# Report of the auditor-general to Limpopo Provincial Legislature and council on Polokwane Local Municipality.

## Report on the audit of the financial statements

### Opinion

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

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

### Basis for opinion

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

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

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

### Emphasis of matters

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

7. As disclosed in note 4 and note 6 to the financial statement, material impairment of R525 930 986 and R407 100 392 (2024: R573 369 939 and R383 838 674) respectively were provided for as a result of the municipality's inability to recover these receivables.

8. As disclosed in note 39.2 to the financial statements, material water losses of R112 821 386 (2024: R68 506 298) was incurred, which represents 33% (2024: 24%) of total water

purchased. The water losses were due to illegal connections, leakages and service connections.

9. As disclosed in note 39.1 to the financial statements, material electricity losses of R146 318 225 (2024: R124 401 394) was incurred, which represents 12.33% (2024: 12.22%) of total electricity purchased. The electricity losses were mainly due to illegal connections.

10. As disclosed in note 51 to the financial statements, the municipality is a defendant in multiple lawsuits. The ultimate outcome of these matters cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

11. As disclosed in note 61 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.

### Other matters

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

13. The supplementary schedule set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

### Responsibilities of the accounting officer for the financial statements

14. 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.

15. 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

16. 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.

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

## Report on the audit of the annual performance report

18. 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 objectives presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

19. I selected the following objectives presented in the annual performance report for the year ended 30 June 2025 for auditing. I selected objectives that measure the municipality's performance on its primary mandated functions and that [is/ are] of significant national, community or public interest.

| Development priority | Page numbers | Purpose |
|---|---|---|
| **Basic service delivery** | [xx] | Provides basic services to the citizens |
| **Local economic development** | [xx] | Stimulate economic development within the municipality |

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

21. In performing the audit, my procedures focused on the material indicators relating to water, sanitation, human settlements and related infrastructure, as well as electricity and energy, roads and transport services.

22. 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 reasons provided for any over- or underachievement of targets.

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

24. I did not identify any material findings on the reported performance information for the selected objectives.

## Other matters

25. I draw attention to the matters below.

### Achievement of planned targets

26. The annual performance report includes information on reported achievements against planned targets and provides explanations for over or under achievements.

27. The tables that follow 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 reasons for any underachievement of targets are included in the annual performance report on pages xx to xx.

### Basic service delivery

| *Targets achieved: 72%* | | |
|---|---|---|
| **Key service delivery indicator not achieved** | **Planned target** | **Reported achievement** |
| Increase percentage of Households with access to sanitation by 1.02 % by 30 June 2025 | 1.02% | 0.95% |
| Number of Disaster Management Plan Reviewed (Annual review) by 30 June each year | 1 | 0 |
| % of building plans received and assessed within 90 days | 100% | 72.85% |
| % of occupation certificate application received and finalised within 90 days | 100% | 59.41% |

| *Targets achieved: 72%* | | |
|---|---|---|
| **Key service delivery indicator not achieved** | **Planned target** | **Reported achievement** |
| Percentage reduction of water losses by 30 June 2025 | 30% | Water losses are at 33% resulting in an increase by 9% |
| Percentage reduction of electricity losses by 30 June 2025 | 12% | Electricity losses are at 12,33% resulting in an increase by 0.11% |

## Local economic development

| *Targets achieved: 61%* | | |
|---|---|---|
| **Key service delivery indicator not achieved** | **Planned target** | **Reported achievement** |
| Number of tourism strategy reviewed by 20 June each year | 1 | 0 |
| Number of architectural designs of post incubation sites for Industrial Park X26 Developed by 30 June each year | 1 | 0 |
| % of low-cost housing consumer education on homeownership and care (awareness campaigns) for both rural and urban BNG home ownerships including Upgrading of Informal Settlement | 100% | 0% |
| Number of BNG houses build for the Implementation of phase 3 of the upgrading programme at Ext 126 & 127 | 60 | 0 |
| Number of Rural Housing units (BNG) completed | 127 | 0 |

## Material misstatements

28. 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. Management subsequently corrected all the misstatements, and I did not include any material findings in this report.

## Report on compliance with legislation

29. 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.

30. 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.

31. 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.

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

**Annual financial statements, performance and annual report**

33. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as required by section 122(1) of the MFMA.

34. Material misstatements of current assets and disclosures identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified opinion.

**Strategic planning and performance management**

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

**Procurement and contract management**

36. Some of the contracts were awarded to bidders based on points given for legislative requirement that were not stipulated /differed from those stipulated in the original invitation for bidding, in contravention of supply chain management (SCM) regulations 21(b) and 28(1)(a)(i) and the preferential procurement regulations.

**Expenditure management**

37. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R234 479 032, as disclosed in note 52 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The unauthorised expenditure was caused by overspending of the approved budget on non-cash items.

## Other information in the annual report

38. The accounting officer is responsible for the other information included in the annual report which includes the audit committee's report. The other information does not include the

financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported on in this auditor's report.

39. 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.

40. 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 objectives presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

41. 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

42. 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.

43. The matters reported below are limited to the significant internal control deficiencies that resulted in the material findings on the financial statements that were subsequently corrected and the material findings.

44. Internal control systems for the preparation and review of the financial statements did not operate optimally as they were unable to detect and correct or prevent material misstatements in the financial statements submitted for audit.

45. The municipality did not adequately Implement controls over daily and monthly processing and reconciling of transactions to detect and correct or prevent material misstatements.

46. The municipality did not have sufficient monitoring controls to ensure the proper implementation of the overall processes of compliance with legislation. Non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored.

## Material irregularities

47. 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**

## Payment for buses not received

48. In terms section 116 (2)(a) of the MFMA, the accounting officer of a municipality must take all reasonable steps to ensure that a contract or agreement procured through the supply chain management policy of the municipality or municipal entity is properly enforced.

49. The municipality paid R16 680 257 in 2019 for buses which they did not receive. This resulted in non-compliance with section 116 (2)(a) of the MFMA in which the accounting officer did not take reasonable steps to ensure that a contract or agreement procured through the supply chain management policy of the municipality is properly enforced. This non-compliance resulted in a material financial loss amounting to R16 680 257.

50. The accounting officer was notified of the material irregularity on 9 December 2022 and the following actions were taken to address the material irregularity:

    - The municipality appointed a service provider (law firm) on 26 January 2023 to investigate the matter. The investigation was completed on 23 March 2023.The municipality is currently implementing the recommendations from the investigation report.

    - The supplier was placed under business rescue on 18 August 2021.

    - The municipality started negotiations with the business rescue practitioners on 16 January 2023 with the objective to obtain the buses. The negotiations with the business rescue practitioners were not successful therefore the municipality referred the matter to court with case number 9242/2024

    - The accounting officer appointed a legal representative to initiate legal action in order to recover the money that was paid for the buses. The letters of demand were successfully served to the affected employees on 22 September 2024.

    - The implicated individuals that are still employed by the municipality went to a process of disciplinary hearing which commenced on 19 November 2024 and in all instances they were closed and finalised by during the current financial year except for one who has not resigned, a sanction of a final warning written warning letter was issued and the municipality is seeking legal advice on whether the sanction imposed is appropriate.

    - The municipality has issued a joint summons under case no. 9242/2024 on 22 September 2024 against employees and former employees to recover the monies through the court process which is ongoing and I will track the court process outside the MI process.

51. I received your written submission on 13 March 2025 and 25 March 2025. I considered the representations made and the substantiating documents provided and have concluded that appropriate actions have been taken to address the material irregularity. Therefore, I will not pursue this matter any further.

## Payment to contractor for standing time

52. In terms of section 62 of the Municipal Finance Management Act, the accounting officer of a municipality is responsible for managing the financial administration of the municipality and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control and that unauthorised, irregular or fruitless and wasteful expenditure and other losses are prevented.

53. A payment of R2 198 470 was made by the municipality to a contractor for standing time. This non-compliance resulted in a material financial loss of R2 198 470.49 which is the amount paid to the service provider due to delayed payments from the municipality. The municipality failed to implement appropriate project management to ensure that the funds for the implementation of the projects are available when required.

54. The accounting officer was notified of the material irregularity on 21 November 2024, and the following actions were taken to address the material irregularity:

    - The matter was referred to the municipal public accounts committee (MPAC) for investigation on 25 March 2025, and the investigation was completed on 24 July 2025. The investigation report was presented to council on 29 July 2025, and council approved the recommendation for implementation by the AO:
        - That the accounting officer institutes disciplinary proceedings against the former project manager.
        - That the accounting officer assesses whether the former project manager should be held financially liable in terms of Section 32(2) of the MFMA and if so she should initiate recovery processes-
        - That the accounting officer submits a report to Council on the outcomes of the disciplinary process and any recovery actions taken
        - That the municipality strengthens its project panning, feasibility assessments, and risk management protocols to prevent similar failures in the future
    - The AO has taken the following actions on the council recommendation:
        - The AO could not take disciplinary actions against the employee as they are no longer an employee of the municipality.
        - The AO completed the assessment of the recovery of the amount in August 2025, and a letter of demand was issued on 27 August 2025 to the former project manager wherein they were instructed to make payment of R2 198 470. within 14 days of receipt of the letter failing which summons will be issued.
        - On 1st September 2025 the former project manager in a letter addressed to the AO acknowledged the letter of demand pertaining to the fruitless and wasteful expenditure wherein they indicated the lack of procedural fairness in dealing with the matter and requested that the matter be reconsidered and that they be furnished with the full record of the investigation, together with evidence relied upon to enable them to respond substantively.

- The municipality's appointed a legal representative who initiated negotiations with the former employee on 08 September 2025, and the former employee also appointed legal representatives to defend the matter.
- The progress on the recovery of the fruitless expenditure was tabled in council on 29 October 2025. The parties are in a negotiation stage.

55. I will follow-up on the implementation of the actions in progress during my next audit.

Auditor - General

Polokwane

30 November 2025

AUDITOR-GENERAL
SOUTH AFRICA

*Auditing to build public confidence*

# Annexure to the auditor's report

The annexure includes the following:

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

## Auditor general's responsibility for the audit

### Professional judgement and professional scepticism

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

### Financial statements

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

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

- plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the group as a basis for forming an opinion on the consolidated financial statements. I am responsible for the direction, supervision and review of audit work performed for purposes of the group audit. I remain solely responsible for my audit opinion.

### Communication with those charged with governance

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

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

## Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

| Legislation | Sections or regulations |
|---|---|
| Municipal Finance Management Act 56 of 2003 | Section 1 - Paragraph (a), (b) & (d) of the definition: irregular expenditure,<br>Section 1 - Definition: service delivery and budget implementation plan,<br>Sections 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 29(1),<br>Sections 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b),<br>Sections 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 62(1)(f)(i),<br>Sections 62(1)(f)(ii), 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b),<br>Sections 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e),<br>Sections 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1),<br>Sections 122(2), 126(1)(a), 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii),<br>Sections 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170,<br>Sections 171(4)(a), 171(4)(b) |
| Municipal Supply Chain Management Regulations | Regulations 5, 12(1)(c), 12(3), 13(b), 13(c), 13(c)(i), 16(a), 17(1)(a),<br>Regulations 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a),<br>Regulations 27(2)(e), 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a), 29(1)(b),<br>Regulations 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c),<br>Regulations 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43,<br>Regulations 44, 46(2)(e), 46(2)(f) |
| Municipal Budget and Reporting Regulation | Regulations 71(1), 71(2), 72 |
| Annual Division of Revenue Act | Construction Industry Development Board Regulations |
| Municipal Investment Regulation | Regulations 3(1)(a), 3(3), 6, 7, 12(2), 12(3) |
| Construction Industry Development Board Act 38 of 2000 | Section 18(1) |

| **Legislation** | **Sections or regulations** |
|---|---|
| Construction Industry Development Board Regulations | Construction Industry Development Board Regulations |
| Municipal Property Rates Act 6 of 2004 | Section 3(1) |
| Municipal Systems Act | Regulations 5, 12(1)(c), 12(3), 13(b), 13(c), 13(c)(i), 16(a), 17(1)(a),<br>Regulations 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a),<br>Regulations 27(2)(e), 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a), 29(1)(b),<br>Regulations 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c),<br>Regulations 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43,<br>Regulations 44, 46(2)(e), 46(2)(f) |
| PPPFA | Sections 2(1)(a), 2(1)(f) |
| PPR 2017 | Regulations 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8),<br>Regulations 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5) 9(1), 10(1), 10(2),<br>Regulations 11(1), 11(2) |
| PPR 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) |