Report of the Auditor-General to Mpumalanga Provincial Legislature and the Council on Steve Tshwete Local Municipality

Report on the audit of the financial statements

Qualified opinion

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

2. In my opinion, 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 the Steve Tshwete Local Municipality as at 30 June 2025 and its financial performance and cash flows for the year then ended in accordance with the Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 05 of 2023 (Dora).

Basis for qualified opinion

Receivables from exchange and non-receivable exchange transactions

3. Adequate systems were not in place to calculate impairment of receivables in accordance with GRAP 104, *Financial instruments*. The municipality did not calculate the impairment on the performance of a debtor or group of debtors rather used the gross receivables balances for each service. As a result, the municipality did not disclose an analysis of receivables from exchange and non-exchange transactions that are past due as at the end of the reporting period but not impaired. Consequently, I was unable to determine the full extent of the misstatements to receivables from exchange, non-exchange transactions and impairment loss as disclosed in the financial statements.

Cash flow statement – Suppliers

4. Cash paid to suppliers was incorrectly calculated as it included the cash movements from VAT payables instead of VAT receivables, which constitutes a departure from GRAP 2, *Cash Flow statements*. Consequently, cash paid to suppliers was understated by R42,8 million in the financial statements.

Statement of Comparison of Budget and Actual amounts

5. Statement of comparison of budget and actual amounts was not correctly prepared and disclosed as required by GRAP 24, *Presentation of budget information in financial statement*. This was due to the statement not being prepared on the comparable basis. I was unable to determine the full

extent of the errors in the statement of comparison budget and actual amount as it was impractical to do so.

6. Statement of comparison of budget and actual amounts was not correctly prepared and disclosed as required by GRAP 24, *Presentation of budget information in financial statement*. This was due to explanation for material variances between the budget and actual amounts not correctly disclosed and supported by valid documentation.

Segment information

7. The segment information note was not correctly prepared and disclosed as required by GRAP 18, *Segment Reporting*. This was due to capital expenditure disclosed in the segment information note 66 not agreeing with the corresponding amount presented in the annual financial statements and related notes. No reconciliation was provided to explain the difference of R203,0 million, as required by *GRAP 18, Segment Reporting.*

Corresponding figures

Cash flow statement - Receipts from sale of goods and services

8. Receipts from sale of goods and services was not correctly calculated as it included VAT receivables instead of VAT payables, which constitutes a departure from GRAP 2, Cash flow statements in the prior year. I was not able to determine the full extent of the errors in the receipts from sale of goods and services, as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to the prior year receipts from sale of goods and services as stated at R1,045 billion in the financial statements were necessary.

Cash generated from operations

9. Cash generated from operations were not accounted for as required by GRAP 2, Cash flow statements in the prior year. This was due to errors in determining changes in working capital relating to VAT and Prepayments. I was not able to determine the full extent of the errors in the cash generated from operations, as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to cash generated from operations as stated at R178,2 million as disclosed in note 51 of the financial statements were necessary.

Context for opinion

10. 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.

11. 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.

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

Emphasis of matters

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

Restatement of corresponding figures

14. As disclosed in note 57 to the financial statements, the corresponding figures for 30 June 2024 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2025.

Material impairments – receivables

15. As disclosed in note 7 to the financial statements, the receivables from non-exchange transactions balance was significantly impaired. The total impairment of receivables from non-exchange transactions amounted to R230,0 million (2023-24: R186,5 million), which represented 80% (2023-24: 84%) of the total receivables from non-exchange transactions.

16. As disclosed in note 9 to the financial statements, the receivables from exchange transactions balance was significantly impaired. The total impairment of receivables from exchange transactions amounted to R359,2 million (2023-24: R324,1 million), which represented 81% (2023-24:69 %) of the total receivables from exchange transactions

Material losses – electricity

17. As disclosed in note 45 to the financial statements, material electricity losses of R180,9 million (2023-24: R142,3 million) were incurred, which represents 26,84% (2023-24: 24,28%) of total electricity purchased.

Other matter

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

Unaudited disclosure notes

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 the GRAP and the requirements of the 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 2025 for auditing. I selected a key performance area that measures the municipality's performance on its primary mandated functions and that is of significant national, community or public interest.

[Programme/ Objective/ Development priority]	Page numbers	Purpose
Infrastructure development and basic service delivery	XX	Provision of sustainable and accessible basic services to all

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 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. I did not identify material findings on the reported performance information for the selected key performance area of infrastructure and basic service delivery.

Other matters

29. I draw attention to the matters below.

Achievement of planned targets

30. The annual performance report includes information on reported achievements against planned targets and provides measures taken to improve performance.

31. 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.

Infrastructure development and service delivery

Targets achieved: 84,6% *Budget spent: 101%*		
Key indicator not achieved	**Planned target**	**Reported achievement**
Percentage of total water connections metered by 30 June 2025	100%	99,67%

Targets achieved: 84,6% *Budget spent: 101%*		
Key indicator not achieved	**Planned target**	**Reported achievement**
Percentage of air quality monitoring stations providing adequate data over a reporting year by 30 June 2025	25%	0%

Material misstatements

32. I identified preventable material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for Infrastructure and Service Delivery. Management subsequently corrected all the misstatements, and I did not include any material findings in this report.

Report on compliance with legislation

33. 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.

34. 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.

35. 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.

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

Annual financial statements and annual reports

37. 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, liabilities, 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.

Expenditure management

38. Reasonable steps were taken to ensure that money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

39. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R108,3 million, as disclosed in note 60 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending on certain votes on the approved budget.

40. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R4,9 million, as disclosed in note 61 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 late payments made to suppliers.

Asset management

41. Capital assets were disposed of without the municipal council having, in a meeting open to the public, decided on whether the assets were still needed to provide the minimum level of basic municipal services as required by section 14(2)(a) of the MFMA

Consequence Management

42. Authorisation of unauthorised expenditure amounting to R95,4 million was not done through an adjustment budget, as required by section 32(2)(a)(i) of the MFMA.

Strategic planning and performance management

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

Other information in the annual report

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

45. 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.

46. In connection with my audit, my responsibility is to read the 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.

47. 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 this.

48. I have nothing to report in this regard.

Internal control deficiencies

49. 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.

50. 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.

51. The accounting officer did not exercise oversight responsibility regarding compliance with laws and regulations and performance reporting.

52. The accounting officer did not adequately monitor the implementation of an effective action plan to address internal control deficiencies.

53. The accounting officer did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

Auditor-General

Mbombela

30 November 2025

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Legislation	Sections or regulations
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations: 5(2), 5(3), 5(6), 8(4)
MSA: Municipal Planning and Performance Management Regulations, 2001	Regulations: 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 7(1), 8, 9(1)(a), 10(a), 12(1), 14(1)(b)(iii), 14(1)(c)(ii), 14(4)(a)(i), 14(4)(a)(iii), 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), 26(5), 27(4)(a)(i)
MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations: 17(2), 36(1)(a)
MSA: Municipal Staff Regulations	Regulations: 7(1), 19, 31, 35(1)
MSA: Municipal Systems Regulations, 2001	Regulation: 43
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section: 34(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), 7(1), 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)

Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003	Sections: 1, 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 28(1), 29(1), 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), Sections: 32(2)(b), 32(6)(a), 32(7), 33(1)(c)(ii), 53(1)(c)(ii), 53(1)(c)(iii)(bb), 54(1)(c), 62(1)(d), 63(2)(a), 63(2)(c), 64(2)(b), 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), 122(2), 126(1)(a), 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 165(1), 165(2)(a), 165(2)(b)(ii), 165(2)(b)(iv), 165(2)(b)(v), 165(2)(b)(vii), 166(2)(b), 166(2)(a)(iv), 166(5), 170, 171(4)(a), 171(4)(b)
MFMA: Municipal budget and reporting regulations, 2009	Regulations: 71(1)(a), 71(1)(a)(b), 71(2)(a), 71(2)(b), 71(2)(d), 72(a), 72(b), 72(c)
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), 16(a), 17(1)(a), 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), 27(2)(e), 28(1)(a)(i), 29(1)(a), 29(1)(b), 29(5)(a)(ii), 29(5)(b)(i), 32, 36(1), 36(1)(a), 38(1)(c), 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43, 44, 46(2)(e), 46(2)(f)
Construction Industry Development Board Act 38 of 2000	Section: 18(1)
Construction Industry Development Board Regulations, 2004	Regulations: 17, 25(7A)
Division of Revenue Act	Sections: 11(6)(b), 12(5), 16(1); 16(3)
Municipal Property Rates Act 6 of 2004	Section: 3(1)
Municipal Systems Act 32 of 2000	Sections: 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 34(a), 34(b), 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), 45(a), 54A(1)(a), 56(1)(a), 57(2)(a), 57(4B), 57(6)(a), 57A, 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 96(b) Parent municipality with ME: Sections: 93B(a), 93B(b) Parent municipality with shared control of ME: Section: 93C(a)(iv), 93C(a)(v)

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.

Annexure to the auditor's report

The annexure includes the following:

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

Auditor general's responsibility for the audit

Professional judgement and professional scepticism

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

Financial statements

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

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