

# Report of the auditor-general to Eastern Cape Provincial Legislature and the council on the Sundays River Valley Local Municipality

## Report on the audit of the financial statements

### Disclaimer of opinion

1. I was engaged to audit the financial statements of the Sundays River Valley Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2024, 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 financial statements, including a summary of significant accounting policies.
2. I do not express an opinion on the financial statements of the municipality. Because of the significance of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

### Basis disclaimer of opinion

#### Receivables from non-exchange transactions

3. I was unable to obtain sufficient appropriate audit evidence for the restated opening balance of receivables from non-exchange transactions in the financial statements, as sufficient and appropriate supporting evidence was not provided. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the current year receivables from non-exchange transactions stated at R7, 2 million (2023: R8, 1 million) due to the impact of the restated opening balance. Furthermore, the ageing of debtors was not appropriately disclosed in the note to the financial statements due to differences noted between the supporting documents and the note. Consequently, I could not determine the impact of the misstatement on the financial statement as it was impractical to do so.

#### Receivables from exchange transactions

4. I was unable to obtain sufficient appropriate audit evidence for the restated opening balance of receivables from exchange transactions in the financial statements, as sufficient and appropriate supporting evidence was not provided. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to the current year receivables from exchange transactions stated at R9,3 million (2023: R7 million) due to the impact of the restated opening balance. Furthermore, the ageing of debtors was not appropriately disclosed in the note to the financial statements due to differences noted between the supporting documents and the note. Consequently, I could not determine the impact of the misstatement on the financial statement as it was impractical to do so.

5. The municipality did not correctly account for the receivables from exchange transactions as required by GRAP 104, financial instruments, due to the indigent register having debtors who do not qualify to be indigent debtors and are supposed to be charged for services provided to them by the municipality. Consequently, the receivables from exchange transactions amount disclosed in notes 6 to the annual financial statements are understated by an amount of R12,1 million (2023: R10.3 million). Additionally, there was an impact on the surplus for the period and on the accumulated surplus.

#### **VAT receivable**

6. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for VAT receivable. As described in note 44 to the financial statements, the restatement was made to rectify a prior year misstatement, but the restatement could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the VAT receivable stated at R1, 4 million (2023: R0) in the financial statements as well as VAT payable stated at R0 (2023: R188 thousand) in the financial statements.

#### **Property, plant and equipment**

7. I was unable to obtain sufficient appropriate audit evidence for the work-in-progress disposals as disclosed in note 11 to the financial statements, as sufficient and appropriate supporting evidence was not provided. I was unable to confirm the amounts by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to the property, plant and equipment balance of R942,4 million (2023: R942 million) as disclosed in note 11 to the annual financial statements.

#### **Investment property**

8. I was unable to obtain sufficient appropriate audit evidence for the restated investment property opening balance in note 10 to the financial statements, as sufficient and appropriate supporting evidence was not provided. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the opening balance of R39, 9 million. As a result the closing balance of R40, 2 million was also impacted.

#### **Payables from exchange transactions**

9. The municipality did not correctly account for the payables from exchange transactions as required by GRAP 104, financial instruments, due to incorrect journals passed on the debtors' age analysis which reduced the debtors' balances to a negative amount. Consequently, the receivables from exchange transactions amount disclosed in notes 14 to the annual financial statements are understated by an amount of R10,7 million (2023: R8.9 million). This also results in an understatement in receivables from exchange transactions amount disclosed in note 6 to the annual financial statements by the same amount. Additionally, there was an impact on the surplus for the period and on the accumulated surplus.

### Unspent conditional grants

10. During 30 June 2023, I was unable to obtain sufficient appropriate audit evidence for unspent conditional grants and receipts as sufficient and appropriate evidence was not provided. I was unable to confirm the expenditure by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the corresponding figure of unspent conditional grants and receipts, stated at R4,6 million.

### Service charges

11. The municipality did not correctly account for the service charges as required by GRAP 9, *Revenue from exchange transactions*, due to differences identified between the supporting schedules and the amount recorded on the annual financial statements for the sale of water, electricity and refuse. Consequently, service charges and receivables from exchange transactions are understated by R4, 1 million. Furthermore, some customers were not billed for sewerage services, while others were billed for water using a flat rate. I was unable to determine the full extent of the misstatement of revenue from exchange transactions stated at R14, 6 million (2023: R16, 3 million) as it was impracticable to do so. This also results in an understatement in receivables from exchange transactions amount disclosed in notes 6 to the annual financial statements by the same amount. Additionally, there was an impact on the surplus for the period and on the accumulated surplus.

### Debt impairment

12. I was unable to obtain sufficient appropriate audit evidence for debt impairment in the financial statements, as sufficient and appropriate supporting evidence was not provided. I was unable to confirm the debt impairment by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the debt impairment stated at R39,7 million (2023: R26.3 million), in the financial statements.

### Bulk purchases

13. I was unable to obtain sufficient appropriate audit evidence for the bulk purchases in the financial statements, as the municipality did not have adequate systems of internal control to confirm that what was invoiced by Eskom is what was received or consumed by the municipality. I was unable to confirm the bulk purchases by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the bulk purchases stated at R28,4 million (2023: R22,5 million) in the financial statements.

### Bad debts written off

14. I was unable to obtain sufficient appropriate audit evidence for the bad debts written off in the financial statements, as sufficient and appropriate supporting evidence was not provided. I was unable to confirm the bad debts written off by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the bad debts written off stated at R5,1 million (2023: R14,4 million), in the financial statements.

### Reversal of impairments/ (impairment loss)

15. I was unable to obtain sufficient appropriate audit evidence for the current year amount of reversal of impairments as disclosed in note 37 to the annual financial statement, as sufficient and appropriate supporting evidence was not provided. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the reversal of impairments amount of R8.9 million (2023: R12.7 million).
16. I was unable to obtain sufficient appropriate audit evidence for the current year amount of impairment loss as disclosed in note 37 to the annual financial statement, as sufficient and appropriate supporting evidence was not provided. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the impairment loss amount of R6.6 million (2023: R4.8 million).

### Employee related costs

17. The municipality did not account for the employee cost in accordance with GRAP 25, Employee benefits. Material differences were identified between the payroll report and the annual financial statement. Consequently, the employee related costs were understated by R3,06 million in the financial statements.
18. I was unable to obtain sufficient appropriate audit evidence for the current year employee related costs in the annual financial statements, as sufficient and appropriate supporting evidence was not provided. I was unable to confirm the employee related costs by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the employee related costs stated at R100,5 million, in the financial statements.
19. I was unable to obtain sufficient appropriate audit evidence for the prior year pension and allowance as disclosed in note 32 to the annual financial statements, as sufficient and appropriate supporting evidence was not provided. I was unable to confirm the pension and allowance by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the prior year pension and allowance stated at R9, 6 million and R8, 5 million respectively in the financial statements.

### General expenses

20. I was unable to obtain sufficient and appropriate audit evidence for the general expenses restatement amount as the municipality did not maintain complete and accurate records of the journals processed. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to the corresponding amount for general expenses amount of R36, 8 million disclosed in note 44 to the annual financial statements.

### Contracted services

21. I was unable to obtain sufficient appropriate audit evidence for contracted services, as supporting evidence was not provided for certain expenses. I was unable to confirm the contracted services expenses by alternative means. Consequently, I was unable to determine whether any adjustments relating to contracted services stated at R61 million and related payables in the financial statements, were necessary.

22. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding amounts for contracted services in the financial statements. As described in note 44 to the financial statements, the restatement was made to rectify a previous year misstatement, but it could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the contracted services corresponding amount stated at R34,8 million in the financial statements.

### Contingencies

23. The municipality did not recognise all contingencies in accordance with the requirements of GRAP 19, *Provisions, contingent liabilities and contingent assets*. Consequently, the contingencies amount disclosed in note 42 to the financial statements is understated by an amount of R15, 3 million.

24. The supporting schedules did not agree to the contingencies amount for the current year presented in the annual financial statements. Consequently, the contingencies disclosed in note 32 to the annual financial statements are overstated by an amount of R9 million.

### Material losses

25. I was unable to obtain sufficient and appropriate evidence regarding the electricity distribution losses as disclosed in note 27 of the financial statements, as the disclosure was not based on accurate and complete underlying records. I was unable to audit the disclosure by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the distribution electricity losses stated at R28,3 million (2023: R22,4 million) in the financial statements.

### Financial Instruments

26. The municipality did not correctly account for the financial instruments as required by GRAP 104, *financial instruments*. The municipality included in note 3 statutory receivables while in note 46 statutory receivables and employee benefits were included which are items specifically excluded by GRAP 104. Consequently, I was unable to determine the full extent of the overstatement of financial instruments as disclosed in note 3 & 46 to the financial statements, as it was impracticable to do so.

### Irregular expenditure

27. Not all irregular expenditure was included in note 52 to the financial statements, as required by section 125(2) (d) of the Municipal Finance Management Act 56 of 2003 (MFMA). Payments were made on contracts awarded in contravention of supply chain management requirements, which resulted in an understatement of irregular expenditure by R7, 2 million. In addition, I was unable to obtain sufficient appropriate audit evidence to confirm the opening balance of irregular expenditure included in note 52 to the financial statements as sufficient appropriate audit evidence was not provided. I was unable to confirm this by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the irregular expenditure stated at R689 million (2023: R616, 9 million) in the financial statements.

## Unauthorised expenditure

28. Unauthorised expenditure was not recorded in accordance with section 125(2)(d) of the MFMA. The municipality incorrectly calculated unauthorised expenditure movement for the current year. Consequently, the unauthorised expenditure balance disclosed in note 50 to the annual financial statements is understated by an amount of R73, 3 million (2023: R49.2 million).

## Fruitless and wasteful expenditure

29. I was unable to obtain sufficient appropriate audit evidence to confirm the restated opening balance of fruitless and wasteful expenditure included in note 51 to the financial statements as sufficient appropriate audit evidence was not provided. I was unable to confirm this by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the opening balance of R18, 1 million. As a result the closing balance of R23, 9 million was also impacted.

## Commitments

30. The municipality did not recognise the capital commitments in accordance with GRAP 17, Property, plant and equipment as the commitments values were incorrectly calculated. Consequently, the commitments balance in note 41 was overstated by R13,9 million (2023: R9,1 million) Furthermore, I was unable to obtain sufficient and appropriate audit evidence for the commitments amount as the municipality did not maintain complete and accurate records of contractual information. I was unable to confirm the commitments by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the commitments balance of R36, 8 million (2023: R49, 6 million), as disclosed in note 41 to the annual financial statements.

## Statement of changes in net assets

31. The municipality did not correctly account for the statement of changes in net assets in accordance with GRAP 1, *presentation of financial statements*, as the total balance presented in the statement of changes in net assets is not correctly calculated. Consequently, I could not determine the impact of the misstatement on the financial statements as it was impractical to do so.

## Segment information

32. The municipality did not correctly account for segment information in accordance with the requirements of GRAP 18, *Segment reporting* as the assets and liabilities were not correctly allocated to their appropriate segments. Consequently, I could not determine the impact of the misstatement on the financial statement as it was impractical to do so.

## Prior year adjustments

33. The municipality did not disclose the prior year's adjustments in the financial statements in accordance with the requirements of GRAP 3, *Accounting policies, changes in accounting estimates and errors*, as there were differences identified in respect of the correction of error adjustments for intangible assets, payables from exchange transactions, receivables from exchange transactions, inventory consumed and debt impairment. I was unable to determine

the full extent and impact of the omitted disclosed in note 44 to the financial statements as it was impractical to do so.

34. I was unable to obtain sufficient appropriate evidence for the prior year's errors disclosed in note 44 as sufficient and appropriate supporting evidence was not provided for receivables from exchange transactions, receivables from non-exchange transactions, Intangible assets, payables from exchange transactions, revenue from exchange transactions, bulk purchases, general expenses, contracted services, finance costs and reversal of impairment. I was unable to confirm these disclosures by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the prior year's adjustments disclosed in the financial statements.

### **Deviation from supply chain management processes**

35. The municipality did not disclose all deviations in accordance with the requirements of regulation 36(2) of the Municipal Supply Chain Management Regulations. Consequently, the deviations amount disclosed in note 55 to the financial statements is understated by an amount of R4 million. In addition, I was unable to obtain sufficient appropriate audit evidence to determine the full extent of the deviation's understatement, as not all deviations were recorded in the deviation register, and I could not confirm this by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to deviation stated at R7 million in note 55 to the financial statements.

### **Cash flow statement**

#### **Net cash flows from operating activities**

36. Net cash flows from operating activities was not correctly prepared and disclosed as required Standards of 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 net cash flows from operating activities, as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to cash flows from operating activities as stated at R41,5 million (2023: R62,9 million) in the financial statements were necessary.

### **Statement of comparison of budget and actual amounts**

37. The municipality did not correctly account for the statement of comparison of budget and actual amounts in accordance with GRAP 24, Presentation of budget information in financial statements, as budget amounts presented in the statement of comparison of budget and actual amounts did not agree to the approved budget amounts. Consequently, the statement of comparison of budget and actual amounts is overstated by an amount of R12,6 million.

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

38. I draw attention to the matter below. My opinion is not modified in respect of this matter.
39. I draw attention to note 47 of the financial statements, which indicates that an accumulated surplus that was incurred during the year ended 30 June 2024 and, as of that date the current liabilities exceeded its current assets by R109,8 million. As stated in note 47, these events or

conditions, along with other matters as set forth in note 47, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

### **Other matter**

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

### **Unaudited disclosure notes**

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

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

42. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the MFMA and Division of Revenue Act (Act 5 of 2023) (Dora); and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

44. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

## Report on the audit of the annual performance report

46. 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.
47. I selected the following development priority presented in the annual performance report for the year ended 30 June 2024 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
<b>KPA 1: Infrastructure and Basic services</b>	12-16	This is the development priority that focuses on service delivery and it is what the municipality is mostly measured on in terms of their performance and their impact to the public. This is also the development priority to which the majority of the budget of the municipality is allocated.

48. 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.
49. 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

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

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

### KPA 1: Infrastructure and Basic services

#### Various indicators

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

Indicator	Target	Reported achievement	Actual achievement
Number of illegal dumping sites eradicated	8	11	25
Kilometres of Emergency Flood Road Repairs in Vygie and Adams Street undertaken	1km	0km	0,996 km

#### Number of new sewer connections meeting minimum standards

52. An achievement of 67 households connected was reported against a target of 374 households sewer connection. I could not determine if the reported achievement was correct, as adequate supporting evidence was not provided for auditing. Consequently, the achievement might be more or less than reported and was not reliable for determining if the target had been achieved.

#### Constructing a Multi- Purpose Sports Recreational Facility

53. The approved planning documents included a commitment to achieve a target that is Nomathamsanqa Multi-Purpose Sports Recreational Facility completed. However, an achievement of 90% was reported in the annual performance report. This discrepancy highlights misalignment between approved plans and operations, while the incorrect reporting undermines transparency and accountability.

#### Number of new cemeteries established

54. Procurement of EIA services in the 2024/25 financial year was reported as a measure aimed at improving performance against the target of 2 new cemeteries established. 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.

## Overall presentation not comparable and understandable

55. Overall, the performance information for this development priority was not reported in such a way that it could be compared and would be easy to understand, as current year baseline performance of 2022/23 could not be compared to 2022/23 actual achieved as per the prior year annual performance report. Consequently, the reported performance information is not useful for measuring progress against the planned objectives, which undermines transparency and accountability.

## Other matters

56. I draw attention to the matters below.

### Achievement of planned targets

57. 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.

58. 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 and measures taken to improve performance are included in the annual performance report on pages 12 to 16.

### KPA 1: Infrastructure and Basic services

<i>Targets achieved: 29%</i> <i>Budget spent: 102%</i>		
Key service delivery indicator not achieved	Planned target	Reported achievement
Number of new water connections meeting minimum standards	374	0
KMs of new municipal road network	1km	0km
Percentage of reported pothole complaints resolved within standard municipal response time	75%	65%
Constructing a Multi- Purpose Sports Recreational Facility	Nomathamsanqa Multi-Purpose Sports Recreational Facility completed	90%
Kilometres of Emergency Flood Road Repairs in Vygie and Adams Street undertaken	1km	0km

## Material misstatements

59. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for Infrastructure and Basic services. Management did not correct all the misstatements and I reported material findings in this regard.

## Report on compliance with legislation

60. 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.
61. 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.
62. 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.
63. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

## Annual financial statements and annual reports

64. 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 identified by the auditors in the submitted financial statements were not corrected and/or the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer audit opinion

## Human resource management

65. 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.

## Expenditure management

66. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
67. I was unable to obtain sufficient appropriate audit evidence that payments from the municipality's bank accounts were approved by a properly authorised official, as required by section 11(1) of the MFMA.

68. Reasonable steps were not taken to ensure that the municipality implements and maintains an effective system of expenditure control, including procedures for the approval, authorisation, and payment of funds, as required by section 65(2)(a) of the MFMA.
69. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with supply chain management (SCM) regulations and lack of sufficient and appropriate audit evidence.
70. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the fruitless and wasteful expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed fruitless and wasteful expenditure was caused by interest on late payments to suppliers.
71. 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 disclosed unauthorised expenditure was caused by expenditure incurred over the budget by the municipal departments during the year.

#### **Revenue management**

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

#### **Asset management**

73. 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.

#### **Consequence management**

74. 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.
75. 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.
76. 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.

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

77. The performance management system and related controls were not maintained as the review and reporting processes were not properly conducted and/or managed, as required by municipal planning and performance management regulation 7(1).

## Procurement and contract management

78. Some of the contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM Regulation 43.
79. Sufficient appropriate audit evidence could not be obtained that contracts were extended or modified with the approval of a properly delegated official as required by SCM Regulation 5.
80. Sufficient appropriate audit evidence could not be obtained that the performance of contractors or providers was monitored on a monthly basis as required by section 116(2) of the MFMA.

## Utilisation of conditional grants

81. Performance in respect of programmes funded by the Integrated National Electrification Programme Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act (Act 9 of 2023).
82. Performance in respect of programmes funded by the Local Government Financial Management Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act (Act 9 of 2023).
83. Performance in respect of programmes funded by the Expanded Public Works Programme Integrated Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act (Act 9 of 2023).

## Other information in the annual report

84. The accounting officer is responsible for the other information included in the annual report which includes the audit committee's report and the organisational development performance. The other information referred to does not include the financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported on in this auditor's report.
85. My opinion on the 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.
86. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the 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.
87. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, and 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

88. I considered internal control relevant to my audit of the separate financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
89. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the disclaimer of opinion, the material findings on the annual performance report and the material findings on compliance with legislation included in this report.
90. The municipality did not have a proper record management system to maintain information that supported the reported performance in the annual performance report and annual financial statements. This included information that related to the collection, collation, verification, storing and reporting of actual performance information and supporting evidence for annual financial statements. This contributed to the significant delays experienced in the submission of required information.
91. Weekly and monthly reconciliations were not prepared for all financial items during the year including payroll, debtors, creditors, fixed assets and disclosures. This has resulted in a high volume of manual reconciliations at year end as part of the financial statement preparation process.
92. Journals were processed for movements in the financial statements with no evidence of reviews and approvals by the relevant officials. This resulted in an increased risk of management overriding the controls of the municipality.
93. Management did not design and implement daily and monthly financial controls to ensure the financial statements and annual performance reports are supported by accurate and complete underlying records. This was evident from the fact that the financial statements submitted contained numerous misstatements that were not corrected
94. There were significant instances of non-compliance with some of the GRAP requirements that were noted on the AFS. This is due to inadequate controls within the municipality and a lack of adequate review and monitoring of compliance with the GRAP requirements.

## Material irregularities

95. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit.

### Material irregularity in progress

96. I identified a material irregularity during the audit and notified the accounting officer of this, 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 response from the accounting officer. This material irregularity will be included in next year's auditor's report.

## Material irregularities identified during the audit

### Lack of proper performance management system and records

97. The municipality did not comply with regulation 7(1) as evident from significant deficiencies identified in the performance management system. This was a result of the municipality not preparing regular, accurate and complete performance reports that are supported and evidenced by reliable information. This is likely to cause harm to the public sector institution due to the following disruptions to the operations of the municipality which is also the primary mandate of the municipality:

- Quarterly performance reports are not prepared leading to the municipality to not account for its performance and it hinders the ability of the council, executive or oversight to perform its oversight and decision-making role.
- Annual and mid-term performance reports inaccurately report on the performance of the municipality to such an extent that it hinders the ability of the council, executive or oversight to perform its oversight and decision-making role.

98. I notified the accounting officer on this material irregularity on 28 March 2024 and invited them to make a written submission on the actions that had been or would be taken to address the matter. The accounting officer responded to the MI on 17 April 2024 and provided supporting evidence to the material irregularity but has not taken appropriate action in response to being notified of the material irregularity. I notified the AO of the following recommendations, which should be implemented by 30 June 2024:

99. The non-compliance with Regulation 7(1) of the Municipal Planning and Performance Management Regulations, 2001 should be investigated to determine the reasons and circumstances that led to the non-compliance for the purpose of taking appropriate corrective actions and to enhance control weaknesses.

100. Based on the reasons and circumstances, appropriate action should be taken to develop and commence with the implementation of an action plan to address the weaknesses in the performance management system and the poor record keeping so that full and proper records of the municipality's performance are kept in accordance with any prescribed norms and standards. The plan should include anticipated timeframes and address the following key areas as a minimum:

- (a) Development and implementation of documented processes for identifying, collecting, collating, verifying and storing of information including the roles of different role-players.
- (b) Ensure that performance management system provides for policies and procedures that will include steps to be taken to improve performance where performance targets are not met.
- (c) Maintaining adequate and complete records of the performance measurement, monitoring, reporting, and review processes for each of the planned key performance indicators.
- (d) Ensure that appropriate capacity is developed to manage performance information.

101. 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.
102. The above timeframes for the implementation of the recommendations will run concurrently.

**Inadequate management of Kirkwood landfill site by the municipality which causes significant harm to the public.**

103. Section 28(1) of the National Environmental Management Act 107 of 1998 (NEMA) requires that every person who causes, has caused or may cause significant pollution or degradation of the environment must take reasonable measures to prevent such pollution or degradation from occurring, continuing or recurring, or, in so far as such harm to the environment is authorised by law or cannot reasonably be avoided or stopped, to minimise and rectify such pollution or degradation of the environment.
104. The municipality did not properly manage, safeguard and maintain the landfill site for more than two (2) years. This resulted in a material non-compliance with the legislation that resulted in pollution of the environment as licence conditions were not adhered to, workface was not compacted and was causing odour, waste was scattered all over and was not collected and there was a lack of overall maintenance of the site. The significant pollution is likely to cause serious health, safety and injury risks to the operators on the site and communities nearby.
105. The non-compliance is likely to result in substantial harm to the public by the municipality.
106. The accounting officer was notified of the material irregularity on 27 March 2024 and invited to make a written submission on the actions taken and to be taken to address the matter. The accounting officer responded to the notification on 15 April 2024 and indicated that the following actions had been planned:
- to go out on tender to obtain a relevant person to address the identified issues. The expected appointment date is on 31 March 2025.
  - to obtain information and case studies similar to our area that were successfully mitigated. This will then be proposed to Provincial and National governments to obtain additional funding for the solution to be received on 01 July 2025.

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

**Inadequate management of Paterson landfill site by the municipality which causes significant harm to the public.**

107. Section 28(1) of the National Environmental Management Act 107 of 1998 (NEMA) requires that every person who causes, has caused or may cause significant pollution or degradation of the environment must take reasonable measures to prevent such pollution or degradation from occurring, continuing or recurring, or, in so far as such harm to the environment is authorised by law or cannot reasonably be avoided or stopped, to minimise and rectify such pollution or degradation of the environment.

108. The municipality did not properly manage, safeguard and maintain the landfill site for more than two (2) years. This resulted in a material non-compliance with the legislation that resulted in pollution of the environment as licence conditions were not adhered to, workface was not compacted and was causing odour, waste was scattered all over and was not collected and there was a lack of overall maintenance of the site. The significant pollution is likely to cause serious health, safety and injury risks to the operators on the site and communities nearby.
109. The non-compliance is likely to result in substantial harm to the public by the municipality.
110. The accounting officer was notified of the material irregularity on 27 March 2024 and invited to make a written submission on the actions taken and to be taken to address the matter. The accounting officer responded to the notification on 15 April 2024 and indicated that the following actions had been planned:
- to go out on tender to obtain a relevant person to address the identified issues. The expected appointment date is on 31 March 2025.
  - to obtain information and case studies similar to our area that were successfully mitigated. This will then be proposed to Provincial and National governments to obtain additional funding for the solution to be received on 01 July 2025.
111. I will follow up on the implementation of the planned action during my next audit.

#### Other reports

112. I draw attention to the following engagements conducted by various parties. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
113. Eastern Cape Provincial Treasury was engaged in investigating issues identified in the payroll section where employees' salaries were not processed and paid by the municipality according to employment contracts. The investigation was concluded in the current year and tabled to council which further decided to refer the matter to the disciplinary board. The investigation is still not yet finalised by the disciplinary board.
114. The disciplinary board is also engaged in investigating the appointment of a service provider. The investigation is not yet finalised.
115. The Special Investigating Unit (SIU) is currently assessing allegations of maladministration and irregularities from a whistle-blower relating to the procurement processes and payments of a certain award made by the municipality. This is not a formal investigation, the SIU is evaluating whether there is any substance over the allegation from the whistle-blower.

116. The Directorate for Priority Crime Investigation (DPCI), commonly known as the Hawks is also investigating the appointment of the same service provide and the investigation is in progress.

Auditor General

East London

10 January 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 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...

#### Financial statements

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made
- conclude on the appropriateness of the use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the municipality to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease operating as a going concern
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

## Communication with those charged with governance

I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

## Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003	<p>Section 1 - Paragraph (a), (b) &amp; (d) of the definition: irregular expenditure,</p> <p>Section 1 - Definition: service delivery and budget implementation plan,</p> <p>Sections 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 29(1),</p> <p>Sections 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b),</p> <p>Sections 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 62(1)(f)(i).</p> <p>Sections 62(1)(f)(ii), 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b),</p> <p>Sections 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e),</p> <p>Sections 72(1)(a)(ii), 112(1)(j). 116(2)(b), 116(2)(c)(ii), 117. 122(1),</p> <p>Sections 122(2), 126(1)(a), 126(1)(b), 127(2), 127(5)(a)(i) 127(5)(a)(ii),</p> <p>Sections 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170,</p> <p>Sections 171(4)(a), 171(4)(b)</p>
MFMA: Municipal Budget and Reporting Regulations, 2009	Regulations 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),

Legislation	Sections or regulations
	<p>Regulations 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i) 22(2), 27(2)(a), Regulations 27(2)(e), 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a), 29(1)(b), Regulations 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a) 38(1)(c), Regulations 38(1)(d)(ii), 38(1)(e). 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii) Regulations 44, 46(2)(e), 46(2)(f)</p>
Municipal Systems Act 32 of 2000	<p>Sections 25(1), 26(a), 26(c), 26(h), 26(i). 29(1)(b)(ii), 29(3)(b), 34(a) 34(b), Sections 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2). 56(a), 57(2)(a), Sections 57(4B), 57(6)(a), 66(1)(a), 66(1)(b), 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)</p>
MSA: Municipal Planning and performance	<p>Regulations 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 3(6)(a), 7(1), 8 9(1)(a), 10(a), Regulations 12(1), 15(1)(a)(i), 15(1)(a)(ii)</p>
MSA: Municipal Performance Regulations for Municipal Managers and Managers directly Accountable to Municipal Managers, 2006	Regulations 2(3)(a), 4(4)(b), 8(1), 8(2), 8(3)
MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations 17(2), 36(1)(a)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2), 5(3), 5(6), 8(4)
Annual Division of Revenue Act	Section 11(6)(b), 12(5), 16(1); 16(3)
Construction Industry Development Board	Section 18(1)

Legislation	Sections or regulations
Act 38 of 2000	
Construction Industry Development Board Regulations	Regulations 17, 25(7A)
Municipal Property Rates Act 6 of 2004	Section 3(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), Regulations 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5) 9(1). 10(1), 10(2). Regulations 11(1), 11(2)
Preferential Procurement Regulations, 2022	Regulations 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3),5(4)
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section 34(1)