



MBHASHE LOCAL MUNICIPALITY

Audit Report

For the year ended 30 June 2024



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence

Report of the auditor-general to the Eastern Cape Legislature and Council on the Mbashe Local Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Mbashe 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. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Mbashe Local Municipality as at 30 June 2024 and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 5 of 2023 (Dora).

Basis for opinion

3. 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 financial statements section of my report.
4. 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.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matters

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

Allowance for impairment

7. As disclosed in note 12 to the financial statements, a provision for impairment of R60,4 million (2022-23: R39,6 million) was made in respect of consumer debtors.

Restatement of corresponding figures

8. As disclosed in notes 39 and 40 to the financial statements, the corresponding figures for 30 June 2023 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2024.

Unspent conditional grants and receipts

9. As disclosed in note 14 to the financial statements, the municipality had unspent conditional grants and receipts totalling R19,9 million.

Other matter

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

Unaudited disclosure notes

11. In terms of section 125(2)(e) of the MFMA, the particulars of non-compliance with the MFMA should be disclosed in the financial statements. This 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 the financial statements

12. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the GRAP and the requirements of the MFMA, 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.
13. 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

14. 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.
15. 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

16. 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.
17. I selected the following development priority presented in the annual performance report for the year ended 30 June 2024. 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
Service delivery and infrastructure development	XX	To manage and ensure the provision of basic municipal services and the reduction of infrastructure backlogs.

18. 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.
19. I performed procedures to test whether:
- the indicators used for planning and reporting on performance can be linked directly to the municipality's mandate and the achievement of its planned objectives
 - all the indicators relevant for measuring the municipality's performance against its primary mandated and prioritised functions and planned objectives are included
 - the indicators are well defined to ensure that they are easy to understand and can be applied consistently, as well as verifiable so that I can confirm the methods and processes to be used for measuring achievements
 - the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance, as well as how performance will be evaluated
 - the indicators and targets reported on in the annual performance report are the same as those committed to in the approved initial or revised planning documents
 - the reported performance information is presented in the annual performance report in the prescribed manner and is comparable and understandable
 - there is adequate supporting evidence for the achievements reported and for the measures taken to improve performance.

20. I performed the procedures only for the purpose of reporting material findings and not to express an assurance opinion or conclusion.
21. The material findings on the reported performance information for the selected development priority are as follows:

SD 2.1 Number of households and commercial areas serviced at Dutywa, Gatyana and Xhora

22. I was unable to obtain sufficient appropriate audit evidence of a clear definition of the predetermined nature and required level of performance to be used when measuring the reported achievement for the target of 164 households and 20 commercial areas serviced as follows: (Dutywa – 65 households and 10 commercial areas; Gatyana – 49 households and 5 commercials; and Xhora – 50 households and 5 commercial). This was due to a lack of measurement definitions and processes. I was unable to test by alternative means whether the target for this indicator was clearly defined. Consequently, I could not confirm the reliability of the reported achievement.

Other matter

23. I draw attention to the matters below.

Achievement of planned targets

24. The annual performance report includes information on reported achievements against planned targets and provides measures taken to improve performance. This information should be considered in the context of the material findings on the reported performance information.
25. The table that follows provides information on the achievement of planned targets and lists the service delivery indicators that were not achieved as reported in the annual performance report. The measures taken to improve performance are included in the annual performance report on pages xx to xx.

Service delivery and infrastructure development

<p><i>Targets achieved: 54%</i></p> <p><i>Budget spent: 64%</i></p>		
Key indicator not achieved	Planned target	Reported achievement
SD 1.1.5 – Number of square meters of potholes fixed as per the assessment report at Dutywa, Gatyana and Xhorha	280 square meters of potholes fixed as per the assessment report as follows: Dutywa – 120, Gatyana – 80 Xhorha – 80 R0	281,57 square meters as follows: Xhorha – 82m Gatyana – 80m Dutywa – 120,11m

SD 1.2 – Number of households electrified in ward 23 and ward 14	434 households electrified as follows: Ward 14-129 & Ward 23-305 R17 284 182,45	434 households electrified as follows: Ward 23-305 Ward 14-129 Practical completion certificate and report signed by the senior manager, confirmation letters from beneficiaries and list of beneficiaries.
SD 1.3 – Number of municipal solar systems installed and electrified with energy saving technology (Dutywa main office new building)	1 Municipal solar system installed and electrified with energy-saving technology (solar systems) in Dutywa main office new building R5 000 000	1
SD 1.4 – Number of solar systems maintained in ward 8 Sibane and as as per assessment report	30 solar systems maintained in ward 8 Sibane R300 000	30
SD 1.5 – Number of streetlights upgraded in ward 1 and ward 25 as per assessment report.	50 streetlights upgraded in wards 1 and 25 as follows: Ward 1 – 30 Ward 25 – 20 R2 000 000	50 upgraded streetlights as follows: Ward 1-30 Ward 25-20
SD 1.10 – Number of ablution facilities constructed at old Gatyana taxi rank	1 ablution facility constructed at old Gatyana taxi rank R200 000	1
SD 1.11 – Number of community halls constructed at ward 8 (Gem Community Hall)	1 community hall constructed at ward 8 Gem Community Hall R3 568 041,60	1
SD 2.1 – Number of households and commercial areas serviced at Dutywa, Gatyana and Xhora	164 households and 20 commercial areas serviced as follows: (Dutywa – 65 households and 10 commercial areas, Gatyana – -49 households and 5 commercials, and Xhora – 50 households) and 5 commercial R6 050 000	164 households and 20 commercial areas serviced as follows: (Dutywa – 65 households and 10 commercial areas, Gatyana – 49 households and 5 commercials, and Xhora – 50 households) and 5 commercials
SD 2.2 – Number of programmes implemented as per the waste management plan in wards 1, 13 and 25.	3 programmes implemented as per the waste management plan in wards 1, 13 and 25.	5 Programmes implemented for waste management services as follows: Ward 1-2 Ward 13-1 Ward 25-2
SD 1.12 – Number of road safety measures implemented in each unit – Gatyana, Xhorha and Dutywa	12 road safety measures implemented as follows: Gatyana – 4, Xhorha – 4 and Dutywa – 4 R2 244 80	32 road safety measures implemented as follows: Gatyana – 11 Xhorha – 9 Dutywa – 12

SD 3.1 – Number of beaches provided with life rescue services during peak seasons as follows: Qhorha, Tenza, Dwesa, Cwebe, Qatywa, Mpame, Mbholompo, Bulungula, Lubanzi and Haven.	10 beaches provided with life rescue services during peak seasons as follows: Qhorha – W22, Tenza – W22, Dwesa – W29, Cwebe – W20, Qatywa – W32, Mpame – W19, Mbholompo – W19, Bulungula – W19, Lubanzi – W19 and Haven – W20). R770 000	10
SD 4.1 – Number of relocation plans developed for Dutywa ward 9 and Gatyana ward 25	2 relocation plans developed for Dutywa ward 9 and Gatyana ward 25 R1 000 000	2 relocation plans as follows: Ward 9-1 Ward 25-1
SD 4.2 – Number of townships registered and proclaimed at ward 1 & 13	2 townships registered and proclaimed at ward 1 and 13 R700 000	2 townships registered and proclaimed as follows: Dutywa Township Ext 3 Ward 1-1 Xhorha Ext 5 Ward 13-1.

Material misstatements

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

Report on compliance with legislation

27. 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.
28. 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.
29. 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 for 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.
30. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statements and annual report

31. The financial statements submitted for auditing were not fully prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, current assets, liabilities and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

32. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R239 859 as disclosed in note 44 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. Most of the disclosed fruitless and wasteful expenditure was caused by payment of fuel and oil for a non-municipal vehicle.

Asset management

33. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Strategic planning and performance management

34. The performance management system and related controls were inadequate as they 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

35. 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.

Other information in the annual report

36. The accounting officer is responsible for the other information included in the annual report. 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.
37. 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.
38. 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 priorities

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

39. 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, 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

40. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
41. The matters reported below are limited to the significant internal control deficiencies that resulted in the material findings on the annual performance report and the material findings on compliance with legislation included in this report.
42. Leadership has not institutionalised all the disciplines necessary to enable oversight and monitoring to promote efficiency and effectiveness in financial and performance management and compliance with legislation. The leadership was unable to detect and prevent material misstatements in the financial statements and annual performance report. Management did not respond to all the recommendations of the audit committee and internal audit, which impacted the effectiveness of these governance structures and resulted in repeat audit findings being raised.

Material irregularities

43. 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.

Status of previously reported material irregularities

Payment of hawker stalls not received

44. The municipality did not comply with section 65(2)(a) of the MFMA, which requires that reasonable steps be taken to ensure that the municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds.
45. The municipality appointed a contractor on 12 November 2015 for the installation of the Idutywa Hawker Stalls Phase 2 project for an amount of R16 million over a period of three

years. The supplier delivered 60 hawker stalls, which left a balance of 260 hawker stalls not delivered. The municipality did not comply with section 65(2)(a) of the MFMA, as the accounting officer did not ensure that reasonable steps were in place to ensure that payments were approved and made for goods that had been delivered and installed.

46. I notified the accounting officer of the material irregularity on 14 February 2023 and invited him to make a written submission on the actions taken.
47. In August 2022, the municipality advertised for a legal firm to remedy the matter. A firm was appointed, and an urgent application for the delivery of the 260 hawker stalls from the supplier was sought.
48. On 6 March 2023, a consultation was conducted with the signatories who are still in the employ of the municipality. Municipal Public Accounts Committee (MPAC) adopted a resolution that all employees involved had to be investigated by the disciplinary board. The municipality had received correspondence from attorneys stating that it should approach a court of law to demand the hawker stalls from the supplier.
49. The municipality referred the matter to the East London High Court on 12 October 2023, demanding the monies by which the consultants were unjustifiably enriched as the contractor had never delivered the remaining 260 hawker stalls. The municipality is in the process of making an application for the default judgement, as the consultant never filed their intention to oppose the matter.
50. The municipality sought a default judgement after the defendant failed to respond within the required time, but following recent legal guidance, the attorneys are now preparing for a trial, potentially next year.
51. Based on my evaluation of the information and evidence provided, the steps taken by the accounting officer are appropriate and the material irregularity is therefore resolved.

Auditor General

East London

29 November 2024



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

The annexure includes the following:

- The auditor-general's responsibility for the audit
- The selected legislative requirements for compliance testing.

Auditor-general's responsibility for the audit

Professional judgement and professional scepticism

As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the 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

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

Communication with those charged with governance

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

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

From the matters communicated to those charged with governance, I determine those matters that were of most significance in the audit of the financial statements for the current period and are therefore key audit matters. I describe these matters in this auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in this auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest of such communication.

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) & (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	<p>Regulations 5, 12(1)(c), 12(3), 13(b), 13(c), 13(c)(i), 16(a), 17(1)(a)</p> <p>Regulations 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a)</p> <p>Regulations 27(2)(e), 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a), 29(1)(b)</p> <p>Regulations 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c)</p> <p>Regulations 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43</p> <p>Regulations 44, 46(2)(e), 46(2)(f)</p>
Municipal Systems Act 32 of 2000	Sections 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 29(3)(b), 34(a), 34(b)

Legislation	Sections or regulations
	<p>Sections 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), 56(a), 57(2)(a)</p> <p>Sections 57(4B), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 93J (1), 96(b)</p>
MSA: Municipal Planning and performance Management Regulations, 2001	<p>Regulations 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 3(6)(a), 7(1), 8, 9(1)(a), 10(a),</p> <p>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	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	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	<p>Regulations 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8)</p> <p>Regulations 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5) 9(1), 10(1), 10(2)</p> <p>Regulations 11(1), 11(2)</p>
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)