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

Report on the audit of the financial statements

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 2025, statement of financial performance, statement of changes in net assets, the cash flow statement and comparison of budget information with actual information for the year then ended 30 June 2025, 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 Emalahleni 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 matters below. My opinion is not modified in respect of these matters.

7. As disclosed in the statement of note 17 of the statement of financial position, the municipality materially underspent the allocation on its conditional grant by R4,8 million.

8. As disclosed in note 47 to the financial statements, material electricity losses of R4,2million (2023-2024: R3 million) was incurred, which represents 25,6% (2023-2024: 21.8%) of total electricity purchased.

9. As disclosed in note 4 and note 5 to the financial statements, the municipality has recognised an allowance for impairment on receivables from exchange transactions amounting to R17,9 million (2023–24: R29,8 million) and on receivables from non-exchange transactions amounting to R43 million (2023–24: R37,3 million).

10. As disclosed in note 67 to the financial statements, the corresponding figures for the 30 June 2024 were restated as a result of errors in the financial statements of the municipality for the year ended 30 June 2024.

Other matter

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

12. 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.

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

14. 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.

15. 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.

16. 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

17. 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.

18. 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 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.

    - Number of sport field constructed and completed by set date
    - Number of refuse collection trucks purchased
    - Number of public toilets constructed and completed by the set date
    - Number of km of paved internal streets completed by set date
    - Number of km of gravel road maintained by set date
    - Number of households connected by set date

19. 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.

20. 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 for the reasons provided for any over- or underachievement of targets as well as measures taken to improve performance.

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

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

Other matters

23. I draw attention to the matters below.

Achievement of planned targets

24. The annual performance report includes information on reported achievements against planned targets and provides explanations for over- or under- achievements /measures taken to improve performance. This information should be considered in the context of the material findings on the reported performance information.

25. The table that follows provides information on the achievement of planned targets and list 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

Targets achieved: 77% *Budget spent: 97%*		
Key indicator not achieved	**Planned target**	**Reported achievement**
Number of refuse collection trucks purchased	Facilitate provision of refuse collection truck for Indwe by June 2025.	Target could not be achieved due to budget constraints.
Number of Sport field constructed and completed by set date	Construction of one Indwe Sport field completed by 30 June 2025	Installation of roof trusses done, Plastering is done. Grassing is completed, painting of change rooms is in progress, sport field is in progress. Processing of G2 material for running track, plumbing and ceiling all in progress. Connection of electricity to higmast lights, completion of combi courts not done by 30 June 2025.
Number of kilometres on paved internal streets completed by set date	Reallocation of underground service,1,3km roadbed preparation,1,3 km of tipping and processing of gravel layer works for subbase in preparation of paved internal street (Barkley Street) in ward 16 completed by June 2025	Roadbed preparation of 1,3km, Tipping and process of 1,3km gravel layer works for subbase is not done. Service Provider still busy with box cutting and reallocation of underground service. Reallocation of underground services and box cutting was done; including 1,35km of roadbed preparation, 1,35km of tipping and 1,0 km of processing gravel layer works for subbase was also done. The tipping and processing of

Targets achieved: 77% *Budget spent: 97%*

Key indicator not achieved	Planned target	Reported achievement
		1,6km for base was not completed. Only 0,27km was done. Contractor currently busy with re-establishment.
	0,92km of exposing underground services and reallocation of water and sewer pipeline and 0,92 box cutting in preparation of roadbed at (Xalanga Street) in ward 16 completed by 30 June 2025	Roadbed preparation of 0.92km, Tipping and process of 0.92km gravel layer works for subbase is not done. Box cutting, Roadbed preparation of 0.92km, tipping and process of 0.92km gravel layer works for subbase is not done. Service provider was busy with the reallocation of underground service. Contractor currently busy with disconnecting old water line to the newly installed pipeline.
	3km Roadbed preparation, Tipping and processing of 3km gravel layer works for subbase and 1.2km of stormwater drainages completed in Hala - Calabash Road in ward 03 by 30 June 2025	Installation of 1,4km stormwater pipes is done, Roadbed preparation of 3km is done. Tipping and process of 2,64km gravel layer works for the subbase is done. Tipping and processing of 1,5km gravel layer for base is not done. Construction of four stormwater headwalls, relocation of 0,3km fence. Contractor is currently busy fixing the damaged 0.3km of roadbed and 0.4km of subbase of the completed section, opening of blocked manholes, reworking the 400m of affected subbase
Number of Km of gravel road maintained by the set date	4.5km gravel road and stormwater at lower Lanti completed by 30 June 2025.	4,5km tipping and processing gravel road completed. Installation of eight stormwater crossing is done. Three ditch drains and concrete slab were constructed and damages by heavy rains. Project is practically complete with identified snag of cleaning the site and erection of road signs.
	5,6km gravel road maintained at Dukathole in Ward 9 completed by 30 June 2025	Contract awarded. Stormwater crossings in progress. 4,6km tipping and processing of gravel road completed. Stone pitching is completed.
	4km gravel road maintained at Upper Vaal Bank in ward 10 completed by 30 June 2025	Contract awarded. 1km Rip and Recompact ion is done. 4km tipping and processing of gravel road and installation of stormwater pipes done. Concrete ditches and stone pitching not completed.
	6.3km gravel road maintained at Bhozwana in ward 6 and 7 completed by 30 June 2025	Contract awarded. 3km rip and recompact ion is done, Tipping and Processing of gravel road is in progress. 6.3km tipping and processing of gravel

Targets achieved: 77% *Budget spent: 97%*		
Key indicator not achieved	**Planned target**	**Reported achievement**
		road completed. 6,3 km gravel road completed, Installation of Stormwater not completed, concrete dish drains and stone pitching is not completed therefore project is not completed.
	10.1km gravel road maintained at Valelo, Ntsinga and Njombela in ward 17 completed by 30 June 2025	Contract awarded – 3km of roadbed preparation is done at Njombela side. 8km rip and recompact ion is done, Tipping of gravel road is in progress. 10.1 km tipping and processing of gravel road by 31 March 2025. Installation of Stormwater and 10.1km gravel road and stormwater at Valelo, Ntsinga and Njombela completed by 30 June 2025.
Number of households connected by set date	Connect 58 households in IDA Farm by 30 June 2025	Site establishment has been done; excavation of holes and planting of poles has been done. 54 households have been electrically connected.

Report on compliance with legislation

26. 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.

27. 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.

28. 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.

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

Expenditure management

30. Reasonable steps were 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.

31. Reasonable steps were not taken to prevent irregular expenditure amounting to R63,8 million as disclosed in note 59 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by the SCM process not being followed by the municipality.

32. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R7,3 million, as disclosed in note 58 to 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 penalties not being imposed on a contractor.

33. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R85,4 million, as disclosed in note 57 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by not budgeting for contract costs, as well as under budgeting for non-cash items.

Procurement and Contract management

34. The preference point system was not applied to some of the procurement of goods and services as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act.

Annual Financial Statements, performance report and annual report

35. 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 liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

Consequence management

36. 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.

37. 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.

38. 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.

Asset management

39. An effective system of internal control for assets including an asset register was not in place, as required by section 96(2)(b) of the MFMA.

Governance and oversight

40. The Internal Audit unit did not advise the accounting officer and/or did not report to the audit committee on the implementation of the internal audit plan on matters relating to risk management, as required by section 165(2)(b)(iv) of the MFMA.

Revenue management

41. An effective system of internal control for debtors was not in place, as required by section 64(2)(f) and 97(i) of the MFMA.

Other information in the annual report

42. 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.

43. 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.

44. 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.

45. 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

46. 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.

47. 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.

48. 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.

49. Management did not implement adequate monitoring of compliance with laws and regulations to ensure the compliance with legislative requirements.

Auditor-General

East London

29 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 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
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)

#	Selected legislation and regulations	Consolidated firm level requirements
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)