DR AB XUMA LOCAL MUNICIPALITY

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 the council on Dr AB Xuma Local Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of Dr AB Xuma 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, cash flow statement and statement of comparison of budget information with 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 Dr AB Xuma Local Municipality as at 30 June 2025 and its financial performance and cash flows for the year then ended in accordance with 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.

Material uncertainty related to going concern

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

7. I draw attention to note 51 to the financial statements, which indicates that the municipality is taking 35 days to pay creditors and 36 days to collect its outstanding debt. The cash coverage is less than one month, and the liquidity ratio is adverse, indicating the municipality cannot meet short-term obligations. These events and conditions disclosed in note 51 to the financial statements together with other matters set forth in the same note, indicate that a material uncertainty exists that may cast significant doubt on the municipalities ability to continue as a going concern.

Emphasis of matters

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

9. As disclosed in note 57 of the financial statement, the corresponding figures for 30 June 2024 were restated as result of an error in the financial statements of the municipality at and for the year ended 30 June 2024.

10. As disclosed in note 5 and 6 to the financial statements, impairment of R5,5 million (2024: R4,6 million) relating to receivables from exchange and R27,9 million (2024: R18,5 million) relating to statutory receivables.

Other matter

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

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 GRAP standards 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.

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 audit of 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 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.

18. I selected the following development priority presented in the annual performance report for the year ended 30 June 205 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.

19. 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.

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

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

21. I did not identify any material findings on the reported performance information for the selected key performance area.

Other matters

22. I draw attention to the matters below.

Achievement of planned targets

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

24. 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 measures taken to improve performance are included in the annual performance report on pages xx to xx.

Basic service delivery

Targets achieved: 75%

Budget spent: 100%

Key service delivery indicator not achieved	Planned target	Reported achievement
Number of energisable households completed by 30 June 2025	403	273
Number of kilometres of disaster access roads rehabilitated 30 June 2025	55,12km	31,01
Number of bridges constructed 30 June 2025	3	1

Material misstatements

25. 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 of the misstatements, and I did not include any material findings in this report.

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:

Annual financial statements and annual report

30. 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 non-current asset, current assets, liabilities, revenue, expenditure 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.

Utilisation of conditional grants

31. Performance in respect of programmes funded by the Municipal Infrastructure Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act (Act 24 of 2024).

32. Performance in respect of programmes funded by the Expanded Public Works Programme was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act (Act 24 of 2024).

33. Performance in respect of programmes funded by the Municipal Disaster Response Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act (Act 24 of 2024).

Expenditure management

34. Reasonable steps were not taken to prevent irregular expenditure of R53,2 million as disclosed in note 53 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 municipality procuring services from a panel in contravention of section 217 of the Constitution of the Republic of South Africa Act of 1996 as well as the Preferential Procurement Policy Framework Act (PPPFA) regulation.

Human resource management

35. I was unable to obtain sufficient appropriate audit evidence that the auditee did not appoint employees who were previously dismissed for misconduct or who resigned prior to the finalisation of disciplinary proceedings, as required by section 57A of the Municipal System Act(MSA).

36. The auditee did not conduct reference checks and personal credential verification for newly appointed staff members, as required by regulation 19 of the Municipal Staff Regulations.

37. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the MSA and regulation 31 of Municipal Staff Regulations

38. The staff member(s) did not enter into a performance agreement within the prescribed period, as required by regulation 35(1) of the Municipal Staff Regulations.

39. The annual performance appraisal for senior managers was not performed and/or the key performance areas (KPAs) outlined in the individual performance plans were not assessed based on the achieved results, as required by regulations 26(5) and 27(4)(a)(i) of the Municipal Performance Regulations.

40. The audit committee did not submit 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) of the Municipal Planning and Performance Management.

Procurement and contract management

41. 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 Supply Chain Management regulation (SCM) 17(1)(a) and (c).

42. 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 PPPFA. Similar non-compliance was also reported in the prior year.

43. Some of the construction contracts were awarded to contractors that did not qualify for the contract in accordance with CIDB regulations 17 and 25(7A).

44. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5.

Asset management

45. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) and 96(2)(b) of the MFMA.

Strategic planning and performance management

46. The performance management system and related controls were not adequately maintained as required by municipal planning and performance management regulation 7(1). Internal control deficiencies on the review and reconciliation of the quarterly reports used to prepare the Annual Performance Report (APR) were not adequately performed and material misstatement on usefulness were identified.

Consequence management

47. Some of the irregular expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

48. Some of the losses resulting from irregular expenditure were certified council as irrecoverable without having conducted an investigation to determine the recoverability of the expenditure, in contravention of section 32(2)(b) of the MFMA.

49. 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.

50. Fruitless and wasteful expenditure were certified by council certified as irrecoverable without having conducted an investigation to determine the recoverability of the expenditure, in contravention of section 32(2)(b) of the MFMA.

Other information in the annual report

51. The accounting officer is responsible for the other information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected key performance area presented in the annual performance report that have been specifically reported on in this auditor's report.

52. 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.

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

54. 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

55. 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.

56. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the opinion and the material findings on the annual performance report and the material findings on compliance with legislation included in this report.

57. Leadership did not adequately implement all necessary disciplines to enable effective oversight on the implementation and monitoring of internal controls to ensure sound financial management, performance management and compliance with legislation.

58. Leadership did not effectively monitor the implementation of corrective actions to address internal control deviations and compliance requirements. There is a lack of effective controls in the municipality over daily processing, reconciling, reviewing, storage, and monitoring of financial and performance information. This resulted in the material findings identified during the audit of the annual financial statements, annual performance report and the audit of compliance with laws and regulations.

59. Leadership did not ensure an effective performance management system and related controls were in place; this resulted in material findings during the audit of performance information.

Material irregularities

60. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit and on the status of material irregularities as previously reported in the auditor's report.

Status of previously reported material irregularities

Payment for construction work at Machibini bridge not delivered

61. The municipality made payments for the construction of the Machibini bridge that was not delivered in contravention of section 78(1)(b). In August 2021 a service provider was appointed on an 8-month contract for the construction of the bridge. The contract with the service provider was terminated due to poor performance. In May 2023, another service provider was appointed on a 6-month contract to complete the construction, and redo work performed by the first service provider.

62. In the 2022/23 period, the municipality made payments to the new service provider for the remedial work done, resulting in a material financial loss of R1,6 million by 10 Aug 2022.

63. The accounting officer was notified about the material irregularity on 13 August 2024.The accounting officer responded on 11 September 2024 and instituted an investigation on 23 July 2024 into the matter, and the person responsible was suspended. Subsequently, the official was found guilty and dismissed on 13 January 2023. Another official is currently on suspension with effect from 25th July 2024 pending finalisation of the disciplinary case. The contractor for Machibini bridge withdrew from the project on 22nd November 2023.

64. The municipality has implemented internal controls on the 1st of August 2023 to address the non-compliance of verifying the invoice before processing for payments. Furthermore, from the 1st of August 2023 management commenced performing site 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.

65. A follow-up was conducted on 25 April 2025 and 30 September 2025 regarding the progress of the material irregularity reported in the 2024/25 financial year. The municipality submitted supporting documentation on the 30 May 2025 and 20 October 2025 indicating progress. However, upon analysis of the submission it was noted that the planned actions reported in the 2023/24 audit were not fully implemented, and no further action has been taken to recover the losses incurred.

66. Based on the above considerations, I determined that the AO is not taking appropriate actions to resolve the MI. I am in the process of making a decision on further actions to be taken.

Payment for construction work at Nogqala bridge not delivered

67. The municipality approved payments for construction work without validating that the work was done in contravention of Section 78(1)(b) of the (MFMA). In August 2021 a service provider was appointed on an 8-month contract for the construction of the bridge and the service provider was terminated due to non-performance and the items that were claimed by the service provider could not be physically verified. In July 2023, another service provider was appointed on a 7-month contract to complete the construction of Nogqala bridge.

68. In the 2022/23 period, the municipality made payments for work not done, resulting in a material financial loss of R1.2 million for Dr AB Xuma Local Municipality.

69. The accounting officer was notified about the material irregularity on 06 August 2024.The accounting officer responded on 11 September 2024 and instituted an investigation on 23 July 2024 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 finalisation of the disciplinary case. The contract for Nogqala bridge was terminated on 21st February 2023.

70. The municipality has implemented internal controls on the 1 August 2023 to addressing the non-compliance of verifying the invoice before processing for payments. Furthermore, from 1 August 2023 management commenced performing sites inspections prior payment confirmation. The municipality met with the service provider responsible for the non - compliance on 1 October 2024 to initiate the process to recover the monies.

71. A follow-up was conducted on 25 April 2025 and 30 September 2025 regarding the progress of the material irregularity reported in the 2024/25 financial year. The municipality submitted supporting documentation on the 30 May 2025 and 20 October 2025 indicating progress. However, upon analysis of the submission it was noted that the planned actions reported in the 2023/24 audit report were not fully implemented, and no further action has been taken to recover the losses.

72. The municipality submitted supporting documentation indicating progress. However, upon analysis, it was noted that the planned actions reported in the 2023-24 audit report were not implemented, and no further action has been taken to recover the losses incurred.

73. Based on the above considerations, I determined that the AO is not taking appropriate actions to resolve the MI. I am in the process of making a decision on further actions to be taken.

Other reports

74. 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 my findings on the reported performance information or compliance with legislation.

75. The Directorate for Priority Crime Investigation (Hawks) is investigating non-compliance within the supply chain management unit on Nogqala bridge. The investigation is still in progress.

Auditor General

East London

30 November 2025

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

The annexure includes the following:

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

Auditor general's responsibility for the audit

Professional judgement and professional scepticism

As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected 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 the 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.

- 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 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	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), 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), Sections: 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), Sections: 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), Regulations: 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), Regulations: 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)
Municipal Property Rates Act 6 of 2004	Section: 3(1)
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), Sections: 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: 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: 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 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)