AMATHOLE DISTRICT MUNICIPALITY (Cons.)

Audit Report

For the year ended 30 June 2025

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

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

Report on the audit of the consolidated and separate financial statements

Qualified

1. I have audited the consolidated and separate financial statements of Amathole District Municipality set out on pages xx to xx, which comprise the consolidated and separate statements of financial position as at 30 June 2025, consolidated and separate statements of financial performance, consolidated and separate statements of changes in net assets, consolidated and separate cash flow statements 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 consolidated and separate financial position of the Amathole District Municipality and its subsidiary as at 30 June 2025, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 24 of 2024 (Dora).

Basis for qualified opinion

Property, plant and equipment

3. The municipality did not account for property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment*. The depreciated replacement cost approach was incorrectly applied in the valuation of infrastructure assets, resulting in the recalculated carrying value not corresponding with the recorded balance thus infrastructure assets was overstated by R114,1 million and the accumulated surplus is overstatement by same amount. In addition, I was unable to obtain sufficient appropriate audit evidence for assets under construction and infrastructure assets due to the status of accounting records, and I could not confirm this by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to property, plant and equipment, stated at R10,2 billion (2024: R10,1 billion) and depreciation, amortisation and impairment stated at R286,2 million (2024: R328 million).

Trade and other receivables from exchange transactions

4. The municipality did not account for trade and other receivables from exchange transactions in line with GRAP 3 *Accounting policies, changes in accounting estimates and errors* and GRAP 104 *Financial instruments*. Prior-period billing adjustments were not processed accurately, resulting in duplicated reductions and incorrect postings. Some indigent subsidies linked to

estimated billings were not reversed, creating negative receivable balances. In addition, the allowance for impairment was not calculated using the approved methodology, and deviations were made without formal approval. Consequently, trade receivables are materially misstated: gross receivables and value-added tax (VAT) output are understated by R360,1 million and R47 million respectively, and accumulated surplus and revenue in the current year are understated by R118,1 million and R194,9 million respectively. Debt impairment and allowance for impairment are overstated by R508 million.

Inventories

5. I was unable to obtain sufficient appropriate audit evidence for Inventory relating to VIP toilets, as the municipality did not maintain accurate and complete records in relation to inventory. Management was unable to provide supporting documentation to substantiate the inventory balance, including proper documentation to verify the valuation and existence of the VIP toilets materials. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to VIP toilets stated at R97,2 million (2024: R99,5 million) in note 12 to the consolidated and separate financial statements.

Trade and other payables from exchange transactions

6. I was unable to obtain sufficient appropriate audit evidence for accruals, supporting evidence could not be obtained to substantiate the journals' debits processed to reduce the accrual balance. I was unable to confirm accruals by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to accruals stated at R63,6 million in note 21 to the consolidated and separate financial statements.

Revenue from exchange transaction – Service charges

7. The municipality did not recognise service charges revenue, as required by GRAP 9, *Revenue from exchange transactions*. The municipality incorrectly amended the customer category based solely on the zoning or legislative description of the property, rather than its actual usage as reflected in the municipal valuation roll. Consequently, service charges revenue was overstated by R29,7 million and trade and other receivables from exchange transactions were overstated by the same amount.

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. I was not able to determine the full extent of the errors in the cash flows from operating activities as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments were necessary to the cash flows from operating activities stated at R338,5 million and R337,7 million in the consolidated and separate financial statements respectively.

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 was not detected and appropriately disclosed in note 48 to the consolidated and separate financial statements. I was unable to determine the full extent of the understatement of irregular expenditure as it was impracticable to do so.

Reportable segments

10. 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.

Total expenditure

11. Total expenditure was materially misstated by R43,5 million due to the cumulative effect of individually immaterial uncorrected misstatements in the following items:

- Inventory consumed stated at R569,5 million was overstated by R16,1 million
- Operational costs stated at R268,6 million and R264,6 million in the consolidated and separate financial statements respectively, was overstated by R18,8 million
- Repairs and maintenance stated at R55,6 million and R55,2 million in the consolidated and separate financial statements respectively, was overstated by R8,6 million.

Context for opinion

12. 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.

13. 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.

14. 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

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

16. 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. As stated in note 57, these events or

Emphasis of matter

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

18. As disclosed in note 44 to the consolidated and separate financial statements, the corresponding figures for 30 June 2024 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 2025.

Other matters

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

20. 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.

21. 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

22. 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.

23. 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 and 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

24. 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.

25. 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

26. 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.

27. I selected the following development priority presented in the annual performance report for the year ended 30 June 2025 for auditing. I selected a 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	Purpose
Basic service delivery and infrastructure investment	XX	Improved water and wastewater quality through an inclusive and integrated approach. To provide safe adequate infrastructure and safe drinking water to all communities. Renew and maintain the water and sanitation infrastructure assets. To provide sustainable and environmentally friendly sanitation Services to all communities. Ensure all "key" consumers are accurately billed.

28. 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.

29. 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 measures taken to improve performance.

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

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

Basic service delivery and infrastructure investment

Number of facilities refurbished

32. An achievement of 15 assets refurbished was reported against a target of 14 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.

Number of taps installed to provide households with access to basic water supply

33. The approved planning documents included a commitment to construct 722 taps to provide 1500 households with access to basic water and 800 households with basic water supply. However, an achievement of 70 communal taps were constructed. This discrepancy highlights misalignment between approved plans and operations, while the incorrect reporting undermines transparency and accountability.

34. Additionally, an achievement of 70 was reported against the target of 722 which relates to this indicator. However, the indicator and the related target had not been clearly defined during the planning process because the indicator focuses on number of taps installed, but the target expresses the households provided with access to water, making it difficult to link the number of taps constructed to the number of households with access to water, rendering it unhelpful for measuring progress against the municipality's planned objectives.

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

Percentage progress on facilities being refurbished

36. Adequate supporting evidence to clarify the methods and processes for measuring achievement of this indicator and its target were not provided. Consequently, the municipality would have found it difficult to determine the correct achievement to be reported against the planned targets. The technical indicator descriptions method of measurement does not align with how the actual percentage progress has been measured. The reported achievement for each project has been set as a separate target and not measured as an average progress for the projects.

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.

Various indicators

38. Various indicators and their targets were not clearly defined during the planning process. Consequently, the indicators and their targets are not useful for measuring and reporting on progress against the municipality's planned objectives.

39. Based on the audit evidence, the actual achievements for two (2) indicators did not agree to the achievements reported, but the targets were still achieved.

Indicator	Target	Reported achievement
Percentage progress implementation reported for 13 planned water projects which are at planning stage	10,4%	11,5%
Percentage progress implementation of sanitation projects which are at construction stage	17,1%	24%

Various indicators

40. Various indicators were not clearly defined during the planning process. Consequently, the indicators are not useful for measuring and reporting on progress against planned objectives.

41. Some supporting evidence was not provided for auditing, where it was, I identified material differences between the actual and reported achievements. Consequently, the achievements might be more or less than reported and were not reliable for determining if the targets had been achieved.

Indicator	Target	Reported achievement
Percentage progress implementation of water projects which are at construction stage	10,2%	14,7%
Percentage progress implementation of sanitation projects that are at planning stage (8 projects planned)	16,9%	11,4%

Other matters

42. I draw attention to the matters below.

Achievement of planned targets

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

44. 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. Measures taken to improve performance are included in the annual performance report on pages xx to xx.

Basic service delivery and Infrastructure investment

Targets achieved: 75% *Budget spent 100%*		
Key service delivery indicator not achieved	**Planned target**	**Reported achievement**
Number of taps constructed to provide households with access to basic water supply	722	70
Percentage progress on facilities being refurbished Dontsa water supply Raymond Mhlaba municipality (RM) Retaining structure Borehole drilling Borehole equipping	Dontsa water supply – 45% RM retaining structures – 80% Borehole drilling – 70% Borehole equipping – 70%	RM retaining structures – 52%

Targets achieved: 75% *Budget spent 100%*		
Key service delivery indicator not achieved	**Planned target**	**Reported achievement**
Percentage progress implementation of sanitation projects that are at planning stage (8 projects planned)	16,9%	11,1%

Material misstatements

45. I identified preventable material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for the selected development priority. Management did not correct all of the misstatements and I reported material findings in this regard.

Report on compliance with legislation

46. 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.

47. 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.

48. 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.

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

Annual financial statements, performance and annual reports

50. 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 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

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

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

Asset management

53. An effective system of internal controls for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.

Expenditure management

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

55. 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 SCM regulations.

56. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R23,8 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.

57. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R234 million as disclosed in note 46 to the consolidated and separate financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending at vote level.

Strategic planning and performance management

58. 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

59. 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).

60. 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).

61. 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. Similar non-compliance was also reported in the prior year.

62. Some of the contracts were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM Regulation 29(5)(b). This non-compliance was identified in the procurement processes for the Nxaxo and Cebe Water Supply (8/2/10/2024-2025CP) project.

63. Some of the contracts were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of the Preferential Procurement Policy Framework Act and 2022 Preferential Procurement Regulation 4(4) and 5(4).

64. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. This non-compliance was identified in the procurement processes for the Nxaxo and Cebe Water Supply (8/2/10/2024-2025CP) project.

65. Awards were made to providers who were in the service of other state institutions or whose directors / principal shareholders were in the service of other state institutions, in contravention of MFMA 112(1)(j) and SCM Regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM Regulation 38(1).

Consequence management

66. Some of the irregular 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

67. The accounting officer is 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 the selected development priority presented in the annual performance report that has been specifically reported on in this auditor's report.

68. My opinion on the consolidated and separate financial statements, 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.

69. 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.

70. 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

71. 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.

72. 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 included in this report.

73. Leadership did not adequately discharge its oversight responsibility regarding the implementation and monitoring of internal controls. This includes insufficient document management practices, which are critical for ensuring sound financial and performance management and compliance with laws and regulations.

74. Management did not design and implement adequate daily and monthly controls to ensure that the consolidated and separate financial statements and annual performance report were supported by accurate and complete underlying records. This includes the absence of effective controls over the daily and monthly processing and reconciliation of transactions. Furthermore, there was insufficient monitoring of corrective actions on prior year audit findings, which allowed repeat deficiencies to persist.

75. The consolidated and separate financial statements and the annual performance report contained numerous uncorrected misstatements. This was primarily due to inadequate supervision and insufficient review processes, which failed to ensure the credibility and reliability of the consolidated and separate financial statements and the annual performance report. Management did not implement effective review mechanisms to detect and correct errors before submission, resulting in material inaccuracies and non-compliance with reporting requirements.

76. Compliance with applicable laws and regulations was not reviewed and monitored.

Material irregularities

77. 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

78. 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, 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.

Status of previously reported material irregularities

Inefficient, ineffective and uneconomical use of VAT consultants

79. The municipality is currently being charged a contingency fee for 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.

80. In 2017, the municipality appointed a service provider through a regulation 32 supply chain management regulation to perform a review on the municipal accounting transactions on a contingency basis. The municipality was paying 20% 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.

81. 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% 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.

82. 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. The accounting officer responded on 6 February 2023 by disagreeing with the material irregularity and did not take any actions to address the material irregularity.

83. On 4 April 2024, I notified the accounting officer of the following recommendations, which should have been implemented by 4 October 2024 with a progress report by 4 July 2024:

- 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.

84. On 4 July 2024, a progress report was received on the implementation of the recommendations. I provided feedback to the accounting officer on the shortcomings to be addressed with the final response on 4 October 2024. On 8 October 2024, the accounting officer submitted a response, confirming that the investigation was finalised. However, I was only provided with the investigation report on 31 October 2024.

85. Based on the assessment and noting that some actions were still in progress and not yet completed following the finalisation of the investigation, I granted the accounting officer additional time until 17 April 2025 for the implementation of recommendations.

86. A final response was not received at the revised timeline for the implementation of the recommendations and after following up on the outstanding response, the accounting officer requested an extension of time for the submitting a final response until end of May 2025, as the report from the Municipal Public Accounts Committee (MPAC) was pending. On 3 June 2025, the accounting officer requested a further extension as the feedback from MPAC was still awaited.

87. On 12 June 2025, the accounting officer provided documentation indicating that the MPAC resolutions were still at an early stage, primarily focused on determining whether recovery could proceed. This demonstrated that no significant progress had been made since the additional time and extensions were granted.

88. Consequently, on 18 June 2025, I issued a determination letter concluding that appropriate actions were not taken to implement the recommendations or to address the material irregularity.

89. The accounting officer submitted further written responses between 7 and 31 October 2025. The written responses and substantiating documentation provided by the accounting officer, including details of an ongoing investigation by MPAC, were considered and I concluded that the recommendations were not adequately implemented within the stipulated period and appropriate actions were not taken to address the material irregularity.

90. I issued a directive to the accounting officer to determine the amount of the financial loss and recover such loss, or make progress with the recovery of the loss, from the responsible person(s) by 26 March 2026. In addition, I notified the accounting officer of the following remedial actions to address the material irregularity, which must also be implemented by 26 March 2026, with progress reports every 2 months:

    - The investigation must be finalised 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 must be quantified, and appropriate action must commence to recover the financial loss from the parties responsible. The recovery process must not be unduly delayed.

- Disciplinary proceedings must 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 any 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.

91. I will follow up on the implementation of remedial action and execution of the directive at the stipulated due date.

Auditor-General

East London

10 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 development priorities 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 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 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

- 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	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	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) Parent municipality with ME: Sections 93B(a), 93B(b) Parent municipality with shared control of ME: Sections 93C(a)(iv), 93C(a)(v)
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)