AMAHLATI LOCAL MUNICIPALITY

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 council on Amahlathi Municipality

Report on the audit of the financial statements

Opinion

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

Material uncertainty relating to going concern

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

7. I draw attention to note 49 to the financial statements, which indicates that the municipality is unable to pay creditors within due dates and has negative key financial ratios, and that net current liabilities were realised. As stated in note 49, these events or conditions, along with the other matters as set forth in note 49, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matters

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

9. As disclosed in note 47 to the financial statements, the corresponding figures for 30 June 2024 were restated as a result of an error in the financial statements of the Local Municipality at, and for the year ended, 30 June 2025.

10. As disclosed in note 4 and 5 to the financial statements, material cumulative allowance for impairment losses of R118.5 million (2023-24: R89 million) and R55.5 million (2023-24: R53.7

million) was incurred as a result of a provision for impairment of debtors.

11. As disclosed in note 54 to the financial statements, material electricity losses of R12 million (2023-24: R18,4 million) were incurred, which represents 20% (2023-24: 35,3%) of total electricity purchased. The total losses are attributable to normal losses and illegal connections.

Other matter

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

13. 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 for the financial statements

14. The Accounting Officer is responsible for the preparation and fair presentation of the financial statements in accordance with the Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (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.

15. 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

16. 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.

17. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report. This description, which is located at page [insert page number of the annexure to the auditor's report on the settings sheet], forms part of my auditor's report.

Report on the annual performance report

18. 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 material performance indicators presented in the annual performance report. The Accounting Officer is responsible for the preparation of the annual performance report.

19. I selected the following material performance indicators related to KPA 1: Service Delivery and Infrastructure Services presented in the annual performance report for the year ended 30 June 2025. I selected those indicators that measure the Municipality's performance on its primary mandated functions and that are of significant national, community or public interest.

- % progress achieved on the surfacing (paving) of Xholorha Main Road
- % progress achieved on the rehabilitation of Mandlakapheli Village Road.

- % progress achieved on the rehabilitation of Langdraai Village Road.
- % progress achieved on the rehabilitation of Stutterheim - Landfill Site Road
- % progress achieved on the rehabilitation of Upper to Lower Ngqumeya road in Keiskammahoek
- % progress on the rehabilitation of Tshoxa road in Keiskammahoek
- % progress achieved on the rehabilitation of Kubusie road in Stutterheim
- % progress achieved on the rehabilitation of Mahanjane to Ohlson farm road in Stutterheim
- % progress on the reconstruction of Bridge between Rhawini and Bongweni
- % progress achieved on the rehabilitation of Amabele Road in Stutterheim
- % progress on the rehabilitation of Stanhope to Jerseyvale Road in Stutterheim
- % progress achieved on the rehabilitation of Gasela Road in Stutterheim
- % progress on the rehabilitation of Mlungisi township roads in Stutterheim
- % progress achieved on the rehabilitation of Cenyulands Village Roads in Stutterheim
- % progress achieved on the rehabilitation of Emagcumeni Road in ward 10
- % progress achieved on the rehabilitation of Road between Peer to Nxawe & Matsa to Nxawe in Ethembeni (ward 7)
- % progress achieved on the rehabilitation of Goshen Road in Cathcart
- % progress achieved on the rehabilitation of Sophumelela Roads in Keiskammahoek
- % progress achieved on the rehabilitation of Ngxondorheni village Roads in Keiskammahoek
- % progress achieved on the rehabilitation of Phumulani village Roads in Keiskammahoek
- % progress achieved on the rehabilitation of Bumbani village Roads in Keiskammahoek
- % progress achieved on the rehabilitation of Kom village Roads in Keiskammahoek
- % progress on pre-engineering work on the rehabilitation of Keiskammahoek Roads under the STR grant
- No of electricity meters installed
- % progress on the upgrade of streetlights and highmast lights
- No of fire awareness campaigns conducted
- % progress towards construction of Keiskammahoek Recreation Centre
- No. of paintable streets with faded roadmarkings painted
- % progress towards construction of Mbaxa Community Hall
- % Progress on upgrades of sport facilities(Mlungisi)

20. I evaluated the reported performance information for the selected material performance indicators 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.

21. I performed procedures to test whether:

- the indicators used for planning and reporting on performance can be linked directly to the Municipality's mandate and the achievement of its planned objectives
- all the indicators relevant for measuring the Municipality's performance against its primary mandated and prioritised functions and planned objectives are included
- the indicators are well defined and verifiable to ensure that they are easy to understand and apply consistently and 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 what was 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
- there is adequate supporting evidence for the achievements reported and for the measures taken to improve performance

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

23. I did not identify any material findings on the reported performance information for the selected indicators.

Other matter

24. I draw attention to the matter below.

Achievement of planned targets

KPA 1: SERVICE DELIVERY AND INFRASTRUCTURE SERVICES

Targets achieved: 95% *Budget spent: 94%*		
Key indicator not achieved	**Planned target**	**Reported achievement**
1.1.1 % progress achieved on the surfacing (paving) of Xholorha Main Road	100% progress achieved on the paving of 2,3 kilometers at Xholorha Township	90% progress achieved on the paving of 2,3 kilometers at Xholorha Township
1.2.1 No of electricity meters installed	200 meters electricity installed	Target not met 155 meters electricity installed

Report on compliance with legislation

25. 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.

26. 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.

27. 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.

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

Annual financial statements, Annual performance report, Annual report

29. 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.

30. Material misstatements of revenue 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.

Procurement and contract management

31. Sufficient appropriate audit evidence could not be obtained that goods and services with a transaction value of below R300 000 were procured using price quotations as required by SCM Regulation 17(1)(c).

32. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM Regulation 5.

33. The performance of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year

Expenditure management

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

35. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R4,7 million, as disclosed in note 52 of the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by non compliance with section 65(2)(e) of the MFMA.

Governance and oversight

36. The audit committee did not submit an audit report on the review of the performance management system to the council, at least twice during a financial year, as required by regulation 14(4)(a)(iii) on Municipal Planning and Performance Management.

Human resource management

37. 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.

Consequence management

38. 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.

Other information in the annual report

39. 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 material indicators in the scoped-in development priorities presented in the annual performance report that have been specifically reported on in this auditor's report.

40. 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.

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

42. 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

43. 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.

44. The matters reported below are limited to the significant internal control deficiencies that resulted in the material findings on compliance with legislation included in this report.

45. 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.

46. The matters reported below are limited to the significant internal control deficiencies that resulted in the material findings on compliance with legislation included in this report.

47. Leadership did not provide effective oversight responsibility regarding compliance and financial reporting. The slow progress in implementing the prior year action plan has resulted in repeat findings on compliance in the current year.

48. Leadership and senior management did not effectively monitor compliance with laws and regulations resulting in material non compliance with laws and regulations included in this report.

Material irregularities

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

Status of previously reported material irregularities

Cathcart Waste Landfill site: Non-compliance with environmental management legislation

50. The municipality is operating a landfill site in Cathcart without a valid license. The site was licensed for closure on 18 July 2013, with closure and rehabilitation required within a period of two years. This means that the license has lapsed, requiring a new closure license application for and upon closure. The site continues to be used for waste disposal and treatment.

51. This resulted in a material non-compliance with section 28(1) of the National Environmental Management Act 107 of 1998 (NEMA) and section 16 (1) of the National Environmental Management: Waste Act 59, of 2008 (NEMWA) which resulted in pollution of the environment, mainly due to the following:
    - No signs to and from the site observed.
    - No access control (nor security) – no official after hours (only a spotter during day to monitor the waste dumping that incur).
    - Waste disposal still incur.
    - No or ineffective control over waste receive / disposed.
    - Scavenging / recycler activities on site – burning of waste and smoke pollution.
    - No proper treatment / compaction / closure of waste.
    - No yellow assets – vehicles and equipment needed to compact / close – treat the waste upon disposal.
    - No dust suppression.
    - No weighbridge or billing system (or waste recording).
    - Serious windblown litter / pollution of the areas on / surrounding the site.
    - No gas, water, leachate monitoring.
    - No ablution facilities / guard house or other equipment / needs
    - Perfect breeding ground for vermin, vector and other unwanted elements (health and safety

concerns)

52. There is a clear indication of significant air pollution, the degradation of the environment and other nuisances caused by improper landfilling. The pollution could cause serious health, safety and injury risks to the surrounding communities, including workers using the site or communities in nearby areas and substantial harm to the public.

53. The accounting officer was notified of the material irregularity on 28 March 2024 and invited to make a written submission on the actions taken and that will be taken to address the matter. The accounting officer responded, and it was concluded that appropriate actions have been taken. The actions taken and planned are as follows:
• The municipality compiled and submitted an action plan to the Department of Economic Development Environmental Affairs and Tourism (DEDEAT) on 26 January 2024, for the activities towards closure of the site and operationalisation of the transfer station.
• The municipality managed to source funding for conducting the basic assessment, this being the first step to outline the following processes.
o The tender advertisement for conducting the basic assessment of the site towards closure and rehabilitation closed on 19 April 2024.
o A draft transfer station operational plan was submitted to DEDEAT for inputs and comments. Two skip bins were procured and delivered on 15 April 2024, however these still need to be adjusted to properly fit onto the skip bin truck.
o A concept document was developed requesting further intense training of identified recyclers around the area of Cathcart, who are going to operate the transfer station was submitted to the DEDEAT.

54. Most of the actions taken by the accounting officer that are expected to bring improvement have been effected and some are still in progress. The service provider was appointed to assist the process and now the municipality is waiting for the waste licence application submitted to DEDEAT on 30 May 2025.

55. The progress will be followed up in the next financial year.

Auditor-General

East London

12 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 financial statements and the procedures performed on reported performance information for selected material performance indicators 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:

Selected legislation and regulations	Consolidated firm level requirements
Municipal Finance Management Act 56 of 2003	Sections: 1, 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 28(1), 29(1), 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), Sections: 32(2)(b), 32(6)(a), 32(7), 33(1)(c)(ii), 53(1)(c)(ii), 53(1)(c)(iii)(bb), 54(1)(c), 62(1)(d), 63(2)(a), 63(2)(c), 64(2)(b), 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), 122(2), 126(1)(a), 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 165(1), 165(2)(a), 165(2)(b)(ii), 165(2)(b)(iv), 165(2)(b)(v), 165(2)(b)(vii), 166(2)(b), 166(2)(a)(iv), 166(5), 170, 171(4)(a), 171(4)(b)
MFMA: Municipal budget and reporting regulations, 2009	Regulations: 71(1)(a), 71(1)(a)(b), 71(2)(a), 71(2)(b), 71(2)(d), 72(a), 72(b), 72(c)
MFMA: Municipal Investment Regulations, 2005	Regulations: 3(1)(a), 3(3), 6, 7, 12(2), 12(3)
MFMA: Municipal Regulations on financial Misconduct Procedures and Criminal Proceedings, 2014	Regulations: 5(4), 6(8)(a), 6(8)(b), 10(1)
MFMA: Municipal Supply Chain Management Regulations, 2017	Regulations: 5, 12(1)(c), 12(3), 13(b), 13(c), 16(a), 17(1)(a), 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), 27(2)(e), 28(1)(a)(i), 29(1)(a), 29(1)(b), 29(5)(a)(ii), 29(5)(b)(i), 32, 36(1), 36(1)(a), 38(1)(c), 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43, 44, 46(2)(e), 46(2)(f)
Construction Industry Development Board Act 38 of 2000	Section: 18(1)
Construction Industry Development Board Regulations, 2004	Regulations: 17, 25(7A)
Division of Revenue Act	Sections: 11(6)(b), 12(5), 16(1); 16(3)
Municipal Property Rates Act 6 of 2004	Section: 3(1)
Municipal Systems Act 32 of 2000	Sections: 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 34(a), 34(b), 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), 45(a), 54A(1)(a), 56(1)(a), 57(2)(a), 57(4B), 57(6)(a), 57A, 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 96(b)

MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations: 5(2), 5(3), 5(6), 8(4)
MSA: Municipal Planning and Performance Management Regulations, 2001	Regulations: 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 7(1), 8, 9(1)(a), 10(a), 12(1), 14(1)(b)(iii), 14(1)(c)(ii), 14(4)(a)(i), 14(4)(a)(iii), 15(1)(a)(i), 15(1)(a)(ii)
MSA: Municipal Performance Regulations for Municipal Managers and Managers Directly Accountable to Municipal Managers, 2006	Regulations: 2(3)(a), 4(4)(b), 8(1), 8(2), 8(3), 26(5), 27(4)(a)(i)
MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations: 17(2), 36(1)(a)
MSA: Municipal Staff Regulations	Regulations: 7(1), 19, 31, 35(1)
MSA: Municipal Systems Regulations, 2001	Regulation: 43
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section: 34(1)
Preferential Procurement Policy Framework Act 5 of 2000	Sections: 2(1)(a), 2(1)(f)
Preferential Procurement Regulations, 2017	Regulations: 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8), 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5), 9(1), 10(1), 10(2),11(1), 11(2)
Preferential Procurement Regulations, 2022	Regulations: 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4)