Report of the auditor-general to the Mpumalanga Province Legislation and the council on Mkhondo Local Municipality

Report on the audit of the financial statements

Qualified Opinion

1. I have audited the financial statements of Mkhondo 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 and the cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as notes to the financial statements, including summary of significant accounting policies.

2. In my opinion, except for the effects of the matter 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 Mkhondo Local Municipality as at 30 June 2025 and financial performance and cash flows for the year then ended in accordance with the Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2023 (MFMA) and Division of Revenue Act 24 of 2024 (Dora).

Basis for qualified opinion

Cash flow statement

Suppliers

The municipality did not account for cash flows from suppliers in accordance with GRAP 2, *Cash flow statements*. This is due to some errors and non-cash items included in the corresponding amounts for cash flows from suppliers. Consequently, I was unable to determine the full extent of the misstatement to the corresponding amounts of suppliers as it was impractical to do so.

Context 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 qualified opinion.

Emphasis of matters

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

7. We draw attention to note 56 to the financial statements, which deal with the possible effects of the future implications of the deteriorating liquidity situation on the municipality's prospects, performance and cash flows. Management has also described how they plan to deal with these events and circumstances. Our opinion is not modified with respect to this matter.

8. As disclosed in note 5 to the financial statements, material impairment of receivables from non-exchange transactions of R232,38 million (2023-24: R228,29 million), was incurred as a result of an impairment provision for doubtful debts.

9. As disclosed in note 8 to the financial statements, material impairment of consumer debtors of R577,74 million (2023-24: R658,27 million), was incurred as a result of an impairment provision for doubtful debts.

10. As disclosed in note 45 to the financial statements, material losses of R211,96 million was incurred as a result of irrecoverable receivables written off.

11. As disclosed in note 54 to the financial statements, the corresponding figures for 30 June 2024 were restated as a result of an error in the financial statements of the municipality at, and for the year ended 30 June 2025.

12. As disclosed in note 62 to the financial statements, material electricity losses amounting to R65,68 million (2023-24: R57,13 million) was incurred, which represents 48% (2023-24: 48%) of total electricity purchased. The losses are as a result of technical losses, which are losses inherent in any network, and non-technical losses, being theft, faults and billing errors.

Other matters

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

14. 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

15. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the GRAP and the requirements of the MFMA 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.

16. 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

17. 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.

18. 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

19. 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 areas presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

20. I selected the following key performance areas presented in the annual performance report for the year ended 30 June 2025 for auditing. I selected key performance areas that measures the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.

Key performance area	Page numbers	Purpose
TAG 3: spatial rationale	XX	TAG 3 is a core function that the auditee is responsible for in terms of its legislative mandate (Constitution s152, schedule 4B & 5B and Municipal Systems Act s23), which includes the provision of basic services such as waste management.
TAG 5: service delivery and infrastructure development	XX	TAG 5 is a core function that the auditee is responsible for in terms of its legislative mandate (Constitution s152 and Municipal Systems Act s23), which is the provision of basic services such as water and sanitation, electricity and roads and storm water drainage.

21. I evaluated the reported performance information for the selected key performance areas 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.

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 measures taken to improve performance.

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 TAG 3: spatial rationale.

25. The material findings on the reported performance information for the selected key performance area are as follows:

Service delivery and infrastructure development

Various indicators

26. Various indicators were not clearly defined during the planning process. Consequently, the indicators are not useful for measuring and reporting on progress against planned objectives.

Indicator	Target	Reported achievement
TAG 5.9. Replacement of conventional meter to prepaid meters	700	30

TAG 5.12. Construction of KwaThandeka Main Access Road	100%	100%
TAG 5.13. Installation of pour flush toilets in rural villages of Mkhondo LM	100%	100%
TAG 5.17. Electrification of rural villages (ward 15 and ward 17) in Mkhondo Local Municipality	1	1
TAG 5.18. Electrification of rural villages (ward 09) in Mkhondo Local Municipality Villages of Mkhondo Local Municipality	1	1
TAG 5.19. 88/11KV upgrade 2MVA-10MVA Amsterdam Substation	10%	10%
TAG 5.21. Rehabilitation of Bus and Taxi Route in ward 10 Emagadeni eThandukukhanya	100%	100%
TAG 5.22. Rehabilitation of Internal Street in ward 11 eThandukukhanya	100%	100%
TAG 5.23. Electrification of rural villages 102 households Sqintini and Bazane.	100%	100%
TAG 5.24. Construction of the Driefontein Sanitation Infrastructure	100%	94%
TAG 5.25. Construction of Steel Pedestrian Bridge at Mafred in eThandukukhanya	100%	100%
TAG 5.39. Ward 7: Ajax Line 11kv T4 RMU Switchgear	10%	100%
TAG 5.40. Salinga Road (Body builders) 11kv T3 RMU	10%	100%
TAG 5.41. Luneburg Street 11kv Switching Station	10%	100%
TAG 5.42. Ward 7: Engelbrecht Substation	10%	100%
TAG 5.43. Design and Electrification of rural villages ward 9 (92 Connections)	10%	64%

Various indicators

27. I could not determine the accuracy of various reported achievements, as the indicators were not well defined and I could not verify the methods and processes used to measure the achievements. Consequently, the reported achievements might be more or less than reported and were not reliable for determining if the targets have been achieved.

Indicator	Target	Reported achievement
TAG 5.1. % of new water connections	100%	100%

TAG 5.14. Construction of 3km bus and taxi route at Kempville	85%	95%
TAG 5.15. Planning, design and construction supervision of Ethandakukhanya bulk sewer outfall upgrade	25%	37%
TAG 5.20. Planning, design and construction of Amsterdam Sewer Reticulation Network	100%	68%
TAG 5.30. Re-gravelling and storm water management for 600m road at ward 17 Welverdiend	100%	100%
TAG 5.31. Re-gravelling and storm water management for 2km road at ward 8 Dr Pols village	100%	100%
TAG 5.32. Re-gravelling and storm water management for 1900m x5m road at ward 13 Mangosuthu	100%	100%
TAG 5.33. Re-sealing a 1km of Pretorius street in Harmony Park ward14	100%	100%
TAG 5.34. Re-gravelling of 3000m bus and taxi route in Driefontein ward 1	100%	100%
TAG 5.35. Re-gravelling of 2200m bus and taxi route in Driefontein ward 2	100%	100%
TAG 5.37. Replacement of Harmony Park 11KV T3 RMU	20%	100%
TAG 5.38. Replacement of Kempville combine school 11KV T3 RMU	20%	100%
TAG 5.44. Electrical infrastructure upgrade of 11kv Amsterdam Switching station from 1.9MVA to 10MVA and associated OHM network.	10%	24%

TAG 5.5. No of report on drinking water samples reports complying to SANS241

28. The indicator measures number of reports on drinking water samples, which does not relate to the mandate of the municipality. Consequently, the indicator is not relevant for planning and reporting on performance.

Various indicators

29. Based on the audit evidence, the actual achievements for two indicators did not agree to what was reported. I could not determine the actual achievements, but I estimated them to be materially more. The targets were still achieved.

Indicator	Target	Reported achievement
TAG 5.10 KMs of roads maintained and graded	160	830
TAG 5.11. Square meters (M²) of tar road potholes repaired	16 800	29 159

Other matters

30. I draw attention to the matters below.

Achievement of planned targets

31. 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.

32. The tables 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.

Service delivery and infrastructure development

Targets achieved: 91%

Budget spent: 69%

Key service delivery indicator not achieved	Planned target	Reported achievement
Number of mega litres of water treated from water treatment works	10 548	9 103,4
Replacement of conventional meter to prepaid meters	700	30
Planning, design and construction of Amsterdam Sewer Reticulation Network	100%	68%
Construction of the Driefontein Sanitation Infrastructure	100%	94%

Material misstatements

33. I identified preventable material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for service delivery and infrastructure development and spatial rationale. Management did not correct all of the misstatements, and I reported material findings in this regard.

Report on compliance with legislation

34. 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.

35. 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.

36. 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.

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

Annual financial statements and performance reports

38. The financial statements submitted for auditing were not fully prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA.

39. Material misstatements of non-current assets, current assets, liabilities, and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected and/or the supporting records were provided subsequently, resulting in the financial statements receiving a qualified audit opinion.

Expenditure management

40. 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.

41. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R195,26 million, as disclosed in note 59 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.

42. Reasonable steps were not taken to prevent irregular expenditure amounting to R3,14 million as disclosed in note 61 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The irregular expenditure was caused by non-compliance with supply chain management (SCM) regulations.

43. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R29,25 million, as disclosed in note 60 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 on overdue accounts.

Strategic planning & performance

44. Measurable performance targets were not set for each of the key performance indicators (KPIs) for the financial year, as required by section 41(1)(b) of the Municipal Systems Act (MSA) and municipal planning and performance management regulation 12(1).

Human resources management

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

Other information in the annual report

46. The accounting officer is responsible for the other information included in the annual report the audit committee's report. The other information does not include the financial statements, the auditor's report and those selected key performance areas presented in the annual performance report that have been specifically reported on in this auditor's report.

47. 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.

48. 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 key performance areas presented in the annual performance report or my knowledge obtained in the audit or otherwise appears to be materially misstated.

49. If, based on the work I have performed, I conclude that there is a material misstatement in this other information, I am required to report that fact.

50. I have nothing to report in this regard.

Internal control deficiencies

51. 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.

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

53. Management did not prepare regular, accurate and complete financial and performance reports that were supported and evidenced by reliable information. Management did not ensure that indicators were well defined and measurable. There were also weaknesses in internal controls and shortcomings in the review processes that had to prevent, detect and correct material misstatements in the annual performance report and annual financial statements.

54. Leadership and management of the entity did not exercise adequate oversight over performance reporting and compliance with legislation.

Auditor-General

'Auditor-General'

Mbombela

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 key performance areas and on the municipality and 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 statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

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

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

Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003	Section 1 - Paragraph (a), (b) & (d) of the definition: irregular expenditure Section 1 - Definition: service delivery and budget implementation plan, Sections 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 29(1), Sections 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), 62(1)(f)(i), Sections 62(1)(f)(ii), 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b), Sections 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), Sections 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, Sections 171(4)(a), 171(4)(b)
MFMA: Municipal Budget and Reporting Regulations, 2009	Regulations 71(1), 71(2), 72
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), 13(c)(i), 16(a), 17(1)(a),

Legislation	Sections or regulations
	Regulations 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), Regulations 27(2)(e), 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a), 29(1)(b), Regulations 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c), Regulations 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43, Regulations 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), 29(3)(b), 34(a), 34(b), Sections 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), 56(a), 57(2)(a), Sections 57(4B), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 93J(1), 96(b)
MSA: Municipal Planning and performance Management Regulations, 2001	Regulations 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 3(6)(a), 7(1), 8, 9(1)(a), 10(a), Regulations 12(1), 15(1)(a)(i), 15(1)(a)(ii)
MSA: Municipal Performance Regulations for Municipal Managers and Managers directly Accountable to Municipal Managers, 2006	Regulations 2(3)(a), 4(4)(b), 8(1), 8(2), 8(3)
MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations 17(2), 36(1)(a)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2), 5(3), 5(6), 8(4)
Annual Division of Revenue Act	Section 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)

Legislation	Sections or regulations
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), Regulations 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5) 9(1), 10(1), 10(2), Regulations 11(1), 11(2)
Preferential Procurement Regulations, 2022	Regulations 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4)
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section 34(1)