Report of the auditor-general to the Mpumalanga Provincial Legislature and the council of the City of Mbombela Local Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the City of Mbombela 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 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, the financial statements present fairly, in all material respects, the financial position of City of Mbombela 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 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 24 of 2024 (Dora).

Basis for opinion

3. 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.

4. 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.

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

Material uncertainty related to going concern

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

7. As disclosed in note 60 to the financial statements, which indicates that the municipality incurred a loss of R194,91 million (2023-24: R324,49 million) during the year ended 30 June 2025 and that, as of that date, the municipality's current liabilities exceeded its assets by R2,19 billion (2023-24: R1,57 billion). These events or conditions, along with other matters as set forth in note 60, 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

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

9. As disclosed in note 3 and 4 of the financial statements, the balance of trade and other receivables from exchange transactions and receivables from non-exchange transactions were reduced by an amount of R437,52 million (2023-24: R305,61 million) and R393,08 million (2023-24: R310,99 million), respectively, because of an allowance for impairment on the balances.

10. As disclosed in note 39.1 to the financial statements, material electricity losses of R466,78 million (2023-24: R347,06 million) were incurred, which represents 30,37% (2023-24: 26,24%) of total electricity purchased.

11. As disclosed in note 50 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.

Other matter

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

13. 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

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

15. 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

16. 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.

17. 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 of the annexure to the auditor's report, forms part of my auditor's report.

Report on the audit of the annual performance report

18. 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 development priority presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

19. I selected the following development priority presented in the annual performance report for the year ended 30 June 2025 for auditing. I selected a development priority that measures the municipality's performance on its primary mandated functions and that is of significant national, community or public interest.

Development priority	Page numbers	Purpose
Service delivery and infrastructure development	XX	To provide infrastructure and sustainable basic services. To provide sustainable social amenities to the communities. To strengthen the delivery of sustainable integrated human settlement and environmental management.

20. I evaluated the reported performance information for the selected development priority 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.

21. 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 measures taken to improve performance.

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

23. I did not identify any material findings on the reported performance information for the selected development priority.

Other matters

24. I draw attention to the matters below.

Achievement of planned targets

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

26. 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.

Service delivery and infrastructure development

Targets achieved: 63%

Budget spent: 100%

Key service delivery indicators not achieved	Planned target	Reported achievement
% of Saddleback Tunnel refurbished	100% of Saddleback Tunnel refurbished	62% of Saddleback Tunnel refurbished
km of Water Network constructed (Matsulu)	2km of Water Network constructed	0km of Water Network constructed
km of Water Network constructed (Nsikazi North)	5km of Water network constructed	0km of Water network constructed
Number of Dwellings connected (Nsikazi North)	50 Dwellings connected	0 Dwellings connected
Number of Dwellings connected (Nsikazi South)	300 Dwellings connected	112 Dwellings connected

Targets achieved: 63%

Budget spent: 100%

Key service delivery indicators not achieved	Planned target	Reported achievement
% of 22.5km bulk pipeline water supply scheme from Karino bulk water constructed	20% of 22.5km bulk pipeline water supply scheme from Karino bulk water constructed	17% of 22.5km bulk pipeline water supply scheme from Karino bulk water constructed
% of 3.5ml Sectional steel reservoir constructed	100% of 3.5ml Sectional steel reservoir constructed	84% of 3.5ml Sectional steel reservoir constructed
% of White River WTW Refurbished	100% of White River WTW refurbished	0% of White River WTW refurbished
Km's of asbestos pipes replaced	1km asbestos pipe replaced	0 km asbestos pipe replaced
% of Entokozweni Sewer reticulation constructed	99% of Entokozweni Sewer reticulation constructed	80% Entokozweni Sewer reticulation constructed
% of Rocky's Drift WWTW refurbished	70% of Rocky's Drift WWTW refurbished	51.6% of Rocky's Drift WWTW refurbished
km of Emoyeni bulk outfall sewer constructed	3km of Emoyeni bulk outfall sewer constructed	0km of Emoyeni bulk outfall sewer constructed
Number of Dwellings Connected	200 Dwellings connected	0 Dwellings connected
Meters of Sewer Lines Upgraded and Replaced at eMjndini Ext. 11 & 12	300m of Sewer Lines Upgraded and Replaced at eMjndini Ext. 11 & 12	0m of Sewer Lines Upgraded and Replaced at eMjndini Ext. 11 & 12
Number of aerators installed	3 Aerators installed	0 Aerators installed
Number of equipment's installed	4 Equipment's installed	0 Equipment's installed
% of 3km Clau-Clau Magwabaratsane Road constructed	5% of 3km Clau-Clau Magwabaratsane road constructed	0% of 3km Clau-Clau Magwabaratsane road constructed
% of Vehicle Bridge constructed	30% of Vehicle bridge constructed	0% of Vehicle bridge constructed
Percentage of 2.30km Celani Primary School Road constructed	10% of 2.30km Celani primary School Road constructed	0% of 2.30km Celani primary School Road constructed
% of 4.4km of Goromane to kaMabuza road upgraded	55% of 4.4km of Goromane to kaMabuza road upgraded	50.5% of 4.4km of Goromane to kaMabuza road upgraded
% of 6km of Karino to Tekwane south road upgraded	5% of 6km of Karino to Tekwane South Road upgraded	0% of 6km of Karino to Tekwane South Road upgraded
% of Nyongane / RDP Section Pedestrian bridge constructed	15% of Nyongane / RDP section pedestrian bridge constructed	5% of Nyongane / RDP section pedestrian bridge constructed
% of Micasa Vehicle Bridge constructed	5% of Micasa vehicle bridge constructed	0% of Micasa vehicle bridge constructed
% of Msholozi Pedestrian bridge constructed	30% of Msholozi Pedestrian bridge constructed	15% of Msholozi Pedestrian bridge constructed
% of 6.28km of Matsafeni Kaapshehoop bus route constructed	50% of 6.28km of Matsafeni Kaapshehoop bus route constructed	40% of 6.28km of Matsafeni Kaapshehoop bus route constructed
Number of community halls refurbished	1 community hall refurbished	0 community hall refurbished
% of Masoyi stadium constructed	5% of Masoyi stadium constructed	0% of Masoyi stadium constructed
% of Kanyamazane Community Hall constructed	5% of Kanyamazane community hall constructed	0% of Kanyamazane community hall constructed
Number of cemeteries fenced	1 cemetery fenced	0 cemetery fenced

Targets achieved: 63% *Budget spent: 100%*		
Key service delivery indicators not achieved	**Planned target**	**Reported achievement**
Number of New additional formalised dwellings with access to weekly waste removal services	150 New additional formalised dwellings with access to weekly waste removal services	35 New additional formalised dwellings with access to weekly waste removal services

Material misstatements

27. I identified preventable material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for service delivery and infrastructure development. Management subsequently corrected all the misstatements, and I did not include any material findings in this report.

Report on compliance with legislation

28. 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.

29. 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.

30. 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.

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

Annual financial statements

32. The financial statements submitted for auditing were not fully prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of current assets, current liabilities and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

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

34. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R776,37 million, as disclosed in note 56.1 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 the votes.

35. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R142,73 million as disclosed in note 56.3 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. All of the disclosed fruitless and wasteful expenditure was caused by non-compliance with section 65 of the MFMA due to interest and penalties on payments made after 30 days.

Other information in the annual report

36. 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 the selected development priority presented in the annual performance report that has been specifically reported on in this auditor's report.

37. 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.

38. 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 development priority presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

39. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, and 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

40. 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.

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

42. The accounting officer and the general managers did not adequately monitor and review the key areas in the audit and financial recovery plans. This resulted in recurring non-compliance with legislation and material misstatements in the financial statements and performance

reports. Furthermore, incorrect application of GRAP standards and insufficient reconciliation of transactions led to misstatements in some items, which were subsequently corrected.

Material irregularities

43. In accordance with the PAA and the material irregularity regulations, I have a responsibility to report on material irregularities identified during the audit.

Material irregularities in progress

44. I identified a material irregularity during the audit and notified the accounting officer, as required by the material irregularity regulation 3(2). By the date of this auditor's report, the response of the accounting officer was not yet due. This material irregularity will be included in next year's auditor's report.

Other reports

45. I draw attention to the following engagements conducted by various parties. This report did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

46. The Special Investigative Unit (SIU) was investigating allegations of maladministration in the award of tenders at the municipality as per proclamation 257 of 2025, covering the period 16 February 2015 to 2 May 2025. At the date of this report, the investigation was in progress.

Auditor-General

Mbombela

30 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 development priority 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.

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 and regulations	Consolidated firm level requirements
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)
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)

Legislation and regulations	Consolidated firm level requirements
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)