

# Report of the Auditor-General to the Eastern Cape Provincial Legislature and the council of Dr Beyers Naude Local Municipality

## Report on the audit of the financial statements

### Qualified opinion

1. I have audited the financial statements of Dr Beyers Naude 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, the cash flow statement and the statement of comparison of budget and actual 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 possible effects of the matter 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 Dr Beyers Naude local municipality as at 30 June 2025, and its financial performance and cash flows for the year then ended 30 June 2025 in accordance with the 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

#### Property rates

3. I was unable to obtain sufficient appropriate audit evidence that property rates were billed for all properties, as the valuation roll was not complete. I could not confirm whether property rates were billed for all properties by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to property rates stated at R55,3 million in the financial statements and the market values disclosed in note 27 stated at R15,4 billion in the 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.

## **Material uncertainty relating to going concern**

7. I draw attention to the matter below. My opinion is not modified in respect of this matter.
8. As disclosed in note 58 to the annual financial statements, which indicates that the municipality incurred a net deficit of R241,8 million (2024: R26,2 million) during the year ended 30 June 2025 and, as of that date, the municipality's current assets exceeded its total assets. These events and other conditions, along with other matters as set out in note 58, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern. The steps taken by management to address the risk and ensure the municipality's financial sustainability are also highlighted in note 58 to the financial statements.

## **Emphasis of matters**

9. I draw attention to the matters below. My opinion is not modified in respect of these matters.
10. As disclosed in note 6 to the financial statements, material allowance for impairment of statutory receivables from non-exchange transactions of R47,9 million (2023-24: R37,8 million) and R15,4 million (2023-24: R1,1 million) was incurred due to non-payment by consumer debtors and fines debtors, respectively.
11. As disclosed in note 7 to the financial statements, material allowance for impairment for receivables from exchange transactions of R365,4 million (2023-24: R278,6 million) were incurred due to non-payment by trade debtors.
12. As disclosed in note 44 to the annual financial statements, the corresponding figures for the year ended 30 June 2024 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2025.
13. As disclosed in note 18, the municipality materially underspent its conditional grants by R15,9 million on the municipal disaster recovery grant (MDRG).
14. As disclosed in note 54 to the financial statements, material electricity losses of R13,9 million (2023-24: R7,8 million) were incurred, which represents 12,2% (2023-24: 7,7%) of total electricity purchased.
15. As disclosed in note 55 to the financial statements, material water losses of R60 million (2023-24: R53,3million) were incurred, which represent 51,5% (2023-24: 45,2%) of total water production.

## **Other matter**

16. I draw attention to the matter below. My opinion is not modified in respect of this matter.
17. In terms of section 125(2)(e) of the MFMA, the particulars of non-compliance with the MFMA should be disclosed 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**

18. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with 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.
19. 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**

20. 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.
21. 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 annual performance report**

22. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance information against predetermined objectives for the selected material performance indicators presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.
23. I selected the following material performance indicators related to the basic service delivery and infrastructure development presented in the annual performance report for the year ended 30 June 2025. I selected those indicators that measure the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.
  - Reduce electricity losses to at least 10% by 30 June 2025.
  - Reduce water losses to at least 40% by 30 June 2025.
  - Number of cemeteries cleaned and maintained within the DBNLM by 30 June 2025.
  - Number of Sports Grounds ablution facilities repaired and maintained by 30 June 2025.
  - Number of boreholes drilled and yield testing for a new sustainable well field by 30 June 2025 (drilled four boreholes).

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- Replacement of Willowmore Steel Pipeline by 30 June 2025 (replacement of Willowmore Steel Pipeline 600m).
  - Upgrade 400m of gravel road to interlocking paving by 30 June 2025 (upgrade 400m of gravel road to interlocking paving by 30th June 2025).
  - Upgrade 1300m of gravel road to interlocking paving by 30 June 2025 (upgrade 1300m of gravel road to interlocking paving by 30th June 2025).
  - Number of standby transformers procured by 30 March 2025 (two standby transformers).

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

25. 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 and for the reasons provided for the measures taken to improve performance.

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

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

### **Other matter**

28. I draw attention to the matter below.

### Achievement of planned targets

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

### Basic service delivery and infrastructure development

| <p><i>Targets achieved: 67%</i></p> <p><i>Budget spent: 90%</i></p>                  |                |                      |
|--|----------------|----------------------|
| Key indicator not achieved   | Planned target | Reported achievement |
| Reduce electricity losses to at least 10% by 30 June 2025.                           | 10%            | 11.94%               |
| Reduce water losses to at least 40% by 30 June 2025.                                 | 40%            | 51.52%               |
| Number of sports grounds ablution facilities repaired and maintained by 30 June 2025 | 4              | 2                    |
| Upgrade 400m of gravel road to interlocking paving by 30th June 2025                 | 400m           | 0                    |

### Report on compliance with legislation

31. 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.
32. 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.
33. 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.

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

### **Expenditure management**

35. 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.
36. Reasonable steps were not taken to prevent irregular expenditure amounting to R47,1 million as disclosed in note 48 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The irregular expenditure was caused by non-compliance with multiple supply chain management (SCM) regulations.
37. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R193,5 million as disclosed in note 46 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 of budgeted votes within the approved budget of the municipality.
38. Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R40,8 million as disclosed in note 47 to the 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 charged by creditors due to the municipality not paying invoices on due dates.

### **Procurement and contract management**

39. Some of the contracts were awarded to bidders based on points given for legislative requirements that differed from those stipulated in the original invitation for bidding, in contravention of supply chain management regulations 21(b) and 28(1)(a)(i) and the Preferential Procurement Regulations.
40. The performance of 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. This non-compliance was identified in the contract management for the MDRG roads reconstruction and rehabilitation (43/2024), installation of raw water storage at Graaff-Reinet WTW (52/2025), upgrading of Willowmore Bulk Water Supply Phase 2 (213/2024) and MDRG roads recovery and rehabilitation – Phase 2 (11/2025).
41. The contract performance and monitoring measures were not in place to ensure effective contract management, as required by section 116(2)(c)(ii) of the MFMA. Similar non-compliance was also reported in the prior year.

### **Annual financial statements, annual performance report and annual report**

42. The financial statements submitted for auditing were not fully prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, non-current liabilities and revenue and 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.

### **Asset management**

43. Capital assets were disposed of without the municipal council having in a meeting open to the public, decided on whether they still needed to provide the minimum level of basic municipal service and considered the fair market value of the assets and economic and community value to be received in exchange for the asset, as required by section 14(2)(a) and 14(2)(b) of the MFMA.

#### Human resources management

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

45. The municipal manager and senior managers did not sign performance agreements within the prescribed period, as required by section 57(2)(a) of the MSA.

#### Revenue management

46. I was unable to obtain sufficient appropriate audit evidence that revenue due to the municipality was calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

#### Other information in the annual report

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

48. 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.

49. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the financial statements and the selected material indicators in the scoped-in development priority presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

50. 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

51. 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.

52. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the material findings on compliance with legislation included in this report.
53. An effective and adequate audit action plan was not developed to address the root cause of findings relating to financial and compliance matters, which led to repeat audit findings.
54. Management did not perform a review of the source data of the valuation roll for completeness and accuracy.

## Material irregularities

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

### Status of previously reported material irregularities

56. The material irregularity identified is as follows:

#### Late payments of pension fund contributions to the pension funds 2023-24 financial year

57. The municipality has not been paying pension funds contributions to SALA and Consolidated Retirement Fund (CRF) pension funds on time as far back as 2018-19, and this is a non-compliance in terms of section 13A of the Pension Fund Act 24 of 1956 and the MFMA act paragraphs 65 (1), 65 (2) (d) (i), 65 (2) (e) and 65 (2) (f) which requires the municipality to pay over the employees' pension funds contributions over to the pension funds' bank accounts no later than seventh of the following month.
58. The late payments of pension fund contributions to pension funds are likely to result in substantial harm to the employees of the municipality (general public) in that at retirement, the employees will not receive the full value of their pensions, due to the increase in investment (interest) each employee loses, as the pension fund will not be able to invest the member's contribution on time due to late payment by the municipality, which is likely to have a severely adverse impact on their livelihood.
59. I notified the accounting officer of the material irregularity on 26 November 2024 and invited him to make a written submission on the actions taken.
60. I received the written submission on 21 January 2025. I considered the representations made and the substantiating documents provided and have concluded that appropriate actions are being taken to address the material irregularity.
61. Since being notified of the material irregularity, for each month's contributions, the municipality has managed to pay the majority of contributions to the pension funds on time for each month except for March 2025 and May 2025.
62. A follow-up will be made in the next audit to assess the appropriateness of actions taken to confirm that the municipality continues to pay the pension funds on time.

## Other reports

63. I draw attention to the following engagements conducted by an external party. 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.
64. The Special Investigating Unit (SIU) is currently assessing allegations of maladministration and corruption relating to the procurement processes of certain awards by the municipality. The SIU is evaluating whether there is any substance to the allegation from the whistleblower.

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 material performance indicators and on the municipality's compliance with selected requirements in key legislation.

#### **Financial statements**

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit 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:

| #  | 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),<br>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   | 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)<br><br><b>Parent municipality with ME:</b><br>Sections: 93B(a), 93B(b)<br><br><b>Parent municipality with shared control of ME:</b><br>Section: 93C(a)(iv), 93C(a)(v)   |

|    |   |  |
|----|---|--|
| 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)  |