Report of the auditor-general to Eastern Cape Provincial Legislature and Council on Port St Johns Local Municipality

Report on the audit of the financial statements financial statements

Qualified opinion

1. I have audited the financial statements of Port St Johns local Municipality set out on pages xx to xx[1], which comprise the 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 information with actual information 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 auditors report, the financial statements present fairly, in all material respects, the financial position of Port St Johns Local Municipality as at 30 June 2025 and its financial performance and cash flows for the year then ended in accordance with General Recognised Accounting Practices (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and Division of Revenue Act 24 of 2024 (Dora).

Basis for qualified opinion

Receivables from non-exchange

3. I was unable to obtain sufficient appropriate audit evidence that the allowance for impairment of consumer debtors had been properly accounted for, due to the basis of impairment percentages not being substantiated. I was unable to substantiate the impairment rates by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the allowance of impairment stated at R71,1 million (2024: R60,0 million) in the financial statements.

General expenditure- Fuel and oil

4. Included in general expenditure is R7,3 million for fuel and oil utilized by the municipality. Adequate controls were not in place to maintain records of fuel authorizations and usage. I was unable to obtain sufficient appropriate audit evidence to substantiate the fuel and oil expenditure disclosed under note 44 to the financial statements. Consequently, I was unable to determine whether any adjustments were required to the fuel and oil expenditure.

Property plant and equipment

5. The municipality did not appropriately account for and disclose property, plant equipment in accordance with GRAP 17, Property, plant and equipment. A project that was completed was disclosed halted. The misstatement amounted to R7,2 million (2024: R7,2 million).

6. In addition, the municipality did not adequately reassess the useful lives of fully depreciated asset as required by GRAP 17 Property, plant and equipment. I was not able to determine the full extent of the misstatement as it was impractical to do so. Consequently, I was not able to determine if further adjustments were necessary to Property plant and equipment stated at R669,9 million

Impairment of assets

7. The Municipality did not adequately account for impairment of property plant and equipment in accordance with GRAP 21 Impairment of non-cash-generating assets. The amount disclosed in the financial statements of R4,2 million and the disclosure note 12 amounts to R6,2 million could not be agreed to supporting schedules. Consequently, I was unable to determine the accurate amount of impairment as it was impractical to do so.

Corresponding figures- property plant and equipment

8. The municipality did not appropriately account for and disclose property, plant equipment in accordance with GRAP 17, Property, plant and equipment . Transfers of R 41,9 million were disclosed in disclosure note 12 which could not be substantiated by supporting evidence. In addition , a casting error of R6,8 million was noted in the opening balance of property plant and equipment. Consequently, I was unable to determine whether any adjustments were necessary to the opening balance of R613,3 million as disclosed in note 12.
9. Furthermore, a casting error of R6,8 million was noted in the opening balance of property plant and equipment. Consequently, the prior period error adjustment to property plant and equipment as disclosed in note 61 is misstated by R6,8 million.

Irregular Expenditure

10. The irregular expenditure incurred during the current financial year under audit and related information on irregular expenditure was not included in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. Expenditure was incurred in contravention of the supply chain management requirements, resulting in irregular expenditure. I was unable to determine the full extent of the irregular expenditure that occurred during the financial year as it was impracticable to do so.

Irregular Expenditure – restatement in corresponding amounts

11. I was unable to obtain sufficient audit evidence for the restatement of the corresponding amounts disclosed in the prior period error note to the financial statements. As described in note 60 to the financial statements, the restatements were made to rectify a previous year's misstatement, but these could not be substantiated by supporting audit evidence. I was unable to confirm the restatements by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the prior period error note 60 to the financial statements.

Cash flows from operating activities

12. The municipality did not correctly prepare and disclose the net cash flows from operating activities as required by Standards of GRAP 2, Cash flow statements. I was not able to determine the full extent of the errors in the net cash flows from operating activities as it was impracticable to do so. There is no cashflow evidence to support the movement and consequently, I was unable to determine whether the amount of R7,2 million (R19,8 million: 2024) is justified.

Cash flows from operating activities - Comparative figures

13. The municipality did not correctly prepare and disclose the net cash flows from operating activities as required by Standards of GRAP 2, Cash flow statements. This was due to material differences identified between the prior year audited annual financial statements and the comparative restated amounts in the current year annual financial statements. I was not able to determine the full extent of the errors in the net cash flows from operating activities as it was impracticable to do so. There is no cashflow evidence to support the movement and consequently, I was unable to determine whether the amount of R19,8 million is justified.

Cash flows from Investing activities - Comparative figures

14. The municipality did not correctly prepare and disclose the net cash flows from investing activities as required by Standards of GRAP 2, Cash flow statements. This was due to material differences identified between the prior year audited annual financial statements and the comparative restated amounts in the current year Annual financial statements. I was not able to determine the full extent of the errors in the net cash flows from financing activities as it was impracticable to do so. There is no cashflow evidence to support the movement and consequently, I was unable to determine whether the amount of R19,8 million is justified.

Employee related cost

15. Employees related cost was materially misstated by R 5.7 million due to the cumulative effect of individually immaterial uncorrected misstatements in the following items:

    - Basic salary stated at R78.4million was overstated by R 2.8 million

In addition, I was unable to obtain sufficient appropriate audit evidence and to confirm Employees related cost by alternative means:

- Once off payments of R1.5 million as included in the disclosed balance of R 78.4 million.

- Covid 19 allowance payments of R 649 thousand as included in the disclosed balance of R 6.3 million

Consequently, I was unable to determine whether any further adjustment was necessary to Employees related cost

Construction contracts

16. The municipality did not disclosed construction contract costs in accordance with Grap 11, Construction contracts as the methods used to determine stages of completion of agreements in progress and comparatives information were not disclosed, as a result the construction contract disclosure in note 26 is incomplete.

Context for opinion

17. 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.

18. 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.

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

Emphasis of matter

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

21. As disclosed in note 61 to the financial statements, the corresponding figures for 30 June 2024 have been restated because of errors in the financial statements of the municipality at, and for the year ended 30 June 2025.

Other matter

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

Unaudited disclosure notes.

23. 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.

Responsibilities of the accounting officer for the financial statements

24. 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.

25. 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

26. 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.

27. 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[2]

28. 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.

29. I selected the following key performance area 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 is of significant national, community or public interest.

Key Performance Areas	Page numbers	Purpose
Basic service delivery	[XX]	Adequate provision and maintenance of basic infrastructure services by end June 2025
Community services	[XX]	Rapid provision of social and community services by end June 2025

30. 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.

31. 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.

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

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

Number of indigent households benefited from Free Basic services

34. An achievement of 9974 was reported against a target of 9043. I could not determine whether the reported achievement was correct, as there were duplications in the supporting schedules and claims by non-qualifying households. Consequently, the reported achievement might be more or less than reported and was not reliable for determining if the target has been achieved.

Measures taken to improve performance

35. Material findings were identified on the overall presentation of performance information in the annual performance report. The disclosure of remedial action included a date of completion which was inaccurate.

Indicator	Target
Number of KMs of gravel access roads constructed	39.8KM
Number of Km of surfaced roads constructed	6.584KM
KM of disaster roads access roads rehabilitated	21.6KM
Number of bridges rehabilitated	8
Number of public amenities constructed	4

Other matters

36. I draw attention to the matter[s] below.

Achievement of planned targets

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

38. The table[s] that follows provide 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: 33.3% *Budget spent: 96%*		
Key service delivery indicators not achieved	**Planned target**	**Reported achievement**
Number of KMs of gravel access roads constructed	39.8km	18.3km
Number of Km of surfaced roads constructed	6.584km	0.450km
KM of disaster roads access roads rehabilitated	21.6km	15.5km
Number of kms of gravel access roads maintained	340km	325.6km
Number of bridges rehabilitated	8	3
Number of public amenities constructed	4	2
Number of households electrification program connected	1202	858
Number of high mast lights installed	5	0
Number of public amenities maintained	5	2
Number of economic structures constructed	1	0
Number of economic structures refurbished	1	0
Number of environmental projects implemented	1	0

Material misstatements

39. 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. Management did not correct all of the misstatements, and I reported material findings in this regard.

Report on compliance with legislation

40. 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.

41. 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.

42. 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.

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

Annual financial statements

53 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.

54 Material misstatements of non-current assets, current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and/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.

Expenditure management

55 Expenditure was incurred in excess of the approved budget or an adjustments budget, in contravention of section 87(8) of the MFMA.

56 Reasonable steps were not taken to prevent unauthorised expenditure amounting to R27,6 million, as disclosed in note 56 to the separate financial statements, in contravention of section 62(1)(d) of the MFMA.

57 Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R88.7 thousands, as disclosed in note 57 to the separate financial statements, in contravention of section 62(1)(d) of the MFMA.

58 Reasonable steps were not taken to prevent irregular expenditure amounting to R6,4 million as disclosed in note 58 to the separate financial statements, as required by section 62(1)(d) of the MFMA.

59 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.

Human resource management

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

61 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.

62 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.

Governance and oversight

63 The Internal Audit unit did not advise the accounting officer and/or 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.

Consequence management

64 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.

65 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.

66 The 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.

Utilisation of conditional grants

67 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 5 of 2023).

Assets management

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

Revenue management

69 An adequate management, accounting and information system which accounts for debtors was not in place, as required by section 64(2)(e)[(i),(ii),(iii) of the MFMA.

Strategic planning and performance management

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

Procurement and contract management

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

72 The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.

Other information in the annual report

73 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.

74 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.

75 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.

76 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

77 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.

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

79 There was instability in the position of accounting officer as the position remained vacant for seven months of the year and there were two acting municipal managers during the financial

year. The position of the chief financial officer was also vacant for three months during the financial year.

80 Leadership did not exercise adequate oversight over the financial statement preparation process and this contributed to repeat audit findings and material misstatements in the financial statements. Management did not adequately review the financial statements.

81 Management did not prepare regular, accurate and complete financial reports that are supported and evidenced by reliable information.

82 Management did not implement controls over daily and monthly processing and reconciling of financial transactions.

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

East London

30 November 2025

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report[3]

The annexure includes the following:

- The auditor-general's responsibility for the audit[4]
- 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/ consolidated financial statements/ consolidated and separate financial statements] and the procedures performed on reported performance information for selected [programmes/ objectives/ development priorities] and on the [type of auditee/ group/ group and [type of auditee]]'s compliance with selected requirements in key legislation.

[Financial statements/ Consolidated financial statements/ Consolidated and separate] financial statements]

In addition to my responsibility for the audit of the [financial statements/ consolidated financial statements/ consolidated and separate financial statements] as described in this auditor's report, I also:

- identify and assess the risks of material misstatement of the [financial statements/ consolidated financial statements/ consolidated and separate 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 [type of auditee/ group/ group and [type of auditee]]'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/ consolidated financial statements/ consolidated and separate 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 [type of auditee/group/ group and/or [type of auditee]] 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/ consolidated financial statements/ consolidated and separate financial

statements] about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the [financial statements/ consolidated financial statements/ consolidated and separate 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 [type of auditee/ group/ group and/or [type of auditee]] to cease operating as a going concern.

- evaluate the overall presentation, structure and content of the [financial statements/ consolidated financial statements/ consolidated and separate financial statements], including the disclosures, and determine whether the [financial statements/ consolidated financial statements/ consolidated and separate 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.[5]

Communication with those charged with governance

I communicate with the [party responsible] 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 [party responsible] 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[6]

The selected legislative requirements are as follows: [7]

Legislation	Sections or regulations
[Act title and reference]	[References to all selected requirements from this act or regulation]

Explanatory information and examples

General

[1] Page numbers

Supplementary information that has not been audited is distinguished from the financial statements that have been audited by indicating the page numbers relating to the financial statements. In the public sector, particular attention should be given to these page numbers, as the report of the accounting officer or authority does not form part of the financial statements and is not audited as part of the audit of the financial statements. There may also be a number of other documents containing financial information that are attached to the financial statements but not covered by the audit. Furthermore, the index to the financial statements should clearly indicate additional annexures that have not been audited.

[2] Auditee not required to report on performance information

If the auditee is not required to report on performance against predetermined objectives, include only the paragraph below and exclude the paragraphs from the template (not applicable to local government);

> In terms of the [enabling legislation of the auditee], the [type of auditee] is not required to prepare an annual performance report.

[3] Annexure to the auditor's report

The annexure must be included with the auditor's report. This means that the annexure must be included directly after / together with the auditor's report when included in the auditee's annual report for printing; it cannot be located elsewhere in the annual report.

[4] Auditor-general's responsibilities for the audit of financial statements

This section of the annexure should be omitted from the annexure if the financial audit opinion is disclaimed.

[5] Consolidated and separate financial statements

This paragraph should be omitted where the financial statements are not presented for a group. This is applicable for all the references to consolidated and separate and not just in the annexure.

[6] Compliance with legislation

This section should be presented on one page, including the heading, introduction and complete table of requirements.

[7] **Table on selected legislative requirements**

The table should include all legislation and regulations with the specific section / regulation references of ALL selected requirements (**i.e. scoped-in requirements** per the compliance working papers). This includes any entity-specific legislation that may have been scoped in.

List the sections in chronological order per legislation using the consolidated legislative requirements table per type of auditee (attached in the TU with the reporting templates) and the compliance working papers as source. **Ensure completeness and accuracy of the selected requirements from all the compliance themes**.

The format of presentation set out in the example below should be used in populating the table:

Legislation	**Sections or regulations**
Public Finance Management Act 1 of 1999	Section/s Section/s
Preferential Procurement Regulations of 2022	Regulation/s Regulation/s