

# Report of the auditor-general to the Free State Provincial Legislature and the council on the Maluti-A-Phofung Local Municipality

## Report on the audit of the financial statements

### Disclaimer of opinion

1. I was engaged to audit the financial statements of the Maluti-A-Phofung Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2024, the 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

#### Payables from exchange transactions

3. I was unable to obtain sufficient appropriate audit evidence for payments received in advance, trade payables and the cash suspense account included in payables from exchange transactions in note 14 to the financial statements. This was due to non-submission of information in support of these liabilities and the lack of reconciliation of trade payables and control accounts by the municipality. I was unable to confirm the payments received in advance, trade payables and the cash suspense account by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the payments received in advance stated at R176 425 798 (2023: R173 746 988), trade payables stated at R8 468 467 013 (2023: R8 716 741 369) and the cash suspense account stated at R230 267 491 (2023: R148 614 227) included in payables from exchange transactions in note 14 to the financial statements.
4. In addition, the municipality did not account for trade payables and bulk water included in payables from exchange transactions in note 14 to the financial statements in accordance with GRAP 1, *Presentation of financial statements* as the municipality had recognised liabilities that did not meet the recognition criteria, recognised payables from exchange transactions at incorrect values and in other instances have incorrectly classified non-current liabilities as current liabilities. As a result, trade payables and bulk water included in note 14 to the financial statements was overstated by R6 003 775 882, provisions in note 19 to the financial statements was understated by R492 686 678, unrecognised Eskom debt relief (non-current liability) was understated by R5 521 068 377, administrative expenditure included in note 32 was overstated by R2 158 852 and contracted services included in note 39 was overstated by R7 140 358. Additionally, there was an impact on the deficit for the year and the accumulated deficit.

5. During 2023, I was also unable to obtain sufficient appropriate audit evidence for accrued leave pay included in payables from exchange transactions in note 14 to the financial statements due to the status of the accounting records. I was unable to confirm the accrued leave pay by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the accrued leave pay stated at R106 893 273 in note 14 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 the accrued leave pay for the current period.

### Property, plant and equipment

6. I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment due to insufficient information of the assets recorded in the asset register and the non-submission of supporting documentation in support of these capital assets. I was unable to confirm property, plant and equipment by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the property, plant and equipment stated at R2 572 619 608 (2023: R2 536 267 282) in note 4 to the financial statements.
7. In addition, the municipality did not account for property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment* for the current and prior years. This was due to multiple errors which included the non-capitalisation of completed capital infrastructure projects, not all assets under the control of the municipality being identified and recognised, indicators of impairment of assets not being considered in the carrying value of the assets, assets being incorrectly derecognised and assets not being depreciated in accordance with the asset policies of the municipality. I was unable to determine the full extent of the misstatement of property, plant and equipment, stated at R2 572 619 608 (2023: R2 536 267 282) in note 4 to the financial statements, provisions stated at (R61 132 790) in note 19 to the financial statements and depreciation and amortisation expense, stated at R93 877 105 (2023: R292 745 716) in note 33 to the financial statements, as it was impracticable to do so. Additionally, there was an impact on the deficit for the year and the accumulated deficit.

### Investment property

8. The municipality did not recognise investment property in accordance with GRAP 16, *Investment property*, for the current and prior years. This was because the municipality did not measure investment properties at its fair value to reflect the property's market conditions at the reporting dates, recognised investment properties that were neither registered in its name nor under its control and in other instances did not recognise all investment property owned by the municipality. Additionally, the municipality omitted to include all the required disclosures for rental income and direct operating expenses for investment property as required. I was unable to determine the full extent of the misstatement of the investment property stated at R600 310 038 (2023: R600 310 038) and the related disclosures on the valuation method and significant assumptions applied in note 3 to the financial statements, and the related impact on undisclosed fair value adjustments

in the financial statements. Additionally, there was an impact on the deficit for the year and the accumulated deficit.

### Cash and cash equivalents

9. I was unable to obtain sufficient appropriate audit evidence to confirm the main bank balances and prepaid electricity account included in cash and cash equivalents in note 13 to the financial statements. This was due to the status of the accounting records. I was unable to confirm the main bank balances and prepaid electricity account included in cash and cash equivalents by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the main bank balances and prepaid electricity account included at R45 505 453 in cash and cash equivalents as stated in note 13 to the financial statements.
10. In addition, the municipality did not account for short-term deposits included in cash and cash equivalents in note 13 to the financial statements, in accordance with GRAP 1, *Presentation of financial statements*. This was due to the lack of regular reconciliation of the short term deposit accounts. Consequently, short-term deposits included in cash and cash equivalents were overstated by R28 815 940 as stated in note 13 to the financial statements. Additionally, there was an impact on the deficit for the year and the accumulated deficit.
11. During 2023, I was unable to confirm all cash and cash equivalent balances due to the status of the accounting records. Consequently, I was unable to determine whether any adjustments were necessary to the cash and cash equivalents at and for the year ended 30 June 2023 stated as R182 641 246 in note 13 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 the cash and cash equivalents for the current period.

### Receivables from exchange transactions

12. I was unable to obtain sufficient appropriate audit evidence for receivables from exchange transactions due to the status of the accounting records. 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 receivables from exchange transactions stated at R546 517 299 (2023: R1 129 243 527) in note 9 to the financial statements and the consumer debtors - electricity, consumer debtors - water, consumer debtors -sewerage, consumer debtors - refuse and sundry debtors stated at R324 582 091 (2023: R627 028 630) in note 12 to the financial statements.

### Receivables from non-exchange transactions

13. I was unable to obtain sufficient appropriate audit evidence for receivables from non-exchange transactions due to the status of the accounting records. 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 receivables from non-exchange transactions stated at R216 445 719 (2023: R659 887 752) in note 10 and the

consumer debtors - rates stated at R216 447 819 (2023: R658 470 358) in note 12 to the financial statements.

### Service charges

14. I was unable to obtain sufficient appropriate audit evidence for service charges as stated in note 21 to the financial statements, due to the non-submission of information in support of these service charges. I was unable to confirm the service charges by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to service charges stated at R498 078 716 (2023: R494 670 886) in note 21 to the financial statements.
15. In addition, the municipality did not account for service charges in accordance with GRAP 9, *Revenue from exchange transactions*. This was due to the municipality not billing some consumers, while other consumers were billed based on incorrect tariffs during the year. Some consumers were also billed using estimates that did not approximate the actual consumption. Moreover, the municipality did not bill indigent consumers who did not meet the criteria stated in the municipality's approved policy. Consequently, I was unable to determine the full extent of the misstatements to the service charges, stated at R498 078 716 in note 21 to the financial statements and receivables from exchange transactions stated at R546 517 299 in note 9 to the financial statements, as it was impracticable to do so. Additionally, there was an impact on the deficit for the year and the accumulated surplus.

### VAT receivable

16. The municipality did not account for VAT receivable in accordance with GRAP 108, *Statutory receivables* due to errors identified in the municipality's VAT calculations. The municipality also did not account for VAT receivable in accordance with GRAP 1, *Presentation of financial statements* as they did not separately recognise the VAT accruals and did not disclose an accounting policy for VAT receivables in their financial statements. Consequently, I was unable to determine the full extent of the misstatement to the VAT receivable, stated at R1 142 752 968 in note 11 to the financial statements, as it was impracticable to do so. Additionally, there was an impact on the debt impairment, deficit for the year and the accumulated surplus.
17. During 2023, I was unable to obtain sufficient appropriate audit evidence for the VAT receivable due to the status of the accounting records. 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 R1 020 561 190 in note 11 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 the VAT receivable for the current period.

## Debt impairment

18. I was unable to obtain sufficient appropriate audit evidence for debt impairment due to the status of the accounting records. I was unable to confirm the debt impairment by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to debt impairment stated at R950 415 082 in note 36 to the financial statements.

## Government grants and subsidies

19. I was unable to obtain sufficient appropriate audit evidence for the capital grants included in the government grants and subsidies in note 28 to the financial statements, as the municipality could not provide adequate supporting evidence for the Division of Revenue Act 5 of 2023 (Dora) schedule 6B grants allocations. I was unable to confirm the capital grants by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the capital grants included in the government grants and subsidies stated at R219 246 836 (2023: R279 394 955) in note 28 to the financial statements.

## Public contributions and donations

20. The municipality did not classify the human settlements contribution included in public contributions and donations in note 29 to the financial statements in accordance with GRAP 1, *Presentation of financial statements*. This is due to the human settlements contribution being incorrectly recognised as public contributions and donations instead of government grants and subsidies. Consequently, this resulted in the public contributions and donations in note 29 to the financial statements being overstated by R64 285 357 and the understatement of government grants and subsidies in note 28 to the financial statements being understated by the same amount. Additionally, there was an impact on the movement during the year disclosure included in unspent conditional grants and receipts in note 17 to the financial statements.

## Finance costs

21. The municipality did not correctly account for finance costs in accordance with GRAP 1, *Presentation of financial statements*. This is because the municipality incorrectly accounted for the finance costs written-off under the Eskom debt relief arrangement entered into during the current year against the expenditure and as a prior period adjustment. In addition, the municipality incorrectly classified other expenditure as finance costs, while in other instances, the municipality did not correctly account for the interest levied by suppliers. Consequently, this resulted in the understatement of the finance costs stated in note 34 to the financial statements by R217 880 086 (2023: R141 076 687) and the revenue from non-exchange transactions - debt relief not recognised by R385 738 439. Additionally, there was an impact on the deficit for the year and the accumulated surplus.

## Employee-related costs

22. I was unable to obtain sufficient appropriate audit evidence for employee-related costs other than the remuneration of key management personnel included in the employee-related cost in note 30 to the financial statements due to the non-submission of information in support of these expenses and unexplained reconciling differences identified between the payroll data and the general ledger. I was unable to confirm the employee-related costs other than the remuneration paid to key management personnel by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to employee-related costs other than the remuneration paid to key management personnel stated at R441 809 901 in note 30 to the financial statements.
23. During 2023, I was unable to obtain sufficient appropriate audit evidence for employee-related costs due to the non-submission of information in support of these employee related costs. 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 R557 488 425 in note 30 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 the employee-related costs for the current period.

## Depreciation and amortisation

24. I was unable to obtain sufficient appropriate audit evidence for the depreciation and amortisation due to the unreconciled differences between the asset register and annual financial statements. I was unable to confirm the depreciation and amortisation by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the depreciation and amortisation stated at R93 877 105 (2023: R292 745 716) in note 33 to the financial statements.

## Bulk purchases

25. The municipality did not account for bulk purchases in accordance with GRAP 1, *Presentation of financial statements*. This was because the municipality incorrectly reversed the prior period errors against bulk purchases and did not record all bulk purchase expenses in the general ledger. Consequently, I was unable to determine the full extent of the understatement to bulk purchases at R842 498 991 (2023: R758 125 691) in note 38 to the financial statements, as it was impracticable to do so. Additionally, there was an impact on trade payables included in payables from exchange transactions in note 14 to the financial statements, the deficit for the year and the accumulated deficit.
26. I was unable to obtain sufficient appropriate audit evidence for the electricity losses included in note 38 to the financial statements due to the status of the accounting records and the municipality not determining the monetary value of the loss. I was unable to confirm the electricity losses by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the electricity losses stated as 96 917 413 units disclosed in note 38 to the financial statements.

27. In addition, the municipality did not disclose the water losses in the notes to the financial statements, in accordance with section 125(2)(d)(i) of the MFMA for the current and prior years. This is because the municipality was not able to reliably calculate these losses. Consequently, I was unable to determine the full extent of the understatement of water losses disclosed in note 38 to the financial statements for the current and prior years, as it was impracticable to do so.

### Operating cost

28. I was unable to obtain sufficient appropriate audit evidence for the operating cost as the municipality was unable to provide adequate supporting documentation to confirm all transactions recorded in the general ledger and supporting documentation to confirm that all expenditure was recognised. I was unable to confirm the operating cost by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the operating cost stated at R133 000 296 (2023: R122 034 418) in note 37 to the financial statements.

### Contingencies

29. I was unable to obtain sufficient appropriate audit evidence for contingencies in the current and prior financial years due to the non-submission of information in support of these disclosures. I was unable to confirm the contingencies by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the contingencies disclosed for the current and prior financial years in note 43 to the financial statements.
30. In addition, the municipality did not account for contingencies in accordance with GRAP 19, *Provisions, contingent liabilities and contingent assets* in the current and prior years as the municipality incorrectly classified finalised cases as contingencies. In addition, the municipality did not disclose all claims brought against the municipality, while in other instances, the municipality did not estimate all costs required to settle the potential liabilities, as required by the accounting standard. Consequently, I was not able to determine the full extent of the errors to the contingencies disclosed in note 43 to the financial statements for the current and prior years, as it was impracticable to do so. Additionally, there was an impact on the provisions and the accumulated surplus.

### Unauthorised expenditure

31. 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 the unauthorised expenditure stated at R3 962 682 065 (2023: R3 863 482 514) in note 49 to the financial statements.

### Fruitless and wasteful expenditure

32. 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 R2 702 463 517 (2023: R2 438 507 662) in note 50 to the financial statements.

33. In addition, the municipality did not include all fruitless and wasteful expenditure in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. This was as a result of the municipality identifying and considering all fruitless and wasteful expenditure in terms of the definition as stated in the legislation\*<sup>n</sup>. I was unable to determine the full impact of the understatement to fruitless and wasteful expenditure stated at R2 702 463 517 in note 50 to the financial statements, as it was impracticable to do so.

### Irregular expenditure

34. 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's balances. I was unable to confirm the irregular expenditure by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to irregular expenditure, stated at R1 155 480 402 (2023: R1 081 899 506) in note 51 to the financial statements.
35. In addition, the municipality did not disclose all instances of irregular expenditure incurred in the notes to the financial statements, as required by section 125(2)(d) of the Municipal Finance Management Act 56 of 2003 (MFMA). The municipality made payments in contravention of the supply chain management (SCM) requirements and the requirements of the MFMA, which were not disclosed. I was unable to determine the full extent of the understatement to irregular expenditure stated at R1 155 480 402 (2023: R1 081 899 506) in note 51 to the financial statements, as it was impracticable to do so.

### Interests in other entities

36. The municipality did not disclose the interests in other entities in accordance with GRAP 1, *Presentation of financial statements*. This was because the council passed a resolution on 24 February 2024 to disestablish its wholly owned subsidiary, Maluti-A-Phofung Water (SOC) Ltd. However, the municipality did not disclose the details and impact of this resolution in note 5 to the financial statements. Consequently, I have not included the omitted information in this auditor's report, as it was impracticable to do so.

### Employee benefit obligation

37. I was unable to obtain sufficient appropriate audit evidence for employee benefit obligation due to the status of the accounting records. I was unable to confirm the employee benefit obligation by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the employee benefit obligation stated at R88 065 000 (2023: R88 065 000) in note 18 to the financial statements.

## Provisions

38. I was unable to obtain sufficient appropriate audit evidence for provisions due to the status of the accounting records. I was unable to confirm the provisions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to provisions stated at (R61 132 790) (2023: R58 382 332) in note 19 to the financial statements.

## Commitments

39. I was unable to obtain sufficient appropriate audit evidence for commitments due to the status of the accounting records. I was unable to confirm the commitments by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the commitments stated at R206 181 405 (2023: R317 102 105) in note 42 to the financial statements.

## Consumer deposits

40. I was unable to obtain sufficient appropriate audit evidence for consumer deposits due to a the non-submission of information in support of these consumer deposits . I was unable to confirm the consumer deposits by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to consumer deposits stated at R25 781 527 (2023: R25 329 794) in note 7 to the financial statements.

## Cash flow from operating activities

41. 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 cash flows from operating activities. I was not able to determine the full extent of the errors in the net cash flows from operating activities, as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments were necessary to the cash flows from operating activities stated at R35 531 089 (2023: (R110 389 691)) in note 40 to the financial statements.

## Cash flow from investing activities

42. 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 cash flows from investing activities. I was not able to determine the full extent of the errors in the net cash flows from investing activities, as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments were necessary to the cash flows from investing activities stated at (R130 214 555) (2023: R211 976 009) in the financial statements.

## Risk management

43. The municipality did not disclose the risk management in accordance with GRAP 104, *Financial instruments*, as the municipality did not disclose its credit and liquidity risk as required by the accounting standard. In addition, the municipality did not disclose all financial instruments that were subject to credit and liquidity risks, whilst in other instances the municipality disclosed account balances that did not meet the definition of financial instruments. Consequently, I was unable to determine the full extent of the misstatements to risk management disclosed in note 46 to the financial statements, as it was impracticable to do so.

## Financial instruments

44. The municipality did not disclose the financial instruments in accordance with GRAP 104, *Financial instruments*. This was because the municipality did not disclose the carrying amount of each of the categories of financial instruments, and did not provide the required disclosures related to the financial instruments carried at fair value for both the current and prior years. Consequently, I have not included the omitted information in this auditor's report as it was impracticable to do so..

## Segment information

45. I was unable to obtain sufficient appropriate audit evidence for the segment information for the current and prior years, due to the status of the accounting records and a lack of reconciliation of the segment information to the remainder of the financial statements. I was unable to confirm the segment information by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to segment information in note 54 to the financial statements for the current and prior years.

## Prior-period error and reclassification

46. I was unable to obtain sufficient appropriate audit evidence for the prior-period error and reclassification adjustments, due to the non-submission of information in support of these prior-period error and reclassification disclosures. I was unable to confirm the prior-period error disclosures and reclassification by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the prior-period error and reclassification disclosed in note 45 to the financial statements.

## Statement of comparison of budgets and actual amounts

47. The municipality did not correctly prepare and disclose the statement of comparison of budget and actual amounts as required by GRAP 24, *Presentation of budget information in financial statements*. This was because the municipality used the incorrect final budget figures in the statement of comparison of budget and actual amounts, resulting in multiple errors being identified. In addition, the municipality did not disclose the reasons for all material variances between the budget and actual disclosures in the notes to the financial statements, as required. Consequently, I was unable to determine the full extent of the errors to the statement of comparison of budget and actual amounts and notes to the financial statements, as it was impracticable to do so.

### Additional disclosure in terms of the municipal finance management act

48. I was unable to obtain sufficient appropriate audit evidence for the current year subscriptions and the amount paid – current year included in pension and medical aid deductions in the additional disclosure in terms of the MFMA in note 52 to the financial statements, due to the non-submission of information in support of these disclosures. I was unable to confirm the current year subscriptions and the amount paid – current year by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to current year subscriptions and the amount paid - current year for the pension and medical aid deduction included in the additional disclosure in terms of the MFMA, stated at R127 745 584 in note 52 to the financial statements.
49. In addition, the municipality overstated the VAT receivable included in the additional disclosure in terms of the MFMA by R1 142 752 968 as the municipality did not disclose the actual liability owed by or to the South African Revenue Services (SARS) as at the financial year end, as required by section 125(1)(c) of the MFMA.

### Principle agent arrangements

50. The municipality did not disclose the principle-agent arrangements in accordance with GRAP 109, *Accounting by principles and agents* in the current and prior years. This related to various arrangements entered into for service charges, for which the municipality was the principal; however, no disclosure was made in the financial statements. Consequently, I have not included the omitted information in this auditor's report as it was impracticable to do so.

### Related parties

51. I was unable to obtain sufficient appropriate audit evidence for the related party balances included in related parties in note 44 to the financial statements due to the non-submission of information in support of these balances. I was unable to confirm the related party balances by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the related party balances included in related parties stated at R124 315 732 (2023: R125 826 769) in note 44 to the financial statements.

### Property rates

52. During 2023, I was unable to obtain sufficient appropriate audit evidence for property rates due to the status of the accounting records. I was unable to confirm property rates by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to property rates stated at R111 775 896 in note 26 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 the property rates for the current period.

### Transfers and subsidies

53. During 2023, I was unable to obtain sufficient appropriate audit evidence for transfers and subsidies due to unexplained reconciling differences between the supporting documentation and the financial statements. I was unable to confirm the transfer and subsidies by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the transfer and subsidies stated at R102 142 350 in note 27 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 the transfers and subsidies for the current period.

### Contracted services

54. During 2023, I was unable to obtain sufficient appropriate audit evidence for contracted services due to the non-submission of information in support of contracted services expenditure. 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 service stated at R55 274 342 in note 39 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 the contracted services for the current period.

### Administrative expenditure

55. During 2023, I was unable to obtain sufficient appropriate audit evidence for administrative expenditure due to the non-submission of information in support of the administrative expenditure. I was unable to confirm administrative expenditure by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the administrative expenditure stated at R33 421 649 in note 32 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 the administrative expenditure for the current period.

### Material uncertainty relating to going concern

56. I draw attention to the matter below. My opinion is not modified in respect of this matter.
57. Note 47 to the financial statements indicates a deficit for the year of R1 085 747 298 was incurred during the year ended 30 June 2024, and as of that date, the municipality's total liabilities exceeded its total assets by R4 331 430 950. In addition, the municipality owed Eskom R8 294 498 478 and Department of water and sanitation R492 686 678. As stated in note 47, these events or conditions, along with other matters as set forth in note 47, indicate that a material uncertainty exists that may cast significant doubt on the municipalities ability to continue as a going concern.

## **Other matter**

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

### **Unaudited disclosure notes**

59. 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**

60. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the MFMA and the 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.
61. 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**

62. My responsibility is to conduct an audit of the financial statements in accordance with the International Standards on Auditing (ISA's) 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.
63. 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 audit of the annual performance report**

64. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for selected key performance area (KPA) presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.
65. I selected the following KPA presented in the annual performance report for the year ended 30 June 2024 for auditing. I selected a KPA that measures the municipality's performance

on its primary mandated functions and that is of significant national, community or public interest.

KPA	Page numbers	Purpose
Basic service delivery and infrastructure	XX	To ensure the provision of services to communities in a sustainable manner.

66. I was engaged to evaluate the reported performance information for the selected KPA against the criteria developed from the performance management and reporting framework, as defined in the general notice. An annual performance report prepared using these criteria provides useful and reliable information and insights to users of the report on the municipality's planning and delivery on its mandate and planned objectives. My objective was to perform procedures for the purpose of reporting material findings only, and not to express an assurance opinion or conclusion.
67. The material findings on the reported performance information for the selected KPA are as follows:

#### Basic service delivery and infrastructure

##### Installation of water metres and repairs of water leaks

68. An achievement of 0 was reported against a target of 400 meters. I could not determine whether the reported achievement was correct, as adequate supporting evidence was not provided for auditing. Consequently, the achievement might be more or less than reported and was not reliable for determining whether the target had been achieved. Additionally, a comparison of the actual performance for the year against the prior year's performance was not included in the annual performance report.
69. Measures taken to improve performance against the underachieved target of 400 meters were not reported in the annual performance report. Information was thus not provided to help with understanding the actions taken by the accounting officer to address performance gaps and with assessing the effectiveness of strategies to improve future performance against the target.

##### Construction of water reticulation for 500 erven in Ha-Setlunya

70. An achievement of 240 was reported against a target of 240. However, the target had not been clearly defined during the planning process. This is because the performance that is expected for the achievement to be considered a completed connection in respect of each erf for it to be counted towards the target was not defined during the planning process. Therefore, the target and the nature are not clearly identified. Consequently, the target is not useful for measuring and reporting on progress against the municipality's planned objectives. Lastly, I could not determine whether the reported achievement was correct, as adequate supporting evidence was not provided for auditing. Consequently, the achievement might be more or less than reported and was not reliable for determining if the target had been achieved.

### Management of landfill sites

71. An achievement of 1 was reported against a target of 2. I could not determine whether the reported achievement was correct, as the indicator was not 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. Additionally, I could not determine if the reported achievement was correct, as adequate supporting evidence was not provided for auditing. Lastly, measures taken to improve performance against the underachieved target of 1 were not reported in the annual performance report. Information was thus not provided to help with understanding the actions taken by the accounting officer to address performance gaps and with assessing the effectiveness of strategies to improve future performance against the target.

### Number of landfill sites fenced

72. Measures taken to improve performance against the underachieved target of 1 were not reported in the annual performance report. Information was thus not provided to help with understanding the actions taken by the accounting officer to address performance gaps and with assessing the effectiveness of strategies to improve future performance against the target.

### Various indicators

73. I could not determine whether 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 whether the targets had been achieved. Additionally, the reported achievements in the annual performance report were inconsistent with the commitments made in the approved planning documents. These discrepancies highlight misalignment between approved plans and operations, while the incorrect reporting undermines transparency and accountability. Moreover, a comparison of the actual performance for the year against the prior year's performance was not included in the annual performance report. Consequently, the reported information is not useful for evaluating progress over time and for identifying areas of improvement. Lastly, measures taken to improve performance against underachieved targets were not reported. Information was thus not provided to help with understanding the actions taken by the accounting officer to address performance gaps and for assessing the effectiveness of strategies to improve future performance against targets.

<b>Indicators</b>	<b>Targets</b>	<b>Reported achievements</b>
Construction of Monotsha Footbridge	1	50%
Construction of 16km pipeline in Thaba Bosiu	16 km	No evidence attached

### Various indicators

74. I could not determine whether 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 whether the targets had been achieved. Furthermore, a comparison of the actual performance for the year against the prior year's performance was not included in the annual performance report. Consequently, the reported information was not useful for evaluating progress over time and for identifying areas of improvement

Indicators	Targets	Reported achievements
Upgrading of water pump stations	6	6
Construction of Matebeleng 3MI Reservoir	70% (cumulative)	76%

### Various indicators

75. I could not determine whether 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 whether the targets had been achieved. Furthermore, measures taken to improve performance against underachieved targets were not reported in the annual performance report. Information was thus not provided to help with understanding the actions taken by the accounting officer to address performance gaps and for assessing the effectiveness of strategies to improve future performance against targets.

Indicators	Targets	Reported achievements
Construction of Namahadi sewer network	400 erven	200
Refurbishment of 7 sewer pump stations in whole municipality	7	2
Construction of 24 000 VIP toilets (Phase 13A)	1 200	400

### Various indicators

76. I could not determine whether 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 whether the targets had been achieved.

Indicators	Targets	Reported achievements
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Number of km's of roads paved in Intabazwe Ext 3	0,2 km	0,2 km
Construction of 5 km of roads in Namahadi - Phase 4	400 m	400 m
Installation of sewer network to 1 200 stands	1 200 stands	1 200

#### Various indicators

77. I could not determine the accuracy of various reported achievements, as the indicators were not well defined and adequate supporting evidence to clarify the methods and processes for measuring achievement was not provided. Consequently, the reported achievements might be more or less than reported and were not reliable for determining whether the targets have been achieved. Additionally, a comparison of the actual performance for the year against the prior year's performance was not included in the annual performance report. Consequently, the reported information was not useful for evaluating progress over time and for identifying areas of improvement. Lastly, measures taken to improve performance against underachieved targets were not reported in the annual performance report. Information was thus not provided to help with understanding the actions taken by the accounting officer to address performance gaps and for assessing the effectiveness of strategies to improve future performance against targets.

Indicators	Targets	Reported achievements	Details
% of commercial waste collected and disposed	100%	70% (insufficient evidence attached)	It is unclear how the percentage of total waste collected would be determined
% of domestic waste collected and disposed	100%	70% (insufficient evidence attached)	It is unclear how the percentage of total waste collected would be determined
% cleaning of illegal dumping sites	100%	60%	It is unclear how the percentage of cleaning of an identified illegal dump site would be determined

Number of infrastructure projects facilitated for construction	3	1	The requirements for achievement was not clearly defined
Facilitate the construction of new hawker stalls	250	not achieved	The requirements for achievement was not clearly defined

### Various indicators

78. I could not determine the accuracy of various reported achievements, as the indicators were not well defined, and I could not verify the methods and processes used to measure the achievements. Consequently, the reported achievements might be more or less than reported and were not reliable for determining whether the targets have been achieved. Lastly, measures taken to improve performance against underachieved targets were not reported in the annual performance report. Information was thus not provided to help with understanding the actions taken by the accounting officer to address performance gaps and for assessing the effectiveness of strategies to improve future performance against targets.

Indicators	Targets	Reported achievements	Details
Facilitate the construction and revamping of infrastructure services	1	0	The requirements for achievement were not clearly defined
Facilitate the revitalization of Phuthaditjhaba industrial areas 1,2 & 3.	1	0	The requirements for achievement were not clearly defined

### Various indicators

79. Based on the audit evidence, the actual achievement for 2 indicators did not agree to the achievements reported. This was because the projects were already completed in the prior year, however, the actual achievements were incorrectly reported in the current year.

Indicators	Targets	Reported achievements

Upgrading of 1 km Motebang paved road: Phase 1	1 km	1 km
Construction of Intabazwe Ext 3 Waterborne sewer network	2 manholes	2 manholes

## Other matters

80. I draw attention to these matters below.

### Achievement of planned targets

81. The annual performance report includes information on reported achievements against planned targets. This information should be considered in the context of the material findings on the reported performance information.
82. 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 and infrastructure

<p><i>Targets achieved: 35%</i></p> <p><i>Budget spent: Underminable/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 (programmes).</i></p>		
Key service delivery indicator not achieved	Planned targets	Reported achievements
Construction of Monotsha footbridge	1	50%
Construction of Namahadi sewer network	400 erven	200
Refurbishment of 7 sewer pump stations in whole municipality	7	2
Construction of 24 000 VIP toilets (Phase 13A)	1 200	400
% of commercial waste collected and disposed	100%	70% (insufficient evidence attached)
% of domestic waste collected and disposed	100%	70% (insufficient evidence attached)
Management of sites	2	1
Installation of water metres and repairs of water leaks	400 water metres	0

Construction of 16 km pipeline in Thaba Bosiu	6KM	No evidence attached
Number of landfill sites fenced	1	0
% cleaning of illegal dumping sites	100%	60%
Number of infrastructure projects facilitated for construction	3	1
Facilitate the construction of new hawker stalls	250	Not achieved
Facilitate the construction and revamping of infrastructure services	1	0
Facilitate the revitalization of Phuthaditjhaba industrial areas 1, 2 & 3.	1	0

### Material misstatements

83. 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 and infrastructure. Management did not correct the misstatements and I reported material findings in this regard.

### Report on compliance with legislation

84. 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.
85. 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.
86. 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 for consistent measurement and evaluation, while also sufficiently detailed and readily available to report on in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.
87. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

## Annual financial statements, performance reports and annual reports

88. 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 identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer audit opinion.
89. The consolidated financial statements were not submitted to the auditor-general for auditing within three months after the end of the financial year, as required by section 126(1)(b) of the MFMA.
90. The 2022-23 annual report of Maluti-A-Phofung (SOC) LTD was not tabled by the municipality in the municipal council after the end of the financial year, as required by section 127(2) of the MFMA.
91. The 2022-23 annual report was not made public after being tabled in the council, as required by section 127(5)(a)(i) of the MFMA.
92. The local community was not invited to submit representations in connection with the 2022-23 annual report, as required by section 127(5)(a)(ii) of the MFMA.
93. 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.

## Procurement and contract management

94. Sufficient appropriate audit evidence could not be obtained that all contracts were awarded in accordance with the legislative requirements as some of the contracts were not submitted for auditing.
95. Some of the goods and services within the prescribed transaction values for formal written price quotations were procured without obtaining the required price quotations, in contravention of supply chain management (SCM) regulation, 17(1)(a) and (c). Similar non-compliance was also reported in the prior year.
96. Some of the quotations were accepted from bidders who did not submit 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)
97. 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). Similar non-compliance was also reported in the prior year.
98. Some of the contracts were awarded to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM regulation 29(5)(b). This non-compliance was identified in the procurement processes for

the construction of a 16km pipeline in Thaba Bosiu and upgrading of water pump station phase 1.

99. 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). Similar non-compliance was also reported in the prior year.
100. Some of the contracts were awarded to providers whose tax matters had not been declared by SARS to be in order, in contravention of SCM regulation 43. Similar non-compliance was also reported in the prior year.
101. The preference point system was not applied for procurement of goods and services as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act 5 of 2000.
102. Sufficient appropriate audit evidence could not be obtained that construction contracts were awarded to contractors that were registered with the Construction Industry Development Board (CIDB) and qualified for the contract in accordance with section 18(1) of the CIDB Act 38 of 2000 and CIDB regulations 17 and 25(7A). Similar non-compliance was also reported in the prior year.
103. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year.
104. 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.
105. Awards were made to a provider who were in the service of the municipality, in contravention of section 112(j) of the MFMA and SCM regulation 44.

### **Expenditure management**

106. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
107. I was unable to obtain sufficient appropriate audit evidence that payments from the municipality's bank accounts were approved by the accounting officer, the chief financial officer or a properly authorised official, as required by section 11(1) of the MFMA.
108. Reasonable steps were not taken to ensure that the municipality implemented and maintained an effective system of expenditure control, including procedures for the approval and authorisation, as required by section 65(2)(a) of the MFMA.
109. An adequate management, accounting and information system which accounted for creditors, as required by section 65(2)(b) of the MFMA, was not in place.
110. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the irregular expenditure could not be quantified as

indicated in the basis for disclaimer paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with the requirement of SCM requirements.

111. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the fruitless and wasteful expenditure could not be quantified as indicated in the basis for disclaimer paragraph. The majority of the disclosed fruitless and wasteful expenditure was caused by interest incurred on overdue Eskom accounts.
112. 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 paragraph. The majority of the disclosed unauthorised expenditure was caused by overspending of the budget.

### **Utilisation of conditional grants**

113. Performance in respect of programmes funded by the municipal 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.

### **Consequence management**

114. Unauthorised expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(a) of the MFMA.
115. Irregular expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.
116. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(b).
117. 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 and performance management**

118. Performance targets were not set for each of the KPIs for the financial year, as required by section 41(1)(b) of the Municipal System Act 32 of 2000 (MSA) and municipal planning and performance management regulation 12(1).
119. The performance management system and related controls were inadequate as it did not describe how the performance planning, monitoring, measurement, review, reporting and improvement processes should be conducted, organised and managed, as required by municipal planning and performance management regulation 7(1).
120. Annual performance objectives and indicators were not included in Maluti-A-Phofung Water (SOC) LTD's multi-year business plan, as required by section 93B(a) of the MSA.

121. The performance of Maluti-A-Phofung Water (SOC) LTD was not monitored and reviewed as part of the annual budget process, as required by section 93B(b) of the MSA.

### Revenue management

122. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.

123. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

124. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

### Asset management

125. 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.

126. 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.

### Human resource management

127. Job descriptions were not established for all posts in which appointments were made, as required by section 66(1)(b) of the MSA and regulation 7(1) of municipal staff regulations.

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

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

### Internal control deficiencies

130. 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.

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

132. The municipal council did not timeously appoint an accounting officer and senior management, which resulted in instability in management and a lack of effective monitoring and oversight. There was a lack of consequence management for poor performance from leadership and no investigations were performed for unauthorised, irregular, fruitless and wasteful expenditure.

133. Management did not prepare accurate and complete financial records and performance information, supported and evidenced by reliable information, due to weak internal controls over the processing of transactions and safeguarding of supporting documents.
134. Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting, mainly due to weaknesses in the control environment. Controls over daily and monthly processing and reconciling of transactions were either not in place or not implemented.
135. Management did not review and monitor compliance with laws and regulations resulting in material non-compliance being identified.
136. The council and management did not ensure that the audit committee promotes accountability and service delivery by evaluating and monitoring responses to risks and providing oversight of the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations, as the municipality did not always respond appropriately on recommendations made by the audit committee.
137. The municipal public accounts committee (MPAC) was not functional during the year.

### **Material irregularities**

138. 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**

139. The material irregularities identified are as follows:

#### **Lack of proper performance management system and records**

140. The municipality did not maintain a proper performance management system and records as required by municipal planning and performance management regulation 7(1), as evident from significant deficiencies identified in the performance management system during the 2020-21, 2021-22 and 2022-23 audits. Technical indicator descriptions or standard operating procedures that would ensure that key performance indicators were well-defined and the measurement process, methods and calculations were predetermined for accurate and complete measurement and credible reporting of the municipality's performance were not developed and implemented, or the related supporting evidence of such processes or documentation could not be provided.
141. A lack of credible performance information on basic services and other primary functions of the municipality is likely to affect the ability of the municipality, council and other levels of government in executing their management, accountability, oversight and governance functions. This was due to incorrect and unreliable data used to plan, budget, monitor and report on performance and actual service delivery on management, council, district,

provincial and national levels. Using unreliable performance information year-on-year has an adverse impact on the accumulated performance results and the decision-making by the various role-players in these processes.

142. The accounting officer was notified of this material irregularity on 17 May 2024 and 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 notified the accounting officer on 3 December 2024 of the following recommendations, which should be implemented by 3 July 2025 with a progress report after three months:

- a) The non-compliance with regulation 7(1) of the municipal planning and performance management regulations 2001, should be investigated to determine the reasons and circumstances that led to the non-compliance for the purpose of taking appropriate corrective actions and enhance control weaknesses.
- b) Based on the reasons and circumstances, appropriate action should be taken to develop and commence with the implementation of an action plan to address the weaknesses in the performance management system and the poor record keeping so that full and proper records of the municipality's performance are kept in accordance with any prescribed norms and standards. The plan should include anticipated timeframes and address the following key areas as a minimum:
  - i. Development and implementation of documentation on the performance measurement processes and systems including definitions and technical standards (technical indicator descriptions) for all the information collected by the municipality, as part of each annual planning or mid-year review cycle.
  - ii. Development and implementation of documented processes for identifying, collecting, collating, verifying and storing of information including the roles of different role-players.
  - iii. Ensure that the documentation on the performance measurement processes and systems, referred to in (i) above, are developed and implemented as part of each annual planning or mid-year review cycle.
  - iv. Maintaining adequate and complete records of the performance measurement, monitoring, reporting, and review processes for each of the planned key performance indicators.

143. I will follow-up on the implementation of the recommendations after the due date.

#### **Consolidated annual financial statements not submitted for auditing (2022-23)**

144. The consolidated annual financial statements for the year ending 30 June 2023 were not submitted to the auditor-general for auditing within three months after the end of the financial year (30 September 2023), as required by section 126(1)(b) of the MFMA. The non-submission of the consolidated annual financial statements for auditing, and the subsequent non-tabling of the annual report, are likely to result in substantial harm to the municipality, as there is a lack of accountability and transparency for the fiscal and financial affairs of the municipality. This is due to the legislative processes that follow after the

submission of the consolidated annual financial statements relating to the financial year ending 30 June 2023 being delayed or not implemented.

145. The accounting officer was notified of this material irregularity on 28 March 2024 and invited to make a written submission on the actions taken and that will be taken to address the matter. The accounting officer submitted the consolidated annual financial statements for auditing on 31 January 2025.
146. Therefore, the material irregularity has been resolved.

#### **Consolidated annual financial statements not submitted for auditing (2021-22)**

147. The consolidated annual financial statements for the year ending 30 June 2022 were not submitted to the auditor-general for auditing within three months after the end of the financial year (30 September 2022), as required by section 126(1)(b) of the MFMA. The non-submission of the consolidated annual financial statements for auditing, and the subsequent non-tabling of the annual report, are likely to result in substantial harm to the municipality, as there is a lack of accountability and transparency for the fiscal and financial affairs of the municipality. This is due to the legislative processes that follow after the submission of the consolidated annual financial statements relating to the financial year ending 30 June 2022 being delayed or not implemented.
148. The accounting officer was notified of this material irregularity on 28 March 2024 and invited to make a written submission on the actions taken and that will be taken to address the matter. The accounting officer submitted the consolidated annual financial statements for auditing on 6 December 2024.
149. Therefore, the material irregularity has been resolved.

#### **Consolidated annual financial statements not submitted for auditing (2020-21)**

150. The consolidated annual financial statements for the year ending 30 June 2021 were not submitted to the auditor-general for auditing within three months after the end of the financial year (30 September 2021), as required by section 126(1)(b) of the MFMA. The non-submission of the consolidated annual financial statements for auditing, and the subsequent non-tabling of the annual report, are likely to result in substantial harm to the municipality, as there is a lack of accountability and transparency for the fiscal and financial affairs of the municipality. This is due to the legislative processes that follow after the submission of the consolidated annual financial statements relating to the financial year ending 30 June 2021 being delayed or not implemented.
151. The accounting officer was notified of this material irregularity on 28 March 2024 and invited to make a written submission on the actions taken and that will be taken to address the matter. The accounting officer submitted the consolidated annual financial statements for auditing on 29 November 2024.
152. Therefore, the material irregularity has been resolved.

#### **Consolidated annual financial statements not submitted for auditing (2019-20)**

153. The consolidated annual financial statements for the year ending 30 June 2020 were not submitted to the auditor-general for auditing within three months after the end of the financial year (30 September 2020), as required by section 126(1)(b) of the MFMA. The

non-submission of the consolidated annual financial statements for auditing, and the subsequent non-tabling of the annual report, are likely to result in substantial harm to the municipality, as there is a lack of accountability and transparency for the fiscal and financial affairs of the municipality. This is due to the legislative processes that follow after the submission of the consolidated annual financial statements relating to the financial year ending 30 June 2020 being delayed or not implemented.

154. The accounting officer was notified of this material irregularity on 28 March 2024 and invited to make a written submission on the actions taken and that will be taken to address the matter. The accounting officer submitted the consolidated annual financial statements for auditing on 8 November 2024.
155. Therefore, the material irregularity has been resolved.

#### **Consolidated annual financial statements not submitted for auditing (2018-19)**

156. The consolidated annual financial statements for the year ending 30 June 2019 were not submitted to the auditor-general for auditing within three months after the end of the financial year (30 September 2019), as required by section 126(1)(b) of the MFMA. The non-submission of the consolidated annual financial statements for auditing, and the subsequent non-tabling of the annual report, are likely to result in substantial harm to the municipality, as there is a lack of accountability and transparency for the fiscal and financial affairs of the municipality. This is due to the legislative processes that follow after the submission of the consolidated annual financial statements relating to the financial year ending 30 June 2019 being delayed or not implemented.
157. The accounting officer was notified of this material irregularity on 28 March 2024 and invited to make a written submission on the actions taken and that will be taken to address the matter. The accounting officer submitted the consolidated annual financial statements for auditing on 1 November 2024.
158. Therefore, the material irregularity has been resolved.

#### **Status of previously reported material irregularities**

##### **Full and proper records not kept (2018-19) – infrastructure assets, service charges, property rates and conditional grants**

159. In my 2019-20 auditor's report, I reported that the municipality did not take reasonable steps in the 2018-19 financial year to ensure that full and proper records were kept of infrastructure assets, service charges, property rates and conditional grants, 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.
160. The lack of full and proper records is likely to result in substantial harm to the municipality because it contributed to material uncertainty regarding its ability to continue operations, as disclosed in note 46 to the 2018-19 financial statements. This, in turn, is likely to have a negative impact on the municipality's ability to discharge its service delivery mandate.

161. The accounting officer was notified of this material irregularity on 11 June 2021 and invited to make a written submission on the actions taken and that will be taken to address the matter. The accounting officer could not provide sufficient and appropriate evidence of the actions that have been taken in response to being notified of the material irregularity (MI) as the planned actions to address the poor record keeping and financial problems were not adequate. I recommended that the accounting officer take the following actions to address the MI, which should have been implemented by 14 April 2022:

- The non-compliance with section 62(1)(b) of the MFMA should be investigated to determine the reasons for and circumstances that led to the non-compliance for the purpose of taking appropriate corrective actions and addressing control weaknesses.
- Based on the reasons and circumstances identified, 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 municipality's financial affairs 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:
  - a) Complete asset register of all the municipality's infrastructure assets and investment property.
  - b) Billing information and reconciliations to support revenue from service charges.
  - c) Reconciliation of property rates income to the valuation roll.
  - d) Register and payment vouchers to support payments made from conditional grant funding, including reconciliations.

162. I further recommended that the accounting officer take appropriate action to develop and commence with the implementation of an action plan to address the municipality's financial problems, as required by section 135(1) and 135(3)(a) of the MFMA, by 14 July 2022. The plan should describe the anticipated timeframe and milestones to be achieved and include, as a minimum, strategies to:

- a) Improve the collection of revenue.
- b) efficiently manage the available cash of the municipality
- c) enter into payment arrangements with major suppliers.

163. The accounting officer has not adequately implemented the above recommendations. I notified the accounting officer on 7 August 2023 of the following remedial actions to address the material irregularity, which must be implemented by 7 March 2024 with a progress report after three months.

- The non-compliance with section 62(1)(b) of the MFMA must be investigated to determine the reasons for and circumstances that led to the non-compliance for the purpose of taking appropriate corrective actions and to address control weaknesses.
- Based on the reasons and circumstances, appropriate action must be taken to continue with the development and 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 must include anticipated timeframes and address the following key areas as a minimum:

- a) Complete asset register of all the municipality's infrastructure assets and investment property
  - b) Billing information and reconciliations to support revenue from service charges
  - c) Reconciliation of property rates income to the valuation roll
  - d) Register and payment vouchers to support payments made from conditional grant funding, including reconciliations.
- I further recommend that the accounting officer must 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 must describe the anticipated timeframe and milestones to be achieved and include as a minimum strategies to:
    - a) improve the collection of revenue
    - b) efficiently manage the available resources of the municipality
    - c) enter into payment arrangements with major suppliers.

164. A progress report on the implementation of the remedial actions was received on 20 March 2024 but no final response on the implementation of the remedial action. I have decided to request in terms of regulation 11(2) of the MI regulations, intervention from the following role-players and oversight structures in the accountability ecosystem to assist and support, as far as is necessary, the accounting officer with the implementation of the remedial action and to address the material irregularity appropriately:

- Member of the Executive Council: Finance
- Member of the Executive Council: Cooperative Governance, Human Settlements and Traditional Affairs
- Executive Mayor
- Speaker of Council
- Member of the Mayoral Committee: Finance

165. In addition to requesting intervention from the above role players, I have requested the following role players in the accountability ecosystem to exercise oversight by supporting and assisting, as far as is necessary, the accounting officer with the implementation of the remedial action and addressing the material irregularity appropriately:

- Premier of the province
- Chairperson of the municipal public accounts committee
- Chairperson of the audit committee

166. I will follow-up on the outcome of the intervention during my next audit.

#### **Pollution of water resource not prevented – Phuthaditjhaba wastewater treatment works**

167. The Phuthaditjhaba wastewater treatment works (including its pump stations) have totally collapsed and have not been operational for several years. This resulted in continued spilling and discharge of raw/untreated sewage into the adjacent environment, including the Metsi Matsho River and its extended watercourse. The municipality did not take reasonable measures to prevent pollution or degradation from occurring, continuing or recurring, as required by section 28(1) of the National Environmental Management Act 107 of 1998 (NEMA) and section 19(1) of the National Water Act 36 of 1998 (NWA). The discharge of raw/untreated sewage into the environment is likely to cause substantial harm to the communities exposed to, and dependent on, the contaminated water resources.

168. The accounting officer was notified of this material irregularity on 15 March 2022 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 – Harrismith wastewater treatment works**

169. The Harrismith (Wilge) wastewater treatment works (including its pump stations) have totally collapsed and have not been operational for several years. This resulted in continued spilling and discharge of raw/untreated sewage into the adjacent environment, including the groundwater, the Nuwejaarspruit River and its extended watercourse. The municipality did not take reasonable measures to prevent pollution or degradation from occurring, continuing or recurring, as required by section 28(1) of the NEMA and section 19(1) of the NWA. The discharge of raw/untreated sewage into the environment is likely to cause substantial harm to the communities exposed to, and dependent on, the contaminated water resources.

170. The accounting officer was notified of this material irregularity on 11 April 2022 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 – Tshiame wastewater treatment works**

171. The Tshiame wastewater treatment works (including its pump stations) have totally collapsed and have not been operational for several years. This resulted in continued spilling and discharge of raw/untreated sewage into the adjacent environment and stream, including the groundwater and Wilge River. The municipality did not take reasonable measures to prevent pollution or degradation from occurring, continuing or recurring, as required by section 28(1) of the NEMA and section 19(1) of the NWA. The discharge of raw/untreated sewage into the environment is likely to cause substantial harm to the communities exposed to, and dependent on, the contaminated water resources.
172. The accounting officer was notified of this material irregularity on 11 April 2022 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 – Kestell wastewater treatment works**

173. The Kestell wastewater treatment works (including its pump stations) have totally collapsed and have not been operational for several years. This resulted in continued spilling and discharge of raw/untreated sewage into the adjacent environment, including the groundwater, Sandspruit and its extended watercourse. The municipality did not take reasonable measures to prevent pollution or degradation from occurring, continuing or recurring, as required by section 28(1) of the NEMA and section 19(1) of the NWA. The discharge of raw/untreated sewage into the environment is likely to cause substantial harm to the communities exposed to, and dependent on, the contaminated water resources.
174. The accounting officer was notified of this material irregularity on 13 April 2022 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.

### **Other reports**

175. In addition to the investigations relating to material irregularities, I draw attention to the following engagement. This report did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

176. The special investigating unit investigated allegations into the procurement of events management services and the procurement of a service provider for the compilation of the register of indigents in terms of proclamation R27 of 2020, gazetted on 21 August 2020. The investigation covered the period 2012 to 2014 and 2016 to 2017. The final report was issued to the president in terms of section 4(g) of the Special Investigating Units and Special Tribunals Act, 74 of 1996 on 22 September 2023. The investigation resulted in referrals for disciplinary actions to be taken by the municipality as well as referrals to the national prosecuting authority for further action. We could not be provided with any additional evidence as to the current status of the referred matters.

*Auditor-General*

Bloemfontein

15 February 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 KPA 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), 29(1), Sections: 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b), 32(6)(a), Sections: 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), 129(1), Sections: 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, 171(4)(a), 171(4)(b)
MFMA: Municipal budget and reporting regulations, 2009	Regulations: 71(1)(a), 71(1)(a)(b), 71(2)(a), 71(2)(b), 71(2)(d), 72(a), 72(b), 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)
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), Regulations: 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), 27(2)(e), 28(1)(a)(i), Regulations: 29(1)(a), 29(1)(b), 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), Regulations: 38(1)(c), 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), Regulations: 43, 44, 46(2)(e), 46(2)(f)
Construction Industry Development Board Act 38 of 2000	Section: 18(1)
Construction Industry Development Board Regulations, 2004	Regulations: 17, 25(7A)
Division of Revenue Act 5 of 2023	Sections: 11(6)(b), 12(5), 16(1); 16(3)
Municipal Property Rates Act 6 of 2004	Section: 3(1)
Municipal Systems Act 32 of 2000	Sections: 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 34(a), 34(b), 38(a), Sections: 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), 54A(1)(a), 56(1)(a), 57(2)(a), Sections: 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 96(b), Parent municipality with ME: Sections: 93B(a), 93B(b)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations: 5(2), 5(3), 5(6), 8(4)
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)
MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations: 17(2), 36(1)(a)
MSA: Municipal Staff Regulations	Regulations: 7(1), 31
National Environmental Management: Waste Act 59 of 2008	Section: 20(b)
National Water Act 36 of 1998	Section: 22(1)(b)
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section: 34(1)
Preferential Procurement Policy Framework Act 5 of 2000	Sections: 2(1)(a), 2(1)(f)
Preferential Procurement Regulations, 2017	Regulations: 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8), 7(1), Regulations: 7(2), 7(3), 7(6), 7(8), 8(2), 8(5), 9(1), 10(1), 10(2), Regulations: 11(1), 11(2)
Preferential Procurement Regulations, 2022	Regulations: 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4)