

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

Report on the audit of the financial statements

Opinion

1. I have audited financial statements of the Dr AB Xuma 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 statement of comparison of budget and actual amounts for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Dr AB Xuma Local Municipality as at 30 June 2024 and its financial performance and cash flows for the year then ended in accordance with Generally Recognised Accounting Practices (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 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.

Restatements of corresponding figures

7. As disclosed in note 59 to the financial statements, the corresponding figures for 30 June 2023 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2024.

Material impairments

8. As disclosed in notes 5 and 6 to the financial statements, impairments of R4,6 million (2023: R3,7 million) relating to receivables from exchange and R18,3 million (2023: R13,4 million) relating to statutory receivables.

Other matter

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

Unaudited disclosure notes

10. 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

11. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with Standards of 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.
12. 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

13. 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.
14. 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 audit of the annual performance report

15. 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 key performance area presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

16. I selected the following key performance area presented in the annual performance report for the year ended 30 June 2024 for auditing. I selected a key performance area that measures the municipality's performance on its primary mandated functions and that is of significant national, community or public interest.

| Key performance area | Page numbers | Purpose |
|------------------------|--------------|---|
| Basic service delivery | [XX] | The key performance area is key to the core functions of the municipality and service delivery within the municipality. |

17. I evaluated the reported performance information for the selected key performance area 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.

18. 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 underachievement of targets.
- I performed the procedures for the purpose of reporting 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 key performance area.

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 provides explanations for underachievements.

22. 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 are included in the annual performance report on pages xx to xx.

Basic service delivery

| <i>Targets achieved: 62%</i> <i>Budget spent: 100%</i> | | |
|---|----------------|----------------------|
| Key indicator not achieved | Planned target | Reported achievement |
| Number of kilometres of disaster access roads constructed by 30 June 2024 | 30.5km | 0km |
| Number of kilometres for upgrading of primary relief road constructed by 30 June 2024 | 3.3km | 0km |
| Number of Bridges to be constructed by 30 June 2024 | 3 | 2 |

Material misstatements

23. 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. Management subsequently corrected all the misstatements, and 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 and annual report

28. The financial statements submitted for auditing were not fully prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of revenue, expenditure, current assets, 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.¹⁴

Expenditure management

29. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R1,4 million as disclosed in note 52 to the annual financial statements, in contravention of section 62(1)(d) MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by inadequate project management.

Procurement and contract management

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

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 development priorities presented in the annual performance report that have been specifically reported on in this auditor's report.
32. 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.
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 development priorities 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 prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

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 basis for opinion and the material findings on compliance with legislation included in this report.

37. Management did not adequately review and monitor compliance with applicable laws and regulations.

- Management did not adequately exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.
- Management did not adequately develop and monitor the implementation of action plans to address internal control deficiencies.
- Management did not adequately prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Material irregularities

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

Material irregularities identified during the audit

39. The material irregularities identified are as follows:

Payment for construction work at Machibini bridge not delivered

40. The municipality approved payments for construction work without validating that the work was done in contravention of Section 78(1)(b) of the (MFMA) which states that each senior manager of a municipality and each official of a municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure that the financial and other resources of the municipality are utilised effectively, efficiently, economically and transparently. The non-compliance resulted in a material financial loss of R 1.4 million for Dr AB Xuma Local Municipality.

41. The accounting officer was notified about the material irregularity on 13 August 2024. The accounting officer instituted an investigation into the matter and the person responsible was suspended and was found guilty and then dismissed on 13 January 2023. Another official is currently on suspension with effect from 25th July 2024 pending finalization of the disciplinary case. The contractor for Machibini bridge submitted a withdrawal letter on 22nd November 2023.
42. The municipality has implemented internal controls on the 1st of August 2023 to addressing the non-compliance of verifying the invoice before processing for payments. Furthermore, from the 1st of August 2023 management commenced performing sites inspections prior payment confirmation. The municipality met with the service provider responsible for the noncompliance on the 1st of October 2024 to initiate the process to recover the monies.
43. The implementation of the above planned actions will be followed in the next audit.

Payment for construction work at Nogqala bridge not delivered

44. The municipality approved payments for construction work without validating that the work was done in contravention of Section 78(1)(b) of the (MFMA) which states that each senior manager of a municipality and each official of a municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure that the financial and other resources of the municipality are utilised effectively, efficiently, economically and transparently . The non compliance resulted in a material financial loss of R 1.2 million for Dr AB Xuma Local Municipality.
45. The accounting officer was notified about the material irregularity on 06 August 2024. The accounting officer instituted an investigation into the matter and the person responsible was suspended and was found guilty and then dismissed on 13 January 2023. Another official is currently on suspension with effect from 25th July 2024 pending finalization of the disciplinary case. The contractor for Nogqala bridge was terminated on 21st February 2023.
46. The municipality has implemented internal controls on the 1st of August 2023 to addressing the non-compliance of verifying the invoice before processing for payments. Furthermore, from the 1st of August 2023 management commenced performing sites inspections prior payment confirmation. The municipality met with the service provider responsible for the non compliance on the 1st of October 2024 to initiate the process to recover the monies.
47. The implementation of the above planned actions will be followed in the next audit.

Other reports

48. In addition to the investigations relating to material irregularities, I draw attention to the following engagement conducted by a party. This report did not form part of my opinion on the financial statements or compliance with legislation.
49. The Hawks is investigating non compliances within the supply chain management unit, the investigation is still in progress.

Auditor-General

East London

29 November 2024



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 development priorities 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 (Act No. 56 of 2003) | Section 122 (1) Section 122 (2) Section 126 (1) (a) and 126 (1)(b) Section 133 (1)(a) and 133 (1)(c) Section 127 (2) and 127 (5)(a) Section 129 (1) and 129 (3) Section 65 (2) (e) and 65 (2) (a) Section 11 (1) Section 62 (1)(d) Section 87 (8) Section 15 Section 29 (1) and 29 (2) (b) Section 62(1)(f)(i) and 62(1)(f)(ii) Section 63(2)(a) Section 64(2)(e) and 64 (2) (b) Section 64(2) (c) and 64(2)(g) Section 13(2) Section 14(1) Section 14(2)(a) and 14(2)(b) Section 33(2) Section 170 Section 32(2) and 32(6)(a) Section 171 (4)(a) Section 53(1)(c)(ii) Section 1 Section 72(1)(a)(ii) Section 24(2)(c)(iv) Section 54(1)(c) Section 117 |
| Municipal Budget and Reporting Regulations | Regulation 71 (1) and 71 (2) Regulation 72 |
| Municipal Structures Act ,(Act No.32 of 2000) | Section 74(1) Section 96 (b) Section 29(1)(b)(ii) Section 42 |

| Legislation | Sections or regulations |
|---|--|
| | Section 25(1) Section 26 Section 41(1)(a) and 41(1)(b) Section 43(2) Section 4(a) and 41(1)(c)(ii) Section 34(b) Section 38(a) |
| Municipal Property Rates Act ,(Act No.06 of 2004) | Section 3 (1) |
| Municipal investment regulations | Regulation 3(1)(a) and 3(3) Regulation 6 Regulation 7 Regulation 12(2) and 12(3) |
| Prevention and Combatting of Corrupt Activities Act (Act No.12 of 2004) | Section 34(1) |
| Municipal Planning and Performance Management Regulations | Regulation 15(1)(a)(i) Regulation 2(1)(e) Regulation 2(3)(a) Regulation 9(1)(a) Regulation 10(a) Regulation 12(1) Regulation 3(4)(b) and 15(1)(a)(ii) Regulation 3(3) Regulation 8 Regulation 7(1) |
| Disciplinary Regulations for Senior Managers | Regulation 5 (2) Regulation 5 (6) Regulation 8 (4) |
| Financial Misconduct Regulations | Regulation 5(4) Regulation 6(8)(a) Regulation 10(1) |
| Supply Chain Management Regulations | Regulation 121(1)(c) Regulation 16(a) Regulation 17(a) and (c) Regulation 17(b) Regulation 43 Regulation 19(a) &(b) |

| Legislation | Sections or regulations |
|---|---|
| | Regulation 3691)(a) Regulation 12(3) Regulation 27(2)(a)&(e) Regulation 22(1)(b) & 22(2) Regulation 28(1)(a)(i) Regulation 21(b) Regulation 29(1) (a) & (b) Regulation 29(5)(a)(ii) & (b)(i) Regulation 13(c) Regulation 38(1) (c.) Regulation 38(1)(d)(ii) & (g)(iii) Regulation 38(1) (e.) Regulation 38(1)(g)(i) and 38(1)(g)(ii) Regulation 32 Regulation 5 Regulation 44 Regulation 46(2)(e) and 46(2)(f) |
| Preferential Procurement Policy Framework Act,(Act No.5 of 200) | Section sec 2(1)(a) Section 2(1)(f) |
| Public Procurement Regulations of 2017 | Regulation 6(1) and 7(1) Regulation 6(8), 7(8), 10(1)&(2) & 11(1) Regulation 5(1) & 5(3) Regulation 5(6) Regulation 5(7) Regulation 9(1) |
| Public Procurement Regulations of 2022 | Regulation 4(1) and 5(1) Regulation 4(4) & 5(4) |

Explanatory information and examples

General