Report of the auditor-general to the 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 2025, 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 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 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 in notes 17 and 18 to the financial statements, as the municipality did not have reliable data on actual consumption to estimate consumer billings for 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 included in service charges stated at R326 736 365 (2024: R296 377 865) in notes 17 and 18 to the financial statements.

4. In addition, the municipality did not account for the revenue from the sale of electricity and water included in service charges in notes 17 and 18 to the financial statements in accordance with GRAP 9, *Revenue from exchange transactions.* This was due to the municipality not billing some consumers during the current period, while, in other instances, some consumers were not billed throughout the year. I was unable to determine the full extent of the understatement to revenue from the sale of electricity and water included in service charges, stated at R326 736 365 in notes 17 and 18 to the financial statements, consumer debtors – electricity and consumer debtors – water included in receivables from exchange transactions stated at R106 512 441 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 deficit.

Receivables from exchange transactions

5. I was unable to obtain sufficient appropriate audit evidence for receivables from exchange transactions, as the municipality did not have adequate systems in place to account for the consumer debtors. I was unable to confirm the receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the receivables from exchange transactions stated at R219 011 262 (2024: R182 693 903) in note 9 to the financial statements.

Debt impairment

6. During 2024, 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 in notes 9 and 34 to the financial statements. This was because of a lack of adequate supporting evidence 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 in notes 9 and 34 to the financial statements. My audit opinion on the financial statements for the period ended 30 June 2024 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 debt impairment for the current period.

Bulk purchases

7. I was unable to obtain sufficient appropriate audit evidence for the electricity and water losses included in bulk purchases in note 35 to the financial statements, as the municipality did not have reliable data to confirm the units sold for electricity and water. I was unable to confirm the electricity and water losses by alternative means. Consequently, I was unable to determine whether any adjustments were necessary for electricity losses included in bulk purchases, stated at 61% (2024: 59%) and water losses included in bulk purchases, stated at 27% (2024: 3%), in note 35 to the financial statements.

Irregular expenditure

8. 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 supply chain management (SCM) requirements, which were not disclosed. I was unable to determine the full extent of the understatement to irregular expenditure, stated at R400 673 627 (2024: R392 322 260) in note 51 to the financial statements, as it was impracticable to do so.

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 R82 806 695 (2024: R88 485 327) in note 42 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.

Material uncertainty related to going concern

13. I draw attention to note 48 to the financial statements, which indicates that a net loss of R355 534 345 was incurred during the year ended 30 June 2025 and, as of date, the total liabilities exceeded its total assets by R630 196 382. In addition, the municipality owed Eskom R2 582 140 326, Department of Water and Sanitation and Rand Water R188 890 244. On 20 June 2025, the court passed a judgement instructing the Free State Executive Council to intervene in this municipality's affairs, which includes dissolving the Municipal Council and appointing an administration in accordance with section 139(5) of the Constitution of the Republic of South Africa. As stated in note 48, these events or conditions, along with other matters as set forth in note 48, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matters

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

Restatement of corresponding figures

15. As disclosed in notes 44 and 46 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 at, and for the year ended, 30 June 2025.

Unauthorised expenditure

16. As disclosed in note 49 to the financial statements, unauthorised expenditure of R107 619 677 (2024: R335 274 146) was incurred due to overspending of the budget.

Fruitless and wasteful expenditure

17. As disclosed in note 50 to the financial statements, fruitless and wasteful expenditure of R104 197 571 (2024: R94 823 417) were incurred, mainly due to interest and penalties levied due to late payments to suppliers.

Material impairments

18. As disclosed in note 8 to the financial statements, receivables from non-exchange transactions were impaired by R309 693 740 (2024: R280 899 445).

Material uncertainty relating to claims against the municipality

19. With reference to note 43 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.

Other matters

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

Unaudited disclosure notes

21. 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

22. 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.

23. 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

24. 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.

25. 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

26. 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.

27. I selected the following KPA presented in the annual performance report for the year ended 30 June 2025 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 development	XX	To provide and maintain basic services (i.e. water, sanitation, electricity, roads, waste management) to the community of the municipality.

28. I evaluated 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. When an annual performance report is prepared using the criteria, it provides useful and reliable information and insights to users on the municipality's planning and delivery on its mandate and objectives.

29. 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

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

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

Basic service delivery and infrastructure development

Various indicators

32. 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 if the targets have been achieved.

Indicator	Target	Reported achievement
60% reduction in electricity distribution losses by 30 June 2025	60%	60,9%
25% reduction in water distribution losses by 30 June 2025	25%	27%

Other matters

33. I draw attention to the matters below.

Achievement of planned targets

34. 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.

35. 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 development

Targets achieved: 21,7%

Budget spent: 71,9%

Key service delivery indicator not achieved	Planned target	Reported achievement
60 additional households in municipal supply area connected to electricity grid by 30 June 2025 (KPI 01)	60 additional households in municipal supply area connected to electricity grid by 30 June 2025	**Not Achieved: Zero (0)** additional households in municipal supply area connected to electricity grid by 30 June 2025. Annual target was not aligned to the budget
799 of new household electricity connections completed by 30 June 2025 (KPI 02)	799 of new household electricity connections completed by 30 June 2025	**Partially Achieved:** 740 of new household connections were completed by 30 June 2025
60% reduction in electricity distribution losses by 30 June 2025 (KPI 03)	60% reduction in electricity distribution losses by 30 June 2025.	**Not Achieved** Electricity distribution losses were recorded at 60.9% by 30 June 2025
40 000 m² of potholes patched by 30 June 2025 (KPI 06)	40 000 m² of potholes patched by 30 June 2025	**Partially Achieved:** A total of 20 781,87 m² of potholes patched by 30 June 2025. Quarter 2- 18079 m² Quarter 3- 626.87 m² Quarter 4- 2076 m²
3.2 kms of storm water drainages built, rehabilitated, or replaced by 30 June 2025 (KPI 07)	3.2 kms of storm water drainages built, rehabilitated, or replaced by 30 June 2025	**Not Achieved:** 0 Kms of storm water drainages built, rehabilitated, or replaced by 30 June 2025
1 (One) Credible Sanitation Master Plan developed by 30 June 2025 (KPI 08)	1 (One) Credible Sanitation Master Plan developed by 30 June 2025	**Not Achieved: 0 (Zero)** The Credible Sanitation Master Plan developed by 30 June 2025. Sanitation Master plan is currently being development
60 additional households in municipal supply area with access to basic sanitation service by 30 June 2025 (KPI 09)	60 additional households in municipal supply area with access to basic by 30 June 2025	**Not Achieved: Zero (0)** additional households in municipal supply area with access to basic by 30 June 2025. Target was not aligned to budget
96% wastewater quality compliance rate according to the water use license by 30 June 2025 (KPI 10)	96% wastewater quality compliance rate according to the water use license by 30 June 2025	**Not Achieved: 0%** Wastewater quality compliance rate according to the water use license by 30 June 2025. The wastewater plant was not fully operational in the year ending 30 June 2025
25% reduction in water distribution losses by 30 June 2025 (KPI 12)	25% reduction in water distribution losses by 30 June 2025	**Not Achieved:** water distribution losses were recorded at 27%

Targets achieved: 21,7% *Budget spent: 71,9%*		
Key service delivery indicator not achieved	**Planned target**	**Reported achievement**
50 additional households in formal settlements including plots and small holdings that meet the minimum water services standard by 30 June 2025 (KPI 13)	50 additional households in formal settlements including plots and small holdings that meet the minimum water services standard by 30 June 2025	**Not Achieved: Zero (0)** additional households in formal settlements including plots and small holdings that meet the minimum water services standard by 30 June 2025. Annual target was not aligned to the budget
2 new household water connections completed by 30 June 2025 (KPI 14)	2 new household water connections completed by 30 June 2025	**Not Achieved: Zero (0)** new household water connections completed by 30 June 2025. Annual target was not aligned to the budget
60 sample tests conducted to measure water quality by 30 June 2025 (KPI 15)	60 sample tests conducted to measure water quality by 30 June 2025	**Partially Achieved: 39** sample tests conducted to measure water quality by 30 June 2025
95% compliance rate of drinking water to SANS241 by 30 June 2025 (KPI 16)	95% compliance rate of drinking water to SANS241 by 30 June 2025	**Not Achieved: 0%** Compliance rate of drinking water to SANS241 by 30 June 2025. water treatment plant was not fully operational in the year ending 30 June 2025
15 km's of secondary new bulk water supply infrastructure/line constructed in Koppies and Kwakwatsi by 30 June 2025 (KPI 17)	15 km's of secondary new bulk water supply infrastructure/ line constructed in Koppies and Kwakwatsi by 30 June 2025	**Partially Achieved:** 10,47 km's of secondary new bulk infrastructure line constructed as at 30 June 2025
1 (one) cemetery management plan developed by 30 June 2025 (KPI 35)	1 (one) cemetery management plan developed by 30 June 2025	**Not Achieved: 0** cemetery management plan developed by 30 June 2025. Municipality is awaiting SALGA's assistance with cemetery by laws
1 (one) hall and facilities (i.e. Mosepedi hall) upgraded by 30 June 2025 (KPI 38)	1 (one) hall and facilities (i.e. Mosepedi hall) upgraded by 30 June 2025	**Not Achieved: Zero (0)** hall and facilities (i.e. Mosepedi hall) upgraded by 30 June 2025 annual target was not aligned to the budget
Disaster Management Plan for the municipality reviewed and approved by Council by 30 June 2025 (KPI 39)	Disaster Management Plan for the municipality reviewed and approved by Council by 30 June 2025	**Not Achieved:** Finalisation of Disaster Management Plan is underway pending working sessions for technical support
300 premises inspected for fire safety and compliance by 30 June 2025 (KPI 40)	300 premises inspected for fire safety and compliance by 30 June 2025	**Not Achieved: 75** premises inspected for fire safety and compliance by 30 June 2025. Appointment letter of Chief

Targets achieved: 21,7% Budget spent: 71,9%		
Key service delivery indicator not achieved	**Planned target**	**Reported achievement**
		Fire Officer was not issued on time instability in the municipality

Material misstatements

36. I identified preventable 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 development. Management did not correct all of the misstatements, and I reported material findings in this regard.

Report on compliance with legislation

37. 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.

38. 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.

39. 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.

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

Annual financial statements

41. 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 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

42. 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 SCM Regulations 17(1)(a) and (c).

43. 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.

44. Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM Regulation 36(1).

45. 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). Similar non-compliance was also reported in the prior year.

46. Some of the contracts were awarded to bidders based on points given for legislative requirements that were not differed from those stipulated in the original invitation for bidding, in contravention of SCM Regulations 21(b) and 28(1)(a)(i) and the 2022 Preferential Procurement Regulations.

47. Some of the contracts were made 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).

48. 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.

49. Some of the contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM Regulation 43.

50. The preference point system was not applied for some of the procurement of goods and services as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act 5 of 2000.

51. Sufficient appropriate audit evidence could not be obtained that contracts were extended or modified with the approval of a properly delegated official as required by SCM Regulation 5.

52. 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.

53. 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

54. Reasonable steps were not taken to ensure that money owed by the municipality was always paid within 30 days, as required by section 65(2)(e) of the MFMA

55. 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.

56. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R105 043 969, as disclosed in note 50 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest and penalties levied due to late payments to suppliers.

57. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R143 163 931, 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 the budget.

Consequence management

58. 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.

Revenue management

59. 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.

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

61. 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

62. 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 Municipal Systems Act 32 of 2000 (MSA) and regulation 31 of Municipal Staff Regulations.

Other information in the annual report

63. 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.

64. 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.

65. 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.

66. 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

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.

67. 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.

68. 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, resulting in a modified audit opinion.

69. The audit committee did not provide oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations.

70. The audit action plan developed by the accounting officer 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.

71. The accounting officer 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.

72. The accounting officer did not ensure that instances of irregular expenditure were referred to the Municipal Public Accounts Committee for investigation within reasonable timeframes.

Material irregularities

73. 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 in progress

74. I identified a material irregularity during the audit and notified the accounting officer, as required by material irregularity regulation 3(2). By the date of this auditor's report, I had not yet completed the process of evaluating the response from the accounting officer. This material irregularity will be included in next year's auditor's report.

Status of previously reported material irregularities

Eskom not paid within 30 days

75. 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.

76. 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:

- 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:

  (a) Increase revenue;

  (b) Increase the collection of revenue;

  (c) Efficiently manage the available resources of the municipality by accurate budgeting, budget management and cost cutting;

  (d) Reduce electricity distribution losses; and

  (e) Negotiate a reasonable payment arrangement with Eskom and properly budget for the amounts to be paid.

77. The accounting officer has not adequately implemented or made satisfactorily progress with implementation of the above recommendation. I notified the accounting officer on 28 February 2025 of the following remedial actions to address the material irregularity, which must have been implemented by 24 August 2025, with a progress report after three months:

- Appropriate actions must be taken to 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 must include measures to:

  (a) Increase revenue;

  (b) Increase the collection of revenue;

  (c) Efficiently manage the available resources of the municipality through cost containment measures and proper budget management;

  (d) Reduce electricity distribution losses; and

  (e) Negotiate a reasonable payment arrangement with Eskom and properly budget for the amounts to be paid.

78. In support of the actions taken in implementing the remedial actions, the accounting officer submitted a response on 25 August 2025 and a supplementary response on 22 September 2025.

79. The municipality was accepted to participate in the Eskom Debt Relief Programme and therefore is this part of the remedial action resolved. The remaining actions in (a) to (d) above, have however not been adequately implemented and 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

80. The accounting officer did not take all reasonable steps to ensure that amounts due to the Department of Water and Sanitation (DWS) 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 DWS.

81. 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:

- 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 DWS within 30 days, as required by section 65(2)(e) of the MFMA. The strategies to be implemented should include measures to:

  (a) Increase revenue;

  (b) Increase the collection of revenue;

  (c) Efficiently manage the available resources of the municipality by accurate budgeting, budget management and cost cutting;

(d) Reduce water distribution losses; and

(e) Negotiate a reasonable payment arrangement with the DWS and properly budget for the amounts to be paid.

82. The accounting officer has not adequately implemented or made satisfactorily progress with implementation of the above recommendation. I notified the accounting officer on 28 February 2025 of the following remedial actions to address the material irregularity, which must have been implemented by 24 August 2025, with a progress report after three months:

- Appropriate actions must be taken to 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 DWS within 30 days, as required by section 65(2)(e) of the MFMA. The strategies to be implemented must include measures to:

(a) Increase revenue;

(b) Increase the collection of revenue;

(c) Efficiently manage the available resources of the municipality through cost containment measures and proper budget management;

(d) Reduce water distribution losses; and

(e) Negotiate a reasonable payment arrangement with the DWS and properly budget for the amounts to be paid.

83. In support of the actions taken in implementing the remedial actions, the accounting officer submitted a response on 25 August 2025 and a supplementary response on 22 September 2025.

84. The municipality successfully negotiated a formal agreement under the Municipal Water Debt Relief Incentive Scheme and therefore is this part of the remedial action resolved. The remaining actions in (a) to (d) above, have however not been adequately implemented and I am in the process of making a decision on further actions to be taken.

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

85. The municipality has been operating the Vredefort waste landfill site in a manner that is not in compliance with its licence conditions and the minimum legislative requirements for waste disposal at a landfill site, which is evidenced by poor access control, improper or lack of compacting and cover to limit gas emission, periodic burning of waste, lack of stormwater management and leachate detection and no proper air, water and effluent sampling points to monitor air and water pollution.

86. 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.

87. 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 the DFFE sub-referred the material irregularity to the Free State Department of Economic, Small Business Development, Tourism and Environmental Affairs (DESTEA) for further investigation. The referral was accepted by the DESTEA on 2 September 2024, and the investigation is currently in progress.

Lack of proper performance management system and records

88. 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.

89. 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 role players in these processes.

90. 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 have been implemented by 20 June 2025 with a progress report every two 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, organized, and managed, including the roles of different role players.
- Maintaining adequate and complete portfolio of evidence for reported performance.

91. The following actions have been taken by the accounting officer to address the material irregularity:

    a) The accounting officer conducted an internal investigation into the non-compliance and based on the reasons and circumstances identified by the investigation, appropriate action was 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. The actions taken include the following:

        - The duties and functions between integrated development planning and the performance management system have been segregated to give these functions a specific strategic focus as well as to address the separation between institutional planning and institutional performance management.
        - A new position of performance management system manager was created, which was filled.
        - The municipality appointed a service provider to assist with the issues identified in the investigations report, with an effective starting date of 28 February 2025.

    b) The municipality developed and implemented technical indicator descriptions for key performance indicators. The municipality furthermore developed and implemented standard operating procedures that describe the municipality's processes of performance measurement, review, and reporting will be conducted, organized, and managed, including the roles of different role-players.

    c) The municipality has commenced with the implementation of a manual process to address poor record-keeping.

92. Therefore, this material irregularity has been resolved.

Other reports

93. I draw attention to the following engagement conducted by various parties. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

94. An investigation by the Directorate for Priority Crime Investigation (Hawks) was initiated on 04 April 2024 to investigate alleged fraud and corruption relating to the tender for the upgrade of the Edenville sports stadium, for a project that ran between 31 May 2018 and 31 May 2019. The investigation was still in progress at the date of this report, and the outcome was not yet available.

Bloemfontein

27 November 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 the 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:

Selected legislation and regulations	Consolidated firm level requirements
Municipal Finance Management Act 56 of 2003	Sections: 1, 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), Sections: 15, 24(2)(c)(iv), 28(1), 29(1), 29(2)(b), Sections: 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), Sections: 32(2)(b), 32(6)(a), 32(7), 33(1)(c)(ii), Sections: 53(1)(c)(ii), 53(1)(c)(iii)(bb), 54(1)(c), Sections: 62(1)(d), 63(2)(a), 63(2)(c), 64(2)(b), Sections: 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), Sections: 65(2)(a), 65(2)(b), 65(2)(e), 72(1)(a)(ii), Sections: 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, Sections: 122(1), 122(2), 126(1)(a), 126(1)(b), Sections: 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), Sections: 165(1), 165(2)(a), 165(2)(b)(ii), Sections:165(2)(b)(iv), 165(2)(b)(v), 165(2)(b)(vii), Sections: 166(2)(b), 166(2)(a)(iv), 166(5), 170, Sections: 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), Regulations: 71(2)(d), 72(a), 72(b), 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), 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	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)