

Report of the auditor-general to the Free State Provincial Legislature and the council on the Nketoana Local Municipality

Report on the audit of the financial statements

Disclaimer opinion

1. I was engaged to audit the financial statements of the Nketoana 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 financial statements, including a summary of significant accounting policies.
2. I do not express an opinion on the financial statements of the municipality. Because of the significance of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

Property plant and equipment

3. I was unable to obtain sufficient appropriate audit evidence for the work-in-progress included in the reconciliation of work-in-progress in property, plant and equipment in note 14 to the financial statements as the municipality did not provide adequate supporting evidence to confirm that goods and services were actually received by the municipality at the correct quantity, quality and price. I was unable to confirm the work-in-progress included in the reconciliation of work-in-progress in property, plant and equipment by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the work-in-progress included in the reconciliation of work-in-progress in property, plant and equipment stated at R260 484 593 in note 14 to the financial statements.
4. Furthermore, the municipality did not account for the work-in-progress included in the reconciliation of work-in-progress in property, plant and equipment in note 14, in accordance with the GRAP 21, *Impairment of non-cash generating assets* and GRAP 26, *Impairment of cash-generating assets* as the municipality did not impair projects where indicators of impairment were identified. Consequently, I was unable to determine the impact on the net carrying amount of work-in-progress included in the reconciliation of work-in-progress stated at R260 484 593 included in note 14 and impairment loss stated at R21 267 798 included in note 46 to the financial statements, as it was impracticable to do so. Additionally, there was an impact on the deficit for the year and accumulated surplus.
5. In addition, I was unable to obtain sufficient appropriate audit evidence that the municipality recognised all properties owned by the municipality. Consequently, I was unable to determine whether any adjustment was necessary to land stated at R25 977 820, operational buildings

stated at R15 622 462 and community buildings and facilities R70 391 522 included in the property, plant and equipment in note 14 to the financial statements.

6. Moreover, the municipality did not disclose the change in estimate in accordance with GRAP 3, *Accounting policies, changes in accounting estimates and errors*, as there was a change in the estimated useful life of various assets of the municipality, however, the municipality did not disclose the effect of the change in estimate relating to future periods in their financial statements. Consequently, I was unable to determine the effect of the change in estimate relating to future periods as it was impracticable to do so.
7. During 2023, I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment as the municipality did not provide adequate supporting evidence for the inputs used in assessing changes to the residual values and the useful lives of assets based on their impairment and useful lives assessment methodology. I was unable to determine the full extent of the misstatement to property, plant and equipment, stated at R1 012 355 811, as it was impracticable to do so. Additionally, there was an impact on the deficit for the year and accumulated surplus. My audit opinion on the financial statements for the period ended 30 June 2023 was modified accordingly. My opinion on the current year's financial statements is also modified because of the possible effect of this matter on the comparability of the property, plant and equipment for the current period.
8. During 2023, the municipality also did not account for property plant and equipment in accordance with GRAP 21, *Impairment of non-cash generating assets* and GRAP 26, *Impairment of cash-generating assets* as the municipality did not impair assets when they identified indicators of impairment. Consequently, I was unable to determine the impact on the net carrying amount of property, plant and equipment included in note 14 and impairment loss included in note 46 to the financial statements as it was impracticable to do so. Additionally, there was an impact on the deficit for the year and accumulated surplus. My audit opinion on the financial statements for the period ended 30 June 2023 was modified accordingly. My opinion on the current year's financial statements is also modified because of the possible effect of this matter on the comparability of the property, plant and equipment for the current period.

Payables from exchange transactions

9. In the current year, I was unable to obtain sufficient appropriate audit evidence that trade payables, salary control account, payments received in advance and unallocated deposits received included in payables from exchange transactions were properly accounted for due to the non-submission of information in support of these current liabilities. In addition, I was unable to rely on the input data used to determine the accrued leave pay balances. I was unable to confirm the trade payables, salary control account, payments received in advance, accrued leave pay and unallocated deposits received by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to trade payables stated at R956 749 056 (2023: R788 992 317), salary control account stated at R18 303 954 (2023: R9 206 450), accrued leave pay R13 603 324 (2023: R8 846 710), payments received in advance stated at R5 585 448 and unallocated deposits received stated at R12 352 870 included in payables from exchange transactions in note 18 to the financial statements.

10. In addition, the municipality did not account for the trade payables included in payables from exchange transactions in note 18 to the financial statements in accordance with GRAP 104, *Financial instruments*, as unreconciled differences were identified between the amounts recorded in the creditor's age analysis and the supplier statements and/or invoices. Consequently, trade payables included in payables from exchange transactions in note 18 to the financial statements were overstated by R14 741 276 (2023: R39 057 431 understatement). I was also unable to determine the full extent of the misstatements to the contra accounts, as it was impracticable to do so. Additionally, there was an impact on the deficit for the year and accumulated surplus.
11. In addition, the municipality did not account for trade payables included in payables from exchange transactions in accordance with GRAP 1, *Presentation of financial statements* as the municipality did not record all liabilities in the current year. Consequently, trade payables included in payables from exchange transactions in note 18 to the financial statements were understated by R24 884 238. I was also unable to determine the full extent of the misstatements to the contra accounts, as it was impracticable to do so. Additionally, there was an impact on the deficit for the year and accumulated surplus.

Service charges

12. I was unable to obtain sufficient appropriate audit evidence for the sale of electricity and water included in service charges in note 23 to the financial statements as the municipality did not maintain reliable data of the actual consumption to determine consumer billings for the current and prior year's. I was unable to confirm the sale of electricity and water included in service charges by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the sale of electricity and water included in service charges stated at stated at R102 918 673 (2023: R73 942 220) and R102 957 099 (2023: R67 252 262) in note 23 to the financial statements.
13. I was unable to obtain sufficient appropriate audit evidence for the sewerage and sanitation charges and refuse removal included in service charges in note 23 to the financial statements as the municipality did not have reliable input data to determine consumer billings for sewerage and sanitation charges and refuse removal for the current year. I was unable to confirm the sewerage and sanitation charges and refuse removal included in service charges by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the sewerage and sanitation charges and refuse removal included in service charges stated at R37 358 551 and R31 755 545 respectively in note 23 to the financial statements.
14. In addition, the municipality did not recognise service charges in accordance with GRAP 9, *Revenue from exchange transactions* as some consumers were not billed during the year while other consumers were not billed in the correct period. In the current year, I was unable to determine the full extent of the misstatements to service charges and receivables from exchange transactions, stated at R 274 989 868 in note 23 to the financial statements and R544 872 051 in note 8 to the financial statements respectively, as it was impracticable to do so. In the prior year, this resulted in an understatement of service changes by R8 474 233, and an understatement of receivables from exchange transactions by the same amount. Additionally, there was an impact on the deficit for the year and accumulated surplus.

Receivables from exchange transactions

15. I was unable to obtain sufficient appropriate audit evidence for receivables from exchange transactions due to the non-submission of information in support of receivables from exchange transactions. I was unable to confirm the receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the receivables from exchange transactions stated at R544 872 051 in note 8 to the financial statements.
16. In addition, the municipality did not account for the allowance for impairment included in receivables from exchange transactions in note 8 to the financial statements in accordance with GRAP 104, *Financial instruments* as a result of material misstatements identified in the input data used to calculate the impairment allowance. The municipality did not determine the present value of estimated future cash flows in the allowance for impairment calculation for the current year and prior year, in accordance with the GRAP 104. Consequently, I was unable to determine the full extent of the misstatements to the allowance for impairment included in receivables from exchange transactions stated at R544 872 051 (2023: R441 446 980) in note 8 to the financial statements and the debt impairment expense stated at R90 577 491 (2023: R653 491 994) in note 39 to the financial statements, as it was impracticable to do so. Additionally, there was an impact on the deficit for the year and accumulated surplus.
17. Furthermore, the municipality did not disclose receivables from exchange transactions in accordance with GRAP 104, *Financial instruments* as the municipality did not include the disclosures required by the accounting standard in the notes to the financial statements. I have not included the omitted information in this auditor's report as it was impracticable to do so.

Receivables from non-exchange transactions

18. I was unable to obtain sufficient appropriate audit evidence for the receivables from non-exchange transactions due to the non-submission of information in support of these receivables from non-exchange transactions. I was unable to confirm the receivables from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the receivables from non-exchange transactions stated at R67 731 636 in note 7 to the financial statements.
19. The municipality did not recognise the allowance for impairment included in receivables from non-exchange transactions in note 7 to the financial statements in accordance with GRAP 108, *Statutory receivables* as a result of material misstatements identified in the input data used to calculate the impairment allowance. The municipality did not determine the present value of estimated future cash flows in the allowance for impairment calculation for the current year and prior year, in accordance with the standard. Consequently, I was unable to determine the full extent of the misstatements to the allowance for impairment included in receivables from non-exchange transactions stated at R67 731 636 (2023: R59 683 248) in note 7 to the financial statements and the debt impairment expense stated at R90 577 491 (2023: R653 491 994) in note 39 to the financial statements, as it was impracticable to do so. Additionally, there was an impact on the deficit for the year and accumulated surplus.
20. The municipality did not adequately disclose receivables from non-exchange transactions in accordance with GRAP 108, *Statutory receivables* as the municipality did not include the

required disclosures in the notes to the financial statements. I have not included the omitted information in this auditor's report as it was impracticable to do so.

Debt impairment

21. I was unable to obtain sufficient appropriate audit evidence for debt impairment due to an unreconciled material difference between the underlying accounting records and the financial statements. I was unable to confirm the debt impairment by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the debt impairment stated at R90 577 491 in note 39 to the financial statements.

Employee related costs

22. I was unable to obtain sufficient appropriate audit evidence for employee related costs due to an unreconciled material difference between the underlying accounting records and the financial statements. I was unable to confirm the employee related costs by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the employee related costs stated at R175 185 795 (2023: R149 109 537) in note 34 to the financial statements.

VAT receivable

23. I was unable to obtain sufficient appropriate audit evidence for the value added tax (VAT) receivable due to the non-submission of information in support of VAT receivable transactions. I was unable to confirm the VAT receivable by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the VAT receivable stated at R27 221 412 (2023: R30 165 92) in note 9 to the financial statements.

24. In addition, the municipality did not adequately exclude VAT from the debt impairment expense in accordance with GRAP 104, *Financial instruments and GRAP 108 Statutory receivables* as the debt impairment expense was recorded inclusive of VAT. I was unable to determine the full extent of the misstatement to the debt impairment expense stated at R90 577 491 (2023: R653 491 994) in note 39 to the financial statements and VAT receivable stated at R27 221 412 (2023: R30 165 892) in note 9 to the financial statements for the current year and prior year, as it was impracticable to do so. Additionally, there was an impact on the deficit for the year and accumulated surplus.

25. The municipality did not disclose VAT receivable in accordance with GRAP 108, *Statutory receivables* as the municipality did not include the required disclosures in the notes to the financial statements. I have not included the omitted information in this auditor's report as it was impracticable to do so.

Investment property

26. I was unable to obtain sufficient appropriate audit evidence for investment property due to the non-submission of information in support of these investment properties for the current and prior years. In addition, the municipality did not provide adequate supporting evidence to confirm that the municipality recognised all investment properties owned by the municipality in the current year. I was unable to confirm the investment property by alternative means.

Consequently, I was unable to determine whether any adjustments were necessary to the investment property stated at R78 308 427 (2023: R99 039 092) in note 13 to the financial statements.

Government grants and subsidies

27. I was unable to obtain sufficient appropriate audit evidence for the conditional grants included in the government grants and subsidies in note 31 to the financial statements as the municipality could not provide adequate supporting evidence to confirm that the conditions of the grants were met prior to their recognition as non-exchange revenue in the general ledger. I was unable to confirm the conditional grants included in government grants and subsidies by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the conditional grants recognised included in the government grants and subsidies stated at R78 210 709 in note 31 to the financial statements.

Unspent conditional grants and receipts

28. I was unable to obtain sufficient appropriate audit evidence for the unspent conditional grants and receipts as the municipality could not provide adequate supporting evidence to confirm that the conditions of the grants were met. I was unable to confirm the unspent conditional grants and receipts by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the unspent conditional grants and receipts included in the government grants and subsidies stated at R 832 692 in note 31 to the financial statements.

General expenses

29. I was unable to obtain sufficient appropriate audit evidence for general expenses due to the non-submission of information in support of these general expenses. I was unable to confirm general expenses by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to general expenses stated at R63 386 920 in note 43 of the financial statements.

30. The municipality did not correctly classify expenses within the general expenses note to the financial statements in accordance with GRAP 1, *Presentation of financial statements*. I was unable to determine the full extent of the classification errors within general expenses in note 43 to the financial statements, as it was impracticable to do so.

31. In addition, the municipality did not correctly account for general expenses in accordance with GRAP 1, *Presentation of financial statements* as some general expenses were not recognised in the correct period, while other general expenses were recognised at incorrect amounts. Consequently, I was unable to determine the full extent of the misstatements to general expenses stated at R63 386 920 in note 43 to the financial statements, as it was impracticable to do so. Additionally, there was an impact on the payables from exchange transactions, deficit for the year and accumulated surplus.

Contracted services

32. I was unable to obtain sufficient appropriate audit evidence for contracted services due to an unreconciled material difference between the underlying accounting records and the financial

statements. I was unable to confirm the contracted services by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the contracted services stated at R27 299 457 in note 42 to the financial statements.

33. During 2023, I was unable to obtain sufficient appropriate audit evidence for contracted services as adequate supporting documentation could not be provided to confirm that the goods and services were actually received and at the correct quantity, quality and price. I was unable to confirm contracted services by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the contracted services stated at R16 622 172 in note 42 of the financial statements. My audit opinion on the financial statements for the period ended 30 June 2023 was modified accordingly. My opinion on the current year's financial statements is also modified because of the possible effect of this matter on the comparability of contracted services for the current period.

In-kind revenue

34. The municipality did not recognise in-kind revenue in accordance with GRAP 23, *Revenue from non-exchange transactions*. This was due to in-kind revenue related to donated assets and interest reversed by creditors not being recognised. Consequently, this resulted in an understatement of in-kind revenue by R51 785 196, and an overstatement of payables from exchange transactions by R40 015 939. Additionally, there was an impact on the deficit for the year and accumulated surplus.

Inventories

35. I was unable to obtain sufficient appropriate audit evidence for inventories due to the status of the accounting records. I was unable to confirm the inventories by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the Inventories stated at R18 338 404 (2023: R18 430 039) in note 3 to the financial statements.

Other receivables

36. During 2023, I was unable to obtain sufficient appropriate audit evidence for other receivables due to the status of the accounting records. I was unable to confirm the other receivables by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the other receivables stated at R7 980 337 in note 5 to the financial statements. My audit opinion on the financial statements for the period ended 30 June 2023 was modified accordingly. My opinion on the current year's financial statements is also modified because of the possible effect of this matter on the comparability of other receivables for the current period.

Finance costs

37. The municipality did not recognise finance costs in accordance with GRAP 1, *Presentation of financial statements* as the municipality did not recognise all finance costs when they were incurred. Consequently, this resulted in an understatement of finance costs by R14 780 198 and an understatement of payables from exchange transactions by the same amount. Additionally, there is an impact on the deficit for the year and accumulated surplus.

Impairment loss

38. The municipality did not account for the impairment loss in accordance with GRAP 1, *Presentation of financial statements* as the municipality incorrectly classified impairment loss as a fair value adjustment in the financial statements. Consequently, this resulted in the impairment loss being understated by R19 126 268 in note 46 to the financial statements and the fair value adjustment in note 44 to the financial statements was overstated by the same amount.

Prior period error

39. I was unable to obtain sufficient appropriate audit evidence for accumulated surplus as included in note 63 to the financial statements, as adequate supporting information was not provided. I was unable to confirm the prior period error disclosures by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the accumulated surplus as included in note 63 to the financial statements.

Unauthorised expenditure

40. I was unable to obtain sufficient appropriate audit evidence for unauthorised expenditure due to the status of the accounting records. I was unable to confirm the unauthorised expenditure by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to unauthorised expenditure stated at R1 006 199 015 (2023: R980 785 456) in note 53 to the financial statements.

Irregular expenditure

41. I was unable to obtain sufficient appropriate audit evidence for irregular expenditure because a complete listing of individual transactions that comprise the opening balance was not provided, which also impacted the current year balances. I was unable to confirm the irregular expenditure by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the irregular expenditure stated at R548 987 274 (2023: R479 930 270) in note 55 to the financial statements.

42. In addition, the municipality did not disclose all irregular expenditure in note 55 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.

Fruitless and wasteful expenditure

43. I was unable to obtain sufficient appropriate audit evidence for fruitless and wasteful expenditure because a complete listing of individual transactions that comprise the opening balance was not provided, which also impacted the current year's balances. I was unable to confirm the fruitless and wasteful expenditure by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to fruitless and wasteful expenditure stated at R129 297 073 (2023: R196 920 174) in note 54 to the financial statements.

44. In addition, the municipality did not disclose all fruitless and wasteful expenditure in note 54 to the financial statements, as required by section 125(2)(d) of the Municipal Finance Management Act 56 of 2003 (MFMA). Expenditure incurred due to interest and penalties charged on overdue accounts, were not recognised, which resulted in the understatement of fruitless and wasteful expenditure by R32 719 650. In addition, all interest reversed by Eskom was not included in the amounts written off – Eskom debt relief included in fruitless and wasteful expenditure in note 54 to the financial statements. Consequently, this resulted in the understatement of the amount written off - Eskom debt relief included in fruitless and wasteful expenditure in note 54 to the financial statements by R24 616 257.

Net cash flow from operating activities

45. The municipality did not correctly prepare and disclose the net cash flows from operating activities as required by GRAP 2, *Cash flow statements*. This was due to multiple errors in determining the cash flows from operating activities. I was unable to determine the full extent of the errors in the net cash flow from operating activities as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments were necessary to cash flows from operating activities stated at R97 281 514 (2023: R71 996 545) in the financial statements.

Net cash flow from investing activities

46. The municipality did not correctly prepare and disclose the net cash flows from investing activities as required by GRAP 2, *Cash flow statements*. This was due to multiple errors in determining the cash flows from investing activities. I was unable to determine the full extent of the errors in the net cash flow from investing activities as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments were necessary to cash flows from investing activities stated at R90 329 744 (2023: R69 138 321) in the financial statements.

Segment information

47. The municipality did not prepare the financial statements in accordance with GRAP 18, *Segment reporting* as it did not include disclosures on segment information in the annual financial statements submitted for audit. I have not included the omitted information in this auditor's report as it was impracticable to do so.

Contingencies

48. I was unable to obtain sufficient appropriate audit evidence for contingencies due to the non-submission of information in support of these contingencies. I was unable to confirm the contingencies by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to contingencies stated at R519 870 373 (2023: R529 459 170) in note 50 to the financial statements.

49. During 2023, the municipality did not disclose all contingent liabilities in accordance with GRAP 19, *Provision, contingent liabilities, and contingent assets* as they did not recognise all active litigation claims in the contingent liability note to the financial statements. Consequently, contingent liabilities stated in note 50 to the financial statements were understated by

R258 095 741. In addition, the municipality disclosed some court cases as contingent liabilities even though court judgements were passed subsequent to year-end, as a result, these contingent liabilities did not meet the definition of contingencies. I was unable to determine the full extent of the misstatements to contingent liabilities, stated at R529 459 170 in note 50 to the financial statements, as it was impracticable to do so. Additionally, there was an impact on the provisions, payables from exchange transactions and events after the reporting date disclosures as required by GRAP 14, *Events after the reporting date*. My audit opinion on the financial statements for the period ended 30 June 2023 was modified accordingly. My opinion on the current year's financial statements is also modified because of the possible effect of this matter on the comparability of contingencies for the current period.

Commitments

50. I was unable to obtain sufficient appropriate audit evidence for commitments, due to the non-submission of information in support of the commitments. I was unable to confirm the commitments by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to commitments stated at R98 443 573 (2023: R162 501 610) in note 49 to the financial statements.

Additional disclosure in terms of the MFMA

51. I was unable to obtain sufficient appropriate audit evidence to confirm the pay as you earn (PAYE) and unemployment insurance fund (UIF), material water and electricity distribution losses and pension and medical aid deductions disclosed in note 57 to the financial statements, due to the non-submission of information in support of the additional disclosures in terms of the MFMA. I was unable to confirm PAYE and UIF, material water and electricity distribution losses and pension and medical aid deductions by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the PAYE and UIF stated at R2 345 564 (2023: R5 507 111), material water distribution losses stated at R5 621 241 (2023: R8 480 126), material electricity distribution losses stated at R14 146 368 (2023: R 24 566 600) and pension and medical aid deductions stated at R7 695 825 (2023: R8 188 156) in note 57 to the financial statements.

Emphasis of matter

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

Close call relating to going concern

53. Note 52 in the financial statements, which deals with the possible effects of the future implications of continuing deterioration in operational results on the municipality's prospects, performance, and cash flows.

Other matter

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

Unaudited disclosure notes

55. 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

56. 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 the Division of Revenue Act 5 of 2023 (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.

57. 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

58. My responsibility is to conduct an audit of the financial statements in accordance with the International Standards on Auditing and to issue an auditor's report. However, because of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

59. 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 the 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.

Report on the annual performance report

60. 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.

61. I selected the following material performance indicators related to basic service delivery presented in the annual performance report for the year ended 30 June 2024. 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.

- Number of formal households with access to water on 30 June 2024

- Construction of the phase 4: 12km (42km) of Reitz to Mamafubedu pipeline on 30 June 2024
- Construction of 3 ML water reservoir on 30 June 2024 Mamafubedu
- Construction of 2.5 ML water reservoirs on 30 June 2024 in Ntha
- Construction of 3 ML water reservoir on 30 June 2024 in Lindley
- Construction of 3 ML water reservoir on 30 June 2024 Arlington
- Construction of 2 ML reservoir in Reitz on 30 June 2024
- Construction of Matoding water supply in 30 June 2024
- Monthly maintenance of water infrastructure on 30 June 2024
- Refurbishment of Reitz water pump station (Middlepunt) on 30 June 2024
- Construction of 23 km 315mm dia mPVC pipeline from Reitz WTW to Reitz hospital reservoir on 30 June 2024
- Construction of the Geluk dam Reitz on 30 June 2024
- Percentage assessment score resulting from the monthly evaluation processes approved by independent lab (blue drop) 2023-2024
- Number of registered indigents having access to free basic water on 30 June 2024
- Farming communities provided with water on 30 June 2024
- 15 000 formal settlements households having access to basic level of sanitation on 30 June 2024
- Improvement in the percentage assessment score resulting from the monthly valuation processes approved by independent lab (green drop assessment)
- 5 000 indigent households having access to basic level of sanitation on 30 June 2024
- Number of km resealing of roads in Ntha on 30 June 2024
- Number of km resealing of roads in Leratswana on 30 June 2024
- Number of master plan reviewed on 30 June 2024
- Number of monthly reports compiled and submitted on 30 June 2024
- Reviewal of energy master plan by 30 June 2024
- Maintenance of substations by 30 June 2024

- Reconditioning of 5 transformers on 30 June 2024 Reitz x 3 Mamafubedu x 1 Lindley x 1
- Maintenance of street lights and other electricity infrastructure by June 2024
- Upgrading of 3.5km, 35 mm of ABCXLPE conductor cable to 70mm fox conductor cable in Lindley on 30 June 2024
- Upgraded 100m of 11KV, 70 mm for conductor cable in Ntha on 30 June 2024
- Installation of 5 high mast lights in all 4 towns on 30 June 2024
- Number of cleaning campaigns to clear illegal dumping in all units by 30 June 2024
- Weekly or twice in a month for residential sites and 3 times for business sites(weekly) on 30 June 2024

62. 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.

63. 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 measures taken to improve performance

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

65. The material findings on the reported performance information for the selected material indicators are as follows:

Monthly maintenance of water infrastructure on 30 June 2024

66. An achievement of “water infrastructure is maintained on 30 June 2024 as per 12 monthly reports submitted” was reported against a target of “maintenance of water infrastructure on 30 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.

67. The approved planning documents included a commitment of “maintenance of water infrastructure on 30 June 2024.” However, an achievement of “water infrastructure is maintained on 30 June 2024 as per 12 monthly reports submitted” was reported in the annual performance report. This discrepancy highlights misalignment between approved plans and operations, while the incorrect reporting undermines transparency and accountability.

Improvement in the percentage assessment score resulting from the monthly evaluation processes approved by independent lab (green drop assessment)

68. An achievement of “the green drop assessments were not measured for the 2023-24 financial year” was reported against a target of “improved green drop assessment report by 30 June 2024.” However, the target had not been clearly defined during the planning process. No specific level of performance was included in the target. Consequently, the target is not useful for measuring and reporting on progress against the municipality’s planned objectives.

Weekly or twice in a month for residential sites and 3 times for business sites (weekly) on 30 June 2024

69. An achievement of “refuse was not collected as scheduled due to waste truck mechanical issues” was reported against a target of “weekly for households and 3 times for business sites (weekly); households – 16 634; businesses – 239.” 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.

70. “Procurement of more white fleet to curb the back log and timeous attendance to maintenance and repair of the vehicles” was reported as a measure aimed at improving performance against the target of “weekly for households and 3 times for business sites (weekly); households – 16 634; businesses – 239”. However, I could not determine if the measure was actually implemented to improve performance because adequate supporting evidence was not provided for auditing. Consequently, I could not verify whether the reported measures were indeed taken.

Various indicators

71. Based on the audit evidence, the actual achievement for two indicators did not agree to the achievements reported. Consequently, the targets were not achieved, the under achievements

on the targets were more than reported and the achievements against the target were lower than reported.

Indicator	Target	Reported achievement	Actual achievement
Number of monthly reports compiled and submitted on 30 June 2024	12 monthly repair and maintenance of roads, storm water infrastructure reports	12 monthly reports on roads, storm water infrastructure repaired and maintained on 30 June 2024	No monthly reports on roads, storm water infrastructure repaired and maintained on 30 June 2024
Maintenance of street lights and other electricity infrastructure by June 2024	12 reports of monthly repair and maintenance reports by 30 June 2024	12 reports on electricity repair and maintenance	No reports on electricity repair and maintenance

Various indicators

72. Measures aimed at improving performance against targets were reported. However, I could not determine if the measures were actually implemented to improve performance because adequate supporting evidence was not provided for auditing. Consequently, I could not verify whether the reported measures were indeed taken.

Indicator name	Target	Reported achievement	Reported measure
Number of registered indigents having access to free basic water on 30 June 2024	5 000 registered indigents receiving water by 30 June 2024	3 963 registered indigents receiving water by 30 June 2024	To have more indigent registration campaigns
Farming communities provided with water on 30 June 2024	9 farms provided with water on 30 June 2024 Mooihoek Sterkfontein Inhoek Farm Smaldeel Farm Welcome Farm Driepunt Farm Vaalbank Tweespruit Torpindo	6 farms were provided with water Sterkfontein Inhoek Smaldeel farm Welcome farm Vaalbank Tweespruit	Treat each request received and address accordingly

Indicator name	Target	Reported achievement	Reported measure
5 000 indigent households having access to basic level of sanitation on 30 June 2024	5 000 indigent households having access to basic level of sanitation by June 30 2024	3 963 indigent households having access to basic level of sanitation	To have more indigent registration campaigns
Number of master plan reviewed on 30 June 2024	1 reviewed road and infrastructure master plan by 30 June 2024	None - Roads and infrastructure master plan wasn't reviewed	Implement proper budgetary measures for 2024-25 financial year
Reviewal of energy master plan by 30 June 2024	1 reviewed energy master plan approved by 30 June 2024	Review of energy master plan was not done	Implement proper budgetary measures for 2024-2025 financial year
Upgrading of 3.5km, 35 mm of ABCXLPE conductor cable to 70mm fox conductor cable in Lindley on 30 June 2024	Upgraded of ed 3.5km, 35 mm of ABCXLPE conductor cable to 70mm fox conductor cable in Lindley by June 2024	3.5km, 35mm of ABCXLPE conductor cable to 70mm fox conductor cable in Lindley was not upgraded.	The project will be prioritized for the outer years (2025-26 / 2026-2027) financial year
Upgraded 100m of 11KV, 70 mm for conductor cable in Ntha on 30 June 2024	Upgraded 100m of 11KV, 70 mm for conductor cable in Ntha on June 2024	100m of 11KV, 70 mm for conductor cable in Ntha was not upgraded	The project will be prioritized for the outer years (2025-26 / 2026-2027) financial year
Number of cleaning campaigns to clear illegal dumping in all units by 30 June 2024	4 cleaning campaigns held in all units to clear illegal dumping by 30 June 202	1 cleaning campaign to clear illegal dumping	Implement proper internal control on planning and budget for resources

Various indicators

73. I could not determine if the reported achievements were correct, as adequate supporting evidence was not provided for auditing. Consequently, the achievements might be more or less than reported and were not reliable for determining if the targets had been achieved.

Indicator	Target	Reported achievement
Number of formal households with access to water on 30 June 2024	14 000 formal households provided with portable water by 30 June 2024	15 447 formal households provided with portable water
15 000 formal settlements households having access to basic level of sanitation on 30 June 2024	15 000 formal settlement households having access to basic level of sanitation by 30 June 2024	15719 Formal households have access to basic level of sanitation (104.7%)

Other matters

74. I draw attention to the matters below.

Achievement of planned targets

75. 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.

76. 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.

Basic service delivery

<p><i>Targets achieved: 24%</i></p> <p><i>Budget spent: Undeterminable/Unknown</i></p> <p><i>The budget spent is not available as the municipality's actual spending is not aligned with their key performance areas</i></p>		
Key service delivery indicator not achieved	Planned target	Reported achievement
Construction of the phase 4: 12 km (42km) of Reitz to Mamafubedu pipeline on 30 June 2024	Construction phase 4: 12 km Reitz to Mamafubedu pipeline by 30 June 2024	Construction phase 4: 12 km Reitz to Mamafubedu pipeline is not completed
Construction of 3 ML water reservoir on 30 June 2024 Mamafubedu	Construction of 3 ML concrete water reservoir in Mamafubedu by 30 June 2024	Construction of 3 ML concrete water reservoir in Mamafubedu is not completed
Construction of 2.5 ML water reservoirs on 30 June 2024 in Ntha	Construction of 2.5 ML concrete water reservoir in Ntha by 30 June 2024	Construction of 2.5 ML concrete water reservoir in Ntha is not completed
Construction of 3 ML water reservoir on 30 June 2024 in Lindley	Construction of 3 ML concrete water reservoir in Lindley by 30 June 2024	Construction of 3 ML concrete water reservoir in Lindley is not completed
Construction of 3 ML water reservoir on 30 June 2024 Arlington	Construction of 3 ML concrete water reservoir in Arlington by 30 June 2024	Construction of 3 ML concrete water reservoir in Arlington is not completed
Construction of 2ML reservoir in Reitz on 30 June 2024	Construction of 2 ML reservoir in Reitz by 30 June 2024	Construction of 2ML reservoir in Reitz is not completed
Construction of Matoding water supply in 30 June 2024	Construction of the Matoding water supply on 30 June 2024	Construction of the Matoding water supply is not completed

Targets achieved: 24%

Budget spent: Undeterminable/Unknown

The budget spent is not available as the municipality's actual spending is not aligned with their key performance areas

Key service delivery indicator not achieved	Planned target	Reported achievement
Refurbishment of Reitz water pump station (Middlepunt) on 30 June 2024	Refurbishment of Reitz water pump station (Middle punt) by 30 June 2024	Refurbishment of Reitz water pump station (Middle punt) was not done
Construction of 23 km 315mm dia mPVC pipeline from Reitz WTW to Reitz hospital reservoir on 30 June 2024	Construction of 23 km 315mm dia mPVC pipeline from Reitz WTW to Reitz hospital reservoir by 30 June 2024	Construction of 23 km 315mm dia mPVC pipeline from Reitz WTW to Reitz hospital reservoir was not done
Construction of the Geluk dam Reitz on 30 June 2024	Construction of the Geluk dam Reitz by 30 June 2024	Construction of the Geluk dam in Reitz was not done
Percentage assessment score resulting from the monthly evaluation processes approved by independent lab (blue drop) 2023-2024	80% of test results	The assessments were not performed
Number of registered indigents having access to free basic water on 30 June 2024	5000 registered indigents receiving water by 30 June 2024	3963 registered indigents having access to free basic water
Farming communities provided with water on 30 June 2024	9 farms provided with water on 30 June 2024 Mooihoek Sterkfontein Inhoek Farm Smaldeel Farm Welcome Farm Driepunt Farm Vaalbank Tweespruit Torpindo	6 Farms were provided with water Sterkfontein Inhoek Smaldeel farm Welcome farm Vaalbank Tweespruit
Improvement in the percentage assessment score resulting from the monthly valuation processes approved by independent lab (green drop assessment)	Improved green drop assessment report by 30 June 2024	The green drop assessments were not measured for the 2023-24 Financial Year
5 000 indigent households having access to basic level of sanitation on 30 June 2024	5 000 indigent households having access to basic level of sanitation by June 30 2024	3 963 indigent households having access to basic level of sanitation
Number of km resealing of roads in Ntha on 30 June 2024	Resealed roads in Ntha by 30 June 2024	None – Roads in Ntha weren't resealed

Targets achieved: 24%

Budget spent: Undeterminable/Unknown

The budget spent is not available as the municipality's actual spending is not aligned with their key performance areas

Key service delivery indicator not achieved	Planned target	Reported achievement
Number of km resealing of roads in Leratswana on 30 June 2024	Resealed roads in Leratswana by 30 June 2024	Roads in Leratswana weren't resealed
Number of master plan reviewed on 30 June 2024	1 reviewed road and infrastructure master plan by 30 June 2024	None - Roads and infrastructure master plan wasn't reviewed
Reviewal of energy Master Plan by 30 June 2024	1 reviewed energy master plan approved by 30 June 2024	Review of energy master plan was not done
Upgrading of 3.5 km, 35 mm of ABCXLPE conductor cable to 70mm fox conductor cable in Lindley on 30 June 2024	Upgraded of ed 3.5k m, 35 mm of ABCXLPE conductor cable to 70mm fox conductor cable in Lindley by June 2024	3.5 km, 35mm of ABCXLPE conductor cable to 70mm fox conductor cable in Lindley was not upgraded.
Upgraded 100m of 11KV, 70 mm for conductor cable in Ntha on 30 June 2024	Upgraded 100m of 11KV, 70 mm for conductor cable in Ntha on June 2024	100m of 11KV, 70 mm for conductor cable in Ntha was not upgraded
Installation of 5 high mast lights in all 4 towns on 30 June 2024	5 high mast lights installed by 30 June 2024	High mast lights were not installed
Number of cleaning campaigns to clear illegal dumping in all units by 30 June 2024	4 cleaning campaigns held in all units to clear illegal dumping by 30 June 2024	1 cleaning campaign to clear illegal dumping
Weekly or twice in a month for residential sites and 3 times for business sites(weekly) on 30 June 2024	Weekly for households and 3 times for business sites(weekly) Households – 16 634 Businesses - 239	Refuse was not collected as scheduled due to waste truck mechanical issues

Material misstatements

77. I identified 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

78. 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.

79. 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.
80. 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.
81. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statements

82. 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 liabilities, revenue, expenditure, disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a disclaimer audit opinion.
83. The council failed to adopt an oversight report containing the council's comments on the 2022/23 annual report, as required by section 129(1) of the MFMA.

Expenditure management

84. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
85. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred, as required by section 65(2)(b) of the MFMA.
86. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed 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 supply chain management (SCM) requirements.
87. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the fruitless and wasteful expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed fruitless and wasteful expenditure was caused by interest and penalties on overdue accounts.

88. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the unauthorised expenditure could not be quantified as indicated in the basis for disclaimer of opinion paragraph. The majority of the disclosed unauthorised expenditure was caused by overspending on the vote.

Revenue management

89. An adequate management, accounting and information system which accounts for revenue was not in place, as required by section 64(2)(e) of the MFMA.
90. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.
91. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

Asset management

92. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
93. 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.

Consequence management

94. 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.
95. 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.
96. 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.
97. Allegations of financial misconduct laid against officials of the municipality were not investigated, as required by section 171(4)(a) of the MFMA.

Strategic planning & performance management

98. Performance targets were not set for each of the KPIs for the financial year, as required by section 41(1)(b) of the Municipal Systems Act 32 of 2000 (MSA) and municipal planning and performance management regulation 12(1).
99. The performance management system and related controls were not maintained and implemented, as required by municipal planning and performance management regulation 7(1).

Utilisation of conditional grants

100. I was unable to obtain sufficient appropriate audit evidence that the municipal infrastructure grant, regional bulk infrastructure grant and water services infrastructure grant was spent for its intended purposes in accordance with the applicable grant framework, as required by section 16(1) of the Division of Revenue Act 5 of 2023 (Dora).
101. Performance in respect of programmes funded by the municipal infrastructure grant, regional bulk infrastructure grant and water services infrastructure grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Dora.

Human resource management

102. 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.
103. I was unable to obtain sufficient appropriate audit evidence that candidates appointed as senior managers submitted proof of previous employment prior to signing employment contracts, as required by municipal performance regulations for municipal managers and managers directly accountable to municipal managers 4(4)(b).

Procurement and contract management

104. Sufficient appropriate audit evidence could not be obtained that goods and services within the prescribed transaction values for formal written price quotations were procured using price quotations as required by SCM regulation 17(1)(a) and (c). A similar non-compliance was also reported in the prior year.
105. Sufficient appropriate audit evidence could not be obtained that contracts were awarded only to bidders who submitted a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). A similar non-compliance was also reported in the prior year.
106. Some of the quotations were accepted from bidders whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43.
107. Some of the goods and services within the prescribed transaction value for competitive bids were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).
108. The preference point system was not applied in some of the procurement of goods and services as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act 5 of 2000. A similar non-compliance was also reported in the prior year.
109. Sufficient appropriate audit evidence could not be obtained that the performance of contractors or providers was monitored on a monthly basis as required by section 116(2) of the MFMA.

110. Sufficient appropriate audit evidence could not be obtained that contract performance and monitoring measures were in place to ensure effective contract management as required by section 116(2)(c)(ii) of the MFMA.

Internal control deficiencies

111. 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.
112. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the disclaimer of opinion and, the findings on the selected material indicators included in the annual performance report and the material findings on compliance with legislation included in this report.
113. There was a lack of effective consequence management by the municipal council and senior management and no monitoring of compliance with laws and regulations that resulted in the control environment not being strengthened and improved. Additionally, there were some key vacancies within the finance department which were not filled which led to an overreliance on consultants during the financial year under review which impacted the effective reporting of the municipality during this period.
114. Management was slow in responding to the weaknesses in municipal processes that were identified through the prior year's external audit. As a result, management did not ensure that they implemented and effectively monitored controls over daily and monthly processing and reconciling of transactions and that they adequately safeguarded the information to ensure the integrity of the underlying records for both financial and performance reporting.
115. The municipality's audit committee did not function effectively during the year under review due to a lack of support from the leadership of the municipality. Consequently, this impacted on the functioning of the internal audit unit, which stagnated during the year.

Material irregularities

116. 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.

Material irregularities identified during the audit

The material irregularities identified are as follows:

Pollution of water resource not prevented - Lindley (Ntha) wastewater treatment works

117. The Lindley (Ntha) Wastewater Treatment Works (including its pump stations) has totally collapsed and has not been operating effectively. This has resulted in continued spilling and discharge of raw/untreated sewerage into the adjacent environment, including the

groundwater, Vals river and its extended watercourse. The municipality did not take reasonable measures to prevent pollution or degradation of the environment and water resources from occurring, continuing or recurring, which is likely to cause substantial harm to the communities exposed to and dependent on the contaminated water resources.

118. The accounting officer was notified of this material irregularity on 16 January 2024 and invited to make a written submission on the actions taken and that will be taken to address the matter. I determined that the accounting officer is not taking appropriate action to resolve the material irregularity. I am in the process of making a decision on further actions to be taken.

Pollution of water resource not prevented - Petrus Steyn wastewater treatment works

119. The Petrus Steyn Wastewater Treatment Works (including its pump stations) has totally collapsed and has not been operating effectively. This has resulted in continued spilling and discharge of raw/untreated sewerage into the adjacent environment, including the groundwater, Renoster river and its extended watercourse. The municipality did not take reasonable measures to prevent pollution or degradation of the environment and water resources from occurring, continuing or recurring, which is likely to cause substantial harm to the communities exposed to and dependent on the contaminated water resources.
120. The accounting officer was notified of this material irregularity on 16 January 2024 and invited to make a written submission on the actions taken and that will be taken to address the matter. I determined that the accounting officer is not taking appropriate action to resolve the material irregularity. I am in the process of making a decision on further actions to be taken.

Status of previously reported material irregularities

Full and proper records not kept (2019-20) – infrastructure assets and service charges

121. In my 2019-20 auditor's report, I reported that the accounting officer did not take reasonable steps in the 2019-20 financial year to ensure that full and proper records were kept of service charges and infrastructure assets, as required by section 62(1)(b) of the MFMA. The non-compliance contributed to a disclaimed audit opinion as I could not obtain sufficient appropriate audit evidence to support the amounts and disclosures in the financial statements.
122. The lack of full and proper records is likely to result in substantial harm to the municipality as it contributed to the material uncertainty regarding its ability to continue operations, as disclosed in note 49 of the 2019-20 financial statements. This, in turn, is likely to have a negative impact on the municipality's ability to discharge its service delivery mandate.
123. The accounting officer was notified of this material irregularity on 1 February 2022 and was invited to make a written submission on the actions taken and that will be taken to address the matter. The accounting officer did not take appropriate action to resolve the material irregularity. I recommended that the accounting officer should take the following actions to address the material irregularity, which should have been implemented by 28 June 2024 with a progress report within three (3) months:

- a) The non-compliance with section 62(1)(b) of the MFMA should be investigated to determine the reasons and circumstances that led to the non-compliance for the purpose of taking appropriate corrective actions and enhancing control weaknesses.
- b) Based on the reasons and circumstance, appropriate action should be taken to develop and commence with the implementation of an action plan to address poor record keeping so that full and proper records of the financial affairs of the municipality are kept, in accordance with any prescribed norms and standards, as required by section 62(1)(b) of the MFMA. The plan should include anticipated timeframes and address the following key areas as a minimum:
- Complete asset register of all of the municipality's infrastructure assets, including work-in-progress, as well as payment certificates to support assets purchased; and
 - Adequate systems in place for the billing of services.
- c) I further recommended that the accounting officer should take appropriate action to develop and commence with the implementation of an action plan to address the financial problems of the municipality, as required by section 135(1) and 135(3)(a) of the MFMA. The plan should describe the anticipated timeframe and milestones to be achieved and include as a minimum strategies to:
- Increase the collection of revenue;
 - Optimise costs in respect of bulk purchases;
 - Efficiently manage the available resources of the municipality; and
 - Enter payment arrangements with major suppliers
124. The accounting officer has not adequately implemented or made satisfactory progress with the implementation of the above recommendations. I am in the process of making a decision on further actions to be taken.

Auditor - General

Bloemfontein

31 January 2025



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

1. 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

2. 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

3. 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

4. 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.
5. 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

6. 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), Sections 29(1), 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b), Sections 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 63(2)(a), 63(2)(c), Sections 64(2)(b), 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), Sections 65(2)(e), 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), Sections 122(2), 126(1)(a), 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), Sections 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, 171(4)(a), Sections 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), Regulations 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	Regulations 5(4), 6(8)(a), 6(8)(b), 10(1)
MSA: Municipal Staff Regulations	Regulations 7(1), 31
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), Regulations 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), Regulations 36(1)(a), 38(1)(c), 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), Regulations 38(1)(g)(iii), 43, 44, 46(2)(e), 46(2)(f)
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), Sections 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), 54A(1)(a), 56(1)(a), Sections 57(2)(a), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 96(b)
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), Regulations 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)

Legislation	Sections or regulations
MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations 17(2), 36(1)(a)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2), 5(3), 5(6), 8(4)
Division of Revenue Act 5 of 2023	Sections 11(6)(b), 12(5), 16(1); 16(3)
Construction Industry Development Board Act 38 of 2000	Section 18(1)
Construction Industry Development Board Regulations, 2004	Regulations 17, 25(7A)
Municipal Property Rates Act 6 of 2004	Section 3(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), Regulations 7(2), 7(3), 7(6), 7(8), 8(2), 8(5), 9(1), 10(1), 10(2), 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)
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section 34(1)