

# Report of the auditor-general to Eastern Cape Provincial Legislature and the council on Amathole District Municipality and its subsidiary

## 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 Amathole District Municipality and its subsidiary (the group) set out on pages xx to xx, 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 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 effects and possible effects of the matters described in the basis for qualified opinion section of this auditor's 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 its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and Division of Revenue Act 5 of 2023 (Dora).

### Basis for qualified opinion

#### Property, plant and equipment

3. I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment and depreciation and amortisation due to the lack of adequate records that supports the balance of infrastructure assets. In addition, infrastructure disposals were not supported by sufficient evidence. Furthermore, the municipality did not have adequate internal control systems in place for the adequate maintenance of the fixed asset register for infrastructure assets. I was unable to determine by alternative means whether any adjustments were necessary to property, plant and equipment stated at R5,26 billion (2023: R4,98 billion), depreciation, amortisation and impairment stated at R160,18 million (2023: R104 million) and loss on disposal of assets stated at R20,68 million in the consolidated and separate financial statements.

#### Receivables from exchange transactions

4. The municipality did not recognise all the receivables from exchange transactions in accordance with GRAP 104, Financial Instruments, due to incorrect billing in the previous year. Additionally, the amounts written off as uncollectable debts was more than the write-off approved by council. Furthermore, the calculations for allowance for impairment were not supported by accurate and consistent information that is aligned to the credit risk policy of the municipality. Consequently, receivables from exchange transactions is overstated by R137,31 million

(2023: R459,72 million), debt impairment is understated by R212,52 million (2023: R348,58 million), and there is also an impact on the accumulated surplus.

### **Inventories**

5. I was unable to obtain sufficient and appropriate audit evidence for inventory relating to VIP toilets due to lack of adequate inventory records. Management was unable to provide adequate supporting documentation to substantiate the inventory balance, including proper stock counts at all storage locations to verify the existence and valuation of inventories. I was unable to confirm the inventory balance by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to inventories - VIP toilets stated at R97,21 million in note 12 to the consolidated and separate financial statements.

### **Operational costs**

6. The municipality did not accurately recognise operational expenditure in line with GRAP 1, Presentation of financial statements. Operational costs were recognised in the incorrect accounting period. As a result, operational costs are overstated by R23,90 million and accumulated surplus was understated by the same amount.

### **Inventory consumed - Water**

7. I was unable to obtain sufficient and appropriate evidence due to inadequate processes for recording and recognition of water inventory consumed. Expenditure transactions were recorded in the incorrect reporting period and transactions that meet the recognition criteria were not recorded as inventory consumed. I was unable to confirm the inventory consumed amount by alternative means as it was impracticable to do so. Consequently, I was unable to determine the full extent of the misstatement of water inventory consumed stated at R151,81 million (2023: R105,47 million) in note 36 to the consolidated and separate financial statements.

### **Cash flows from operating activities**

8. The municipality did not correctly prepare and disclose the cash flows from operating activities as required by GRAP 2: Cash flow statements. This was due to multiple errors in determining cash flows from operating activities. In addition, the reconciliation of net cash flows from operating activities has errors. I was not able to determine the full extent of the errors in the cash flows from operating activities and the reconciliations of the net cash flows from operating activities as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments were necessary to cash flows from operating activities stated at R410,50 million (2023: R343,52 million) in the consolidated and separate financial statements.

### **Irregular expenditure**

9. The municipality did not fully record irregular expenditure in the notes to the consolidated and separate financial statements, as required by section 125(2) (d) (1) of the MFMA. This was because expenditure incurred in contravention of the supply chain management (SCM) requirements which resulted in irregular expenditure was not detected and appropriately disclosed in note 48 to the consolidated and separate financial statements. I could not confirm the value of irregular expenditure by alternative means. I was unable to determine the full extent of the understatement of irregular expenditure, stated at R823,27 million (2023: R255,17 million)

and R817,19 million (2023 : R252,97 million) in note 48 to the consolidated and separate financial statements respectively, as it was impracticable to do so.

### Unauthorised expenditure

10. The municipality did not fully disclose the unauthorised expenditure incurred. Expenditure that was not incurred in terms of an approved budget and within the limits of the amounts appropriated for the different votes was not identified and appropriately disclosed by the municipality. As a result, unauthorised expenditure disclosed in note 46 to the consolidated and separate financial statements is understated by R86,77 million.

### Reportable segments

11. I was unable to obtain sufficient appropriate audit evidence regarding the reportable segments presented in the consolidated and separate financial statements, as the reportable segments presented for auditing purposes were not based on accurate and complete underlying accounting records. I was unable to audit the report in the consolidated and separate financial statements by alternative means. I was unable to determine whether any adjustment was necessary to reportable segments.

### Water distribution losses

12. I was unable to obtain sufficient appropriate audit evidence for water distribution losses. The municipality could not support rates used in the calculation of losses and revenue was not accounted for correctly which affected the losses. I could not confirm the water distribution losses by alternative means. Consequently, I was unable to determine the full extent of the water distribution losses stated at R253,43 million (2023: R208,69 million) in note 54 to the consolidated and separate financial statements.

### Revenue from exchange transactions - Service charges

13. During 2023, the municipality did not recognise service charges revenue, as required by GRAP 9, Revenue from exchange transactions. Re-estimated billing was recognised as service charges revenue in the incorrect period. Consequently, service charges are overstated by R75,43 million and the accumulated surplus is overstated by the same amount.
14. My audit opinion on the consolidated and separate financial statements for the period ended 30 June 2023 was modified accordingly. My opinion on the current year consolidated and separate financial statements is also modified because of the possible effect of this matter on the comparability of revenue – service charges on the current period.

### Context for opinion

15. 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.
16. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International*

*Independence Standards*) (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

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

### **Material uncertainty relating to going concern**

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

19. I draw attention to note 57 to the consolidated and separate financial statements, which indicates that the municipality is facing a number of financial risks including the inability to pay creditors within due date and the inability to collect revenue billed. Furthermore, the municipality is in a net current liability position. As stated in note 57, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

### **Emphasis of matter**

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

### **Restatement of corresponding figures**

21. As disclosed in note 44 to the consolidated and separate financial statements, the corresponding figures for 30 June 2023 were restated as a result of an error in the consolidated and separate financial statements of the municipality at, and for the year ended, 30 June 2024.

### **Other matters**

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

### **Unaudited disclosure notes (MFMA125)**

23. In terms of section 125(2)(e) of the MFMA, the particulars of non-compliance with the MFMA should be disclosed in the consolidated and separate financial statements. 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 on it.

### **Unaudited supplementary schedules**

24. The supplementary information set out on pages xx to xx does not form part of the consolidated and separate financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

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

25. 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 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.
26. In preparing the consolidated and separate financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern; disclosing, as applicable, matters relating to going concern; and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

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

27. 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.
28. 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 this auditor's report.

## **Report on the audit of the annual performance report**

29. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for the selected development priority presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.
30. I selected the following development priority presented in the annual performance report for the year ended 30 June, 2024 for auditing. I selected the development priority that measures the municipality's performance on its primary mandated functions and that is of significant national, community or public interest.

Development priority	Page numbers	Objective
Basic service delivery and infrastructure	xx	<p>Improved water and wastewater quality through an inclusive and integrated approach.</p> <p>To provide safe adequate infrastructure and safe drinking water to all communities.</p> <p>Renew and maintain the water and sanitation Infrastructure Assets.</p> <p>To provide sustainable and environmentally friendly sanitation Services to all communities</p> <p>Ensure all "key" consumers are accurately billed</p>

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

32. 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

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

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

### **Basic service delivery and infrastructure investment**

#### **Number of households with access to basic level sanitation**

35. The extension of scope of the suppliers to fast-track erection of VIP toilets was reported as a measure aimed at improving performance against the target of 5000. However, I could not determine if the measure was actually implemented to improve performance because adequate supporting evidence was not provided for auditing. Consequently, I could not verify whether the reported measures were indeed taken.

#### **Number of households with access to basic water supply**

36. Adequate processes had not been established to consistently measure and reliably report on the achievement of this indicator and its target of 6683 households with access to basic water. There is no evidence to confirm that standpipes were installed within a 200-meter radius of each household. Consequently, the municipality would have found it difficult to determine the correct achievement to be reported against the planned target.

37. Furthermore, I could not determine if the reported achievements were correct, as adequate supporting evidence was not provided for auditing. Consequently, the reported achievements might be more or less than reported and were not reliable for determining if the targets had been achieved.

#### **Number of assets refurbished**

38. An achievement of 5 assets refurbished was reported against a target of 5 assets refurbished. However, the audit evidence did not support this achievement. I could not determine the actual achievement, but I estimated it to be materially more than reported. Consequently, it is likely that the achievement against the target was better than reported.

#### **645 functional meters on key accounts assessed**

39. An achievement of 645 functional meters on key accounts assessed was reported against a target of 645. However, the audit evidence did not support this achievement. I could not determine the actual achievement, but I estimated it to be materially less than reported. Consequently, it is likely that the target was not achieved.

#### **Other matters**

40. I draw attention to the matters below.

### **Achievement of planned targets**

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

42. The table that follows 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 reasons for any underachievement of targets / measures taken to improve performance are included in the annual performance report on pages xx to xx.

### Basic service delivery and Infrastructure investment

<i>Targets achieved: 67%</i>		
<i>Budget spent: 160%</i>		
<b>Key service delivery indicator not achieved</b>	<b>Planned target</b>	<b>Reported achievement</b>
Number of households with access to basic level of sanitation	5000	644
% Micro compliance of wastewater samples compliant to Water Use License conditions	60%	53,1%

### Material misstatements

43. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for basic service delivery and infrastructure investment. Management did not correct all of the misstatements, and I reported material findings in this regard.

### Report on compliance with legislation

44. 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.

45. 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.

46. 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.

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

## Annual financial statements, performance reports and annual reports

48. The consolidated and separate 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 current assets, non-current assets, revenue, expenditure and disclosure items identified by the auditors in the submitted consolidated and separate financial statements were subsequently corrected and/or the supporting records were provided subsequently, but the uncorrected material misstatements and/or supporting records that could not be provided resulted in the consolidated and separate financial statements receiving a qualified audit opinion.

## Revenue management

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

50. Accounts for service charges were not prepared on a monthly basis, as required by section 64(2)(c) of the MFMA.

## Asset Management

51. 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.

52. Capital assets were transferred / disposed of without the municipal council having, in a meeting open to the public, decided on whether the assets were still needed to provide the minimum level of basic municipal services and/or considered the fair market value of the assets and the economic and community value to be received in exchange for the assets, as required by sections 14(2)(a) and 14(2)(b) of the MFMA.

## Expenditure management

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

54. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the irregular expenditure could not be quantified as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with supply chain management regulations.

55. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R28,21 million as disclosed in note 47 to the consolidated and separate financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest paid on overdue accounts.

56. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the unauthorised expenditure incurred as indicated in the basis for qualification paragraph. The majority of the unauthorised expenditure was caused by overspending at vote level.

## Strategic planning and performance management

57. The performance management system and related controls were inadequate as it did not describe how the performance planning, monitoring, measurement, review and reporting processes should be conducted and managed, as required by Municipal Planning and Performance Management Regulation 7(1).

## Procurement and contract management

58. Some of the contracts were awarded to bidders based on points given for legislative requirements 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. A similar non-compliance was also reported in the prior year.

59. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders that scored the highest points in the evaluation process as required by section 2(1)(f) of the Preferential Procurement Policy Framework Act and 2022 Preferential Procurement Regulation 4(4) and 5(4). Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes for the 8/2/26/2023-2024P: Refurbishment of Koonap River (Adelaide) Canal project to the value of R31,36 million (Municipal Infrastructure Grant (MIG)).

## Consequence management

60. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.

61. Some of the 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.

62. Some of the fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

## Other information in the annual report

63. 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 the selected development priority presented in the annual performance report that has been specifically reported on in this auditor's report.

64. 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.

65. 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

development priority presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

66. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

### **Internal control deficiencies**

67. 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.

68. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the material findings on the annual performance report and the material findings on compliance with legislation.

69. Leadership did not adequately discharge its oversight responsibility with regards to the implementation and monitoring of internal controls, which includes adequate document management, to ensure sound financial and performance management and compliance with laws and regulations.

70. Management did not design and implement daily and monthly controls to ensure the consolidated and separate financial statements and annual performance report were supported by accurate and complete underlying records. This includes implementation of controls over daily and monthly processing and reconciling of transactions.

71. The consolidated and separate financial statements and the annual performance report contained numerous misstatements that were not corrected. This was mainly due to the lack of supervision and adequate reviews to ensure credible consolidated and separate financial statements and annual performance report.

### **Material irregularities**

72. 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 in progress**

73. I identified 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, I had not yet completed the process of evaluating the responses from the accounting officer. These material irregularities will be included in next year's auditor's report.

## **Material irregularities identified during the audit**

### **Penalties and interest on late payments for SARS**

74. The municipality did not pay over withholding taxes relating to Unemployment Insurance Fund (UIF), Skills Development Levy (SDL) and Pay As You Earn (PAYE) to the South African Revenue Services (SARS) on the respective due dates which resulted in SARS charging penalties and interest on outstanding amounts as required by Section 2(1) of the fourth schedule of the Income Tax Act No. 58 of 1962.
75. The accounting officer was notified of the material irregularity on 2 November 2021 and was invited to make a written submission on the actions taken/that will be taken to address the matter. The accounting officer took several steps to resolve the matter:
- This included the adoption of a voluntary financial recovery plan (FRP) in 2021, which was monitored by the executive management.
  - The municipality also entered into payment arrangements with their key suppliers.
  - All the taxes were paid over to SARS and the municipality has not incurred any further interest and penalties for late payments of taxes.
76. Based on the considerations above, the actions that were taken were adequate to resolve the material irregularity.

### **Inefficient, ineffective, and uneconomical use of VAT consultants**

77. The municipality is currently being charged a contingency fee for Value Added Tax (VAT) services, which is in contravention of the time-and-cost fee model. The time-and-cost model bases fees on the time spent on the project and the costs incurred. This is a non-compliance with Section 62(1)(a) of the MFMA.
78. In 2017, the municipality appointed a service provider through a regulation 32 supply chain management regulation to perform a review on the municipal accounting transaction on a contingency basis. The municipality was paying 20% (twenty percent) of the financial benefit identified which includes claims, overpayments, under deductions, undue assessments, undue penalties and interest, amounts written off or any amount of tax duty, levy, charge interest, penalty or other amount.
79. In 2020, the municipality entered into another contract through a competitive bidding process with the same service provider for the same services. The municipality was paying 11% (eleven percent) of the financial benefit identified which includes claims, overpayments, under deductions, undue assessments, undue penalties and interest, amounts written off or any amount of tax duty, levy, charge interest, penalty or other amount.
80. When the 2020 contract ended, in 2023, the municipality entered into another contract through a competitive bidding process with same service provider for the same services for a period of 36 months at a fixed percentage of 12.65%, inclusive of VAT.

81. The accounting officer was notified of this material irregularity on 13 December 2022 and was invited to make a written submission on the actions taken/that will be taken to address the matter.
82. Based on the communication dated 4 April 2024, and due to the fact that the accounting officer did not take appropriate action to address the MI, further action was necessitated. This included the following recommendations, which were to be implemented within a stipulated timeframe:
- The non-compliance should be investigated to determine the root causes and if any official might have committed an act of financial misconduct or an offence in terms of Chapter 15 of the MFMA for the purpose of recovering the loss.
  - The financial loss should be quantified and all person(s) liable for the losses should be identified and appropriate action should commence to recover the financial loss. The recovery process should not be unduly delayed.
  - Disciplinary proceedings should commence, without undue delay, against all officials who have allegedly committed an act of financial misconduct or an offence, as required by section 62(1)(e) of the MFMA and in the manner prescribed by the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings.
  - If a senior manager of the municipality has allegedly committed an act of financial misconduct, the accounting officer must report the allegation to the Municipal Council, the Provincial Treasury and the National Treasury as required by Regulation 3(1) of the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings.
83. On 7 October 2024, the accounting officer responded with an investigation report outlining the progress made in respect of the above recommendations. I am in the process of assessing this response.

*Auditor - General*  
East London

13 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 development priority 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 municipality and its subsidiaries 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 requirement

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003	Section 1 - Paragraph (a), (b) & (d) of the definition: irregular expenditure Section 1 - Definition: service delivery and budget implementation plan Sections 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 29(1), Sections 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b), 32(6)(a), Sections 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 62(1)(f)(i), 62(1)(f)(ii), Sections 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b), 64(2)(c), 64(2)(e), Sections 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), 72(1)(a)(ii), 112(1)(j), Sections 116(2)(b), 116(2)(c)(ii), 117, 122(1), 122(2), 126(1)(a), 126(1)(b), Sections 127(2), 127(5)(a)(i), 127(5)(a)(ii), 129(1), 129(3), 133(1)(a), Sections 133(1)(c)(i), 133(1)(c)(ii), 170, 171(4)(a), 171(4)(b)
MFMA: Municipal Budget and Reporting Regulations, 2009	Regulation 71(1), 71(2), 72
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), 13(c)(i), 16(a), 17(1)(a), 17(1)(b), Regulations 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), 27(2)(e), Regulations 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a) and (b), 29(5)(a)(ii), 29(5)(b)(ii), Regulations 32, 36(1), 36(1)(a), 38(1)(c), 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), Regulations 38(1)(g)(ii), 38(1)(g)(iii), 43, 44, 46(2)(e), 46(2)(f)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2), 5(3), 5(6), 8(4)
Annual Division of Revenue Act	Sections 11(6)(b), 12(5), 16(1); 16(3)
Construction Industry Development Board Act 38 of 2000	Section 18(1)
Construction Industry Development Board Regulations, 2004	Regulations 17, 25(7A)
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), Regulations 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)
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section 34(1)

Legislation	Sections or regulations
Municipal Systems Act 32 of 2000	<p>Sections 25(1), 26(a), 26(c), 26(h), 26(i), 27(1), 29(1)(b)(ii), 29(2)(a),  Sections 29(2)(c), 34(a), 34(b), 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42,  Sections 43(2), 56(a), 57(2)(a), 57(4B), 57(6)(a), 66(1)(a), 66(1)(b),  Sections 67(1)(d), 74(1), 93J(1), 96(b)</p> <p>Parent municipality with ME:  Sections 93B(a), 93B(b)</p> <p>Parent municipality with shared control of ME:  Sections 93C(a)(iv), 93C(a)(v)</p>
MSA: Municipal Planning and Performance Management Regulations, 2001	Regulations 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 3(5)(a), 7(1), 8, 9(1)(a), 10(a), Regulations 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)