Report of the auditor-general to Mpumalanga Provincial Legislature and Council on Victor Khanye Local Municipality.

Report on the audit of the financial statements

Qualified opinion

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

   In my opinion, except for the effects and possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of Victor Khanye Local Municipality as at 30 June 2025 and its financial performance and cash flows for the year then ended in accordance with the South African Generally Recognised Accounting Practice (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

Property, plant and equipment

2. I was unable to obtain sufficient appropriate audit evidence that property plant and equipment have been recorded in its appropriate amount due to assets that should have been fully depreciated but still recorded in the fixed asset register. I was unable to confirm whether all the property plant and equipment were recorded in appropriate amount by alternative means. Consequently, I was unable to determine whether any adjustment was necessary as stated at R 958 866 381 (2024: R 940 603 591) in the financial statements.

Net cash flows from operating activities

3. Net cash flows from operating activities was not correctly prepared and disclosed as required GRAP 2, *Cash flow statements.* This was due to multiple errors in determining cash flows from operating activities. I was not able to determine the full extent of the errors in the net cash flows from operating activities, as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to cash flows from operating activities as stated at in the financial statements were necessary.

Context for opinion

4. 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.

5. 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.

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

Material uncertainty related to going concern

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

8. We draw attention to note 46 to the financial statements, which indicate that the municipality has a deficit of R 296 107 213 (2024: R 260 051 287). The municipality's liabilities exceed its assets by R406 302 287 (2024: R 114 424 156). As stated in note 46, these events or conditions, along with other matters as outlined in note 46, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern. Management has also described how they plan to deal with these events and circumstances. Our opinion is not modified with respect to this matter.

Emphasis of matters

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

Material losses/impairment of consumer debtors

10. As disclosed in note 10 to the financial statements, material losses of R 1 202 208 389 were incurred as a result of material impairment

Material losses – Water and electricity

11. As disclosed in note 29 to the financial statements, material electricity losses of R77 371 582 (2023-24: R 74 910 594) was incurred, which represents 34% (2023-24: 37%) of total electricity purchased. Technical losses amounted to R 77 371 582. (2023-24: R74 910 594) and was due to poor infrastructure.

12. As disclosed in note 30 to the financial statements, material water losses of R40 333 605 (2023-24: R46 454 112) was incurred, which represents 52% (2023-24: 58%) of total water purchased. Technical losses amounted to R77 371 582. (2023-24: R 74 910 594) and was due to poor infrastructure.

Other matter

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

Unaudited disclosure notes

14. 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

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 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.

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.

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

20. I selected the following material performance indicators related to the key performance area (KPA) 1 – basic services delivery and infrastructure development presented in the annual performance report for the year ended 30 June 2025 for auditing. I selected those material indicators that measures the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.

21. % of household's sanitation connections made for all new paid-up applications by 30 June 2025 (Government key performance indicator (GKPI))
22. Number of capital projects (infrastructure) completed in terms of the agreed water services infrastructure grant (WSIG) funding by 30 June 2025.
23. Number of capital projects (infrastructure) completed in terms of the agreed municipal infrastructure grant (MIG) funding
24. % of new capital projects started on time in terms of the appointment of consultants / contractors excluding NDM funded projects by 30 September 2024
25. Number of the state of ambient air quality reports submitted to HHS Portfolio committee per quarter
26. % of households water connections made for all new paid-up applications by 30 June 2025 (GKPI)
27. Percentage of water samples compliant with the South African National Standards (Sans) 241 drinking water quality standards
28. % spent on conditional MIG grant by 30 June 2025
29. % spent on conditional WSIG by 30 June 2025.
30. Number of times refuse collection services rendered per week at Ward 1,2,3,4,5,6,7,8 and 9 (GKPI)
31. % of new household's connections with basic levels of electricity as per received applications by 30 June 2025 (GKPI) (excluding Eskom licenced areas)
32. Number of kilometres of surfaced roads constructed by 30 June 2025
33. Number of metre's of potholes repaired and maintained in all wards by 30 June 2025
34. Number of kilometres of gravel roads graded by 30 June 2025.
35. Number of metres of stormwater drainage systems cleaned by 30 June 2025.
36. % availability of emergency response vehicles per quarter to comply to the codes of practice (Sans 10090)
37. % response time normal hours (five min) with respect to the request for emergency services received per month to vehicles out the gate
38. % response time after hours (10 min) with respect to the request for emergency services received per month to vehicles out the gate
39. Number of new households earning less than R4 220 per month provided with access to free basic services by 30 June 2025 (GKPI)
40. Number of learners provided with financial support (mayoral community programme) by 31 March 2025

41. Number of educational initiatives implemented in terms of the youth by 30 June 2025
42. Number of community members utilising the library facilities monthly
43. Number of youth imbizo's held by 30 June 2025
44. Number of events scheduled and held in terms of mainstreaming of gender (men, women and LGBTQI+ community), persons with disabilities, elderly and children by 30 June 2025

45. I evaluated the reported performance information for the selected programmes 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.

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

47. 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
- there is adequate supporting evidence for the achievements reported measures taken to improve performance.

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

49. I did not identify any material findings on the reported performance information for the selected material indicators

Other matters

50. I draw attention to the matters below.

Achievement of planned targets

~~51.~~ The annual performance report includes information on reported achievements against planned targets and provides explanations for over- or under achievements/measures taken to improve performance.

52. 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/measures taken to improve performance are included in the annual performance report on pages 12-21.

KPA 1: Basic service delivery and infrastructure development.

Targets achieved: 89 % *Budget spent 100%*		
Key service delivery indicator not achieved	**Planned target**	**Reported achievement**
Number of capital projects (infrastructure) completed in terms of agreed WSIG funding by 30 June 2025.	Two capital projects	One capital project
Number of capital projects (infrastructure) completed in terms of agreed MIG funding.	Six capital projects	Four capital projects
% of new capital projects started on time In terms of the appointment of consultants/ contractors excluding NDM funded projects by 30 September 2024	100%	50%
% availability of emergency response vehicles per quarter to comply to the codes of practice (Sans 10090)	80%	72%
Number of the state of ambient air quality reports submitted to HHS Portfolio Committee per quarter	Four	Three

Report on compliance with legislation

53. 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.

54. 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.

55. 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's 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.

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

Annual financial statements, performance reports, and annual reports

57. 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 property plant and equipment, Investment property, receivables from exchange and irregular expenditure identified by the auditors in the submitted financial statements were subsequently corrected or the supporting records were provided subsequently, but the uncorrected material misstatements and/or supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

~~58.~~ The oversight report adopted by the council on the 2023-24 annual report was not made public, as required by section 129(3) of the MFMA

Asset management

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

Expenditure management

60. Reasonable steps were not taken to prevent irregular expenditure amounting to R169 451 921 as disclosed in note 37 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by invitation for quotations not stating preferential point system to be used, and selection criteria for panel were not specific.

61. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R156 670 000, as disclosed in note 38 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by the municipality exceeding the approve budget to cover its operations.

62. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R89 255 666, as disclosed in note 36 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and

wasteful expenditure was caused by the interest charged on Eskom and Rand Water's overdue account.

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

Consequence management

64. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.

65. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

66. 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.

Procurement and contract management

67. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of the supply chain management (SCM) Regulation 46(2)(e)

68. The performance of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. This non-compliance was identified in the procurement processes for the provision of civil engineering and construction of water related infrastructure in reducing the non-revenue water in Sundra and Ellof.

Other information in the annual report

69. The accounting officer is responsible for the other information included in the annual report The other information does not include the financial statements the auditor's report and those selected material indicators presented in the annual performance report that have been specifically reported on in this auditor's report.

70. 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.

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

72. I have nothing to report in this regard.

Internal control deficiencies

73. 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.

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

74. Management did not implement a financial reporting process to enable them to prepare regular, accurate financial statements which are supported and evidenced by reliable information. This resulted in repeat material misstatements in the financial statements

75. Management did not implement proper record-keeping in a timely manner to ensure that complete, relevant, and accurate information is accessible and available to support financial and performance reporting. Several findings were resolved after significant time due to lack of readily retrievable information

76. Management didn't develop and monitor the implementation of action plans to address internal control deficiencies.

77. Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

[Signature as 'Auditor-General']

[Place of signing]

[Date of signing]

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

Communication with those charged with governance

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

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

Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003	Section 1 - Paragraph (a), (b) & (d) of the definition: irregular expenditure, 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), 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),

Legislation	Sections or regulations
	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)
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)