

Report of the auditor-general to the Eastern Cape Provincial Legislature and the council of King Sabata Dalindyebo Local Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the King Sabata Dalindyebo Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2024, statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as notes to the annual financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the King Sabata Dalindyebo Local Municipality as at 30 June 2024 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 5 of 2023 (Dora).

Basis for opinion

3. 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.
4. 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.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Material uncertainty relating to going concern.

6. I draw attention to the matter below. My opinion is not modified in respect of this matter.
7. I draw attention to note 68 to the financial statements, which indicates that the current liabilities are currently exceeding the current assets, the municipality is taking more than the required 30 days to pay creditors and more than 60 days to collect its outstanding debt. These events and conditions disclosed in note 68 to the financial statements together with other matters set forth in the same note, indicate that a material uncertainty exists that may cast significant doubt on the municipalities ability to continue as a going concern.

Emphasis of matters

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

Material electricity distribution losses

9. As disclosed in note 61 to the financial statements, material electricity distribution losses of R120,92 million (2022-23: R100,38 million) were incurred, which represents 15,02% (2022-23: 15,47%) of total electricity purchased, losses are due to amongst others defective meters, electric faults and meter tempering.

Contingent liabilities

10. As disclosed in note 56 to the financial statements, the municipality is the defendant in several lawsuits. The municipality is opposing the claims, and the ultimate outcome of the matters could not be determined as yet.

Impairment loss

11. As disclosed in notes 4 and 5 to the financial statements, cumulative debt impairments of R482,52 million (2022-23: R414,95 million) and R296,39 million (2022-23: R301,36 million) were made to receivables from exchange and non-exchange transactions respectively.

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.

15. 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 xx forms part of our auditor's report.

Report on the audit of the annual performance report

16. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance 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.
17. I selected the following development priority presented in the annual performance report for the year ended 30 June 2024 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
Basic service delivery and infrastructure development	XX	To provide sustainable municipal infrastructure and social services, consistently maintaining and improving the needs of the people.

18. 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.
19. I performed procedures to test whether:
- the indicators used for planning and reporting on performance can be linked directly to the municipality's mandate and the achievement of its planned objectives
 - all the indicators relevant for measuring the municipality's performance against its primary mandated and prioritised functions and planned objectives are included
 - the indicators are well defined to ensure that they are easy to understand and can be applied consistently, as well as verifiable so that I can confirm the methods and processes to be used for measuring achievements
 - the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated
 - the indicators and targets reported on in the annual performance report are the same as those committed to in the approved initial or revised planning documents
 - the reported performance information 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 reasons provided for any over- or underachievement of targets / measures taken to improve performance

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

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

Basic service delivery and infrastructure development

Provision of free basic services to indigent households in line with the indigent register

22. An achievement of the provision of free basic services to indigent households in line with the indigent register as follows – refuse: R8 315 164,18; electricity: R3 404 497,67; and paraffin: R1 510 282,80 was reported against a target of provision of free basic services to indigent households in line with the indigent register by June 2024. I could not determine whether the reported achievement was correct, as the indicator was not well defined, and I could not verify the methods and processes used to measure the achievements. Consequently, the reported achievement might be more or less than reported and was not reliable for determining if the target has been achieved.

No. of customers serviced in relation to restoration of electricity faults within KSD

23. An achievement of 19 083 customers serviced in relation to restoration of electricity faults within KSD was reported against a target of 10 000 customers serviced in relation to the restoration of electricity faults within KSD by June 2024. I could not determine if the reported achievement was correct, as adequate supporting evidence was not provided for auditing. Consequently, the achievement might be more or less than reported and was not reliable for determining if the target had been achieved.

Other matters

24. I draw attention to the matters below.

Achievement of planned targets

25. The annual performance report includes information on reported achievements against planned targets and provides explanations for over- or under achievements and measures taken to improve performance. This information should be considered in the context of the material findings on the reported performance information.

26. 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 reasons for any underachievement of targets / measures taken to improve performance are included in the annual performance report on pages xx to xx.

Basic service delivery and infrastructure development

<p><i>Targets achieved: 42%</i> <i>Budget spent: 73%</i></p>		
Key service delivery indicator not achieved	Planned target	Reported achievement
No. of km of surfaced streets resealed within KSD	6.5 Km of surfaced streets resealed within KSD	4.1km of Surfaced Streets resealed within KSD
No. of km of gravel roads bladed within KSD	1000km of Gravel Roads bladed within KSD by June 2024	998,6km of Gravel Roads bladed within KSD
No. of km of surfaced and gravel roads constructed within KSD	90km of Surfaced and Gravel Roads constructed within KSD by June 2024	86.51km of Surfaced and Gravel Roads constructed within KSD
No. of KSD billed areas covered for refuse removal once per week	17 KSD Billed Areas covered for refuse removal once per week by June 2024	14 KSD Billed Areas covered for refuse removal once per Week
No. of refuse removal points cleared in peri-urban areas once per month	6 Refuse Removal Points cleared in Peri-Urban Areas once per Month by June 2024	Nil
No. of illegal dump hotspots cleared within KSD	14 Illegal Dump Hotspots cleared within KSD by June 2024	Nil
No. of housing units constructed at Maydene Farm Extension, New Payne 200, New Payne 300, Willow, Ntshabeni and Zidindi	304 Housing Units constructed at Maydene Farm Extension (120 Units), New Payne 200 (28 Units), New Payne 300 (40 Units), Willow (35 Units), Ntshabeni (27 Units), Zidindi (54 Units) by June 2024	201 Housing Units constructed at Maydene Farm Extension x136 Units, New Payne 200 x13 Units, New Payne 300 x24 Units, Willow x5 Units, Ntshabeni x11 Units), Zidindi x12 Units In Progress Maydene Farm (1317) Slabs x4 Roofs x59 New Payne 300 (72) Roofs x8 New Payne 200 (51) 14 Practical Completions Ntshabeni 200 (27) Roofs x5 Zidindi 200 (105) Practical Completions x12 Willow 200 (58) Practical Completion x3

Material misstatements

27. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for basic services delivery and infrastructure development priority. Management did not correct all of the misstatements, and I reported material findings in this regard.

Report on compliance with legislation

28. 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.
29. 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.
30. 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.
31. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statements, annual performance report and annual report

32. 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 payables from exchange transactions, employee benefits and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

33. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
34. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R17,2 million, as disclosed in note 59 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest and penalties charged on late payments.
35. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R39,3 million, as disclosed in note 58 to the annual financial statements, in contravention of section

62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending on general expenditure.

Strategic planning and performance management

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

Other information in the annual report

37. The accounting officer is responsible for the other information included in the annual report. The other information referred to does not include the financial statements, the auditor's report and the selected development priority presented in the annual performance report that has been specifically reported on in this auditor's report.
38. My opinion on the financial statements, the report on the audit of the annual performance report and the report on compliance with legislation do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.
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 development priority presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
40. If, based on the work I have performed on the other information that I obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

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 material findings on the annual performance report and the material findings on compliance with legislation included in this report.
43. The accounting officer did not ensure that a performance management system and related controls were in place to allow adequate performance monitoring, measurement and reporting to be conducted and managed. Furthermore, internal controls were not designed to ensure that payments to suppliers were made timeously and that the expenditure was within budget as a result, there was non-compliance with legislation.
44. Although reviews of the financial statements were performed, material misstatements in the financial statements and the annual performance report were identified, indicating that the

financial statement preparation plan was not adequately monitored to allow sufficient time for the review processes by management, internal audit and audit committee.

Other report

45. 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.
46. The Special Investigation Unit (SIU) was investigating matters that arose in previous years, including the costs incurred for the funeral of former president Nelson Mandela. This investigation is still in progress.
47. A forensic investigation into grievances raised by staff members, which extends to an assessment of skills and knowledge and task grade payments made to staff in the previous financial cycles, is still in progress.
48. The South African Police Services (SAPS) was investigating allegations of an employee who submitted a fraudulent claim form to the pension fund. This investigation was finalised internally, and the employee was dismissed.
49. A provincial department is investigating alleged fraud at the motor vehicle licensing centre from the previous financial year. This investigation is still in progress.

Auditor-General.

East London

29 November 2024



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

The annexure includes the following:

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

Auditor-general's responsibility for the audit

Professional judgement and professional scepticism

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

Financial statements

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- conclude on the appropriateness of the use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the municipality to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease operating as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance.

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

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

Compliance with legislation – selected legislative requirements.

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003	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), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 63(2)(a), 63(2)(c), 64(2)(b), 64(2)(c), 64(2)(e), 64(2)(f), Sections: 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), Sections: 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), 170, 171(4)(a), 171(4)(b)
MFMA: Municipal Budget and Reporting Regulations, 2009	Regulations: 71(1)(a), 71(1)(a)(b), 71(2)(a), 71(2)(b), 71(2)(d), 72(a), 72(b), 72(c)
MFMA: Municipal Investment Regulations, 2005	Regulations: 3(1)(a), 3(3), 6, 7, 12(2), 12(3)
MFMA: Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014	MFMA: Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014
MFMA: Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014	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), Regulations: 28(1)(a)(i), 29(1)(a), 29(1)(b), 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c), 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), Regulations: 38(1)(g)(ii), 38(1)(g)(iii), 43, 44, 46(2)(e), 46(2)(f)
Construction Industry Development Board Act 38 of 2000	Section: 18(1)
Construction Industry Development Board Regulations, 2004	Regulations: 17, 25(7A)
Division of Revenue Act	Sections: 11(6)(b), 12(5), 16(1); 16(3)
Municipal Property Rates Act 6 of 2004	Section: 3(1)
Municipal Systems Act 32 of 2000	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), Sections: 54A(1)(a), 56(1)(a), 57(2)(a), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 96(b)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations: 5(2), 5(3), 5(6), 8(4)

Legislation	Sections or regulations
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), 15(1)(a)(i), 15(1)(a)(ii)
MSA: Municipal Performance Regulations for Municipal Managers and Managers Directly Accountable to Municipal Managers, 2006	Regulations: 2(3)(a), 4(4)(b), 8(1), 8(2), 8(3)
MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations: 17(2), 36(1)(a)
MSA: Municipal Staff Regulations	Regulations: 7(1),31
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section: 34(1)
Preferential Procurement Policy Framework Act 5 of 2000	Sections: 2(1)(a), 2(1)(f)
Preferential Procurement Regulations, 2017	Regulations: 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8), 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5), 9(1), 10(1), 10(2), Regulations: 11(1), 11(2)
Preferential Procurement Regulations, 2022	Regulations: 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4)