



Auditing to build public confidence

AUDITOR-GENERAL
SOUTH AFRICA



RAYMOND MHLABA LOCAL MUNICIPALITY (Cons.)

Audit Report

For the year ended 30 June 2025



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence

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

Report on the audit of the consolidated and separate financial statements

Qualified opinion

1. I have audited the consolidated and separate financial statements of Raymond Mhlaba Local Municipality set out on pages xx to xx, which comprise the consolidated and separate statement of financial position as at 30 June 2025, consolidated and separate 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 consolidated and separate financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects and possible effects of matters described in the basis for qualified opinion section of this auditor's report, the consolidated and separate financial statements present fairly, in all material respects, the financial position of Raymond Mhlaba 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 Division of Revenue Act 24 of 2024.

Basis for opinion

Receivables from exchange transaction

3. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for receivables from exchange transaction and related allowance for impairment due to the status of the accounting records and unreconciled differences between the general ledger and age analysis. I was unable to confirm these assets by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to gross balance for receivables from exchange transaction and allowance for impairment stated at R259,1 million (2024: R191,9 million) in note 5 to the consolidated and separate financial statements.

Payables from exchange transaction

4. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for payables from exchange transaction due to the status of the accounting records and the municipality's lack of an adequate internal control system to reconcile transactions with the financial statements. I was unable to confirm these liabilities by alternative means. Consequently, I was unable to determine whether any further adjustments to payables from exchange transactions stated at R233,5 million (2024: R156,1 million) in note 16 to the consolidated and separate financial statements were necessary.

Irregular expenditure

5. The municipality did not disclose all irregular expenditure, as required by section 125(2)(d) of the MFMA, due to not having adequate systems to identify and disclose all irregular expenditure as required. In addition, I was unable to obtain sufficient appropriate audit evidence to confirm the irregular expenditure included in note 56 to the consolidated and separate 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 R90,2 million (2024: R27,3 million) in the consolidated and separate financial statements.

Net cash flows from operating activities

6. Net cash flows from operating activities were not correctly prepared and disclosed, as required by GRAP 2, *Cash flow statements*. This was due to multiple errors in determining cash flows from operating activities. I was not able to determine the full extent of the errors in the net cash flows from operating activities, as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments were necessary to cash flows from operating activities as stated at R61,3 million (2024: R84,5 million) in the consolidated and separate financial statements.

Corresponding figures – total expenditure

7. Total expenditure was materially misstated by R 6,8 million due to the cumulative effect of individually immaterial uncorrected misstatements in employee related costs and general expenditure:

Employee related costs

- Employee related costs, stated at R 220,4 million, were understated by R0, 27 million due to the overstatement of employee benefit obligations.
- In addition, I was unable to obtain sufficient appropriate audit evidence and to confirm the following item by alternative means:

Employee related costs

- Employee related costs for which evidence could not be obtained of R 3,8 million as included in the disclosed balance of R220,4 million.

General expenditure

- General expenditure for which evidence could not be obtained of R 3,3 million as included in the disclosed balance of R 62,9 million.

Consequently, I was unable to determine whether any further adjustment was necessary to employee related costs and general expenditure.

Context for opinion

8. 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.
9. 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.
10. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

11. I draw attention to the matters below. My opinion is not modified in respect of these matters.
12. As disclosed in note 42 to the consolidated and separate financial statements, material electricity losses of R23,6 million (2023-24: R20,1 million) were incurred, which represent 22% (2023-24: 22%) of total electricity purchased. This was due to non-technical losses.
13. As disclosed in note 62 to the consolidated and separate financial statements, the corresponding figures for 30 June 2025 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2025.
14. I draw attention to note 54 in the consolidated and separate financial statements, which deals with the possible effects of the future implications of continuing deterioration in operational results on the municipality's performance and cash flows. Management have also described how they plan to deal with these events and circumstances. My opinion is not modified in respect of this disclosure.

Other matter

15. I draw attention to the matter below. My opinion is not modified in respect of this matter.
16. In terms of section 125(2)(e) of the MFMA, the particulars of non-compliance with the MFMA should be disclosed in the consolidated 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 consolidated and separate financial statements

17. The accounting officer is responsible for the preparation and fair presentation of the consolidated and separate 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 consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

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

Responsibilities of the auditor-general for the audit of the consolidated and separate financial statements

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

Report on the audit of the annual performance report

21. 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.
22. I selected the following development priority presented in the annual performance report for the year ended 30 June 2025 for auditing. I selected a development priority that measures the municipality's performance on its primary mandated functions and that is of significant national, community or public interest.

Development priority	Page numbers	Purpose
Basic service delivery and infrastructure	[XX]	To provide basic service delivery to the community

23. 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.

24. 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 reasons provided for any over- or underachievement of targets / measures taken to improve performance.

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

26. I did not identify any material findings on the reported performance information for the development priority.

Other matters

27. I draw attention to the matter below.

Achievement of planned targets

28. The annual performance report includes information on reported achievements against planned targets and provides explanations for measures taken to improve performance.

Material misstatements

29. I identified preventable material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for basic service delivery development priority. Management subsequently corrected all the misstatements, and I did not include any material findings in this report.

Report on compliance with legislation

30. 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.
31. 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.
32. 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.
33. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statements and annual reports

34. 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 receivables from non-exchange transaction, property, plant and equipment, payables from exchange transaction, non-current liabilities, general expenditure, contracted services and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and/or the supporting records were provided subsequently, but the uncorrected material misstatements and/or supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.
35. The 2023-24 annual report was not tabled in the municipal council after the end of the financial year, as required by section 127(2) of the MFMA.

Asset management

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

Revenue management

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

Expenditure management

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

39. 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 / full extent of the irregular expenditure could not be quantified as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with supply chain management (SCM) regulations.
40. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R13,2 million as disclosed in note 57 to the consolidated and separate 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 interest, penalties and bulk purchases distribution losses above norm.

Strategic planning and performance

41. The performance management system and related controls were not maintained or were inadequate as they did not describe how the performance planning, monitoring, measurement, review, reporting and improvement processes should be conducted and/or organised and/or managed, as required by municipal planning and performance management regulation 7(1).
42. Annual performance objectives and indicators were not included in the Raymond Mhlaba Economic Development Agency's multiyear business plan, as required by section 93B(a) of the Municipal Systems Act 32 of 2000 (MSA).

Governance and oversight

43. The internal audit unit did not submit quarterly reports on the audits of performance measurements of the auditee to the municipal manager and the performance audit committee, as required by regulation 14(1)(c)(ii) on municipal planning and performance management.
44. The audit committee did not review the quarterly reports submitted by the internal auditors on the audits of performance measurement, as required by regulation 14(4)(a)(i) on municipal planning and performance management.
45. I was unable to obtain sufficient appropriate audit evidence that the audit committee submitted 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.

Consequence management

46. 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 / municipal budget and reporting regulation 75(1).

Procurement and contract management

47. Some of the goods and services within the prescribed transaction values for formal written price quotations were procured without obtaining the required price quotations, in contravention of by SCM regulation 17(1)(a) and (c). Similar non-compliance was also reported in the prior year.

48. Some of the contracts were awarded to bidders based on points given for legislative requirement that were not stipulated / differed from those stipulated in the original invitation for bidding, in contravention of SCM regulations 21(b) and 28(1)(a)(i) and the preferential procurement regulations.
49. Some of the construction contracts were awarded to contractors that were not registered with the Construction Industry Development Board (CIDB) and/or did not qualify for the contract in accordance with section 18(1) of the CIDB Act 38 of 2000 and CIDB regulations 17 and 25(7A).
50. 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.
51. 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.
52. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of SCM regulation 46(2)(e) / the code of conduct for staff members issued in terms of the MSA.

Other information in the annual report

53. The accounting officer is responsible for the other information included in the annual report. The other information does not include the consolidates and separate 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.
54. My opinion on the consolidates and separate 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.
55. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the consolidated and separate financial statements and the selected development priorities presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
56. If, based on the work I have performed, I conclude that there is a material misstatement in this other information; I am required to report that fact. I have nothing to report in this regard.

Internal control deficiencies

57. 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.

58. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the material findings on the annual performance report and the material findings on compliance with legislation included in this report.
59. The municipality's financial reporting framework lacks robust processes for the preparation, review and reconciliation of financial information. Key activities such as independent reviews, timeous reconciliations of accounting records and accurate year-end reporting are either inadequately performed or delayed.
60. The municipality has not established effective systems for proper record keeping, document control and accurate transaction recording in both the general ledger and sub-ledgers. In addition, monitoring of compliance with applicable legislation is insufficient, resulting in recurring non-compliance findings. As a direct consequence, irregular expenditure is not adequately investigated or resolved, further undermining accountability, transparency and compliance with legislative requirements.
61. The municipality has not established a culture of continuous internal control execution and monitoring throughout the financial year. Daily and monthly control activities, such as reconciliations and other critical financial records, are either not implemented or not consistently monitored.

Auditor General

East London

10 December 2025



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

The annexure includes the following:

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

Auditor general's responsibility for the audit

Professional judgement and professional scepticism

As part of an audit in accordance with the International Standards on Auditing, I exercise professional judgement and maintain professional scepticism throughout my audit of the consolidated and separate financial statements and the procedures performed on reported performance information for selected development priorities and on the municipality's compliance with selected requirements in key legislation.

Consolidated and separate financial statements

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

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

- evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and determine whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the group as a basis for forming an opinion on the consolidated and separate financial statements. I am responsible for the direction, supervision and review of audit work performed for purposes of the group audit. I remain solely responsible for my audit opinion.

Communication with those charged with governance

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

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

Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003 (MFMA)	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), 32(2)(b), 32(6)(a), 32(7), 53(1)(c)(ii), 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), 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)(ii), 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 24 of 2024	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 (MSA)	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), 54A(1)(a), 56(1)(a), 57(2)(a), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 96(b) Parent municipality with ME:

Legislation	Sections or regulations
	Sections 93B(a), 93B(b) Parent municipality with shared control of ME: Section 93C(a)(iv), 93C(a)(v)
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), 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)