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

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Emakhazeni Local Municipality as set out on pages xx to xx, which comprise of 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.

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 Emakhazeni 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 (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) Division of Revenue Act 5 of 2024 (Dora).

Basis for qualified opinion

Receivables from exchange transactions

3. I was unable to obtain sufficient appropriate audit evidence for receivables from exchange transactions, due to the status of accounting records for sundry service charges debtors and allowance for impairment was not calculated in accordance with the approved credit control and debt impairment policy. I was unable to determine the full extent of the misstatements as it was impractical to do so. I was also unable to confirm the related amounts by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the receivables from exchange transactions, stated at R86,53 million (2024: R80,62 million), provision for impairment allowance stated at R278,00 million (2024: R254,38 million) in note 5 to the financial statement and debt impairment stated at R24,28 million in note 30 to the financial statements.

Receivables from non-exchange transactions

4. I was unable to obtain sufficient appropriate audit evidence for receivables from non-exchange transactions, as the allowance for impairments was not calculated in accordance with the approved credit control and debt impairment policy. I was unable to determine the full extent of the misstatements as it was impractical to do so. I was also unable to confirm the related amounts by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the receivables from non-exchange transactions, stated at

R86,66 million, provision for impairment allowance stated at R349,81 million in note 5 to the financial statements and debt impairment stated at R107,41 million in note 30 to the financial statements.

Service charges

5. Service charges revenue was not recognised as required by GRAP 9, *Revenue from exchange transactions*. Properties were identified for which service charges were not billed and recorded. Consequently, I was unable to determine the full extent of the misstatements for service charges, stated at R133, 05 million (2024: R128, 09 million) in note 17 to the financial statements and the related receivable from exchange transactions, stated at R86, 53million (2024: R80, 62 million) in note 5 to the financial statements, as it was impracticable to do so.

Bad debts written off

6. I was unable to obtain sufficient appropriate audit evidence for the bad debts written off. As described in note 31 to the financial statements, the municipality wrote off bad debts, but the write off could not be substantiated by supporting audit evidence. I was unable to confirm the bad debts written off by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the bad debts written off stated at R49,17 million in the financial statements.

Prior period errors

7. The municipality did not appropriately determine the correction of prior period errors disclosed in note 42 to the financial statements, as required by GRAP 3, *Accounting policies, changes in accounting estimates and errors*. The corrections relating to service charges and receivables from exchange transactions were not fully determined, and the municipality did not process all required prior period adjustments for service charges in the base year. I was unable to determine the full extent of the misstatement of the correction of errors for service charges and receivables from exchange transactions, as it was impracticable to do so.

Context for opinion

8. 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.

9. 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.

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

Emphasis of matters

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

Close calls relating to going concern

12. I draw attention to note 45 of the financial statements, which deals with the possible effects of the future implications of the deteriorating liquidity situation on the municipality's prospects, performance, and cash flows. Management has also described how they plan to deal with these events and circumstances. Our opinion is not modified with respect to this matter.

Material losses – electricity

13. As disclosed in note 50 to the financial statements, material electricity losses of R55,59 million (2023-24: R40,21 million) were incurred, which represent 46% (2023-2024: 38%) of total electricity purchased.

Material losses – water

14. As disclosed in note 50 to the financial statements, material water losses of R17,23 million (2023-2024: R11, 96 million) were incurred, which represent 73% (2023-24: 63%) of total water purified.

Other matter

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

Unaudited disclosure notes (MFMA125)

16. In terms of section 125(2)(e) of the MFMA, the particulars of non-compliance with the MFMA should be disclosed in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

Responsibilities of the accounting officer for the financial statements

17. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with standards of GRAP and the requirements of the MFMA; and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

18. 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

19. 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

20. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report. This description, which is located at page xx forms part of my auditor's report.

Report on the annual performance report

21. 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 information against predetermined objectives for the selected material performance indicators presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

22. I selected the following material performance indicators related to basic service delivery and infrastructure development presented in the annual performance report for the year ended 30 June 2025. I selected those indicators that measure the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.

- Number of farms provided with water
- Number of sewer pump stations refurbished in Siyathuthuka (Old Mandela) (Phase 1)
- Number of sewer pump stations refurbished in Siyathuthuka (Glisa) (Phase 1)
- Number of sewer pump stations refurbished in Entokozweni
- Number of sewer pipelines upgrading in Siyathuthuka (phase 1)
- Number of reservoir complexes refurbished in Siyathuthuka
- Number of raw water bulk lines replaced in Dullstroom
- Number of water treatment works upgrading in Dullstroom (complete design)
- Percentage of progress upgrading of water treatment works upgrading in Machadodorp
- Number of roads paved in Sakhelwe ward 4 (Zamvie Street phase 2)
- Number of roads paved in Siyathuthuka ward 1 (Mongwe ring road)

- Number of access bridges to be reconstructed in Entokozweni
- Number of access bridges to be reconstructed in Emthonjeni
- Percentage of progress of roads paved in Emgwenya Road (Slahle section phase 1)
- Number of roads regravelled and storm water management system installed in Leydes Street
- Area of road potholes patchwork done
- Number of kilometres roads bladed
- Mishack Bhembe Stadium refurbished in Sakhelwe phase 1

23. I evaluated the reported performance information for the selected material performance indicators 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.

24. 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.

25. I performed the procedures to report material findings only, and not to express an assurance opinion or conclusion.

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

Other matters

27. I draw attention to the matters below.

Achievement of planned targets

28. The annual performance report includes information on reported achievements against planned targets and provides measures taken to improve performance. This information should be considered in the context of the material findings on the reported performance information.

29. 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 measures taken to improve performance are included in the annual performance report on pages xx to xx.

Basic service delivery and infrastructure development

Targets achieved: 91%

Budget spent: 100%

Key indicator not achieved	Planned target	Reported achievement
Reduction of electricity distribution losses as per previous year-end actual electricity.	10% reduction of electricity distribution losses as per previous year-end actual electricity by 30 June 2025.	3,22% reduction of electricity distribution losses as per previous year-end actual electricity by 30 June 2025.
Number of kilometres roads bladed	65km road bladed by 30 June 2025	53,88 km road bladed by 30 June 2025
Number of mayoral roadblocks conducted	2 X mayoral roadblock conducted by 30 June 2025	1 X mayoral roadblock conducted by 30 June 2025

Report on compliance with legislation

30. 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.

31. 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.

32. 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.

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

Annual financial statements

34. 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 current assets, revenue, expenditure and cash flow statement and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Revenue management

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

Consequence management

36. Some of the unauthorised expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(a) of the MFMA.

37. Irregular expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Expenditure management

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

39. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R19,55 million as disclosed in note 48 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest and penalties on late payment of service providers.

40. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R132,44 million as disclosed in note 47 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending of the approved budget.

Other information in the annual report

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

42. 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.

43. 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 material indicators in the scoped-in objectives presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

44. The other information I obtained prior to the date of this auditor's report is the executive mayor's and municipal manager's forward. Outstanding information, including the report of the audit committee, is expected to be made available to us after 30 November 2025.

45. If, based on the work I have performed on the other information that I obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

46. When I do receive and read the outstanding 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

47. 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.

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

49. Management did not implement adequate internal controls to ensure the preparation of accurate financial statements, and management did not implement adequate action plans to ensure that prior year's findings are addressed to avoid recurrence of similar findings.

50. Management did not adequately monitor compliance with applicable laws and regulations to ensure that the municipality complies with all applicable legislation, resulting in recurring compliance matters reported in this auditor's report.

Material irregularities

51. 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.

Status of previously reported material irregularities

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

52. The municipality did not comply with section 65(2)(e) of MFMA which states that the accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure that all money owing by the municipality is paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure. The non-compliance is likely to result to a material financial loss for the Emakhazeni Local Municipality as disclosed in note 49 to the 2021-22 annual financial statements as the municipality still owes Eskom and continuously fails to make payments within 30 days of receiving the relevant invoice or statement or within agreed timeframes.

53. The accounting officer was notified on 1 March 2023 and invited to make a written submission on the actions taken and that will be taken to address the matter. The accounting officer responded with actions taken to resolve the material irregularity. My assessment is that the actions taken are not adequate to resolve the material irregularity.

54. I notified the accounting officer on 29 November 2024 of the following recommendations, which should have been implemented by 29 June 2025:

    - Appropriate action should be taken to develop and commence with the implementation of a financial plan to address the financial problems of the municipality that are preventing it from paying Eskom within 30 days, as required by section 65(2)(e) of the MFMA. The plan should include realistic timeframes and milestones to be achieved and include as a minimum strategies to:

      a) Increase the revenue;

      b) Increase collection of revenue; and

      c) Efficiently manage the available resources of the municipality through cost containment measures and proper budget management

55. The accounting officer has not adequately implemented or made satisfactorily progress with implementation of the above recommendation. I notified the accounting officer on 26 November 2025 of the following remedial actions to address the material irregularity, which must be implemented by 24 March 2026, with a progress report after two months:

- Appropriate action must be taken to develop and commence with the implementation of a financial plan to address the financial problems of the municipality that are preventing it from paying Eskom within 30 days, as required by section 65(2)(e) of the MFMA. The plan must include realistic timeframes and milestones to be achieved, and include, as a minimum, strategies to:
  a) Increase the revenue;
  b) Increase collection of revenue; and
  c) Efficiently manage the available resources of the municipality through cost containment measures and proper budget management.

Auditor - General

Mbombela

29 November 2025

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

The annexure includes the following:

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

Auditor-general's responsibility for the audit

Professional judgement and professional scepticism

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

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

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

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

Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

#	Selected legislation and regulations	Consolidated firm level requirements
1	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)
2	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)
3	MFMA: Municipal Investment Regulations, 2005	Regulations: 3(1)(a), 3(3), 6, 7, 12(2), 12(3)
4	MFMA: Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014	Regulations: 5(4), 6(8)(a), 6(8)(b), 10(1)
5	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)
6	Construction Industry Development Board Act 38 of 2000	Section: 18(1)
7	Construction Industry Development Board Regulations, 2004	Regulations: 17, 25(7A)
8	Division of Revenue Act	Sections: 11(6)(b), 12(5), 16(1); 16(3)
9	Municipal Property Rates Act 6 of 2004	Section: 3(1)
10	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)

#	Selected legislation and regulations	Consolidated firm level requirements
11	MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations: 5(2), 5(3), 5(6), 8(4)
12	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)
13	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)
14	MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations: 17(2), 36(1)(a)
15	MSA: Municipal Staff Regulations	Regulations: 7(1), 19, 31, 35(1)
16	MSA: Municipal Systems Regulations, 2001	Regulation: 43
17	Prevention and Combating of Corrupt Activities Act 12 of 2004	Section: 34(1)
18	Preferential Procurement Policy Framework Act 5 of 2000	Sections: 2(1)(a), 2(1)(f)
19	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)
20	Preferential Procurement Regulations, 2022	Regulations: 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4)