

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

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Ngwathe Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2024, statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects and possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Ngwathe Local Municipality as at 30 June 2024 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 5 of 2023 (Dora).

Basis for qualified opinion

Service charges

3. I was unable to obtain sufficient appropriate audit evidence for the revenue from the sale of electricity and water included in service charges, as the municipality did not have reliable data for estimations of revenue from the sale of electricity and water. I was unable to confirm the revenue from the sale of electricity and water by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the revenue from the sale of electricity and water stated at R296 685 552 (2023: R275 948 743) in note 18 to the financial statements.

Receivables from exchange transactions

4. I was unable to obtain sufficient appropriate audit evidence for consumer debtors as the municipality did not have adequate systems in place to account for the consumer debtors. I was unable to confirm the consumer debtors by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to receivables from exchange transactions as stated at R182 693 903 in note 9 to the financial statements.

Employee related costs

5. I was unable to obtain sufficient appropriate audit evidence for expenditure relating to the car allowance, other allowances and the pension fund contributions included in employee related costs, as adequate systems were not in place to maintain proper record keeping. I

was unable to confirm the car allowance, other allowances and the pension fund contributions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the car allowance, other allowances and the pension fund contributions, stated at R41 092 697 in note 27 to the financial statements.

Debt impairment

6. I was unable to obtain sufficient appropriate audit evidence for debt impairment written off against the allowance included in the reconciliation of allowance for impairment. This was due to the lack of adequate supporting evidence provided to confirm the indigent registration and amnesty approvals. I was unable to confirm the debt impairment written off against the allowance by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the debt impairment written off against the allowance stated at R12 767 825 (2023: R93 315 401 in note 32 to the financial statements.

Irregular expenditure

7. 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 MFMA. The municipality made payments in contravention of the supply chain management (SCM) requirements, which were not disclosed. I was unable to determine the full extent of the irregular expenditure stated at R392 322 260 (2023: R334 219 786) in note 50 to the financial statements, as it was impracticable to do so.

Fruitless and wasteful expenditure

8. The municipality did not include all instances of fruitless and wasteful expenditure incurred in the current year in note 49 to the financial statements, as required by section 125(2)(d) of the MFMA. This was due to payments made on infrastructure projects that could not be verified, material left on-site that deteriorated, along with advance payments that could not be recovered. Consequently, I was unable to determine the full extent of the understatement of fruitless and wasteful expenditure as stated at R 105 631 022 in note 49 to the financial statements, as it was impracticable to do so.

In addition, the municipality wrote-off fruitless and wasteful expenditure even though the investigations performed were not in accordance with section 32(2)(b) of the MFMA resulting in fruitless and wasteful expenditure being understated by R32 904 640.

Commitments

9. I was unable to obtain sufficient appropriate audit evidence for commitments, as the municipality did not maintain accurate and complete records of the contractual information used to determine commitments. I was unable to confirm the commitments by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to commitments stated at R102 226 818 in note 40 to the financial statements.

Context for opinion

10. 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.
11. 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.
12. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

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

Close call relating to going concern

14. As disclosed in note 47 of the financial statements, which deals with the possible effects of the future implications on the municipality's prospects, performance and cash flows. Management have also described how they plan to deal with these events and circumstances. Our opinion is not modified in respect of this matter.

Restatement of corresponding figures

15. As disclosed in note 43 to the financial statements, the corresponding figures for 30 June 2023 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2024.

Material losses

16. As disclosed in note 33 to the financial statements, material electricity distribution losses of R133 275 740 (2023: R83 555 502) were incurred by the municipality, mainly due to line losses, tampering and theft.

Unauthorised expenditure

17. As disclosed in note 48 to the financial statements, unauthorised expenditure of R335 274 146 (2023: R294 009 536) was incurred due to overspending of the budget.

Material impairments

18. As disclosed in notes 8 to the financial statements, receivables from non-exchange transactions were impaired by R280 899 445 (2023: R225 185 960).

Material uncertainty relating to claims against the municipality

19. With reference to note 41 to the financial statements, the municipality is the defendant in various claims against the municipality. The municipality is opposing these claims. The ultimate outcome of these matters could not be determined and no provision for any liabilities that may result was made in the financial statements.

Underspending and withholding of conditional grants

20. As disclosed in note 15 to the financial statements the municipality materially underspent the conditional grants by R28 527 438 (2023: R79 119 367). As disclosed in note 25 to the financial statements, the National Treasury withheld R68 500 000 (2023: R49 077 000) equitable shares from the municipality due to the slow implementation of projects by the municipality.

Other matter

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

Unaudited disclosure notes

22. 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

23. 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.

24. 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

25. 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.

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

Report on the audit of the annual performance report

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

28. 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 investment	[XX]	To provide and maintain basic services (i.e. water, sanitation, electricity, roads, waste management) to the community of the municipality.

29. 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 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.

30. I performed procedures to test whether:

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

- the reported performance information is presented in the annual performance report in the prescribed manner and is comparable and understandable
- there is adequate supporting evidence for the achievements reported and for the measures taken to improve performance.

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

32. The material findings on the reported performance information for the selected KPA are as follows:

Basic service delivery and infrastructure investment

Number of blue drop action plan adopted and implemented by June 2024 (IDP ref no. 14)

33. The approved planning documents included a commitment to report the indicator as a number. However, an achievement was reported as a percentage (100%) in the annual performance report. This discrepancy highlights misalignment between approved plans and operations, while the incorrect reporting undermines transparency and accountability. Furthermore, the target of 100% does not relate directly to the indicator, which measures a number. 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. Moreover, the municipality did not establish adequate processes to consistently measure and reliably report on the achievement of this indicator and its target of adopting and implementing 100% of the blue drop action plan by June 2024. This was due to a lack of adequate documentation and information to confirm the performance measurement processes and systems. Consequently, the municipality would have found it difficult to determine the correct achievement to be reported against the planned target. In addition, an achievement of 100% blue drop action plans adopted and implemented was reported against a target of 100%. However, the audit evidence did not support this achievement. I could not determine the actual achievement, but I estimated it to be materially less than reported. Consequently, the achievement against the target was lower than reported. Lastly, measures taken to improve performance against the underachieved target of 100% were not reported in the annual performance report. Information was thus not provided to help with understanding the actions taken by management to address performance gaps and with assessing the effectiveness of strategies to improve future performance against the target.

Percentage of repairs done at 2 out of 28 substations by June 2024 (IDP ref no. 1)

34. An achievement of 0% repairs done at 2 out of 28 substations was reported against a target of 100% repairs planned at 2 out of 28 substations. However, the target had not been clearly defined during the planning process. This was because the municipality did not specify how the percentage was calculated. Consequently, the target is not useful for measuring and reporting on progress against the municipality's planned objectives. Lastly, the municipality did not establish adequate processes to consistently measure and reliably report on the achievement of this indicator and its target of repairs done at 2 out of 28 substations by June 2024. This was due to a lack of adequate documentation and information to confirm the performance measurement processes and systems. Consequently, the municipality

would have found it difficult to determine the correct achievement to be reported against the planned target.

Percentage of completed and upgraded of bulk water supply to Koppies and Kwakwatsi (IDP ref no. 16)

35. An achievement of 100% bulk water supply to Koppies and Kwakwatsi completed and upgraded was reported against a target of 100% planned completion and upgrading of bulk water supply to Koppies and Kwakwatsi. However, the target had not been clearly defined during the planning process. This was because the indicator description did not clearly indicate when the target should be achieved. Consequently, the target is not useful for measuring and reporting on progress against the municipality's planned objectives. Furthermore, the municipality did not establish adequate processes to consistently measure and reliably report on the achievement of this indicator and its target of completing and upgrading of bulk water supply to Koppies and Kwakwatsi. This was due to a lack of adequate documentation and information to confirm the performance measurement processes and systems. Consequently, the municipality would have found it difficult to determine the correct achievement to be reported against the planned target. Lastly, an achievement of 100% was reported against a target of 100%. 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.

Percentage of completed upgrades of ring main unit in all 5 towns by June 2024 (IDP ref no. 4)

36. The municipality did not establish adequate processes to consistently measure and reliably report on the achievement of this indicator and its target of completing upgrades of the ring main unit in all 5 towns by June 2024. This was due to a lack of adequate documentation and information to confirm the performance measurement processes and systems. Consequently, the municipality would have found it difficult to determine the correct achievement to be reported against the planned target. Furthermore, an achievement of 25% was reported against a target of 100%. However, some supporting evidence was not provided for auditing; or, where it was, I identified material differences between the actual and reported achievements. Consequently, the achievement might be more or less than reported and was not reliable for determining if the target had been achieved. Lastly, measures taken to improve performance against the underachieved target of 100% were not reported in the annual performance report. Information was thus not provided to help with understanding the actions taken by management to address performance gaps and with assessing the effectiveness of strategies to improve future performance against the target.

Number of green drop action plan adopted and implemented by June 2024 (IDP ref no. 7)

37. An achievement of 1 was reported against a target of 1. I could not determine whether the reported achievement was correct, as adequate supporting evidence to clarify the methods and processes for measuring achievement was not provided. Consequently, the reported achievement might be more or less than reported and was not reliable for determining if the target has been achieved. The municipality did not establish adequate processes to consistently measure and reliably report on the achievement on this indicator and its target of 1 green drop action plan adopted and implemented by June 2024. This was due to a lack

of adequate documentation and information to confirm the performance measurement processes and systems. Consequently, the municipality would have found it difficult to determine the correct achievement to be reported against the planned target.

Percentage of refurbished Parys Water Treatment Work infrastructure by June 2024 (IDP ref no. 13)

38. The municipality did not establish adequate processes to consistently measure and reliably report on the achievement of this indicator and its target of 100% planned refurbishment of the Parys Water Treatment Work infrastructure. This was due to a lack of adequate documentation and information to confirm the performance measurement processes and systems. Consequently, the municipality would have found it difficult to determine the correct achievement to be reported against the planned target. Furthermore, an achievement of 85% refurbishment of Parys Water Treatment Work infrastructure was reported against a target of 100% planned refurbishment of the Parys Water Treatment Work infrastructure. However, the audit evidence did not support this achievement. I could not determine the actual achievement, but I estimated it to be materially less than reported. Consequently, the achievement against the target was lower than reported.

Various indicators

39. The municipality did not establish adequate processes to consistently measure and reliably report on various indicators. Consequently, the municipality would have found it difficult to determine the correct achievements to be reported against the planned targets. Furthermore, I could not determine if the reported achievements were correct, as adequate supporting evidence was not provided for auditing. Consequently, the reported achievements might be more or less than reported and were not reliable for determining if the targets had been achieved.

Indicators	Targets	Reported achievements	Details
Number of temporary toilet facilities acquired for the 5 towns by June 2024 (IDP ref no. 8)	240	242	<ol style="list-style-type: none"> 1. There was a lack of adequate documentation and information to confirm the performance measurement processes and systems. 2. As a result, the municipality could not provide adequate supporting evidence to confirm the actual achievements reported in the annual report.
Number of stand pumps provisioned to avoid continuous spillage in all 5 towns by June 2024 (IDP ref no. 10)	3	3	<ol style="list-style-type: none"> 1. There was a lack of adequate documentation and information to confirm the performance measurement processes and systems. 2. As a result, the municipality could not provide adequate supporting

Indicators	Targets	Reported achievements	Details
			evidence to confirm the actual achievements reported in the annual report.

Various indicators

40. The municipality did not establish adequate processes to consistently measure and reliably report on various indicators. Consequently, the municipality would have found it difficult to determine the correct achievements to be reported against the planned targets.

Indicators	Targets	Details
Number of reviewed and approved water master plan by June 2024 (IDP ref no. 2)	1	There was a lack of adequate documentation and information to confirm the performance measurement processes and systems; however, the municipality could provide supporting evidence to confirm the actual achievements reported in the annual report.
Number of reviewed and approved electricity master plan by June 2024 (IDP ref no. 3)	1	
Percentage of completed new line from Parys Eskom substation to water treatment plant by June 2024 (IDP ref no. 5)	100%	
Number of reviewed and approved sanitation master plan by June 2024 (IDP ref no. 9)	1	
Percentage of completed and upgraded Koppies substation by June 2024 (IDP ref no. 18)	100%	

Other matters

41. I draw attention to the matters below.

Achievement of planned targets

42. 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.

43. 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 investment

<p><i>Targets achieved: 41,2% (14 of the 34 indicators)</i></p> <p><i>Budget spent: 69,1%</i></p>		
Key service delivery indicators not achieved	Planned targets	Reported achievements
Percentage of repairs done at 2 out of 28 substations by June 2024 (IDP ref no. 1)	100%	0%
Number of reviewed and approved water master plan by June 2024 (IDP ref no. 2)	1	0
Number of reviewed and approved electricity master plan by June 2024 (IDP ref no. 3)	1	0
Percentage of completed upgrades of Ring Main Unit in all 5 towns by June 2024 (IDP ref no. 4)	100%	25%
Percentage of completed new line from Parys Eskom Substation to water treatment plant by June 2024 (IDP ref no. 5)	100%	0%
Number of reviewed and approved sanitation master plan by June 2024 (IDP ref no. 9)	1	0
Percentage of Refurbished Parys Water Treatment Work Infrastructure by June 2024 (IDP ref no. 13)	100%	85%
Percentage of completed and upgraded Koppies substation by June 2024 (IDP ref no. 18)	100%	0%
Number of approved roads and storm water plan by June 2024 (IDP ref no. 6)	1	0
Number of completed and constructed 2km paved road in Mokwallo by June 2024 (IDP ref no. 12)	100%	0%
Number of developed and approved capital project plan for the MTREF by June 2024 (IDP ref no. 17)	1	0
License landfill sites (IDP ref no. 20)	1	0
Number of compact trucks purchased for Vredefort and Edenville by June 2024 (IDP ref no. 21)	2	0
Number of waste management education and awareness campaigns conducted by June 2024 (IDP ref no. 25)	5	4
Number of draft IWMP develop and submit by June 2024 (IDP ref no. 26)	1	0
Number of human settlement sector plan developed and approved by Council by 30 June 2024 (IDP ref no. 29)	1	0

SDF developed, reviewed and approved by council by 30 June 2024 (IDP ref no. 30)	1	0
Number of municipal planning tribunal meetings held in 30 June 2023 (IDP ref no. 31)	2	0
Review the disaster management plan by 30 June 2024 (IDP ref no. 32)	1	0
Develop a comprehensive security plan for the institution by 30 June 2024 (IDP ref no. 34)	1	0

Material misstatements

44. 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 investment. Management did not correct all of the misstatements and I reported material findings in this regard.

Report on compliance with legislation

45. 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.

46. 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.

47. 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.

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

Annual financial statements

49. 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 current assets, non-current assets and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Procurement and contract management

50. Sufficient appropriate audit evidence could not be obtained that all contracts were awarded in accordance with the legislative requirements as supporting documentation were not submitted for all suppliers that submitted bids, including the successful bidder.
51. Sufficient appropriate audit evidence could not be obtained that written quotations were accepted from prospective providers who were on the list of accredited providers and met the listing requirements as prescribed by the SCM policy, in contravention of SCM regulations 17(1)(a) and 17(1)(b). Similar non-compliance was also reported in the prior year.
52. Some of the quotations were accepted from bidders who did not submit a declaration on whether they are 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.
53. Some of the quotations were accepted from bidders whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43. Similar non-compliance was also reported in the prior year.
54. Sufficient appropriate audit evidence could not be obtained that goods and services within the prescribed transaction value for competitive bids were procured by inviting competitive bids, as required by SCM regulations 19(a). Similar non-compliance was also reported in the prior year.
55. Sufficient appropriate audit evidence could not be obtained that bid specifications were unbiased and allowed all potential suppliers to offer their goods or services, as required by SCM regulation 27(2)(a).
56. Some of the invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM regulation 22(1) and 22(2).
57. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to bidders based on points given for legislative requirement that were stipulated in the original invitation for bidding, as required by SCM regulations 21(b) and 28(1)(a)(i) and the preferential procurement regulations.
58. Sufficient appropriate audit evidence could not be obtained that contracts were awarded through a competitive bidding process that were adjudicated by the bid adjudication committee as required by SCM regulations 29(1)(a) and (b) and preferential procurement regulations (PPR).
59. Sufficient appropriate audit evidence could not be obtained that the accounting officer ratified the decision of bid adjudication committee of awarding contracts to bidders other than those recommended by the bid evaluation committee as required by SCM regulation 29(5)(b).
60. In some instances councillors of the municipality attended meetings of committees evaluating or approving tenders/quotations, in contravention of section 117 of the MFMA.

61. Some of the contracts were awarded to bidders who did not submit a declaration on whether they are 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.
62. Sufficient appropriate audit evidence could not be obtained that contracts were only awarded to providers whose tax matters had been declared by the South African Revenue Service to be in order, as required by SCM regulation 43. Similar non-compliance was also reported in the prior year.
63. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act 5 of 2020 (PPPFA). Similar non-compliance was also reported in the prior year.
64. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to bidders that scored the highest points in the evaluation process as required by section 2(1)(f) of PPPFA and 2022 PPR 4(4) and 5(4). Similar non-compliance was also reported in the prior year.
65. Sufficient appropriate audit evidence could not be obtained that the performance of contractors or providers was monitored on a monthly basis as required by section 116(2) of the MFMA. Similar limitation was also reported in the prior year.
66. Sufficient appropriate audit evidence could not be obtained that contract performance and monitoring measures were in place to ensure effective contract management as required by section 116(2)(c)(ii) of the MFMA. Similar limitation was also reported in the prior year.

Expenditure management

67. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
68. 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 qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with SCM requirements.
69. 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 qualification paragraph. The majority of the disclosed fruitless and wasteful expenditure was caused by payments made on infrastructure projects that could not be verified, material left on-site which deteriorated and was stolen, along with advance payments that could not be recovered.
70. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R586 784 509, as disclosed in note 48 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by the overspending of the budget.

Consequence management

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

Strategic planning and performance management

73. A performance management system was not adopted, as required by municipal planning and performance management regulation 8.
74. The performance management system and related controls were inadequate as significant internal control deficiencies have been identified in the performance planning, monitoring, measurement, review and reporting processes required by municipal planning and performance management regulation 7(1).

Revenue management

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

Human resource management

78. I was unable to obtain sufficient appropriate audit evidence that job descriptions were established for all posts in which appointments were made, as required by section 66(1)(b) of Municipal Systems Act 32 of 2000 (MSA).
79. 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 MSA and regulation 31 of Municipal Staff Regulations

<h3>Other information in the annual report</h3>

80. The accounting officer is responsible for the other information included in the annual report. The other information referred to does not include the financial statements, the auditor's report and the selected KPA presented in the annual performance report that have been specifically reported on in this auditor's report.
81. My opinion on the financial statements, the report on the audit of the annual performance report and the report on compliance with legislation do not cover the other information

included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.

82. 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 KPA presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
83. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

84. 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.

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

85. Management did not ensure that effective quality control processes were implemented related to the review of the financial statements before submission for audit. The municipality was also dependent on consultants for financial reporting without adequately transferring skills to the municipal officials. Several financial misstatements were identified that led to a modified audit opinion.
86. The audit action plan of the municipality was not effective in addressing the weaknesses in the control environment that resulted in similar misstatements and non-compliance being reported in the current year.
87. Management failed to 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.
88. Management did not implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.
89. During the year there was significant instability in the senior management position responsible for financial management, this includes instability in the position of the accounting officer and the chief financial officer.
90. Senior management did not establish oversight processes to confirm that the reported achievement was supported by adequate supporting evidence and was correctly calculated.

91. Management did not ensure that instances of unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure was referred to MPAC for investigation within reasonable timeframes.

Material irregularities

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

Status of previously reported material irregularities

Eskom not paid within 30 days

93. The accounting officer did not take all reasonable steps to ensure that amounts due to Eskom for the bulk purchase of electricity were paid within 30 days of receiving the relevant invoice or statement, as required by section 65(2)(e) of the MFMA. The late payment resulted in interest of R21 592 212 being incurred for the period 1 April 2019 to 31 March 2020. The interest incurred is likely to result in a material financial loss for the municipality due to the liability to pay the interest to Eskom.

94. The accounting officer was notified of the material irregularity on 25 February 2021. The accounting officer did not take appropriate action to resolve the material irregularity. I recommended that the accounting officer should take the following action to address the material irregularity, which should have been implemented by 30 June 2024 with progress reports every 2 months:

(a) Update and commence with the implementation of the revenue enhancement turnaround strategies of the municipality to address the financial problems that are preventing the municipality from paying Eskom within 30 days, as required by section 65(2)(e) of the MFMA. The strategies to be implemented should include measures to:

- Increase revenue;
- Increase the collection of revenue;
- Efficiently manage the available resources of the municipality by accurate budgeting, budget management and cost cutting;
- Reduce electricity distribution losses; and
- Negotiate a reasonable payment arrangement with Eskom and properly budget for the amounts to be paid.

95. The accounting officer has not adequately implemented or made satisfactorily progress with implementation of the above recommendation. I am in the process of making a decision on further actions to be taken.

Department of water and sanitation not paid within 30 days

96. The accounting officer did not take all reasonable steps to ensure that amounts due to the Department of Water and Sanitation for the bulk purchases of water were paid within 30

days of receiving the relevant invoice or statement, as required by section 65(2)(e) of the MFMA. The late payment resulted in interest of R7 203 625 being incurred for the period 1 July 2021 to 30 June 2022. The interest incurred is likely to result in a material financial loss for the municipality due to the liability to pay the interest to the Department of Water and Sanitation.

97. The accounting officer was notified of the material irregularity on 4 November 2022. The accounting officer did not take appropriate action to resolve the material irregularity. I recommended that the accounting officer should take the following action to address the material irregularity, which should have been implemented by 30 June 2024 with progress reports every 2 months:

(a) Update and commence with the implementation of the revenue enhancement turnaround strategies of the municipality to address the financial problems that are preventing the municipality from paying the Department of Water and Sanitation within 30 days, as required by section 65(2)(e) of the MFMA. The strategies to be implemented should include measures to:

- Increase revenue;
- Increase the collection of revenue;
- Efficiently manage the available resources of the municipality by accurate budgeting, budget management and cost cutting;
- Reduce water distribution losses; and
- Negotiate a reasonable payment arrangement with the Department of Water and Sanitation and properly budget for the amounts to be paid.

98. The accounting officer has not adequately implemented or made satisfactorily progress with implementation of the above recommendation. I am in the process of making a decision on further actions to be taken.

Lack of proper performance management system and records

99. 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 2019-20, 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.

100. 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 is due to incorrect and unreliable data that is 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 roleplayers in these processes.

101. The accounting officer was notified of this material irregularity on 31 October 2023. The accounting officer did not take appropriate action to resolve the material irregularity. I recommend that the accounting officer should take the following actions to address the material irregularity, which should be implemented by 20 June 2025 with a progress report every two (2) 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:
 - Development and implementation of technical indicator descriptions for key performance indicators
 - Development and implementation of standard operating procedures that will describe the municipality's processes of performance measurement, review, and reporting will be conducted, organised, and managed, including the roles of different roleplayers
 - Maintaining adequate and complete portfolio of evidence for reported performance.

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

Poor management of the Vredefort waste landfill site within the Ngwathe Local Municipality

103. The municipality consequently did not dispose and treat waste in an environmentally sound manner and in a manner that does not endanger health or the environment as required by section 16(1) of the National Environmental Management Waste Act 59 of 2008. The municipality further did not take reasonable measures to prevent pollution or degradations from occurring, continuing or recurring, as required by section 28(1) of the National Environmental Management Act 107 of 1998 and section 19(1) of the National Water Act 36 of 1998. The non-compliance is likely to cause substantial harm to the community members utilising the landfill site, communities adjacent to the landfill site as well as exposed to, and dependent on, the groundwater resources.

104. The accounting officer was notified of this material irregularity on 15 November 2022. The accounting officer did not take appropriate action to resolve the material irregularity. I referred the material irregularity to the Department of Forestry, Fisheries and the Environment (DFFE) on 27 March 2024 for investigation as provided for in section 5(1A) of the PAA. On 14 May 2024 DFFE sub-referred the material irregularity to the Free State Department of Economic, Small Business Development, Tourism and Environmental

(DESTEA) affairs for further investigation. The referral was accepted by DESTEA on 2 September 2024 and the investigation is currently in progress.

Bloemfontein

30 November 2024



A U D I T O R - G E N E R A L
S O U T H A F R I C A

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 KPAs and on the municipality's compliance with selected requirements in key legislation.

Financial statements

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

Communication with those charged with governance

4. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
5. I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

Compliance with legislation – selected legislative requirements

6. The selected legislative requirements are as follows:

Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003	Sections 1, 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 28(1), Sections 29(1), 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b), Sections 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 63(2)(a), 63(2)(c), Sections 64(2)(b), 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), Sections 65(2)(e), 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), Sections 122(2), 126(1)(a), 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), Sections 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, 171(4)(a), Sections 171(4)(b)
MFMA: Municipal budget and reporting regulations, 2009	Regulations 71(1)(a), 71(1)(a)(b), 71(2)(a), 71(2)(b), 71(2)(d), 72(a), 72(b), Regulations 72(c)
MFMA: Municipal Investment Regulations, 2005	Regulations 3(1)(a), 3(3), 6, 7, 12(2), 12(3)
MFMA: Municipal Regulations on financial Misconduct Procedures and Criminal Proceedings, 2014	Regulations 5(4), 6(8)(a), 6(8)(b), 10(1)
MSA: Municipal Staff Regulations	Regulations 7(1), 31
MFMA: Municipal Supply Chain Management Regulations, 2017	Regulations 5, 12(1)(c), 12(3), 13(b), 13(c), 16(a), 17(1)(a), 17(1)(b), Regulations 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), 27(2)(e), Regulations 28(1)(a)(i), 29(1)(a), 29(1)(b), 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), Regulations 36(1)(a), 38(1)(c), 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), Regulations 38(1)(g)(iii), 43, 44, 46(2)(e), 46(2)(f)
Municipal Systems Act 32 of 2000	Sections 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 34(a), 34(b), 38(a), Sections 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), 54A(1)(a), 56(1)(a), Sections 57(2)(a), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 96(b)
MSA: Municipal Planning and performance Management Regulations, 2001	Regulations 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 7(1), 8, 9(1)(a), 10(a), 12(1), Regulations 15(1)(a)(i), 15(1)(a)(ii)
MSA: Municipal Performance Regulations for Municipal Managers and Managers directly Accountable to Municipal Managers, 2006	Regulations 2(3)(a), 4(4)(b), 8(1), 8(2), 8(3)
MSA: Regulations on Appointment and Conditions of	Regulations 17(2), 36(1)(a)

Legislation	Sections or regulations
Employment of Senior Managers, 2014	
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2), 5(3), 5(6), 8(4)
Division of Revenue Act 5 of 2023	Sections 11(6)(b), 12(5), 16(1); 16(3)
Construction Industry Development Board Act 38 of 2000	Section 18(1)
Construction Industry Development Board Regulations	Regulations 17, 25(7A)
Municipal Property Rates Act 6 of 2004	Section 3(1)
Preferential Procurement Policy Framework Act 5 of 2000	Sections 2(1)(a), 2(1)(f)
Preferential Procurement Regulations, 2017	Regulations 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8), 7(1), Regulations 7(2), 7(3), 7(6), 7(8), 8(2), 8(5), 9(1), 10(1), 10(2), 11(1), 11(2)
Preferential Procurement Regulations, 2022	Regulations 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4)
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section 34(1)