KING MHLONTLO LOCAL MUNICIPALITY

Audit Report

For the year ended 30 June 2025

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

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

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Kumkani Mhlontlo 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 Kumkani Mhlontlo 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

Irregular expenditure

3. 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 incurred during the financial year stated at R10,59 million in note 49 to the financial statements as it was impracticable to do so.

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.

8. As disclosed in note 46 to the financial statements, the corresponding figures for 30 June 2024 were restated because of an error in the financial statements of the municipality as at, and for the year ended, 30 June 2025.

9. As disclosed in notes 3 and 4 to the financial statements, receivables from exchange and non-exchange transactions had a provision for impairment of R20,01 million (2023-24: R15,98 million) and R117, 83 million (2023-24: R 89,74 million) respectively, due to the slow recovery of old consumer debts.

10. As disclosed in Note 44 to the financial statements, the municipality has contingent liabilities of R78,16 million (2023–24: R70,64 million) arising from various lawsuits, including land claims and cases where the plaintiff is suing the municipality for breach of contract. No provision for any potential liabilities has been recognised, as the outcomes of these cases cannot be determined at this stage.

Other matter

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

12. In terms of section 125(2)(e) of the MFMA, the 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 financial statements and, accordingly, I do not express an opinion on it.

Responsibilities of the accounting officer for the financial statements

13. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the GRAP and the requirements of the MFMA and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

14. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern; disclosing, as applicable, matters relating to going concern; and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

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

15. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance

but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

16. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

17. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for the selected development priority presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

18. I selected the following development priority presented in the annual performance report for the year ended 30 June 2025 for auditing. I selected a development priority that measures the municipality's performance on its primary mandated functions and that is of significant national, community or public interest.

Development priority	Page numbers	Purpose
Infrastructure services	XX	The provision of basic services for roads infrastructure, electricity and refuse removal

19. I evaluated the reported performance information for the selected development priority against the criteria developed from the performance management and reporting framework, as defined in the general notice. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users on the municipality's planning and delivery on its mandate and objectives.

20. I performed procedures to test whether:

- the indicators used for planning and reporting on performance can be linked directly to the municipality's mandate and the achievement of its planned objectives
- all the indicators relevant for measuring the municipality's performance against its primary mandated and prioritised functions and planned objectives are included
- the indicators are well defined to ensure that they are easy to understand and can be applied consistently, as well as verifiable so that I can confirm the methods and processes to be used for measuring achievements
- the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated

- the indicators and targets reported on in the annual performance report are the same as those committed to in the approved initial or revised planning documents
- the reported performance information is presented in the annual performance report in the prescribed manner
- there is adequate supporting evidence for the achievements reported measures taken to improve performance

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

22. The material findings on the reported performance information for the development priority are as follows:

Infrastructure services

Various indicators

23. Various indicators were not clearly defined during the planning process. Consequently, the indicators are not useful for measuring and reporting on progress against planned objectives.

Indicator	Target	Detail
Blading of 200km and patch re-gravelling of gravel access roads completed	200km Blading of gravel Access roads 40 km of Patch-re-gravelling in rural by June 2024	The target had not been clearly defined during the planning process, and the target was not specific
Maintenance of 5,71km surfaced road and 8,3 gravel access roads maintained in Tsolo town	Maintenance of 5,71km surfaced road, 8,3 of gravel access road Tsolo Urban Streets by June 2025	The target had not been clearly defined during the planning process, and the target was not specific

Various indicators

24. A comparison of the actual performance for the year against the planned targets and the prior year performance was not included in the annual performance report. Consequently, the reported information is not useful for evaluating progress over time and for identifying areas of improvement for the following indicators:
    - Construction of 4.02 km of Tsolo Stormwater Phase 2 completed
    - Completed construction of 16 km of gravel access road at Nodali - Madiba
    - Completed construction of 10.2 km of gravel access road at T213 -Cameron Ngudle in Ward 5
    - Completed construction of 10 km of gravel access road at Ntibane -Mabheleni
    - Completed construction of 8.5 km of gravel access road at Caweni to Dumaneni
    - Completed construction of 8.5 km of gravel access road at Matshona -Toleni
    - Completed construction of 6 km of gravel access road at Mthozela
    - Completed construction of 10 km of gravel access road at Upper Magxeni via Diphini to Mdabukweni

- Completed rehabilitation of Sulenkama Bridge with 5.2 km of gravel access road in Jokweni
- Completed rehabilitation of 5 km of Cesane gravel access road
- Completed rehabilitation of 11.5 km of gravel access road at Newstad via Godini to Buhlungwana
- Completed rehabilitation of 6.9 km of gravel access road at Luxeni/Nkonkweni
- Completed rehabilitation of 8 km of gravel access road at Chokomfeni to Nozityana
- Completed rehabilitation of 9.4 km of gravel access road at Nonyikila to Mbesa
- Completed rehabilitation of 6.2 km of gravel access road at Qebeyi to Xelegu
- Completed construction of one early childhood development centre at Gqukunqa
- Completed construction of one early childhood development centre at Qumbu New Homes

Other matters

25. I draw attention to the matters below.

Achievement of planned targets

26. 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.

27. 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.

Targets achieved: 59% *Budget spent 71%*		
Key indicators not achieved	**Planned target**	**Reported achievement**
Construction of 4,02 km of Tsolo Stormwater Phase 2 completed	Complete construction of 4,02 km of Tsolo stormwater phase 2 by June 2025	Site establishment, clearing and grub, bulk excavations are all complete. 4.249 km of stormwater pipes, and construction 385 m of concrete channels
Completed construction of 8.5 km of gravel access road at Caweni to Dumaneni	Complete construction of 8.5 km Caweni - Dumaneni gravel access road in ward 11 by 30th June 2025	Roadbed formation for 8.5 km and installation of stormwater pipes Tipping and processing for 8.5 km and construction of low-level crossing is complete.

		Construction of headwalls and stone pitching is complete. Contractor is busy with concrete slab
Completed construction of 8.5 km of gravel access road at Matshona-Toleni	Complete construction of 8.5 km Matshona-Toleni gravel Access Road in ward 25 by 30th June 2025	Site handover; site establishment; clearing and grub of 8.5km completed. Roadbed preparation of 4km complete
Completed construction of 6 km of gravel access road at Mthozela	Complete construction of 6km Mthozela gravel access road in ward 21 by 30th June 2025	Site handover; site establishment; clearing and grubbing of 6km; roadbed preparation for 6km; tipping and processing for 6km; installation of pipes complete
Completed construction of 10 km of gravel access road at Upper Magxeni via Diphini to Mdabukweni	Complete construction of 10 km Upper Magxeni via Diphini to Mdabukweni gravel access road in ward 19 by 30th June 2025	Site handover; site establishment; clearing and grubbing; roadbed preparation of 10km; Tipping and processing of 6km and installation of 3x600mm dia pipe crossings
Blading of 200km and patch re-gravelling of gravel access roads completed	200km blading of gravel access roads; 40 km of patch re-gravelling in rural by June 2025	45 km of blading achieved, 4.07km of patch re-gravelling
Completed rehabilitation of 9.4 km of gravel access road at Nonyikila to Mbesa	Complete rehabilitation of 9.4km Nonyikila to Mbesa gravel access road in ward 19 by 30th June 2025	Site establishment, clearing and grub, roadbed, wearing course,150 meters of the concrete slab has been completed
Maintenance of 5,71 km surfaced road and 8,3 gravel access roads maintained in Tsolo town	Maintenance of 5,71km surfaced road, 8,3 of gravel access road Tsolo Urban Streets by June 2025	Tender documents were developed and have submitted by service providers so that the procurement processes can proceed
Completed rehabilitation of 1 sports field in Tsolo	Rehabilitation of Tsolo sports field by 30th June 2025	Site establishment, installation of stormwater pipes, sewer lines and pressure pipes are complete. Grandstands, construction of new ablutions, new change

		rooms, soccer pitch layer works, artificial turf, preparation of parking and driveway are in progress
Completed rehabilitation of 1 sports field in Qumbu ward 15	Rehabilitation of Qumbu sport field in ward 15 by 30th June 2025	Tipping of G5 material for the soccer/rugby field, netball court rehabilitation, plumbing and construction of gravel access road to the field are complete
Completed construction of one early childhood development centre completed at Tsolo New Homes	Construction of one early childhood development centre completed at New Homes in Tsolo by 30th June 2025	Site establishment, trenches, foundation footing and wall, surface beds, superstructure wall both main structure and ablutions, floor tiles are complete
Completed construction of one early childhood development centre completed at Gqukunqa	Construction of one early childhood development centre completed at Gqukunqa by 30th June 2025	Tender documents have been prepared to facilitate appointment of contractor
Completed construction of one early childhood development centre completed at Qumbu New Homes	Construction of one early childhood development centre completed at Qumbu New Homes by 30th June 2025	Tender documents have been prepared to facilitate appointment of contractor
Completed construction of one community centre at Mchathu Sdwadweni	Construction of Mchathu Sdwadweni Community Development Centre in ward 26 to be completed by 30th June 2025	Site establishment, bulk excavations
Completed construction of one community centre at Sigubudwini / Sithangameni	Construction of Sigubudwini/Sithangameni Community Development Centre in ward 18 to be completed by 30th June 2025	Site establishment, stripping of topsoil, bulk excavations, brickwork in foundations, superstructure brickwork on offices and ablutions, septic tank, primer paint on ablutions are complete

Material misstatements

28. I identified preventable material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for the development priority. Management did not correct all of the misstatements and I reported material findings in this regard.

Report on compliance with legislation

29. 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.

30. 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.

31. 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.

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

Expenditure management

33. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The value of R10,59 million, as disclosed in note 49 does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with requirements of the Preferential Procurement Policy Framework Act and its regulations.

Strategic planning and performance management

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

Annual financial statements, performance and annual reports

35. 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, revenue, expenditure, disclosure items 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.

Procurement and contract management

36. The preference point system was not applied for some of the procurement of goods and services as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act.

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

38. Persons in service of the municipality whose close family members 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).

Other information in the annual report

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

40. 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.

41. 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 development priorities presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

Internal control deficiencies

42. 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.

43. 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.

44. The municipality did not have an effective system in place to collate and report on performance information, and this resulted in material misstatements in the performance report submitted for auditing. Furthermore, the audit action plan that had been created was not effectively implemented as repeat findings were identified in the performance reporting processes.

45. Management did not implement adequate financial management disciplines throughout the year, which include the timely reconciliation of accounting records to achieve accurate and reliable reporting.

46. Management did not implement adequate monitoring of compliance with laws and regulations to ensure the compliance with legislative requirements.

Material irregularities

47. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit.

Material irregularities identified during the audit

48. The material irregularities identified are as follows:

Qumbu Sportsfield – athletic track not installed

49. The municipality did not comply with the MFMA section 62(1)(c)(i) which provides 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 municipality has and maintains an effective, efficient and transparent systems of financial and risk management and internal control.

50. The municipality paid R3,35 million on constructing the Qumbu sports field, which was never completed, and it was further determined that material had been paid for but could not be observed on-site during the physical verification.

51. I notified the accounting officer of the material irregularity on 23 May 2025 and invited them to make a written submission on the actions that had been, or would be, taken to address the matter. The accounting officer responded on actions to be taken to address the material irregularity on 18 July 2025 and an updated response was submitted by the accounting officer on 28 November 2025.

52. The accounting officer committed to the following actions in response to the material irregularity:
    - The municipality will launch a project monitoring tool to track infrastructure projects, identify delays early, and take timely corrective action on monthly basis.
    - The infrastructure department is developing a checklist for all material deliveries procured through cessions.
    - The municipality engaged the supplier regarding the material stored in Durban for delivery to the Qumbu municipal premises. The supplier committed to commencing delivery of the artificial grass material after the contractor's holiday break by January 2026.
    - The municipality is awaiting the final investigation report and will take appropriate action once the recommendations are finalised by Eastern Cape Cooperative Governance and Traditional Affairs (Cogta) and will submit it within 14 days of receipt.
53. I will follow up on the implementation of the planned actions during my next audit.

Construction of the Tsolo Sportsfield not completed

54. The municipality did not comply with the MFMA section 62(1)(c)(i) which provides 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

municipality has and maintains an effective, efficient and transparent systems of financial and risk management and internal control.

55. The municipality paid R6,48 million on constructing the Tsolo Sportsfield, which was never completed, and it was further determined that material had been paid for but could not be observed on-site during the physical verification.

56. I notified the accounting officer of the material irregularity on 15 October 2025 and invited them to make a written submission on the actions that had been, or would be, taken to address the matter. The accounting officer responded on actions to be taken to address the material irregularity on 14 November 2025 and an updated response was submitted by the accounting officer on 26 November 2025.

57. The accounting officer committed to the following actions in response to the material irregularity:
    - The municipality will launch a project monitoring tool to track infrastructure projects, identify delays early and take timely corrective action on monthly basis.
    - Contractors are required to maintain strict site security and conduct regular patrols around the sport field, especially at night, and the current contractor has already strengthened security measures.
    - The municipality requested contract management training from the Provincial Treasury, which has been approved and the training for municipal officials is scheduled for the first week of December 2025.
    - The municipality will use the retention money and surety, previously withheld from the cancelled contractor, to recover the financial loss.
    - The municipality is awaiting the final investigation report and will take appropriate action once the recommendations are finalised by Cogta.

58. I will follow up on the implementation of the planned actions during my next audit.

Auditor General

East London

30 November 2025

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

The annexure includes the following:

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

Auditor-general's responsibility for the audit

Professional judgement and professional scepticism

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