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

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Phumelela Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2025, statement of financial performance, statement of changes in net assets, the cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.

2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Phumelela Local Municipality as at 30 June 2025 and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 24 of 2024 (Dora).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the responsibilities of the auditor-general for the audit of the financial statements section of my report.

4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

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

Emphasis of matters

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

Restatement of corresponding figures

7. As disclosed in note 43 to the financial statements, the corresponding figures for 30 June 2024 were restated as a result of errors in the financial statements of the municipality, and for the year ended, 30 June 2025.

Close calls relating to going concern

8. Note 46 in the financial statements, deals with the possible effects of the future implications of continuing deterioration in operational results on the municipality's prospects, performance, and cash flows. Management has also described how they plan to deal with these events and circumstances.

Material losses

9. As disclosed in note 52 to the financial statements, material electricity losses of R16 276 969 (2023-24: R14 790 974) were incurred, which represents 57% (2023-24: 54%) of total electricity purchased. These losses were due to technical losses on the distribution system (transformers, cables, overhead lines), faulty meters, theft and vandalism.

10. As disclosed in note 52 to the financial statements, material water losses of R10 945 420 (2023-24: R10 940 425) were incurred, which represents 75% (2023-24: 82%) of total water purchased. These losses are due to defective meters, losses on water network (breakage in pipelines and pumps, leaking valves, etc.), evaporation, theft, vandalism and damages due to blind excavations.

Unauthorised expenditure

11. As disclosed in note 49 to the financial statements, unauthorised expenditure of R77 229 032 was incurred, due to overspending of the budget and conditional grants not spent for intended purposes.

Fruitless and wasteful expenditure

12. As disclosed in note 50 to the financial statements, fruitless and wasteful expenditure of R16 671 253 was incurred, majority of this due to interest charged on late payments to suppliers.

Material impairments

13. As disclosed in note 7 to the financial statements, receivables from exchange transactions were impaired by R561 738 367 (2023-24: R466 769 893).

14. As disclosed in note 8 to the financial statements, receivables from non-exchange transactions were impaired by R65 133 456 (2023-24: R53 409 127).

Other matter

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

Unaudited disclosure notes

16. 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

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

18. 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

19. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

20. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report. This description, which is located at page xx, forms part of my auditor's report.

Report on the annual performance report

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

22. I selected the following material performance indicators related to basic service delivery presented in the annual performance report for the year ended 30 June 2025. I selected those indicators that measure the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.

   - Number of sewer system in Warden phase 1 by 30 June 2025
   - Number of construction of water reticulation in Warden for 250 ERVENS Ext 1 phase 2 by 30 June 2025
   - Number construction of sewer reticulation in Warden for 250 ERVENS Ext 1 phase 2 by 30 June 2025
   - Number of Warden link line by 30 June 2025
   - Number of refurbishment of waste water treatment works in Vrede by 30 June 2025

- Number of refurbishment of sports facility phase 1 (Ward 4) Vrede/ Themhalihle by 30 June 2025
- Number of waste water treatment upgraded in Warden/ Ezenzeleni by 30 June 2025
- Number of household with access to water by June 2025
- Number of household with access to sanitation by June 2025
- Number of household with access to refuse removal by June 2025
- Number of household with access to Electricity by June 2025
- Percentage of electricity distribution losses by June 2025
- Percentage of water losses by June 2025
- Number of sewer line revamped in Warden/ Ezenzeleni by 30 June 2025
- 812 of sites energised in Memel/ Zamani by 30 June 2025
- Implementation of Energy Efficiency and Demand Side Management (EEDSM) grant programme by 30 June 2025

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

24. I performed procedures to test whether:

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

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

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

Various indicators

27. I could not determine the accuracy of various achievements, as adequate supporting evidence to clarify the methods and processes for measuring achievement were not provided. Consequently, the reported achievement might be more or less than the reported and were not reliable for determining if the targets have been achieved.

Indicator	Target	Reported achievement
Percentage of electricity distribution losses by June 2025	Less than 7% reduced of electricity distribution losses by June 2025	The municipality recorded the annual average electricity distribution loss of 57%
Percentage of water losses by June 2025	Less than 15% reduced of water distribution losses by June 2025	The municipality recorded the annual average water distribution loss 75%

Implementation of EEDSM grant programme by 30 June 2025

28. An achievement of 1 EEDSM grant programme implemented by 30 June 2025 was reported against a target of 1 EEDSM grant programme implemented by 30 June 2025. However, the target had not been clearly defined during the planning process. The target does not define what will be implemented such as number of retrofits, training sessions, awareness campaigns etc. Consequently, the target is not useful for measuring and reporting on progress against the municipality's planned objectives.

Number of household with access to Electricity by June 2025

29. The target of 2 161 Household per month X 12 access for basic refuse removal services by June 2025 does not relate directly to the indicator, which measures number of households with access to electricity by June 2025. This makes it difficult to plan for the achievement of the indicator. Consequently, the reported achievement does not provide useful information on the indicator's achievement.

30. An achievement of 2 161 per 12 months households were serviced was reported against a target of 2 161 Household per month X 12 access for basic refuse removal services by June 2025. I could not determine if the reported achievement was correct, as adequate supporting evidence was not provided for auditing. Consequently, the achievement might be more or less than reported and was not reliable for determining if the target had been achieved.

Other matters

31. I draw attention to the matters below.

Achievement of planned targets

32. The annual performance report includes information on reported achievements against planned targets and provides measures taken to improve performance. This information should be considered in the context of the material findings on the reported performance information.

33. 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 services and infrastructure development

Targets achieved: 44% *Budget spent: 73%*		
Key service delivery indicator not achieved	**Planned target**	**Reported achievement**
Number construction of sewer reticulation in Warden for 250 ERVENS Ext 1 phase 2 by 30 June 2025	1 sewer reticulation constructed in Warden for 250 ERVENS Ext 1 phase 2 by 30 June 2025	0 sewer reticulation constructed in Warden for 250 ERVENS Ext 1 phase 2 by 30 June 2025
Number of refurbishment of waste water treatment works in Vrede by 30 June 2025	1 refurbished waste water treatment works in Vrede by 30 June 2025	0 refurbished waste water treatment works in Vrede by 30 June 2025
Number of waste water treatment upgraded in Warden/ Ezenzeleni by 30 June 2025	1 WWTP (water waste treatment plant) upgraded in Warden/ Ezenzeleni by 30 June 2025	0 WWTP (water waste treatment plant) upgraded in Warden/ Ezenzeleni by 30 June 2025
Number of household with access to water by June 2025	6 899 Household per month X 12 access for basic water services by June 2025	Not achieved July- 6091 Aug-6071 Sep-6430 Oct-6455 Nov-6221 Dec-5938 Jan-6437 Feb-5902 March-6212 April-5776 May-6097 June-6 966
Number of household with access to sanitation by June 2025	8 493 Household per month X 12 access for basic sanitation services by June 2025	Not achieved July- 8475 Aug-8476 Sep-8475 Oct-8475 Nov-8475 Dec-8476 Jan-8478 Feb-8481 March-8481 April-8481 May-8482 June-8484
Number of household with access to refuse removal by June 2025	9 348 Household per month X 12 access for basic refuse removal services by June 2025	Not achieved July- 8975 Aug-8975 Sep-8975

		Oct-8981 Nov-8981 Dec-8981 Jan-8982 Feb-8982 March-8985 April-8982 May-8985 June-8995
Percentage of electricity distribution losses by June 2025	Less than 7% reduced of electricity distribution losses by June 2025	The municipality recorded the annual average electricity distribution loss of 57%
Percentage of water losses by June 2025	Less than 15% reduced of water distribution losses by June 2025	The municipality recorded the annual average water distribution loss 75%
812 of sites energised in Memel/ Zamani by 30 June 2025	812 sites/Households energised in Memel/ Zamani by 30 June 2025	0 sites/Households energised in Memel/ Zamani by 30 June 2025

Material misstatements

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

Report on compliance with legislation

35. 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.

36. 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.

37. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the municipality, clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.

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

Annual financial statement

39. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, current assets, current liabilities, non-current liabilities, expenditure, cash flow statement, statement of changes in net assets and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Consequence management

40. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.

41. Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

42. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Expenditure management

43. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

44. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R77 229 032 as disclosed in note 49 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending of the budget.

45. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R16 671 253, as disclosed in note 50 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The fruitless and wasteful expenditure was caused by interest and penalties charged due to late payments to the suppliers.

46. Reasonable steps were not taken to prevent irregular expenditure amounting to R2 656 339, as disclosed in note 51 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with supply chain management (SCM) legislation.

Conditional grants

47. Performance in respect of programmes funded by the municipal infrastructure grant (MIG), EEDSM Grant and water services infrastructure grant (WSIG) was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Dora.

48. The WSIG and MIG were not spent for its intended purposes in accordance with the applicable grant framework, as required by section 16(1) of the Dora.

Strategic planning and performance

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

Human resource management

50. I was unable to obtain sufficient appropriate audit evidence that appropriate systems and procedures to monitor, measure and evaluate performance of staff were developed and adopted, as required by section 67(1)(d) of the Municipal Systems Act (MSA) 32 of 2000 and municipal staff regulation 31.

Other information in the annual report

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

52. My opinion on the financial statements and my reports on the audit of the annual performance report and compliance with legislation do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.

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

54. The other information was not yet due for submission and had not been received at the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

55. 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.

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

57. The accounting officer and municipal council did not effectively oversee financial and performance reporting and compliance as well as related internal controls which resulted in the numerous misstatements.

58. The accounting officer and municipal council did not adequately monitor the action plan to address prior year findings resulting in recurring material misstatements and material non-compliance.

59. Management and the accounting officer did not adequately review and monitor compliance with applicable legislations which resulted in material non-compliance findings.

60. Management did not implement adequate controls over the daily and monthly processing and reconciling of transactions and as a result there were material misstatements in the annual financial statements and annual performance report.

61. Accounting officer did not implement effective human resource management practices to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored, as a result repetitive material findings were identified without sufficient consequences.

Material irregularities

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

Material irregularities in progress

63. I identified material irregularities during the audit and notified the accounting officer of these, as required by material irregularity regulation 3(2). By the date of this auditor's report, the responses of the accounting officer were not yet due. These material irregularities will be included in next year's auditor's report.

Auditor-General

Bloemfontein

30 November 2025

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

The annexure includes the following:

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

Auditor-general's responsibility for the audit

Professional judgement and professional scepticism

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

Financial statements

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

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

Communication with those charged with governance

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

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

Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

MFMA: Municipal Supply Chain Management Regulations, 2017	Regulations: 5, 12(1)(c), 12(3), 13(b), 13(c), 16(a), Regulations: 17(1)(a), 17(1)(b), 17(1)(c), 19(a), 21(b), Regulations: 22(1)(b)(i), 22(2), 27(2)(a), 27(2)(e), Regulations: 28(1)(a)(i), 29(1)(a), 29(1)(b), Regulations: 29(5)(a)(ii), 29(5)(b)(i), 32, 36(1), Regulations: 36(1)(a), 38(1)(c), 38(1)(d)(ii), 38(1)(e), Regulations: 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43, Regulations: 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 24 of 2024	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), Sections: 34(a), 34(b), 38(a), 41(1)(a), 41(1)(b), Sections: 41(1)(c)(ii), 42, 43(2), 45(a), 54A(1)(a), Sections: 56(1)(a), 57(2)(a), 57(4B), 57(6)(a), 57A, Sections: 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 96(b)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations: 5(2), 5(3), 5(6), 8(4)
MSA: Municipal Planning and Performance Management Regulations, 2001	Regulations: 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 7(1), 8, Regulations: 9(1)(a), 10(a), 12(1), 14(1)(b)(iii), Regulations: 14(1)(c)(ii), 14(4)(a)(i), 14(4)(a)(iii), 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), 26(5), Regulation: 27(4)(a)(i)
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), 19, 31, 35(1)
MSA: Municipal Systems Regulations, 2001	Regulation: 43
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), Regulations:6(2), 6(3), 6(6), 6(8), 7(1), 7(2), 7(3), Regulations: 7(6), 7(8), 8(2), 8(5), 9(1), 10(1), Regulations: 10(2),11(1), 11(2)
Preferential Procurement Regulations, 2022	Regulations: 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), Regulation: 5(4)