INGQUZA HILL 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 Eastern Cape Provincial Legislature and Council on Ingquza Hill Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of Ingquza Hill 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 the 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 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 Ingquza Hill Local Municipality as at 30 June 2025, and its financial performance and cash flows for the year then ended in accordance with the Standard 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

Property, plant and equipment

3. The municipality did not account for Property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment*. The prior year depreciation expense was not calculated correctly resulting in an understatement of depreciation and overstatement of Property, plant and equipment. Furthermore, assets were not adequately assessed for impairment in the current and prior year resulting in an incorrect impairment loss recorded in the annual financial statements. Consequently, I was unable to determine whether any further adjustments were necessary to the Property, plant and equipment stated at R837,0 million (2024: R762,5 million) in note 8 to the annual financial statements, the depreciation and amortisation expense stated at R56,0 million (2024: R51,5 million) in note 29 to the annual financial statements and the prior year adjustments in note 37 to the annual 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 matter

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

8. As disclosed in note 31 to the annual financial statements, there was a material debt impairment amounting to R18,8 million (2024: R11,9 million).

9. As disclosed in note 49 to the annual financial statements, there was a material irregular expenditure amounting to R19,2 million (2024: R19,2 million).

Other matter

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

11. 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. The 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

12. 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 Dora; 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.

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 at page 14 to 15, forms part of my 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 areas 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 areas presented in the annual performance report for the year ended 30 June 2025 for auditing. I selected key performance areas that measures the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.

Key performance areas	Page numbers	Purpose
Basic service delivery and Infrastructure	XX	To provide basic service delivery through infrastructure development in an environmentally friendly manner
Planning and local economic development	XX	To promote local economic development

17. I evaluated the reported performance information for the selected key performance areas 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 measures taken to improve performance.

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

20. The material findings on the reported performance information for the selected key performance areas are as follows:

Planning and local economic development

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

Basic service delivery and infrastructure

1.1.13.1. % Completion of Installation of electricity infrastructure in 133 h/h in Ward 18 at Fama, Vabetsho and Ntongwana by end of June 2025

22. An achievement of 90% was reported against a target of 100% but the audit evidence showed the actual achievement to be 100%. The achievement against the target was better than reported.

Other matter

23. I draw attention to the matter below.

Achievement of planned targets

24. 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.

25. The tables that follow 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.

Basic service delivery and infrastructure

Targets achieved: 82% *Budget spent: 79%*		
Key indicator not achieved	**Planned target**	**Reported achievement**
1.1.2.10. % completion of regravelling of 10km Ndzaka to Mbhadango via Giniswayo Access Road in Ward 11 by end of June 2025	100%	68%
1.1.4.2. % completion of 6km Surfacing of Lusikisiki internal streets-Phase 3 in Ward 15 at Lusikisiki Town by end of June 2025	60%	55%
1.1.5.1 % completion of 0,23ha multipurpose sports field at Mavaleleni village in Ward 2 to be constructed by end June 2025	100%	80%
1.1.5.3. % completion of construction of Zone 5 2ha sports field Phase 1 at Malangeni village in Ward 16 by end of June 2025	100%	30%
1.1.10.1 % completion of construction of Lusikisiki Town Hall (phase 2) with 2500m2 floor size in Ward 19 at Lusikisiki Town by end of June 2025	75%	30%
1.1.10.2. % completion of construction of 2500m2 Flagstaff Town Hall (Phase 2) at Flagstaff Town in Ward 6 by end of June 2025	100%	94%
1.1.13.1. % Completion of installation of electricity infrastructure in 133 h/h in Ward 18 at Fama, Vabetsho and Ntongwana by end of June 2025	100%	90%
1.1.13.5. % Completion of installation of electricity Infrastructure in 150 h/h in Ward 17 at KwaDick village by end of June 2025	100%	82%
1.1.1.8.1. % completion of 24m long bridge in Ngonyameni to Maqanyeni in Ward 11 by June 2025	10%	0%

Planning and Local Economic Development

Targets achieved: 69% *Budget spent: 83%*		
Key indicator not achieved	**Planned target**	**Reported achievement**
3.1.2. Number of Agricultural project metres to be fenced (Wards 2, 8,12, 21 (Ingwe farm) and 32 by end of June 2025	14 hectors	10 hectors

3.1.3. Number of boreholes constructed in Ward 20 and 26 by end of June 2025	2	1
3.1.3.1. Number of boreholes to rehabilitated in Ward 28 by end of March 2025	1	0
3.1.6. Number of farmers to be supported to attended royal show by end of June 2025	4	0
3.2.1. Number of fishing cooperatives to be supported with cold storage in Ward 23 (Cutwini village) by end of June 2025	1	0
3.3.3. % completion of feasibility study and business plan for tourism around Hombe Dam in Ward 20 by June 2025	100%	0%
3.4.2. Number of local enterprises supported with tools of trade by end of June 2025	12	0
3.4.4. Number of business licensing software procured by end of June 2025	1	0

Material misstatements

26. I identified preventable material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for basic service delivery and infrastructure as well as the planning and local economic development. Management did not correct all the misstatements, and I reported material findings in this regard.

Report on compliance with legislation

27. 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.

28. 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.

29. 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.

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

Annual financial statements, performance reports and annual reports

31. 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; expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected or the supporting records were provided subsequently, but the uncorrected material misstatements and/ or supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Asset management

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

Strategic planning and performance management

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

Procurement and contract management

34. Sufficient appropriate audit evidence could not be obtained that the performance of contractors or providers was monitored on a monthly basis as required by section 116(2) of the MFMA. Similar limitation was also reported in the prior year.

35. Sufficient appropriate audit evidence could not be obtained that contract performance and monitoring measures were in place to ensure effective contract management as required by section 116(2)(c)(ii) of the MFMA. Similar limitation was also reported in the prior year.

36. Persons in the service of the municipality who had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of SCM Regulation 46(2)(e) and the code of conduct for staff members issued in terms of the Municipal Systems Act.

Other information in the annual report

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

38. 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.

39. 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 areas presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

40. 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

41. 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.

42. 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 the annual performance report and the material findings on compliance with legislation included in this report.

43. Document management, as well as daily disciplines, continues to be a challenge for the municipality, as the supporting schedules used to prepare the financial statements, performance information and procurement and contract management were not complete and accurate in all instances. This was evident as the fixed asset register of the municipality included numerous issues, including depreciation not accounted for, assets which were not impaired as requirement by the approved impairment methodology, and negative depreciation calculations. In addition, there seems to be a lack of timely reviews of information used in the preparation of the financial statements and the annual performance report.

44. Management did not adequately implement to all the recommendations of the audit committee and internal audit unit which impacted the effectiveness of these governance structures and resulted in repeat audit findings being raised by the auditors.

45. Management did not adequately implement their action plans in order to address shortcomings in compliance and internal control deficiencies that were identified in previous financial periods, which resulted in recurring misstatements and findings on the annual financial statements, annual performance report and compliance with legislation.

Material irregularities

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

Status of previously reported material irregularities

Uneconomical use of VAT consultants

47. The municipality did not comply with section 62(1)(a) of the MFMA, which states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality and must, for this purpose, take all reasonable steps to ensure that the resources of the municipality are used effectively, efficiently, and economically. The municipality also did not comply with regulation 5(5)(a) of the Municipal Cost Containment Regulations, which states that when consultants are appointed, an accounting officer must appoint consultants on a time and cost basis with specific start and end dates.

48. The municipality appointed a service provider on 19 February 2021, to provide VAT returns and recovery services on a contingency fee agreement. Between 2021–22 and 2022–23 financial years, the municipality paid an amount of R8,2 million, resulting in a financial loss as the municipality did not comply with section 62(1)(a) of the MFMA and Municipal Cost Containment Regulations 5(5)(a).

49. I notified the accounting officer of the MI on 22 March 2023 and invited him to make a written submission on the actions taken.

50. On 30 March 2023, the accounting officer tabled the matter before the council, which then referred the matter to the Municipal Disciplinary Board for investigation.

51. On 4 May 2023, the disciplinary board of the Ingquza Hill Local Municipality received a request from council to look into the MI which was issued on 22 March 2023 regarding compensation of VAT consultants on a commission basis and various matters as outlined in the MI notification letter.

52. On 21 June 2024, the Municipal Disciplinary Board submitted their findings to the council and made recommendations which were similar to the issues raised. However, the report was not detailed enough and it did not provide the detailed response that suited the expectations of the council.

53. On 23 August 2024 the council resolved that the MI be referred to the municipal public accounts committee (MPAC) for further investigation. The MPAC was required to work with internal audit, audit committee, other council committees, state institutions and departments to finalise the investigation and the investigation report be presented to the council before 20 September 2024.

54. On 30 September, the MPAC and audit committee tabled their report to the council.

55. On 18 October 2024 the MPAC and audit committee report was submitted to me for assessment. I have also received a further submission on 22 July 2025 as additional information which supports the MPAC and audit committee report.

56. I have received the written submission on 18 October 2024 & 22 July 2025. I have considered the representations made and the substantiating documents provided and have decided not to pursue this matter further as an MI.

Other reports

57. I draw attention to the following engagements conducted by various parties. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

58. There is an ongoing investigation conducted by the Hawks relating to the LED Grant Funding.

59. There is an ongoing investigation conducted by the Forensic Investigations, Consulting & Risk Advisory Services relating to the unauthorised debit orders.

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 key performance areas 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

Communication with those charged with governance

I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

#	Selected legislation and regulations	Consolidated firm level requirements
1	Municipal Finance Management Act 56 of 2003	Sections: 1, 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 28(1), 29(1), 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), Sections: 32(2)(b), 32(6)(a), 32(7), 33(1)(c)(ii), 53(1)(c)(ii), 53(1)(c)(iii)(bb), 54(1)(c), 62(1)(d), 63(2)(a), 63(2)(c), 64(2)(b), 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), 122(2), 126(1)(a), 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 165(1), 165(2)(a), 165(2)(b)(ii), 165(2)(b)(iv), 165(2)(b)(v), 165(2)(b)(vii), 166(2)(b), 166(2)(a)(iv), 166(5), 170, 171(4)(a), 171(4)(b)
2	MFMA: Municipal budget and reporting regulations, 2009	Regulations: 71(1)(a), 71(1)(a)(b), 71(2)(a), 71(2)(b), 71(2)(d), 72(a), 72(b), 72(c)
3	MFMA: Municipal Investment Regulations, 2005	Regulations: 3(1)(a), 3(3), 6, 7, 12(2), 12(3)
4	MFMA: Municipal Regulations on financial Misconduct Procedures and Criminal Proceedings, 2014	Regulations: 5(4), 6(8)(a), 6(8)(b), 10(1)
5	MFMA: Municipal Supply Chain Management Regulations, 2017	Regulations: 5, 12(1)(c), 12(3), 13(b), 13(c), 16(a), 17(1)(a), 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), 27(2)(e), 28(1)(a)(i), 29(1)(a), 29(1)(b), 29(5)(a)(ii), 29(5)(b)(i), 32, 36(1), 36(1)(a), 38(1)(c), 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43, 44, 46(2)(e), 46(2)(f)
6	Construction Industry Development Board Act 38 of 2000	Section: 18(1)
7	Construction Industry Development Board Regulations, 2004	Regulations: 17, 25(7A)
8	Division of Revenue Act 24 of 2024	Sections: 11(6)(b), 12(5), 16(1); 16(3)
9	Municipal Property Rates Act 6 of 2004	Section: 3(1)

10	Municipal Systems Act 32 of 2000	Sections: 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 34(a), 34(b), 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), 45(a), 54A(1)(a), 56(1)(a), 57(2)(a), 57(4B), 57(6)(a), 57A, 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 96(b)
11	MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations: 5(2), 5(3), 5(6), 8(4)
12	MSA: Municipal Planning and Performance Management Regulations, 2001	Regulations: 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 7(1), 8, 9(1)(a), 10(a), 12(1), 14(1)(b)(iii), 14(1)(c)(ii), 14(4)(a)(i), 14(4)(a)(iii), 15(1)(a)(i), 15(1)(a)(ii)
13	MSA: Municipal Performance Regulations for Municipal Managers and Managers Directly Accountable to Municipal Managers, 2006	Regulations: 2(3)(a), 4(4)(b), 8(1), 8(2), 8(3), 26(5), 27(4)(a)(i)
14	MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations: 17(2), 36(1)(a)
15	MSA: Municipal Staff Regulations	Regulations: 7(1), 19, 31, 35(1)
16	MSA: Municipal Systems Regulations, 2001	Regulation: 43
17	Prevention and Combating of Corrupt Activities Act 12 of 2004	Section: 34(1)
18	Preferential Procurement Policy Framework Act 5 of 2000	Sections: 2(1)(a), 2(1)(f)
19	Preferential Procurement Regulations, 2017	Regulations: 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8), 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5), 9(1), 10(1), 10(2),11(1), 11(2)
20	Preferential Procurement Regulations, 2022	Regulations: 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4)