

Report of the auditor-general to Mpumalanga Provincial Legislature and the Council on Govan Mbeki Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Govan Mbeki Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2024, statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year ended as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects and possible effects of the matters described in the basis for qualified opinion section of this report, the financial statements present fairly, in all material respects, the financial position of the Govan Mbeki Local Municipality as at 30 June 2024 and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 5 of 2023 (Dora).

Basis for qualified opinion

Irregular expenditure

3. I was unable to obtain sufficient, appropriate audit evidence for the opening balance of irregular expenditure in the prior year. This was due to the municipality not conducting a proper investigation to determine the full extent of the irregular expenditure incurred in the previous years. I was unable to confirm irregular expenditure by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the irregular expenditure amount disclosed at R157, 99 million (2022-23: R141,29 million) in note 56 to the financial statements.

Cash flows from operating activities

4. Payments to suppliers was incorrectly calculated as it contained unexplained material differences, which constitutes a departure from IAS 7, *Statement of Cash Flows*. I was unable to determine the full extent of the errors from payments to suppliers as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments were necessary to net cash flows from operating activities stated at R159,065 million in the cash flow statement.

Cash flows from investment activities

5. Purchases of property, plant and equipment was incorrectly calculated as it contained unexplained material differences, which constitutes a departure from IAS 7, *Statement of Cash Flows*. I was unable to determine the full extent of the errors from purchases of property, plant and equipment as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments were necessary to net cash flows from investing activities stated at R316,926 million in the cash flow statement.

Context for opinion

6. 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.
7. 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.
8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Material uncertainty relating to going concern

9. I draw attention to the below. My opinion is not modified in respect of these matters.
10. I draw attention to note 53 to the financial statements, which indicates that a net loss of R532,92 million was incurred during the year ended 30 June 2024 and, as of that date the total liabilities exceeded its total assets by R2,12 billion. As stated in note 53, these events or conditions, along with other matters as set forth in note 53, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matters

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

Material impairment – receivables

12. As disclosed in note 14 to the annual financial statements, material impairment of receivables from non-exchange transactions of R325 305 645 (2022-23: R297 769 215) was incurred as a result of provision for impairment doubtful debts.

13. As disclosed in the note 17 to the annual financial statements, material impairment of receivables from exchange transactions of R2 861 578 476 (2022-23: R2 587 102 549), was incurred as a result of an impairment provision for doubtful debts.

Restatement of corresponding figures

14. As disclosed in note 51 to the financial statements, the corresponding figures for 30 June 2023 were restated as a result of an error in the financial statements of the municipality as at, and for the year ended, 30 June 2024.

Material losses – electricity

15. As disclosed in note 44 to the financial statements, material electricity losses of 326 424 277 units (2022-23: 342 302 352 units) were incurred, which represented 59% (2022-23: 64%) of the total electricity purchased. Technical losses were estimated at 55 744 300 units (2022-23: 53 811 175 units) and are inherent in the supply of electricity. Non-technical losses were 270 469 977 units (2022-23: 288 491 177 units).

Material losses – water

16. As disclosed in note 44 to the financial statements, material water losses of 14 994 581 units (2022-23: 13 001 055 units) were incurred, which represented 48% (2022-23: 40%) of the total water purchased. Technical losses were estimated at 3 178 336 units (2022-23: 3 192 896 units) and were due to ageing infrastructure. Non-technical losses were 11 816 245 units (2022-23: 9 808 159 units).

Other matter

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

Unaudited disclosure notes

18. 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

19. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with 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.

20. 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

21. 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.
22. 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

23. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for the selected key performance area presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.
24. I selected the following key performance area presented in the annual performance report for the year ended 30 June 2024 for auditing. I selected the 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
KPA 2 – Sustainable physical infrastructure and improve customer care services	XX	To provide sustainable services, optimise operations and improve customer care

25. I evaluated the reported performance information for the selected 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.
26. 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

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

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

KPA 2 – Sustainable physical infrastructure and improve customer care services

Missing indicators

29. The municipality is responsible for the provisioning of electricity, water and sanitation in terms of Regulation 10 of the Local Government: Municipal Planning and Performance Management Regulations, 2001. However, indicators to measure performance on this objective were omitted from the approved planning documents. Consequently, the achievement of this objective was not planned or accounted for, which resulted on it not being delivered and this undermines transparency and accountability on the progress towards achievement of the mandate.

Indicators	Reasons provided by the accounting office for non-inclusion
The percentage of households with access to basic level of water, sanitation and electricity	Not provided

Number of indigent households provided with access to basic services

30. An achievement of 12 765 was reported against a target of 11 700. However, some supporting evidence was not provided for auditing; or, where it was, I identified material differences between the actual and reported achievements. Consequently, the achievement might be more or less than reported and was not reliable for determining if the target had been achieved.

Percentage of formal residential properties for which refuse is removed once per week as per the refuse collection schedule by 30 June 2024

31. Adequate processes had not been established to consistently measure and reliably report on the achievement of this indicator and its target of 100%. The municipality has not properly determined the nature of evidence that would be required to support the collection of refuse. Consequently, the municipality would have found it difficult to determine the correct achievement to be reported against the planned target.

Square metres (m2) of tarred roads repaired and maintained by 30 June 2024

32. An achievement of 38 549 was reported against a target of 10 000 but the audit evidence showed the actual achievement to be 48 756. The audited achievement against the target was more than reported.

Various indicators

33. Measures aimed at improving performance against targets were reported. However, I could not determine if the measures were actually implemented to improve performance because adequate supporting evidence was not provided for auditing. Consequently, I could not verify whether the reported measures were indeed taken.

Indicator	Target	Reported achievement	Reported measure
Percentage of township establishment applications accepted and approved within 12 months as at 30 June 2024.	100%	33%	Follow-up to be done with appointed consultant /service provider.
Kilometres (KMs) of gravel roads maintained 30 June 2024	200	192	Procurement of new equipment and hiring to supplement the current

Other matters

34. I draw attention to the matters below.

Achievement of planned targets

35. The annual performance report includes information on reported achievements against planned targets and provides explanations for over- or underachievement's / measures taken to improve performance. This information should be considered in the context of the material findings on the reported performance information.

36. The table that follows provides information on the achievement of planned targets and lists the key 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.

KPA 2 – Sustainable physical infrastructure and improve customer care services

<i>Targets achieved: 22% (2/9)</i> <i>Budget spent: 100%</i>		
Key performance indicator not achieved	Planned target	Reported achievement
Percentage of proclaimed erwen receiving a weekly refuse removal service as per the refuse collection schedule by 30 June 2024	100%	91%
Percentage of township establishment applications accepted and approved within 12 months as at 30 June 2024.	100%	33%
Percentage (%) of land development applications (LDA) finalised within 90 working days by 30 June 2024	100%	60%
Kilometres (KMs) of gravel roads maintained 30 June 2024	200	192
Percentage (%) building plans finalised in line with the approved service standards by 30 June 2024	100%	76%

Material misstatements

37. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for KPA 2: Sustainable physical infrastructure and improve customer care services. Management did not correct the misstatements, and I reported material findings in this regard.

Report on compliance with legislation

38. 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.
39. 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.
40. 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.
41. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual Financial Statements, Annual Performance Report and Annual Report:

42. 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 assets; current liabilities 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.

Expenditure Management:

43. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

44. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the irregular expenditure could not be quantified as indicated in the basis for qualification paragraph.

45. Steps were not taken to prevent fruitless and wasteful expenditure amounting to R295,679 million as disclosed in note 55 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 that has been charged to long outstanding creditors.

46. Steps were not taken to prevent unauthorised expenditure amounting to R911,136 million, as disclosed in note 54 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 of the approved budget.

Procurement & Contract Management:

47. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.

48. The contract performance and monitoring measures were not in place to ensure effective contract management, as required by section 116(2)(c)(ii) of the MFMA. A similar finding was identified in the prior year.

Conditional grants

49. Performance in respect of programmes funded by the Municipal Infrastructure Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act (Act 5 of 2023).

50. Performance in respect of programmes funded by the Water Services Infrastructure Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act (Act 5 of 2023).

51. Performance in respect of programmes funded by the Infrastructure Skills Development Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act (Act 5 of 2023).

52. Performance in respect of programmes funded by the Integrated National Electrification programme (Municipal) Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act (Act 5 of 2023).

Strategic planning and performance management

53. No KPIs were set in respect of the provision of basic water and sanitation, and electricity services, as required by section 43(2) of the MSA and municipal planning and performance management regulation 10(a).

Other information in the annual report

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

55. My opinion on the financial statements, the report on the audit of the annual performance report and the report on compliance with legislation do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.

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

57. 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

58. 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.

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

60. Management did not adequately monitor the controls over the daily, weekly and monthly processing and reconciling activities. As a result, misstatements in the financial statements and annual performance report, and non-compliance with laws and regulations were detected.
61. Management did not implement adequate controls to ensure that the annual financial statements and annual performance report submitted for audit are free of material misstatements.
62. Management did not implement adequate monitoring controls to ensure that compliance with applicable laws and regulations is monitored, the non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored.

Material irregularities

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

Material irregularities identified during the audit

64. The material irregularities identified are as follows:

Pollution of water resource not prevented – Embalenhle Wastewater Treatment Works

65. The municipality failed to take reasonable measures to prevent significant pollution or degradation of the environment from occurring, continuing or recurring, or to minimise and rectify such pollution or degradation of the environment, in contravention of Section 28(1) of the National Environmental Management Act 107 of 1998 (*NEMA*) and Section 19(1) of the National Water Act 36 of 1998 (*NWA*). A site visit to the Embalenhle Wastewater Treatment Works was conducted by AGSA on 15 October 2021 and 17 August 2023. During the site visit, it was observed that there was vandalism and theft of equipment and cabling. Maintenance and repair needs that include the site palisades and subsequent access control, were noted. Infrastructural and mechanical decay that impacted on the operational processes and effective treatment and the quality of effluent disposal, was also noted. Consequently, some parts of the plant are non-functional resulting in serious wastewater overflows inside and outside the plant, overflowing at sumps and the Trichardt spruit next to the plant.
66. Although the municipality has a licence to discharge wastewater into the Trichardt Spruit, when untreated or inadequately treated wastewater is discharged into the surrounding environment, the pollution impacts the environment and health of the users that are dependent on contaminated water resources (i.e. surface water, water course or groundwater) whether it is used for consumption by humans, livestock, for domestic or agricultural (irrigation) purposes. It can result in multiple water borne diseases and therefore can have a detrimental impact on the health of the community and surrounding agricultural activities. The non-compliance is likely to result in substantial harm to the general public if it continues unabated.
67. The accounting officer was notified of this material irregularity on 30 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 responded between 26 January 2024 and 17 September 2024 with the actions taken to resolve the material irregularity. The following actions have been taken to resolve the material irregularity:

- The necessary repair work was done during the 2023/24 financial year to restore the plant to its operational state.
- During the repairs, aluminium cables were used instead of copper cables, to minimise the risk of theft.
- Security officers at the plant were increased from one to two during the day and from two to three during the night.
- An additional guardhouse was procured for the additional security.
- The extension 18 pump station that feeds into the plant was fixed during the 2022/23 financial year.
- Gert Sibande District Municipality was appointed during 2022/23 financial year as an implementing agent for the upgrading and refurbishment of the plant. The project was still at the planning stage during the 2023/24 period.
- The erection of wall fence around the plant is planned to happen in the short-term period.
- The barricading of the transformer with security fence was done during the 2022/23 period.
- The installation of security spots lights to enhance visibility at night was done during the 2022/23 period.
- Two high mast lights were also installed at the plant during the 2023/24 period to enhance visibility at night.

68. I will follow up on the implementation of actions during my next audit.

Status of previously reported material irregularities

Eskom not paid within 30 days of receiving the invoice or relevant statement

69. The municipality failed to ensure that the payments for bulk electricity purchases were made within 30 days of receiving the relevant invoice or statement, in contravention of section 65(2)(e) of the MFMA. The municipality incurred interest as a result of the late payments of R160,55 million in the 2019-20 financial year, which was disclosed as fruitless and wasteful expenditure in note 45 of the 2019-20 annual financial statements. The non-compliance was likely to result in a material financial loss when the interest expense is paid.

70. The accounting officer was notified of this material irregularity on 8 April 2021 and was invited to make a written submission on the actions taken and that will be taken to address the matter. The accounting officer responded on 5 May 2021 with the actions taken to resolve the material irregularity. The following actions have been taken to resolve the material irregularity:

- An investigation was conducted by MPAC into all fruitless and wasteful expenditure from 2015 to 2023 financial year and resolved that the expenditure be written off and that and no one be held liable.
- In 2019, the municipality established a cash flow management committee which sits at least once a month to consider the prioritisation of payments to creditors. This committee has since been fused into the executive management collective.
- A notice of motion dated 3 May 2023 was filed with the Constitutional Court by the municipality, among which, the supplier has been cited as the responded. The Constitutional Court refused direct access on 2 October 2023. Following the legal

processes, National Treasury, through the Municipal Financial Recovery Service, performed a detailed status quo assessment of the municipality in line with section 142 of the MFMA, and prepared a mandatory financial recovery plan for the municipality that was awaiting the MEC-Finance's approval at the time of issuing the audit report.

71. The material irregularity is resolved. I will monitor the approval and implementation of the mandatory financial recovery plan during my next audit.

Rand Water not paid within 30 days of receiving the invoice or relevant statement

72. The municipality failed to ensure that the payments due to the supplier were made within 30 days of receiving the relevant invoice or statement, in contravention of section 65(2)(e) of the MFMA. The municipality incurred interest as a result of the late payments of R12,78 million in the 2019-20 financial year, which was disclosed as fruitless and wasteful expenditure in note 45 of the 2019-20 annual financial statements. The non-compliance was likely to result in a material financial loss when the interest expense is paid.

73. The accounting officer was notified of this material irregularity on 8 April 2021. The following actions have been taken to resolve the material irregularity:

- In February 2022, the municipality embarked and completed a campaign of servicing PVR and altitudes control valves in Addullum Reservoir, Leandra and Evander. The municipality also replaced faulty meters at a number of areas in its surroundings
- The municipality, through its attorneys, issued and continues to issue summonses to debtors that were final notices of demand by the municipality's legal department
- The municipality established a cash flow management committee which sits at least once a month to consider the prioritisation of payments to creditors. This committee has since been fused into the executive management collective.
- The municipality signed a five-year debt settlement agreement with the supplier on 5 June 2023, the implementation of the agreement is in progress.
- A notice of motion dated 3 May 2023 was filed with the Constitutional Court by the municipality, among which, the supplier has been cited as the responded. The Constitutional Court refused direct access on 2 October 2023. Following the legal processes, National Treasury, through the Municipal Financial Recovery Service, performed a detailed status quo assessment of the municipality in line with section 142 of the MFMA, and prepared a mandatory financial recovery plan for the municipality that was awaiting the MEC-Finance's approval at the time of issuing the audit report.

74. The material irregularity is resolved. I will monitor the approval and implementation of the mandatory financial recovery plan during my next audit.

Full and proper records not kept

75. Reasonable steps were not taken in the 2019-20 financial year to ensure that full and proper records were kept of service charges, receivables from exchange and non-exchange transactions, electricity distribution losses and trade payables, as required by section 62(1)(b)

of the MFMA. The non-compliance contributed to a disclaimed audit opinion as I could not obtain sufficient appropriate audit evidence to support the amounts and disclosures in the financial statements. 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. This, in turn, is likely to have a negative impact on the municipality's ability to discharge its service delivery mandate.

76. I notified the accounting officer (AO) of the material irregularity on 13 July 2021 and invited the AO to make a written submission on the actions taken and that will be taken to address the matter. The AO responded on 10 August 2021 with the actions taken to resolve the material irregularity. My assessment is that the actions taken are not appropriate to resolve the material irregularity. I notified the AO of the following recommendations, which should be implemented by 15 December 2022:

- The non-compliance with section 62(1)(b) of the MFMA should be investigated to determine the reasons and circumstances that led to the non-compliance for the purpose of taking appropriate corrective actions and to address control weaknesses.
- Based on the reasons and circumstance, appropriate action should be taken to develop and commence with the implementation of the action plan to address poor record keeping so that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards, as required by 62(1)(b) of the MFMA. The plan should include anticipated timeframes and address the following key area as a minimum:
 - Payment vouchers, creditor statements and creditor reconciliations for purchases. The expenditure incurred should be supported by sufficient evidence that goods and services paid for were received.
 - I further recommend that the AO should take appropriate action to commence with the implementation of the action plan of the strategies below, to address the financial problems of the municipality, as required by section 135(1) and 135(3)(a) of the MFMA, by 30 November 2022:
 - a) Increase the collection of revenue;
 - b) Efficiently manage the available resources of the municipality;
 - c) Repair and maintain infrastructure assets; and
 - d) Negotiate reasonable payment arrangements with suppliers.

77. On 15 December 2022 and 14 February 2023, the accounting officer's responses on the actions implemented was received. I evaluated the accounting officer's responses and substantiating documentation received on the implementation of the recommendations. As some of the actions taken to address the material irregularity were still in progress and not yet completed, I granted the accounting officer an additional six months up to 11 March 2024 to implement the recommendations. A progress report on the implementation of the recommendations was due on 13 November 2023 and was received on 30 November 2023 and assessed accordingly.

78. On 13 March 2024, the accounting officer provided a final response and substantiating documentation on the implementation of recommendations, although the responses were due on 11 March 2024.

- The accounting officer requested internal audit to investigate the non-compliance with section 62(1)(b) of the MFMA, and internal audit produced a report accordingly.
- The accounting officer wrote a memo to all directors requesting that verification of all work done by service providers against submitted invoices be done before processed and approved.
- The municipality implemented cut-off processes in line with approved credit control policy as part of the enhancement of revenue collection
- The debt incentive scheme was extended from 1 November 2023 to 30 April 2024.
- The municipality began a process of installing electricity meters

79. The actions taken by the accounting officer to implement the recommendations are deemed appropriate and have addressed the MI and therefore the material irregularity has been resolved.

80. I will continue to monitor the actions/steps implemented and the impact thereof during the subsequent audits.

Mbombela

30 November 2024



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

Auditing to build public confidence

Annexure to the auditor's report

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)

Legislation	Sections or regulations
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)
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) Parent municipality with ME: Sections 93B(a), 93B(b) Parent municipality with shared control of ME: Sections 93C(a)(iv), 93C(a)(v)
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)