

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

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the 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 and cash flows 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, 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 municipality as at 30 June 2024, 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 05 of 2023 (Dora).

Basis for qualified opinion

Infrastructure assets

3. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding amounts for infrastructure assets in the financial statements. As described in note 44, the restatement was made to rectify a previous year misstatement, but the restatement could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the infrastructure assets in the corresponding figure stated at R 163 million in the financial statements.

Context for opinion

4. 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.
5. 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.

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

Emphasis of matters

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

Material impairment – Allowance for impairment

8. As disclosed in note 4 to the financial statements, material impairment of R76.6 million (2022-23: R76.1 million) was incurred as a result of a write-off of irrecoverable trade debtor

Underspending of conditional grant

9. As disclosed in note 14 of the financial statements the municipality has material underspending amounting to R36.9 million.

Other matter

10. I draw attention to the matter below. My opinion is not modified with respect to this matter.

Unaudited disclosure notes

11. 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. These disclosure requirements 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

12. 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.
13. 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

14. 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.

15. 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

16. 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.

17. I selected the following material performance indicators related to basic service delivery 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 municipal buildings renovated/maintenance by 30 June 2024
- Number of municipal halls renovated by 30 June 2024
- Number of businesses waste collected by 30 June 2024
- Number of households waste collected by 30 June 2024
- Number of paved km's on construction of Qokolo to Koppitjie access road phase 3 by 30 June 2024
- Number of paved km's on construction of Kuthula access road phase 2 by 30 June 2024
- Number of Km's regravelling on construction of Garry Owen to Mtyatya Access Road by 30 June 2024
- Number of regravelling on construction of Siphafeni access road by 30 June 2024
- Number of Km's of construction Elliot surfaced internal street by 30 June 2024
- Number of Km's construction of Phakamisa access road by 30 June 2024
- Electrification of households, in ward 1,2,3, 6, 7 by June 2024
- Maintenance of electricity infrastructure by 30 June 2024
- Number of high mast lights maintained in Cala and Khowa by 30 June 2024
- Kms of roads maintained in all wards by 30 June 2024
- Kms of roads rehabilitated in Mankazana and Extension 15 by 30 June 2024
- Number of culverts rehabilitated in Luxeni by 30 June 2024
- Kms of roads rehabilitated in Mdantsane by 30 June 2024

- Kms of roads rehabilitated in Zingquthu by 30 June 2024
- Number of culverts rehabilitated in Ntlanjeni by 30 June 2024
- Kms of roads rehabilitated in Jonini, Ngcangcazela & Polar Park by 30 June 2024
- Kms of roads rehabilitated in Lahlangubo and Sifonondile by 30 June 2024

18. 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.

19. 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 the measures taken to improve performance.

20. I performed the procedures to report 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 basic service delivery of the selected indicators.

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 following tables provide information on the achievement of planned targets and a list of the 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

<i>Targets achieved: 70%</i> <i>Budget spent: 60%</i>		
Key service delivery indicator not achieved	Planned target	Reported achievement
Number of km's regravelling on construction of Garry Owen to Mtyatya access road by 30 June 2024	1.7km regravelling on construction of Garry Owen to Mtyatya access oad by 30 June 2024	1.3km regravelling on construction of Garry Owen to Mtyatya access road by 30 June 2024
Number of km's of construction Elliot surfaced internal street by 30 June 2024	1 km of paved road on construction Elliot surface internal street by 30 June 2024	0,75km km of paved road on construction Elliot surface internal street by 30 June 2024
Number of km's construction of Phakamisa access road by 30 June 2024	1km construction of Phakamisa access road by 30 June 2024	0.7km construction of Phakamisa access road by 30 June 2024
Maintenance of electricity infrastructure by 30 June 2024	237 street lights Khowa by 30 June 2024	62 street lights s Khowa by 30 June 2024
Number of km's of rehabilitated in Jonini, Ngcangcazela & polar park by 30 June 2024	5km of gravel road base to be rehabilitated in Jonini (2km), Ngcangcazela (2km) and Polar Park (1km) by 30 June 2024	3km of gravel road base to be rehabilitated in Jonini (2km), Ngcangcazela (0km) and Polar Park (1km) by 30 June 2024
Km's of roads rehabilitated in Lahlangubo and Sifanondile by 30 June 2024	2km of gravel road base and 1 portal culvert in Sifondile to be rehabilitated by 30 June 2024	2km of gravel road base and 0 portal culvert in Sifondile to be rehabilitated by 30 June 2024
Electrification of households, in ward 1,2,3,6,7 by June 2024	694 electrified households by 30 June 2024	561 electrified households by 30 June 2024
Kms of roads rehabilitated in Zingquthu by 30 June 2024.	10.6km of gravel road-base rehabilitated in Zinguthu by 30 June 2024	0 km of gravel road-base rehabilitated in Zinguthu by 30 June 2024
Number of municipal buildings renovated/maintained by 30 June 2024	3 municipal buildings renovated by 30 June 2024.	2 municipal buildings renovated by 30 June 2024.

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 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:

AFS and annual report

30. 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 property, plant and equipment, revenue from non-exchange transactions, VAT receivable, statutory receivables, MFMA disclosure, financial instrument and cash flow statement identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.
31. The oversight report adopted by the council on the 2022/23 annual report was not made public, as required by section 129(3) of the MFMA.

Expenditure management

32. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
33. Reasonable steps were not taken to prevent irregular expenditure amounting to R13 million as disclosed in note 43 to the annual financial statements, as required by section 62(1)(d) of the

MFMA. The majority of the irregular expenditure was caused by non-compliance with SCM regulation.

34. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R1.1million, as disclosed in note 42 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 SARS penalties and interest.
35. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R21 million, as disclosed in note 41 to the annual financial statements, in contravention of section 62(1) (d) of the MFMA. The majority of the unauthorised expenditure was caused by interest employee benefits, debt Impairment, bad debts written off.

Revenue management

36. An effective system of internal control for debtors was not in place, as required by section 64(2) (f) of the MFMA.
37. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2) (b) of the MFMA.

Asset management

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

Consequence management

39. 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.
40. 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.

Strategic planning and performance

41. The performance management system and related controls were inadequate as it did not describe how the performance review processes should be conducted and managed, as required by municipal planning and performance management regulation 7(1).

Conditional grants

46. Performance in respect of programmes funded by the Municipal Disaster Relief 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 5 of 2022).

Other information in the annual report

42. The accounting officer is responsible for the other information included in the annual report which includes the directors' report, the audit committee's report and the company secretary's certificate, as required by the Companies Act 71 of 2008. The other information referred to does not include the financial statements, the auditor's report and those selected material indicators.

43. Material indicators in the scoped-in development priorities presented in the annual performance report have been specifically reported on in this auditor's report.
44. 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.
45. 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 priorities presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
46. I did not receive the other information before to the auditor's report. When I do receive and read this information, if 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

47. 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.
48. 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.
49. Management did not adequately comply, review and monitor applicable laws and regulations
50. Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

51. Management did not ensure that there were regular, accurate and complete financial and performance reports that were prepared, supported and evidenced by reliable information.

Auditor General ..

East London

28 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 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), Sections 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 62(1)(f)(i), Sections 62(1)(f)(ii), 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b), Sections 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), Sections 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), Sections 122(2), 126(1)(a), 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), Sections 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, Sections 171(4)(a), 171(4)(b)
MFMA: Municipal Budget and Reporting Regulations, 2009	Regulations 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), Regulations 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), Regulations 27(2)(e), 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a), 29(1)(b), Regulations 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c), Regulations 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43, Regulations 44, 46(2)(e), 46(2)(f)
Municipal Systems Act 32 of 2000	Sections 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 29(3)(b), 34(a), 34(b), Sections 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), 56(a), 57(2)(a), Sections 57(4B), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 93J(1), 96(b)

Legislation	Sections or regulations
MSA: Municipal Planning and performance Management Regulations, 2001	Regulations 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 3(6)(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)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2), 5(3), 5(6), 8(4)
Annual Division of Revenue Act	Section 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	Regulations 17, 25(7A)
Municipal Property Rates Act 6 of 2004	Section 3(1)
Preferential Procurement Policy Framework Act 5 of 2000	Sections 2(1)(a), 2(1)(f)
Preferential Procurement Regulations, 2017	Regulations 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8), Regulations 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5) 9(1), 10(1), 10(2), Regulations 11(1), 11(2)
Preferential Procurement Regulations, 2022	Regulations 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4)
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section 34(1)