

Report of the auditor-general to the Mpumalanga Provincial Legislature and the council on the Lekwa Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Lekwa Local Municipality set out on pages ... to..., which comprise the statement of financial position as at 30 June 2024, statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actuals 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 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 Lekwa Local Municipality as at 30 June 2024, and financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practise (GRAP), the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) the Division of Revenue Act 5 of 2023 (Dora).

Basis for qualified opinion

Irregular expenditure

3. The municipality did not include all instances of irregular expenditure to the financial statements, as required by section 125(2)(d) of the MFMA, as the municipality did not have adequate systems to identify all prior year's irregular expenditure. I was unable to determine the full extent of the understatement of irregular expenditure stated at R 197,86 million (2022-23: R 143,64 million) in note 48 to the financial statements, as it was impracticable to do so. Consequently, I was unable to determine whether any further adjustments made to the irregular expenditure in the prior period adjustment disclosure in note 41 to the financial statements were necessary.

Property, plant, and equipment

4. In the prior year, the municipality did not appropriately account for changes in useful lives for some of the property, plant, and equipment in accordance with GRAP 17, *Property, plant, and equipment*. Changes in remaining useful lives of the assets that were incorrectly accounted as an error instead of change in accounting estimates. Consequently, the opening balance of the property, plant and equipment was understated by R26,86 million and the opening balance of accumulated depreciation was overstated by the same amount.

Segment reporting

5. The municipality did not accurately disclose segment reporting in the financial statements, as required by GRAP 18, *Segment reporting*. The segment information disclosed for expenditure, assets and liabilities did not reconcile back to the financial statements amounts. Consequently, segment information was misstated by expenditure R235,68 million, assets R1,66 billion and

liabilities R684.27 million. Additionally, the comparative amounts in the segment information disclosed for revenue was misstated by R22,14 million as it was not adjusted with the restated amounts as per the prior year adjustment note.

Cash flow statement

Payment to employees

6. The municipality's cash paid to employees was incorrectly disclosed as the calculation did not account for movements of accrued leave and accrued bonus which constitute a departure from GRAP 2, *Cash flow statement*. Consequently, the compensation of employees is understated by R 50,83 million (2023: R32,06 million).

Sale of goods and services

7. The municipality's cash from sale of goods and services was incorrectly disclosed as the calculation did not account for interest on trade receivables, furthermore the incorrect opening balance for trade receivables was used which constitute a departure from GRAP 2, *Cash flow statement*. Consequently, the sale of goods and services is understated by R 122,10 million and the comparative amount was overstated by (2023: R19,18 million).

Corresponding figures

Cash flow statement

Suppliers

8. The municipality's cash paid to suppliers was incorrectly disclosed as it was calculated using the incorrect opening balance for trade payables which constitute a departure from GRAP 2, *Cash flow statement*. Consequently, the suppliers are overstated by R 31,82 million in the cash flow statement for the comparative amounts.

Context for opinion

9. 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.
10. 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.
11. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Material uncertainty relating to going concern

12. I draw attention to the matter below. My opinion is not modified in respect of this matter.
13. Note 44 in the financial statements, which indicates that the municipality incurred a surplus of R75,7 million (2022-23: deficit of R346,67 million) during the year ended 30 June 2024, as of that date, the municipality's liabilities exceeded its assets by R 653,89 million (2022-23: R729,55 million). The municipality plans to address the cash flow shortages through enhanced revenue collection and a resultant consistency in the payment of creditors when they become due.

Emphasis of matters

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

Material impairments – trade receivables

15. As disclosed in note 11 to the financial statements, material impairment of trade receivables from exchange transactions of R1,41 billion (2022-23: R1,29 billion) was incurred as a result of an impairment provision for doubtful debts.

Material impairments – statutory receivables

16. As disclosed in note 13 to the financial statements, material impairment of statutory receivables of R510,8 million (2022-23: R419,31 million) was incurred as a result of an impairment provision for doubtful debts.

Material losses – electricity

17. As disclosed in note 35 to the financial statements, material electricity losses of R88,35 million (2022-23: R105,34) was incurred.

Material losses – water

18. As disclosed in note 35 to the financial statements, material water losses of R8,87 million (2022-23: R37,41 million) was incurred.

Other matter

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

Unaudited disclosure notes

20. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA 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

21. 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 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.
22. 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

23. 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.
24. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

25. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected key performance area presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.
26. I selected the following key performance area presented in the annual performance report for the year ended 30 June 2024 for auditing. I selected key performance area that measures the municipality's performance on its primary mandated functions and that is of significant national, community or public interest.

Key performance area	Page numbers	Purpose
Basic service delivery and infrastructure development	XX	Provision of basic services (water 100%, sanitation 100%, electricity 100%, solid waste and roads 100%)

27. I evaluated the reported performance information for the key performance area 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.

28. 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 / measures taken to improve performance

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

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

Basic service delivery and infrastructure

Various indicators

31. 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.

Key performance indicators	Planned targets	Reported actual achievement
Percentage households with refuse removal services	100% (23862) households with access to refuse removal as per the valuation roll	100% completion
Percentage businesses with refuse removal services	Percentage businesses with refuse removal services	100% completion

Percentage Upgrading of Standerton landfill site	100% upgrade of Standerton Landfill site	100% upgrade of Standerton Landfill site
Number of streets cleaned	11 streets cleaned	11 streets cleaned
Number of illegal dumping sites cleaned	6 Illegal dumping sites cleaned	48 Illegal dumping sites cleaned (+42 variance)
% Emergency, fire, and rescue services attended	100% emergency, fire and rescue services attended	100% emergency, fire and rescue services rendered
Number of water leaks repaired	1000 water leaks repaired	1140 water leaks repaired (+140 variance)
% construction of reservoir and pressure tower	100% construction of Kieser reservoir and pressure tower	95% construction of Kieser reservoir and pressure tower completed (-5% variance)
% refurbishment of water infrastructure	100% refurbishment of Morgenzon raw water pumping units	100% refurbishment of Morgenzon raw water pumping units
% refurbishment of sanitation infrastructure	100% refurbishment of Johan, Steijn and Rooikppen sewer pump stations	100% refurbished sewer pump stations
km of bulk electricity line to Meyerville constructed	2km bulk electricity line to Meyerville constructed	2km bulk electricity line installed
Number of street lights repaired	400 street lights repaired	977 street lights repaired (+577 variance)
Number of high mast lights repaired	20 high mast lights repaired	114 highmast lights repaired (+94 variance)
Number of electricity meters installed	100 electricity meters installed	3128 electricity meters installed (+3028 variance)

Other matters

32. I draw attention to the matters below.

Achievement of planned targets

33. 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.

34. 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 reasons for any underachievement of targets are included in the annual performance report on pages xx to xx.

Basic service delivery and infrastructure

<i>Targets achieved: 77%</i>		
<i>Budget spent: 103%</i>		
Key service delivery indicator not achieved	Planned target	Reported achievement
Percentage households with refuse removal services	100% (23862) households with access to refuse removal as per the valuation roll	99% (-1 variance)
Percentage businesses with refuse removal services	100% (720) businesses with access to refuse removal services	99,5% (-0,50 variance)
% construction of reservoir and pressure tower	100% construction of Kieser reservoir and pressure tower	95% construction of Kieser reservoir and pressure tower completed (-5% variance)

Number of road bridges rehabilitated	Rehabilitation and upgrading of two damaged road bridges in Rooikoppen.	2 Bridges not completely upgraded and rehabilitated
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Material misstatements

35. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of basic service delivery and infrastructure development. As management subsequently corrected some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Report on compliance with legislation

36. 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.

37. 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.

38. 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.

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

Annual financial statements

40. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, current liabilities, revenue, expenditure, and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

Revenue management

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

Expenditure management

42. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with supply chain management (SCM) prescripts.
43. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R189,92 million, as disclosed in note 47 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 incurred on late payments to suppliers.
44. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R354,02 million, as disclosed in note 46 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 on certain votes on the approved budget.
45. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

Procurement and contract management

46. Some of the goods and services within the prescribed transaction value for competitive bids were procured without inviting competitive bids, as required by SCM Regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM Regulation 36(1).
47. The preference point system was not applied for procurement of some goods and services as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act.

Consequence management

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

Strategic planning and performance management

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

Asset management

50. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Other information

51. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information referred to 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 in this auditor's report.
52. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion on it.
53. My responsibility is to read this other information and, in doing so, consider whether the other information 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.
54. 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. I have nothing to report in this regard.

Internal control deficiencies

55. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
56. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, and the material findings on the annual performance report and the material findings on compliance with legislation included in this report.
57. Senior management did not implement adequate recording, reviewing, and reporting processes and controls to ensure credible, complete, and accurate financial reporting as per the approved audit action plan.
58. The municipality did not adequately prepare regular, accurate and complete financial reports that are supported and evidenced by reliable information. The financial statements contained numerous misstatements, of which some were adequately corrected. This was mainly due to staff not fully understanding the requirements of the financial reporting framework.
59. The performance management system and related controls were inadequate as they did not describe how the performance planning, monitoring, measurement, review, reporting and improvement processes should be organised and managed to ensure valid, accurate and complete performance reporting.
60. Inadequate measures taken to improve compliance with key laws and regulations as they do not yield the desired results.

Material irregularities

61. In accordance with the PAA and the material irregularity (MI) 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

Pollution of water resource not prevented – Standerton Wastewater Treatment Works

62. The Standerton Wastewater Treatment Works has not operated effectively due to mechanical and operational equipment either malfunctioning or not operational. This has resulted in continued spilling and discharge of raw/untreated sewage into the adjacent environment, including groundwater and the Vaal River. The municipality did not take reasonable measures to prevent pollution or degradation of the environment and water resources from occurring, continuing or recurring as required by section 28(1) of the NEMA and section 19(1) of the NWA. The discharge of raw/untreated sewage into the environment is likely to cause substantial harm to the communities exposed to, and dependent on, the contaminated water resource.

63. The accounting officer was notified of this material irregularity on 24 November 2023 and was invited to make a written submission on the actions taken and that will be taken to address the matter. The accounting officer did not take appropriate action to resolve the material irregularity. I am in the process of making a decision on further actions to be taken.

Poor management of the Morgenzon waste landfill site

64. The municipality has been operating the Morgenzon waste landfill site without a valid licence or permit. A closure licence was issued to the municipality in the year 2016 to restore and rehabilitate the site and surrounds. The Municipality has been operating the landfill site in a manner that is not in compliance with license conditions and the minimum legislative requirements for waste disposal at a landfill site, which is evidenced by poor access control, illegal waste dumping, uncontrolled / informal recyclers and animals roam the sites – with indication of daily living including housing structures and other makeshift facilities, no monitoring and sampling of surface / groundwater / gas monitoring, no control over water runoff or leachate management, no compacting/ covering of waste - windblown waste, burning of waste causing air pollution.

65. The municipality consequently did not dispose and treat waste in an environmentally sound 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 degradation from occurring, continuing or recurring as required by section 28(1) of NEMA. The municipality also did not ensure that any other situation exists, which causes, has caused or is likely to cause pollution of a water resource, must take all reasonable measures to prevent any such pollution from occurring, continuing, or recurring as required by section 19(1) of the NWA. The non-compliance is likely to cause substantial harm to the community members utilising the landfill site, the water resource and the communities adjacent to the landfill site.

66. The accounting officer was notified of this material irregularity on 24 November 2023 and was invited to make a written submission on the actions taken and that will be taken to address the matter. The accounting officer did not take appropriate action to resolve the material irregularity. I am in the process of making a decision on further actions to be taken.

Interest and penalties paid due to late payment of pay as you earn and other taxes.

67. The municipality's failure to comply with section 2(1)(a) of the fourth schedule, resulted in interest and penalties being incurred by the municipality in line with section 14 of the fourth schedule, which states that- "the Commissioner may impose on that employer a penalty, which is deemed to be a percentage based penalty imposed under Chapter 15 of the Tax Administration Act, for each month that the employer fails to submit a complete return which in total may not exceed 10 per cent of the total amount of employees' tax deducted or withheld or which should have been deducted or withheld by the employer from the remuneration of employees for the period described in that subparagraph."

68. The municipality did not adhere to the legislation for paying over PAYE and other taxes timeously, as a result the municipality incurred interest and penalties. The non-compliance is likely to result in a material financial loss of R6,41 million as disclosed in note 47 of the 2023-24 AFS. This is due to the interest incurred by the municipality as a result of not paying over PAYE and other taxes timeously.

69. The accounting officer was notified of this material irregularity on 1 April 2022. The following actions have been taken to resolve the material irregularity:

- The accounting officer reported the fruitless and wasteful expenditure for 2021 to 2024 to the municipal public accounts committee (MPAC) for investigation. The investigation was concluded, and the report was tabled to council. On 30 August 2024 council resolved that the fruitless and wasteful expenditure be written off.
- The accounting officer is implementing the financial recovery plan under the support of the National Government Intervention. There are various revenue enhancement program that the municipality is implementing to ensure improvement in the revenue collection this includes but not limited to the following:
 - National Treasury funded the project for replacement and installation of electricity meter. The installations were concluded in March 2024, resulting in in the billing of revenue.
 - Munsoft was appointed for assistance with the system that aligns the billing as part of revenue management projects. The project is ongoing and is expected to conclude in 2025.
 - The Development Bank of Southern Africa (DBSA) appointed a service provider to assist with revenue enhancement project. The service provider assisted with tariff review and restructuring, enhancement of revenue related policies and back-office support this assisted in revenue enhancement. The project was concluded in January 2024 and the interventions are considered to be crucial in enhancing revenue in the long run.

70. Based on the above actions that have been taken to resolve the material irregularity. I considered all the substantiating evidence provided and I have concluded that appropriate actions have been taken to address the material irregularity and it is considered resolved. I will continue to monitor the actions implemented and the impact thereof during the subsequent audits.

Unfairly disqualified bidder – Appointment of a service provider for security services

71. The municipality did not comply with Preferential Procurement Regulation (PPR) of 2017 5(7) which states that, each tender that obtained the minimum qualifying score for functionality must be evaluated further in terms of price and the preference point system and any objective criteria envisaged in regulation 11.

72. On tender number SC01/2021-2024, the bid evaluation committee unfairly disqualified a bidder on functionality and consequently eliminated the bidder from further evaluation. Instead of allocating 15 points, the bidder was awarded no points for the functionality criteria “Service provider must submit proof of firearm registration”, despite submitting certified copies of proof of registration of 45 firearms. The disqualified bidder submitted a bid of R74, 89 million, which was lower than the winning bidder's price of R80, 61 million.

73. The non-compliance is likely to result in a material financial loss for Lekwa Local Municipality due to the appointment of a bidder whose bid amount exceeded the amount of the unfairly disqualified bidder.

74. The accounting officer was notified of this material irregularity on 28 April 2023. The following actions have been taken to resolve the material irregularity:

- On 4 August 2023 the accounting officer approved an annual SCM training plan with the aim of capacitating the bid committee members. As at the date of this report, all planned trainings have taken place.
- On June 2023, the accounting officer appointed an external presiding officer to instituted disciplinary proceedings against the members of the bid evaluation committee. These proceedings were concluded in February 2024 resulting final warnings being issue to the impacted employees.
- The accounting officer prepared a schedule of payment/ invoice forecast for the contract period to monitor and keep track of monthly invoice for the remainder of the contract to keep the payments within the contracted value to avoid further financial losses on this contract. Furthermore, the accounting officer reached an agreement with the service provider to ensure that all the payments for the contract are within the amounts stated in the contract agreement.

75. Based on the above actions that have been taken to resolve the material irregularity. I considered all the substantiating evidence provided, and I have concluded that appropriate actions have been taken to address the material irregularity and it is considered resolved.

Full and proper records not kept

76. Reasonable steps were not taken in the 2019-20 financial year to ensure that full and proper records were kept of infrastructure assets, consumer debtors, service charges, payables, accruals, and commitments, as required by section 62(1) (b) of the MFMA.

77. The non-compliance contributed to a disclaimer of audit opinion as I could not obtain sufficient appropriate audit evidence to support the amounts and disclosures in the financial statements.

78. The lack of full and proper records is likely to result in substantial harm to the municipality as it contributed to the material uncertainty regarding its ability to continue operations, as disclosed in note 41 to the 2019-20 financial statements. This, in turn, is likely to have a negative impact on the municipality's ability to discharge its service delivery mandate.

79. The accounting officer was notified of the material irregularity on 11 June 2021. The following actions have been taken to resolve the material irregularity:

80. The accounting officer responded to the notification on 17 November 2021 and the accounting officer indicated that a financial recovery plan is currently being implemented and is being monitored by accounting officer and stakeholders with the aim of improving the financial sustainability. The following actions have been taken to resolve the material irregularity:

- During the 2021/22 and 2022/23 financial year, an audit action plan with timelines for tracking was developed and implemented to address the specific key areas (property, plant and equipment, cash and cash equivalents, transfers and subsidies, bulk purchases, payables from exchange transactions, unauthorised expenditure and receivables) that led to the disclaimer audit opinion.
- During the 2022/23 and 2023/24 financial year, municipality provided monthly progress on municipal support intervention plan to National Treasury on progress made in relation to administration, governance and financial operation matters that led to disclaimer opinion.
- On 29 April 2022 council approved the records management policy. The policy was duly implemented since its approval.
- During 2021/22 and 2022/23, an adequate filing system was implemented to ensure that accounting records are easily retrievable when required.
- In July 2022, the municipality appointed an accounting officer to ensure stability in leadership position and to institutionalise the internal controls on daily and monthly processing of transactions.
- The accounting officer is implementing the financial recovery plan under the support of the National Government Intervention. There are various revenue enhancement programmes that the municipality is implementing to ensure improvement in the revenue collection. The implementation of the FRP is ongoing.

81. Based on the above actions that have been taken to resolve the material irregularity. I considered all the substantiating evidence provided and I have concluded that appropriate actions have been taken to address the material irregularity and it is considered resolved. I will continue to monitor the impact of the initiatives implemented in accordance with the financial recovery plan during my subsequent audit.

AUDITOR GENERAL.

Mbombela

30 November 2024



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

Financial statements

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

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

Communication with those charged with governance

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

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

Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

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), 32(6)(a), Sections 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 62(1)(f)(i), 62(1)(f)(ii), Sections 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b), 64(2)(c), 64(2)(e), Sections 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), 72(1)(a)(ii), 112(1)(j), Sections 116(2)(b), 116(2)(c)(ii), 117, 122(1), 122(2), 126(1)(a), 126(1)(b), Sections 127(2), 127(5)(a)(i), 127(5)(a)(ii), 129(1), 129(3), 133(1)(a), Sections 133(1)(c)(i), 133(1)(c)(ii), 170, 171(4)(a), 171(4)(b)
MFMA: Municipal Budget and Reporting Regulations, 2009	Regulation 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), 17(1)(b), Regulations 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), 27(2)(e), Regulations 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a) and (b), 29(5)(a)(ii), 29(5)(b)(ii), Regulations 32, 36(1), 36(1)(a), 38(1)(c), 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), Regulations 38(1)(g)(ii), 38(1)(g)(iii), 43, 44, 46(2)(e), 46(2)(f)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2), 5(3), 5(6), 8(4)
Annual Division of Revenue Act	Sections 11(6)(b), 12(5), 16(1); 16(3)
Construction Industry Development Board Act 38 of 2000	Section 18(1)
Construction Industry Development Board Regulations, 2004	Regulations 17, 25(7A)
Preferential Procurement Policy Framework Act 5 of 2000	Sections 2(1)(a), 2(1)(f)
Preferential Procurement Regulations, 2017	Regulations 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8), 7(1), Regulations 7(2), 7(3), 7(6), 7(8), 8(2), 8(5), 9(1), 10(1), 10(2), 11(1), 11(2)
Preferential Procurement Regulations, 2022	Regulations 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4)

Legislation	Sections or regulations
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section 34(1)
Municipal Systems Act 32 of 2000	Sections 25(1), 26(a), 26(c), 26(h), 26(i), 27(1), 29(1)(b)(ii), 29(2)(a), Sections 29(2)(c), 34(a), 34(b), 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, Sections 43(2), 56(a), 57(2)(a), 57(4B), 57(6)(a), 66(1)(a), 66(1)(b), Sections 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(5)(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)