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 2025, the consolidated and separate statement of financial performance, consolidated and separate statements of changes in net assets, consolidated and separate cash flow statement and the statement of comparison of budget and actual amounts 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 2025, and the group's consolidated and separate financial performance and consolidated and separate 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.24 of 2024 (Dora).

Basis for qualified opinion

Property, plant and equipment

3. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for property, plant and equipment. This was due to a lack of accounting records provided as evidence for the prior year cost and revaluation reserve adjustments made to the property, plant and equipment impacting the current year opening balance and the cumulative impact of this on the current year closing balance. Consequently, I was unable to determine whether any adjustments were necessary to property, plant and equipment stated at R40,9 billion (2024: R42,1 billion) in note 4 to the consolidated and separate financial statement and the revaluation reserve stated at R10,6 billion (2024: R12,3 billion) in the consolidated and separate statement of financial position. This also has an impact on the deficit for the period and on the accumulated surplus in the consolidated and separate financial statements.

4. The group did not comply with the requirements of *GRAP 17, property, plant and equipment*. Impairment indicators for work-in-progress and motor vehicles were not adequately assessed, and depreciation and residual values were incorrectly calculated. In addition, intangible assets were misclassified as work-in-progress, and land was incorrectly classified under other asset categories. Furthermore, errors in the fixed asset register, adversely affected the determination

of useful life estimates and this negatively impacted the verification of assets. Consequently, I could not determine the full extent of the misstatements and their impact on property plant and equipment stated at R40,9 billion (2024: R42,1 billion) in note 4 to the consolidated and separate financial statement as well as impairment expenditure in note 42 to the consolidated and separate financial statements as it was impracticable to do so. This also has an impact on the deficit for the period and on the accumulated surplus in the consolidated and separate financial statements.

Context for opinion

5. 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.

6. 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.

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

Emphasis of matters

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

9. As disclosed in note 59 to the consolidated and separate financial statements, the corresponding figures for 30 June 2024 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 2025.

10. As disclosed in note 11 to the consolidated and separate financial statements, material allowances for the impairment of receivables from exchange and non-exchange of R6,41 billion (2024: R4,95 billion) have accumulated over a number of years.

11. As disclosed in note 46 of the consolidated and separate financial statements, material electricity losses of R831,43 million (2023: R556,01 million) were incurred, which represents 32.19% (2024: 24.20%) of total electricity purchased. The non-technical losses amounted to 22.19% (2023: 14.20%) and was due to theft, faults and billing discrepancies.

12. As disclosed in note 46 of the consolidated and separate financial statements, material water losses of R187,49 million (2023: R147,96 million) were incurred, which represents 41.42% (2024: 37.74%) of total water cost. The non-technical losses amounted to 15.71% (2023: 14.91%) and was mainly due to theft or illegal use.

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

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

14. 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

15. 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.

16. 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 my auditor's report.

Report on the audit of the annual performance report

17. 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.

18. I selected the following strategic outcomes presented in the annual performance report for the year ended 30 June 2025 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 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.

19. 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.

20. In performing the audit, my procedures focused on the material indicators relating to water, sanitation, human settlements and related infrastructure, as well as electricity and energy, roads and transport services.

21. 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.

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

23. I did not identify any material findings on the reported performance information for the selected strategic outcome: A Spatially Transformed City.

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

A Connected City

Various indicators

25. I could not determine the accuracy of various reported achievements and adequate supporting evidence to clarify the methods and processes for measuring achievement were not provided. Consequently, the reported achievements might be more or less than reported and were not reliable for determining if the targets have been achieved.

Indicator	Target	Detail
Percentage of planned maintenance performed.	Complete 70,0% or more of planned maintenance	The information used to determine the achievement reported in the APR is not accurate and complete. The municipality is separated into three (3) regions, Inland, Midland and Coastal regions. Maintenance plans as well as maintenance jobs performed for Coastal and Inland were not considered in determining the reported achievement.
Percentage of surfaced municipal road lanes which has been resurfaced and resealed.	0,5%(8km)	I was unable to verify the total kilometres of surfaced municipal road lanes. The road network is outdated and was last measured during 2012.

Percentage of unplanned outages that are restored to supply within industry standard timeframes

26. An achievement of 91.1% was reported against a target of 75%. We 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

27. I could not determine the accuracy of various reported achievements and adequate supporting evidence to clarify the methods and processes for measuring achievement were not provided. Consequently, the reported achievements might be more or less than reported and were not reliable for determining if the targets have been achieved.

Indicator	Target	Detail
Percentage of Complaints/Callouts responded to within 48 hours (Sanitation/Wastewater)	95%	The exclusion of the Inland region from the callout population resulted in APR achievements that do not reflect the full metro, and the reported figures also do not align with the Portfolio of Evidence, making the information incomplete and inaccurate.
Percentage of reported pothole complaints resolved within standard municipal response time	60%	The SOP only addresses routine pothole maintenance and does not define the required processes for receiving, logging, monitoring and resolving pothole complaints, resulting in no formal tracking or prioritisation of reported issues. As general maintenance was recorded instead of actual complaints and no completion records were kept, the municipality cannot verify whether pothole complaints were resolved within the required response time.
Percentage of wastewater treatment capacity unused	40%	Of the 15 Wastewater Treatment Works, only 2 have measurable flows, while 9 lack measuring tools and 4 are non-operational due to vandalism. Consequently, the Annual Performance Report did not reflect complete and accurate achievements.

Other matters

28. I draw attention to the matters below.

Achievement of planned targets

29. The annual performance report includes information on reported achievements against planned targets and provides explanations for over- or under achievements and measures taken to improve performance. This information should be considered in the context of the material findings on the reported performance information.

30. The tables that follow provide information on the achievement of planned targets and list 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 Connected City

Targets achieved: 67% *Budget spent: 120%*		
Key service delivery indicator not achieved	**Planned target**	**Reported achievement**
Percentage of surfaced municipal road lanes which has been resurfaced and resealed	0.5% (8km)	0.451% (7.215km)

A Spatially Transformed City

Targets achieved: 38% *Budget spent: 132 %*		
Key service delivery indicator not achieved	**Planned target**	**Reported achievement**
Percentage of total water connections metered	92%	91%
Average Number of days taken to process building applications of 500 square meters or less	30 days	132,65 days
Number of ablution facilities constructed(seats)	110	107

A Well Governed City

Targets achieved: 55% *Budget spent: 98%*		
Key service delivery indicator not achieved	**Planned target**	**Reported achievement**
Percentage of complaints/Callouts responded to within 48 hours (Sanitation/Wastewater)	95%	53%
Percentage of water treatment capacity unused	7%	1%
Number of informal settlements assessed (enumerated and classified)	4 Informal settlements assessed (enumerated and classified)	0 Informal settlements assessed (enumerated and classified)

Targets achieved: 55% Budget spent: 98%		
Key service delivery indicator not achieved	**Planned target**	**Reported achievement**
Number of informal settlements upgraded to Phase 2	4 Informal settlements upgraded to Phase 2	0 Informal settlements upgraded to Phase 2

Material misstatements

31. I identified preventable 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 of the misstatements, and I reported material findings in this regard.

Report on compliance with legislation

32. 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 's compliance with legislation.

33. 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.

34. 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.

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

Annual financial statements

36. 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 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

37. 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 or managed, as required by municipal planning and performance management regulation 7(1).

Asset management

38. 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.

Expenditure management

39. Reasonable steps were not taken to ensure that money owed by the municipality was always paid within 30 days, as required by section 65(2)(e) of the MFMA.

40. Reasonable steps were not taken to prevent irregular expenditure amounting R1,14 billion as disclosed in note 66 to the annual financial statements as required by section 62(1)(d) of the MFMA.

41. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R646,82 million, as disclosed in note 64 to the separate annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure relates to depreciation and amortisation not budgeted for.

Human resource management

42. 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.

Procurement and contract management

43. Some of the goods and services within the prescribed transaction value 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.

44. Some of the contracts were awarded to bidders based on points given for legislative requirement that were not stipulated /differed from those stipulated in the original invitation for bidding, in contravention of SCM regulations 21(b) and 28(1)(a)(i) and the Preferential Procurement Regulations.

45. Some of the construction contracts were awarded to contractors that were not registered with the CIDB and did not qualify for the contract in accordance with section 18(1) of the CIDB Act and CIDB Regulations 17 and 25(7A).

Consequence management

46. 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

47. 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.

48. I was unable to obtain sufficient appropriate audit evidence that the following WWTWs had a valid operating licence, as required by section 22(1)(b) of the National Water Act (NWA); Amalinda/Central, Berlin, Breidbach, Bisho, Dimbaza, East Bank, Kayser's Beach, Kidd's Beach, Mdantsane, Potsdam, Schornville and Westbank.

Other information in the annual report

49. The accounting officer responsible for the other information included in the annual report. The other information does not include the consolidated and separate financial statements, the auditor's report and those selected strategic outcomes presented in the annual performance report that have been specifically reported on in this auditor's report.

50. My opinion on the consolidated and separate financial statements, and my reports on the audit of the annual performance report and 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.

51. 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.

52. 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

53. 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.

54. 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.

55. The accounting officer and senior management did not exercise adequate oversight over compliance, financial reporting, and performance reporting. Prior-year audit recommendations and the audit intervention plan were not effectively implemented, resulting in recurring findings in the consolidated and separate financial statements, predetermined objectives, and legislative compliance. These deficiencies are attributable to ineffective collaboration and communication between directorates and the failure to address control weaknesses. Furthermore, delayed and ineffective consequence management has hindered the establishment of a performance-driven culture.

56. 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

57. 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

58. The material irregularities identified are as follows:

Lack of proper Performance Management System and Records

59. The municipality did not comply with regulation 7(1) of the Municipal Planning and Performance management regulations as evident from significant deficiencies identified in the performance management system during the 2019-20, 2020-21, 2021-22, 2022-23 and 2023-24 audits. This was as a result of the municipality not preparing regular, accurate and complete performance reports that are supported and evidenced by reliable information.

60. This is likely to cause harm to Buffalo City Metropolitan Municipality due to the following disruptions to the operations of the municipality which is also the primary mandate of the municipality:

- The inability to verify the calculations and processes behind determining performance targets and achievement of targets impairs the council, executive, and oversight authorities' capacity to effectively perform their oversight roles and negatively affects service delivery and accountability.
- A lack of credible performance information on basic services and other primary functions of the municipality is likely to affect the ability of the municipality, council and other levels of government in executing their management, accountability, oversight and governance functions.

61. I notified the accounting officer of the material irregularity on 23 June 2025 and invited him to make a written submission on the actions taken. The accounting officer responded on 04 August 2025 by provided supporting evidence and reasons for the material irregularity as well as steps taken to address the material irregularity and future planned steps.

62. The following actions have been taken to resolve the material irregularity:

- A standard operating procedure (SOP) has been developed that aligns with IDP/SDBIP/APR and AFS.
- A Directorate SOP on managing performance information was also developed.
- Review of indicator SOP, Technical Indicator Descriptions (TIDs) and business processes was conducted.

63. The following actions are planned to be taken to resolve the material irregularity:

- Conduct regular workshops to capacitate both political and administrative arm
- Establishment of Performance management committee by December 2025, to strengthen performance management across planning, monitoring, reporting and evaluation. The committee will also be responsible for identifying weaknesses in performance information management and driving corrective actions to address them.
- Review of Performance Management System Framework by June 2026.
- Appointment of Performance Management System champions by December 2025 to support directorates in compiling accurate and reliable POE, strengthening data collection, analysis, storage and processing, and guiding project managers in developing SMART reasons for deviation and corrective measures.
- Strengthening Directorate record keeping systems by December 2025.
- On a quarterly basis, reported performance achieved to be quality assured by the General Managers and Heads of Directorates before being submitted to PMS unit for consolidation.

64. I will follow up on the implementation of the planned actions during my next audit.

Material irregularities in progress

65. I identified other material irregularities during the audit and notified the accounting officer of these, as required by material irregularity regulation 3(2). By the date of this auditor's report, the responses of the accounting officer were not yet due. These material irregularities will be included in next year's auditor's report.

Status of previously reported material irregularities

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

66. The municipality did not adequately manage the Nahoon Bulk Outflow Sewer (NBOS) wastewater pipeline, which pumps sewerage to the East Bank Waste Water Treatment Plant (WWTW). The old infrastructure has a limited life expectancy. It does not have adequate funding for replacement, and there is uncontrollable expansion of informal settlements which 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).

67. 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 and provided supporting evidence and 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. During the 2024-25 financial year Ihlanza Main Wastewater Pump Station as well as the East Bank WWTW was upgraded to the value of R7,6 million.
- Sample sites along the Nahoon River are monitored weekly or monthly, depending on the specific sample site.

68. A follow-up visit conducted in September 2025 confirmed the status of the NBOS wastewater pipeline as follows:

- The Ihlanza Main Wastewater Pump Station was upgraded during the 2024-25 financial year.
- Overflows from the Nompumelelo Township continue to pollute the Nahoon River.
- Electrical work remains outstanding at the Cambridge Pump Station.
- Pollution continues along the NBOS wastewater 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.

69. I determined that the accounting officer is not taking appropriate action to resolve the MI. I am in the process of making a decision on further actions to be taken.

Loss of revenue from rental of municipal properties

70. 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 agreements. 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.

71. 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 on 3

February 2023 and provided a plan with timelines on actions that would be implemented to address the material irregularity. The accounting officer committed to the following key actions in response to the material irregularity:

- Moving the lease register from excel to a more suitable electronic database so that the lease register and lease contracts can be centralised and better managed.
- Review and validate all rental debtors and their associated lease agreements to ensure rental charges and related escalation rates are appropriate, with a focus on correcting rental values that fall below market rates, thereby ensuring that the rental debtors are being charged at the correct rental values.
- Monthly workgroup meetings were to be set up between the responsible departments to facilitate the reviewing of the lease register against the billing report and to confirm that the billing is valid, accurate and complete.
- The accounting officer would delegate relevant department heads to investigate the root causes that led to unbilled lease debtors and implement consequence management, where applicable.

72. There has been slow progress in implementing the key actions and addressing the material irregularity. The municipality is still using Excel as the lease register and this document continues to have deficiencies when reviewed. The municipality has initiated the automation of its lease register to improve accuracy, efficiency, and monitoring of lease-related processes, however this system is only at 90% completion, therefore still in progress. The process to verify and validate all rental debtors is still ongoing and the service provider only commenced work on 23 June 2025 to undertake a comprehensive assessment of the market-related rentals and applicable escalation rates being applied to leased properties. The assessment project was scheduled to be concluded by 30 November 2025.

73. Monthly meetings between relevant departments were informal, with no documented attendance or minutes. As a result, the frequency of meetings, decisions made on addressing the material irregularity, and accountability for actions taken or not taken could not be determined.

74. The accounting officer delegated relevant department heads from 31 August 2023 to investigate the root causes that led to unbilled lease debtors; however, this process is still in progress and consequence management is yet to be implemented.

75. I have determined that the accounting officer is not taking the appropriate action to resolve the MI. I am in the process of making a decision on further actions to be taken.

Vandalism and theft of completed asset

76. The municipality did not comply with section 63(2)(c) read together with section 63(1)(a) of the MFMA. 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.

77. 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 on 14 October 2022 indicating that there is a lack of funds 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.

78. On the basis of a preliminary investigation conducted, a cost-benefit analysis was performed in the 2021-22 financial year and in the 2022-23 financial year.

79. The municipality has initiated the project in May 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 secured funding from the Department of Transport to fund part of the project with a R30 million budget allocation in the 2024/25 financial year and an additional allocation of R40 million in the 2025/26 financial year. The funding in 2024/25 was 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 and phase 2 will cover an additional 4.5 km in the 2025/26 financial year.

80. Based on the actions taken by the accounting officer the materiality irregularity has now been resolved.

Other reports

81. In addition to the investigations relating to material irregularities, I draw attention to the following investigations 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.

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

83. Following the investigation by the Directorate for Priority Crime Investigation (DPCI), a service provider was fined, and one of its directors was sentenced to a term of imprisonment.

84. Five cases are under investigation by external parties:

- 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 Special Investigating Unit (SIU) and are both still in progress at the date of this report.
- SAPS is investigating a case relating to the alleged bribery by councillors of the majority party, reported by Public Protector/Whistleblower and is still in progress at the date of this report.
- DPCI are investigating the following cases:
  - The unlawful appointment of a legal firm through a deviation from normal procurement processes and is still in progress at the date of this report.

- A criminal case against a former councillor in relation to an irregular sports related payment is still in progress at the date of this report.

Auditor-General

East London

11 December 2025

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 objectives and on the group'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 group's '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's 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 the group 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.

- plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the group as a basis for forming an opinion on the consolidated financial statements. I am responsible for the direction, supervision and review of audit work performed for purposes 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	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), 32(2)(b), 32(6)(a), 32(7), 33(1)(c)(ii), 53(1)(c)(ii), 53(1)(c)(iii)(bb), 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), 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), 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), 165(1), 165(2)a, 165(2)(b)(ii), 165(2)(b)(iv), 165(2)(b)(v), 165(2)(b)(vii), 166(2)(b), 166(2)(a)(iv), 166(5), 170, 171(4)(a), 171(4)(b)
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	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), 28(1)(a)(i), 29(1)(a), 29(1)(b), 29(5)(a)(ii), 29(5)(b)(i), 32, 36(1), 36(1)(a), 38(1)(c), 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43, 44, 46(2)(e), 46(2)(f)
Construction Industry Development Board Act 38 of 2000	Section: 18(1)
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	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), 45(a), 54A(1)(a), 56(1)(a), 57(2)(a), 57(4B), 57(6)(a), 57A, 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 96(b) **Parent municipality with ME:** Sections: 93B(a), 93B(b) **Parent municipality with shared control of ME:** Section: 93C(a)(iv), 93C(a)(v)

Legislation	Sections or regulations
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), 14(1)(b)(iii), 14(1)(c)(ii), 14(4)(a)(i), 14(4)(a)(iii), 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), 26(5), 27(4)(a)(i)
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), 19, 31, 35(1)
MSA: Municipal Systems Regulations, 2001	Regulation: 43
National Environmental Management: Waste Act 59 of 2008	Section: 20(b)
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), 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)