Proceedings, 2014	Regulations: 5(4), 6(8)(a), 6(8)(b), 10(1)
MFMA: Municipal Supply Chain Management Regulations, 2017	<p>Regulations: 5, 12(1)(c), 12(3), 13(b), 13(c), 16(a), 17(1)(a), 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), 27(2)(e),</p> <p>Regulations: 28(1)(a)(i), 29(1)(a), 29(1)(b), 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c), 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i),</p> <p>Regulations: 38(1)(g)(ii), 38(1)(g)(iii), 43, 44, 46(2)(e), 46(2)(f)</p>
Construction Industry Development Board Act 38 of 2000	Section: 18(1)

Legislation	Sections or regulations
Construction Industry Development Board Regulations, 2004	Regulations: 17, 25(7A)
Division of Revenue Act	Sections: 11(6)(b), 12(5), 16(1); 16(3)
Municipal Property Rates Act 6 of 2004	Section: 3(1)
Municipal Systems Act 32 of 2000	<p>Sections: 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 34(a), 34(b), 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2),</p> <p>Sections: 54A(1)(a), 56(1)(a), 57(2)(a), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 96(b)</p> <p>Parent municipality with ME: Sections: 93B(a), 93B(b)</p> <p>Parent municipality with shared control of ME: Section: 93C(a)(iv), 93C(a)(v)</p>
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations: 5(2), 5(3), 5(6), 8(4)
MSA: Municipal Planning and Performance Management Regulations, 2001	Regulations: 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 7(1), 8, 9(1)(a), 10(a), 12(1), 15(1)(a)(i), 15(1)(a)(ii)
MSA: Municipal Performance Regulations for Municipal Managers and Managers Directly Accountable to Municipal Managers, 2006	Regulations: 2(3)(a), 4(4)(b), 8(1), 8(2), 8(3)
MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations: 17(2), 36(1)(a)
MSA: Municipal Staff Regulations	Regulations: 7(1), 31
National Environmental Management: Waste Act 59 of 2008	Section: 20(b)

Legislation	Sections or regulations
National Water Act 36 of 1998	Section: 22(1)(b)
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section: 34(1)
Preferential Procurement Policy Framework Act 5 of 2000	Sections: 2(1)(a), 2(1)(f)
Preferential Procurement Regulations, 2017	Regulations: 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8), 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5), 9(1), 10(1), 10(2), Regulations: 11(1), 11(2)
Preferential Procurement Regulations, 2022	Regulations: 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4)