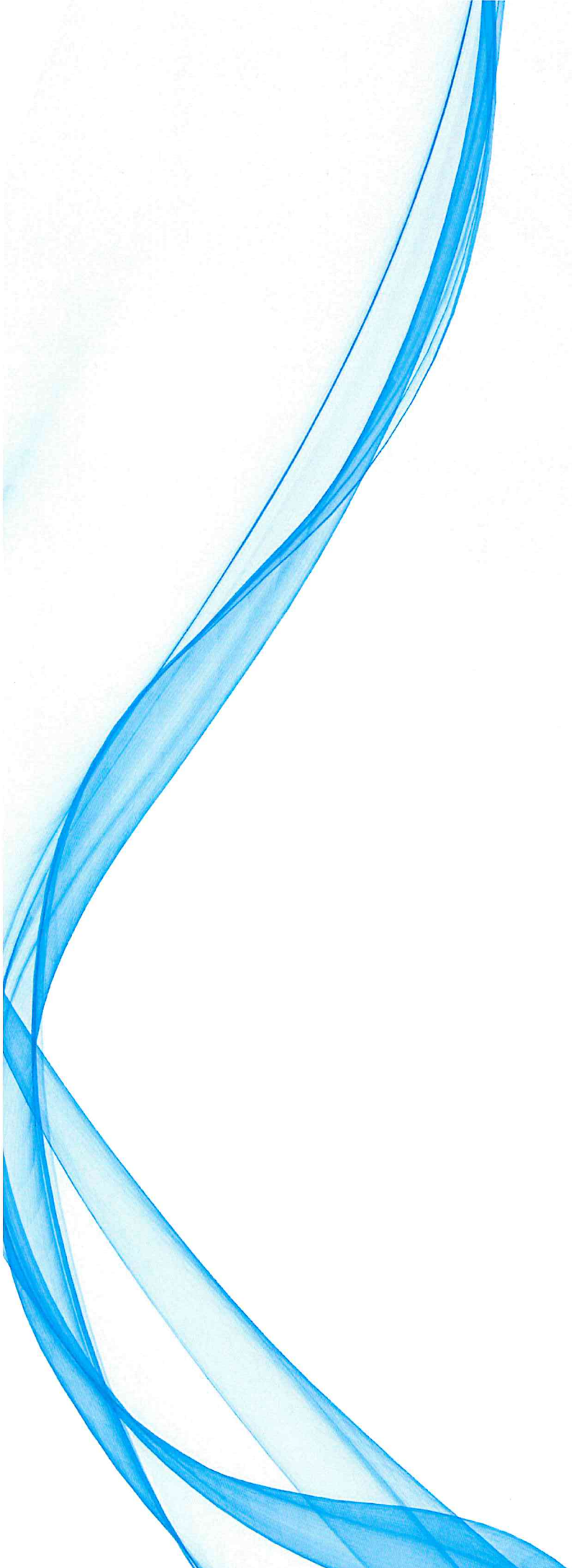




WALTER SISULU LOCAL MUNICIPALITY

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 on the council on the Walter Sisulu Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Walter Sisulu Local Municipality set out on pages xx to xx, which comprise the statements of financial position as at 30 June 2025, statement of financial performance, statement of changes in net assets, and the cash flow statement and the statement of comparison of budget 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, 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 Walter Sisulu Local Municipality as at 30 June 2025, and its financial performance and cash flows for the year then ended in accordance with the South African 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 qualified opinion

Receivables from exchange transactions

3. The receivables from exchange transactions were not disclosed in accordance with GRAP 104, *Financial instruments as the municipality had invalid debtors that were not in the valuation roll*. I was unable to determine the full extent of the overstatement of receivable from exchange transactions, stated at R94,7 million in note 8 to the financial statements, and related service charges, stated at R229,5 million in note 28 to the financial statements, as it was impracticable to do so.

Corresponding figures

Services charges

4. Service charges were not recognised as required by GRAP 9, *Revenue from exchange transactions* in the prior year. Customers were not billed on a monthly basis for electricity. I was unable to determine the full extent of the understatement of service charges corresponding figure, stated at R225,9 million in the financial statements, and the related corresponding figure of receivables from exchange transactions, stated at R56,8 million in the financial statements, as it was impracticable to do so.

Context for opinion

5. 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.
6. 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.

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

Material uncertainty relating to going concern

8. I draw attention to the matter below. My opinion is not modified in respect of this matter.
9. I draw attention to note 53 in the financial statements, which deals with the possible effects of the municipality currently operating in a very severe fiscal environment requiring several austerity measures to be implemented, as it currently cannot service its short-term debt and financial commitments from its current available cash resources and allocated government grants. As stated in note 53, these events or conditions, along with other matters as set forth in note 53, indicate that a material uncertainty exists that may cast significant doubt on the Municipality's ability to continue as a going concern.

Emphasis on matters

10. I draw attention to the matters below. My opinion is not modified in respect of these matters.
11. As disclosed in note 40 to the financial statements, the corresponding figures for 30 June 2024 were restated as a result of an error in the financial statements of the municipality on, and for the year ended 30 June 2025.
12. As disclosed in note 43.4 to the financial statements, material electricity losses of R16,6 million (2024: R9,7 million) were incurred, which represents 15,95% (2024: 9,87%) of total electricity purchased.
13. As disclosed in note 51 to the financial statements, the municipality is the defendant in several lawsuits. The municipality is opposing the claims, and the ultimate outcome of the matters could not be determined at year-end.

Other matters

14. I draw attention to the matter below. My opinion is not modified in respect of these matters.
15. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA 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.
16. The supplementary information set out on pages ... to ... does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

Responsibilities of the accounting officer for the financial statements

17. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the GRAP and the requirements of the MFMA, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
18. 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 cease operations, or has no realistic alternative but to do so.

Responsibilities of the auditor-general for the audit of the financial statements

19. 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 it 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 based on these financial statements.
20. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report. This description, which is located on page xx, the annexure to the auditor's report, forms part of my auditor's report.

Report on the annual performance report

21. 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.
22. I selected the following material performance indicators related to infrastructure and basic service delivery 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 refurbished substations in Maletswai power station (installation of 20MVA transformer, 960A NER, dogbox unit)
 - Percentage (%) of street and municipal building lights retrofitted
 - Number of feasibility reports for the establishment of a landfill site in Maletswai
 - Number of planned electrical maintenance performed
 - Turnaround time of electrical faults reported and resolved
 - Number of kilometres of access roads re-gravelled
 - Number of kilometres of gravel roads upgraded to paved roads
 - Number of kilometres resealed during the phase 2 project in Maletswai
 - Number of kilometres of gravel streets bladed
 - Number of square metres (m²) of surface streets maintained (pothole repairs)
 - Number of kilometres of stormwater maintained
 - Percentage (%) of electricity losses is determined
 - Number of households from which solid waste is collected
 - Number of landfill sites maintained
23. 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 of its mandate and objectives.

24. 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 measures taken to improve performance.

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

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

Other matters

27. I draw attention to the matters below.

Achievement of planned targets

28. The annual performance report includes information on reported achievements against planned targets and provides measures taken to improve performance.

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

Infrastructure and basic service delivery

<i>Targets achieved: 54%</i> <i>Budget spent: 100%</i>		
Key service delivery indicator not achieved	Planned target	Reported achievement
Number of refurbished substations in Maletswai power station (installation of 20MVA transformer, 960A NER, dogbox unit)	1	0
Percentage (%) of street and municipal building lights retrofitted	100%	94%
Number of feasibility reports for the establishment of a landfill site in Maletswai	1	0
Number of kilometres of access roads regavelled	15 km	1,4798 km
Number of kilometres of gravel roads upgraded to paved roads	1 km	0
Number of kilometres resealed during the phase 2 project in Maletswai	2,88	2,80

Report on compliance with legislation

30. 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.
31. 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.
32. 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.
33. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statements, performance and annual reports

34. 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 non-current assets, current assets, current liabilities, non-current liabilities, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the

misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Expenditure management

35. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R122,6 million, as disclosed in note 43.1 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.
36. Reasonable steps were not taken to prevent irregular expenditure amounting to R29,2 million as disclosed in note 43.3 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by incorrect specifications advertised for one contract. Irregular expenditure amounting to R10,8 million was incurred on funding, design, supply, installation and commissioning of the smart metering system.
37. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R19,1 million as disclosed in note 43.2 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.
38. Reasonable steps were not taken to ensure that money owed by the municipality was always paid within 30 days, as required by section 65(2)(e) of the MFMA.

Use of conditional grants

39. 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 Dora.
40. Performance in respect of programmes funded by the Integrated National Electrification Programme Grant (Municipal) was not evaluated within two months after the end of the financial year, as required by section 12(5) of Dora.

Procurement and contract management

41. 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 5 of 2000. Similar non-compliance was also reported in the prior year.

Human resources management

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

Oversight and governance

43. The internal audit unit did not advise the accounting officer and 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.

Other information in the annual report
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44. 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 objective presented in the annual performance report that have been specifically reported on in this auditor's report.

45. 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.
46. 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 objective presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
47. I did not receive the other information before 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

48. 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.
49. 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.
50. Leadership did not adequately perform their oversight responsibilities relating to the preparation and review of the financial statements, as this is evident by several new and repeated material misstatements. The financial disciplines relating to the daily, weekly and monthly processing and reconciliation of transactions for revenue and receivables were not embedded as a culture in the control environment of the municipality.
51. Leadership's continuous tolerance of non-compliance with supply chain management prescripts resulted to incidents of irregular expenditure. This was due to management not updating SCM policies with amended legislation.
52. Risk management activities designed and implemented were not effective in mitigating the risks of material misstatements and non-compliance with the legislation at the municipality. Management did not give the internal audit unit adequate support to provide assurance on internal controls. Consequently, the adequacy of the work of the audit committee was negatively affected.

Auditor General

East London

30 November 2025



AUDITOR-GENERAL
SOUTH AFRICA

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Annexure to the auditor's report

The annexure includes the following:

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

Auditor-general's responsibility for the audit

Professional judgement and professional scepticism

As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected material performance indicators and on the municipality's compliance with selected requirements in key legislation.

Financial statements

In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- obtain an understanding of internal control relevant to the audit 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 statement. My conclusions are based on the information available to me as of 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 (MFMA)	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), 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)
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), 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)
Construction Industry Development Board Act 38 of 2000	Section 18(1)
Construction Industry Development Board Regulations, 2004	Regulations 17, 25(7A)
Division of Revenue Act 24 of 2024	Sections 11(6)(b), 12(5), 16(1), 16(3)
Municipal Property Rates Act 6 of 2004	Section 3(1)
Municipal Systems Act 32 of 2000 (MSA)	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)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2), 5(3), 5(6), 8(4)
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)

Legislation	Sections or regulations
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)
MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations 17(2), 36(1)(a)
MSA: Municipal Staff Regulations	Regulations 7(1), 19, 31, 35(1)
MSA: Municipal Systems Regulations, 2001	Regulation 43
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section 34(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), 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5), 9(1), 10(1), 10(2), 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)