Report of the auditor-general to Eastern Cape Provincial Legislature and the council on the Ngqushwa Local Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Ngqushwa Local Municipality set out on pages .... to ...., which comprise the statement of financial position as at 30 June 2025, statement of financial performance, statement of changes in net assets, the cash flow statement and the statement of comparison of budget information with actual information 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 Ngqushwa Local Municipality as at 30 June 2025 and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the 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.

Emphasis of matters

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

7. As disclosed in notes 5 and 7 to the financial statements, material impairment allowances of R12,71 million (2023-24: R10,99 million) and R1,14 million (2023-24: R1,03 million) were made against receivables from non-exchange and exchange transactions, respectively.

Other matters

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

9. 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. 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

10. 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 Dora and the requirements of the 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.

11. 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

12. 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.

13. 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 xx, forms part of my auditor's report.

Report on the annual performance report

14. 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 information 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.

15. I selected the following material performance indicators related to KPA 2: Quality Basic Service Delivery and Infrastructure Development 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.

    - Percentage completed on construction of Peddie Extension Sports field by 30 June 2025

- Percentage completed on construction of KM at Glenmore internal streets by 30 June 2025
- Percentage completed on construction of Meters at Glenmore internal streets by 30 June 2025
- Number of Consultant and Contractor appointed for completion of Phase 1 and 2 (surfacing) at Glenmore internal streets by 30 June 2025
- Percentage completed on Installation of high mast lights at Feni by 30 June 2025
- Percentage completed on Installation of high mast lights at Mgababa by 30 June 2025
- Percentage completed on construction of Bhongweni community hall by 30 June 2025
- Percentage completed on construction of KM at Nxopho internal streets by 30 June 2025
- Percentage completed on construction of KM at Woodlands Internal Streets by 30 June 2025
- Percentage completed on construction of KM at Nyaniso Internal Streets by 30 June 2025
- Number of reports on percentage of MIG/MIS expenditure compiled by 30 June 2025
- Number of reports on registration of 2025/26 & 2026/27 MIG projects and procurement processes compiled by 30 June 2025
- Percentage completed on Construction of Municipal Offices by 30 June 2025
- Number of KM of existing roads maintained through dry blading in all wards by 30 June 2025
- Percentage on number of KM completed on Re-gravelling and repairs of stormwater structures in Ward 2 & 4 (Lower Mthombe, Upper Mthombe, Rode, Kwa-Madliki, Mdolomba villages) by 30 June 2025
- Percentage on number of KM completed on Re-gravelling and repairs of stormwater structures in Ward 5 (Crossroads, Tuku A, Tuku B, Tuku C villages) by 30 June 2025
- Percentage on number of KM completed on Re-gravelling and repairs to stormwater structures in Ward 6 (Makhahlana, Dam-Dam, Feni - kwaMaphiko, eMahlubini, eCheletyuma) by 30 June 2025
- Percentage on number of KM completed on Re-gravelling and repairs of stormwater structures in Ward 7 (Qamnyana,Horton,Gwabeni villages) by 30 June 2025
- Percentage on number of KM completed on Re-gravelling and repairs of stormwater structures in Ward 8 (German village,New Creation and Peddie Extension) by 30 June 2025
- Percentage on number of KM completed on Re-gravelling and repairs of stormwater structures in Ward 9 (Mgwalana,Pikoli,Nobumba) by 30 June 2025
- Number of Public Lighting (High mast and Street lights) maintained in Ward 8(DUR,GER,PED) and Ward 12(Wesley) by 30 June 2025

- Number of reports on percentage of INEP expenditure compiled by 30 June 2025

16. 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.

17. 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
    - there is adequate supporting evidence for the achievements reported and measures taken to improve performance.

18. I performed the procedures to report material findings only; and not to express an assurance opinion or conclusion.

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

Other matters

20. I draw attention to the matters below.

Achievement of planned targets

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

22. The table that follows provides information on the achievement of planned targets and lists the key service delivery indicators that were not achieved as reported in the annual performance

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

KPA 2: Quality Basic Service Delivery and Infrastructure Development

Targets achieved: 79% *Budget spent: 106%*		
Key service delivery indicator not achieved	**Planned target**	**Reported achievement**
Percentage completed on construction of Peddie Extension Sports field by 30 June 2025	100%	98.57%
Percentage completed on construction of KM at Glenmore internal streets by 30 June 2025	100%	87.50%
Percentage completed on construction of Meters at Glenmore internal streets by 30 June 2025	100%	44.18%
Number of Consultant and Contractor appointed for completion of Phase 1 and 2 (surfacing) at Glenmore internal streets by 30 June 2025	2	1
Percentage completed on construction of Bhongweni community hall by 30 June 2025	100%	98.00%
Percentage on number of KM completed on Re-gravelling and repairs of stormwater structures in Ward 5 (Crossroads, Tuku A, Tuku B, Tuku C villages) by 30 June 2025	100%	99.00%

Material misstatements

23. I did not include any material findings in this report.

Report on compliance with legislation

24. 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.

25. 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.

26. 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.

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

Annual financial statements, annual performance report and annual report:

28. 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 of non-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.

Procurement and contract management:

29. The contract performance and monitoring measures were not in place to ensure effective contract management, as required by section 116(2)(c)(ii) of the MFMA.

30. 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

31. 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 presented in the annual performance report that have been specifically reported on in this auditor's report.

32. My opinion on the financial statements and my reports on the audit of the annual performance report and compliance with legislation do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.

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

34. I did not receive the other information before the date of this auditor's report. When I receive and read this information, if I conclude that there is a material misstatement therein, I must 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

35. 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.

36. 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.

37. The municipality did not adequately review the financial statement to ensure full GRAP compliance before they are submitted for audit.

38. The municipality did not ensure that processes and controls are put in place to monitor contractors on a monthly basis and that infrastructure projects are completed timeously and losses are avoided.

Material irregularities

39. 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 irregularity

Fruitless and wasteful expenditure recorded relating to (INEP) WIP assets: expenditure incurred with no work done and assets in existence

40. Ngqushwa Local Municipality recorded total expenditure of R13,74 million on projects funded by the integrated national electrification programme (INEP) 5B grant. This expenditure was recognised as work-in-progress (WIP) assets from the 2016-17 to the 2020-21 year.

41. In the 2021-22 year, the municipality assessed, through the use of a management expert, the actual INEP WIP assets on hand and concluded that although this expenditure had been entirely incurred and paid, there were instances where some assets did not physically in exist.

42. This resulted in a financial loss and non-compliance with section 65(2)(a) of the MFMA. The municipality recorded an impairment loss of R10,51 million and fruitless and wasteful expenditure of R12 million, VAT inclusive (R10,51 million VAT exclusive) in the 2021-22 year.

43. The municipality has submitted sufficient and appropriate evidence confirming that the actions taken by reporting the matter to the South African Police Service and internal disciplinary processes. The identified material irregularity has been adequately addressed.

44. After due consideration of the evidence provided, it has been concluded that the material irregularity has been resolved in accordance with the requirements of the Public Audit Act, and the matter is regarded as closed.

Auditor-General

East London

30 November 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 provided 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
1	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)
2	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)
3	MFMA: Municipal Investment Regulations, 2005	Regulations: 3(1)(a), 3(3), 6, 7, 12(2), 12(3)
4	MFMA: Municipal Regulations on financial Misconduct Procedures and Criminal Proceedings, 2014	Regulations: 5(4), 6(8)(a), 6(8)(b), 10(1)
5	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)
6	Construction Industry Development Board Act 38 of 2000	Section: 18(1)
7	Construction Industry Development Board Regulations, 2004	Regulations: 17, 25(7A)
8	Division of Revenue Act	Sections: 11(6)(b), 12(5), 16(1); 16(3)
9	Municipal Property Rates Act 6 of 2004	Section: 3(1)
10	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) **Parent municipality with ME:** Sections: 93B(a), 93B(b) **Parent municipality with shared control of ME:** Section: 93C(a)(iv), 93C(a)(v)

11	MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations: 5(2), 5(3), 5(6), 8(4)
12	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)
13	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)
14	MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations: 17(2), 36(1)(a)
15	MSA: Municipal Staff Regulations	Regulations: 7(1), 19, 31, 35(1)
16	MSA: Municipal Systems Regulations, 2001	Regulation: 43
17	Prevention and Combating of Corrupt Activities Act 12 of 2004	Section: 34(1)
18	Preferential Procurement Policy Framework Act 5 of 2000	Sections: 2(1)(a), 2(1)(f)
19	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)
20	Preferential Procurement Regulations, 2022	Regulations: 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4)