

# Report of the auditor-general to the Eastern Cape Provincial Legislature and council of Emalahleni Local Municipality

## Report on the audit of the financial statements

### Qualified opinion

1. I have audited the financial statements of the Emalahleni 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 comparison of budget and actual amounts for the year ended 30 June 2024 as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects and possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Emalahleni Local Municipality as at 30 June 2024, and 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 5 of 2023 (Dora).

### Basis for qualified opinion

#### Property, plant and equipment

3. I was unable to obtain sufficient appropriate audit evidence for infrastructure assets as required by GRAP 17, *Property, plant and equipment* due to differences identified between the financial statements and the underlying records. The adjustments to infrastructure assets could not be substantiated and verified. In addition, movements relating to infrastructure assets as disclosed in note 9 of the financial statements could not be substantiated as their nature is not sufficiently described. I could not confirm this by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to property, plant and equipment stated at R495.3 million and the related depreciation amortisation and impairment, stated at R23.7 million in the statement of financial performance.

#### Value-added tax

4. The value-added taxation was not recognised as required by GRAP 108, *Statutory receivables*. The municipality has recognised a value added tax payable in the financial statements as opposed to a statutory receivable, and has not disclosed the VAT receivable, according to the underlying source documents. Consequently, statutory receivables is understated by R4.7 million (2023:R6.1 million), and value added tax payable is overstated by R50.5 million (2023:R29.6 million).

### Input accrual

5. The municipality did not calculate the input accrual input in accordance with GRAP 104, *Financial instruments*. Transactions which have been claimed from the South African Revenue Services at year end are disclosed in the input accrual account. Furthermore, I was unable to obtain sufficient appropriate audit evidence for the opening balance of the input accrual disclosed in note 5 to the financial statements, as the municipality did not have adequate controls to maintain their systems. I was unable to confirm the disclosure by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to input accrual at R70.4 million (2023:R47.3 million) in the financial statements.

### Output accrual

6. The municipality did not calculate the output accrual in accordance with GRAP 104, *Financial instruments*. Transactions which have been declared to SARS at year end are disclosed in the output accrual account. . Furthermore, I was unable to obtain sufficient appropriate audit evidence for the opening balance of the input accrual disclosed in note 5 to the financial statements, as the municipality did not have adequate controls to maintain their systems. I was unable to confirm the disclosure by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the output accrual stated at R21.3 million (2023:R14.8 million) in the financial statements.

### Unauthorised expenditure

7. Unauthorised expenditure was not recorded and disclosed in accordance with section 125(2) (d) of the MFMA. In calculating the amount of unauthorised expenditure the municipality used the incorrect budget and actual amounts. Consequently, I was unable to determine whether any adjustments were necessary to note 58.1 disclosed in the financial statements.

### Segment Information

8. I was unable to obtain sufficient appropriate audit evidence regarding the reportable segments presented in the financial statements, as the reportable segments reports presented for auditing purposes were not based on accurate and complete underlying accounting records. I was unable to audit the reportable segments in the financial statements by alternative means.

### Comparison of budget and actual amounts

9. The statement of budget vs actual was not calculated in accordance with the GRAP 24, *Statement of budget vs actual*. The budget amounts reflected in the statement of financial position and cash flow statement differ from the approved budget. Consequently, I was unable to determine whether any adjustments were necessary to the comparison of budget and actual amounts in the financial statements.

## Corresponding figures

### Net cash flows from operating activities

10. Net cash flows from operating activities was not correctly prepared and disclosed as required Standards of GRAP 2, *Cash flow statements*. This was due to errors in accounting for receipts. Consequently, I was unable to determine whether any adjustments to cash flows from operating activities as stated at R56.5 million in the financial statements were necessary.

## Context for opinion

11. 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.
12. 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.
13. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

## Emphasis of matters

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

### Material underspending

15. As disclosed in the statement of note 15.1 of the statement of financial position, the municipality materially underspent the allocation on its conditional grant by R20.6 million.

### Material electricity losses

16. As disclosed in note 36.1 to the financial statements, material electricity losses of R3 million was incurred, which represent 21.4% of total electricity purchased.

### Restatement of prior year figures

17. As disclosed in note 64 to the financial statements, the corresponding figures for the 30 June 2023 were restated as a result of errors in the financial statements of the municipality for the year ended 30 June 2024.

## Other matter

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

## Unaudited disclosure notes (MFMA 125)

19. 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

20. 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.

21. 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

22. 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.

23. 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 annual performance report

24. 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.

25. I selected the following material performance indicators related to basic service delivery and infrastructure development presented in the annual performance report for the year ended 30 June 2024. 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.

- Number of sport field constructed and completed by set date
- Number of km on gravel road completed by set date.

- Number of km of gravel road maintained by set date
- Number of km of paved internal streets completed by set date
- Number of households connected by set date
- Number of public toilets constructed and completed by the set date
- Number of high mast installed by 30 June 2024

26. 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.

27. 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 presented in the annual performance report in the prescribed manner
- there is adequate supporting evidence for the achievements reported and for measures taken to improve performance.

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

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

### **Other matters**

30. I draw attention to the matters below.

## Achievement of planned targets

31. 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
32. The table that follows provides information on the achievement of planned targets and lists the key service delivery indicators that were not achieved as reported in the annual performance report. The reasons for any underachievement of targets and measures taken to improve performance are included in the annual performance report on pages ... to ....

## Basic service delivery and infrastructure development

<i>Targets achieved: 83%</i> <i>Budget spent: 89%</i>		
Key indicator not achieved	Planned target	Reported achievement
Number of km on paved internal streets completed by set date.	1,6km construction of roadbed of the preparation of the paved Indwe Internal Street (Barkley Street) in ward 16 completed by 30 June 2024	Advertisement, appointment of contractor , reallocation of underground services and clear and grub of 1km done
	0.92km construction of the roadbed in preparation of paved Indwe Internal Street (Xalanga street) in ward 16 completed by 30 June 2024	0,92km construction of roadbed preparation of paved Indwe internal Street Xalanga in Xalanga Street not completed.
	2km construction of base layer works in preparation of a paved Hala - Calabash Road in ward 03 by 30 June 2024	Project was advertised, appointment of contractor, 1.1km construction of base layer works has been done
Number of km of gravel road maintained by the set date	8km of rip and recompact of the Ngqoko to Ntshinga gravel road maintained in ward 17 by the 30 June 2024	Rip and recompact of 6km completed, 3km of road tipped and the contractor is busy with tipping and processing the gravel road.
	5km of rip and recompact of the Tshatshu gravel road maintained in ward 1 by the 30 June 2024	3,5km of rip and recompact of the Tshatshu gravel road maintained in ward 1
Number of sports fields constructed and completed by set date	Construction of one Indwe sport field completed by 30 June 2024	Foundation is completed , brick work for the wall is done, roofing is in progress, plastering is done, combi court concrete works are done, earthworks are done, Stromwater pipes are done, laying of grass not completed, running track G5 material tipped but not processed, kerbing is done and flood lighting has been installed.

Number of public toilets constructed and completed by the set date	Construction of one Indwe public toilets completed by 30 June 2024	Brick work for the wall done, roof installation and plastering is done, and sewer and water connection, installation of windows, doors and finishes are still in progress.
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### Material misstatements

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

### Report on compliance with legislation

34. 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.
35. 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.
36. 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.
37. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

### Expenditure management

38. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the unauthorised expenditure could not be quantified as indicated in the basis of qualified opinion paragraph.

### Procurement and contract management

39. 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.
40. Some of the contracts were awarded to bidders based on points given for legislative requirement that were not stipulated in the original invitation for bidding, in contravention of SCM regulations 21(b) and 28(1)(a)(i) and the Preferential Procurement Regulations.

## Annual financial statements

41. 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 current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

## Consequence management

42. The 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.

43. The 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)(a) of the MFMA.

44. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

## Other information in the annual report

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

46. 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.

47. 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.

48. I did not receive the other information prior to the date of the 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 auditor's report and re-issue and amended report as appropriate. However, if it is corrected this will not be necessary.

## Internal control deficiencies

49. 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.
50. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion and the material findings on compliance with legislation included in this report.
51. Management did not implement adequate financial management disciplines during the year and did not ensure that the reconciliation of accounting records is performed in a timely manner to achieve accurate and reliable reporting. Furthermore, the audit action plan that was created was not effectively implemented and monitored as repeat findings were identified in the financial reporting processes.
52. Management did not implement adequate monitoring of compliance with laws and regulations to ensure the compliance with legislative requirements.

AUDITOR - GENERAL

East London

30 November 2024



AUDITOR - GENERAL  
SOUTH AFRICA

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## 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:

Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003	Section 1 - Paragraph (a), (b) & (d) of the definition: irregular expenditure Section 1 - Definition: service delivery and budget implementation plan Sections 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 29(1), Sections 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b), 32(6)(a), Sections 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 62(1)(f)(i), 62(1)(f)(ii), Sections 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b), 64(2)(c), 64(2)(e), Sections 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), 72(1)(a)(ii), 112(1)(j), Sections 116(2)(b), 116(2)(c)(ii), 117, 122(1), 122(2), 126(1)(a), 126(1)(b), Sections 127(2), 127(5)(a)(i), 127(5)(a)(ii), 129(1), 129(3), 133(1)(a), Sections 133(1)(c)(i), 133(1)(c)(ii), 170, 171(4)(a), 171(4)(b)
MFMA: Municipal Budget and Reporting Regulations, 2009	Regulation 71(1), 71(2), 72
MFMA: Municipal Investment Regulations, 2005	Regulations 3(1)(a), 3(3), 6, 7, 12(2), 12(3)
MFMA: Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014	Regulations 5(4), 6(8)(a), 6(8)(b), 10(1)
MFMA: Municipal Supply Chain Management Regulations, 2017	Regulations 5, 12(1)(c), 12(3), 13(b), 13(c), 13(c)(i), 16(a), 17(1)(a), 17(1)(b), Regulations 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), 27(2)(e), Regulations 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a) and (b), 29(5)(a)(ii), 29(5)(b)(ii), Regulations 32, 36(1), 36(1)(a), 38(1)(c), 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), Regulations 38(1)(g)(ii), 38(1)(g)(iii), 43, 44, 46(2)(e), 46(2)(f)
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, 2004	Regulations 17, 25(7A)
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), Regulations 7(2), 7(3), 7(6), 7(8), 8(2), 8(5), 9(1), 10(1), 10(2), 11(1), 11(2)

Legislation	Sections or regulations
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)
Municipal Systems Act 32 of 2000	<p>Sections 25(1), 26(a), 26(c), 26(h), 26(i), 27(1), 29(1)(b)(ii), 29(2)(a), Sections 29(2)(c), 34(a), 34(b), 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, Sections 43(2), 56(a), 57(2)(a), 57(4B), 57(6)(a), 66(1)(a), 66(1)(b), Sections 67(1)(d), 74(1), 93J(1), 96(b)</p> <p>Parent municipality with ME: Sections 93B(a), 93B(b)</p> <p>Parent municipality with shared control of ME: Sections 93C(a)(iv), 93C(a)(v)</p>
MSA: Municipal Planning and Performance Management Regulations, 2001	Regulations 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 3(5)(a), 7(1), 8, 9(1)(a), 10(a), Regulations 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)
MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations 17(2), 36(1)(a)