Report of the auditor-general to the Northern Cape Provincial Legislature and the council on Magareng Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Magareng Local Municipality set out on pages xx to xx, which comprise the appropriation statement, statement of financial position as at 30 June 2025, statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year 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 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 Magareng Local Municipality as at 30 June 2025, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practise (Standards of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 5 of 2024 (Dora).

Basis for qualified opinion

Revenue from exchange transactions

3. The municipality did not recognise revenue from exchange transactions in accordance with GRAP 9, *Revenue from exchange transactions*. The municipality did not consistently apply the approved sewerage and sanitation charges for the 2024/2025 financial year, resulting in sewerage and sanitation charges for the year being overstated and receivables from exchange transactions by a projected amount of R4 202 186. There was a resultant impact on the surplus for the period and on the accumulated surplus.

4. I was unable to obtain sufficient appropriate audit evidence for sale of water, sewerage and sanitation charges as well as refuse removal due to the status of the accounting records. The municipality did not maintain accurate and complete records as charges were not always billed during the year. I was unable to confirm the sale of water, sewerage and sanitation charges as well as refuse removal by alternative means. Consequently, I was unable to determine whether any adjustments are necessary to sale of water, sewerage and sanitation charges as well as refuse removal stated in at R 4 867 558, R13 237 910 and R3 014 002, respectively in note 19 to the annual financial statements.

Revenue from non-exchange transactions

5. I was unable to obtain sufficient appropriate audit evidence for property rates due to the status of the accounting records. The municipality did not maintain accurate and complete records as property rates were not always billed during the year. I was unable to confirm the property rates by alternatives means. Consequently, I was unable to determine whether any adjustments are necessary to property rates stated at R13 246 627 in note 25 to the annual financial statements.

Cash and Cash equivalents

6. I was unable to obtain sufficient appropriate audit evidence for cash and cash equivalents as the municipality did could not provide support for undeposited receipts amounting to R4,911,926.32. The municipality did not maintain accurate and complete records as for cash and cash equivalents. I was unable to confirm the cash and cash equivalents by alternative means. Consequently, there was a resultant impact on the surplus/deficit for the period and accumulated surplus/deficit.

Context for opinion

7. 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.

8. 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.

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

Emphasis of matters

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

Material losses- Electricity

11. As disclosed in note 57 to the financial statements, material electricity losses to the amount of R4 532 432 (2024: R7 948 018) was incurred which represents 41% (2024: 33%) of total bulk electricity purchased.

Material losses- Water

12. As disclosed in note 57 to the financial statements, material water losses to the amount of R6 116 015 (2024: R2 949 455) was incurred which represents 96% (2024: 97%) of water purchased.

Material impairment – receivables from exchange transactions

13. As disclosed in note 6 to the financial statements, municipality reported a material impairment of R368 488 645 (2024: R327 758 937) because of debt impairment of receivables from exchange transactions due to non-collection of outstanding balance owed to the municipality.

Material impairment – receivables from non-exchange transactions

14. As disclosed in note 4 to the financial statements, municipality reported a material impairment of R126 092 291 (2024: R114 110 591) because of debt impairment of receivables from non-exchange transactions due to non-collection of outstanding balance owed to the municipality.

Restatement of corresponding figures

15. As disclosed in note 48 to the financial statements, the corresponding figures for 30 June 2025 were restated as a result of an error in the financial statements of the municipality as of 30 June 2024.

Other matters

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

Unaudited disclosure notes

17. 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

18. 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 the 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.

19. 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

20. 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.

21. 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 X, forms part of our auditor's report.

Report on the annual performance report

22. 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.

23. 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.

    - Percentage of the capital budget spent from the Regional Bulk Infrastructure Grant (RBIG) for the Upgrading and Extension of the Warrenton Water Treatment Works by the end June 2025.

    - Percentage of the capital budget spent from the Municipal Infrastructure Grant (MIG) for the Upgrade of internal water reticulation network in Chris Hani, Richblock and Las Vegas (Phase 1) by the end June 2025

    - Percentage of the capital budget spent from the Water Services Infrastructure Grant (WSIG) for the Repairs to the Warrenton WWTW and Surrounding Pumpstations by the end June 2025

    - Percentage of the capital budget spent from the Regional Bulk Infrastructure Grant (RBIG) for the Technical Feasibility Study Report for the Relocation of the Warrenton WWTW and Related Bulk Outfall Infrastructure by the end of June 2025.

24. 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.

25. 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 presented in the annual performance report in the prescribed manner

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

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

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

Other matter

28. I draw attention to the matter below.

Achievement of planned targets

29. 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.

30. The table that follows provide 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: 88.89% *Budget spent: 99.11%*		
Key service delivery indicator not achieved	**Planned target**	**Reported achievement**
Percentage of the capital budget spent from the Regional Bulk Infrastructure Grant	100%	78.56%

(RBIG) for the Upgrading and Extension of the Warrenton Water Treatment Works by the end June 2025		
Percentage of the capital budget spent from the Municipal Infrastructure Grant (MIG) for the Upgrade of internal water reticulation network in Chris Hani, Richblock and Las Vegas (Phase 1) by the end June 2025	100%	99,72%
Percentage of the capital budget spent from the Water Services Infrastructure Grant (WSIG) for the Repairs to the Warrenton WWTW and Surrounding Pumpstations by the end June 2025	100%	97.68%
Percentage of the capital budget spent from the Regional Bulk Infrastructure Grant (RBIG) for the Technical Feasibility Study Report for the Relocation of the Warrenton WWTW and Related Bulk Outfall Infrastructure by the end of June 2025	100%	59.93%

Material misstatements

31. I identified no material misstatements in the annual performance report submitted for auditing.

Report on compliance with legislation

32. 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.

33. 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.

34. 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.

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

Annual financial statements

36. 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.

Expenditure management

37. Payments were not made within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure. (MFMA 65(2)(e)).

38. Reasonable steps were not taken to prevent irregular expenditure amounting to R75 175 711, as disclosed in note 56 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.

39. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R4 344 997, as disclosed in note 55 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The disclosed fruitless and wasteful expenditure was caused by interest due to late payments.

40. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R93 918 979, as disclosed in note 54 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending on the approved budget.

Consequence management

41. 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.

42. 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.

43. 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.

Revenue management

44. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

Procurement and contract management

45. Some of the contracts were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM Regulation 13(c). The non-compliance was identified in the procurement process for deviation from standard SCM policy for emergency appointment for cost of supply tariff study.

46. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act.

47. Sufficient appropriate audit evidence could not be obtained that the performance of contractors or providers was monitored on a monthly basis as required by section 116(2)(b) of the MFMA.

48. Sufficient appropriate audit evidence could not be obtained that contract performance and monitoring measures were in place to ensure effective contract management as required by section 116(2)(c)(ii) of the MFMA.

Other information in the annual report

49. 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 development priorities presented in the annual performance report that have been specifically reported on in this auditor's report.

50. 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.

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

52. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

53. 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.

54. 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.

55. The leadership of the municipality did not adequately develop and monitor the implementation of action plans to address internal control deficiencies. The municipality developed a plan to address internal and external audit findings, but the appropriate level of management did not implement and monitor adherence to the plan in a timely manner. This is due to the audit action plan not being completed timeously in order to address audit findings in a timely manner. This has resulted in a repeat finding being identified in the current year.

Material irregularities

56. 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

Unauthorised Debit orders resulting in payments for no services or benefits received

57. Reasonable steps were not taken to ensure that the municipality implemented and maintained an effective system of expenditure control, including procedures for the approval, authorisation and payment of funds, as required by section 65(2)(a) of the MFMA. The municipality disclosed unauthorised debit orders in the financial statements for the year ended 30 June 2022, totalling to R1 748 618 (R946 907 and R801 711 in 2021-22 and 2020-21 respectively). The system of internal controls was not effective to prevent these payments made for which no benefit was received and, if not recovered, is likely to result in a material financial loss.

58. The accounting officer was notified of the material irregularity on 05 May 2023 and invited to make a written submission on the actions taken and that will be taken to address the matter.

- The municipality actively communicated with the bank to reverse all outstanding unauthorized debit orders at year end 2022-23.

- The municipality logged a request for an internal investigation at the bank to trace the origins of the debit orders to allow full prevention of its re-occurrence.

- The municipality implemented frequent reviews of bank statements to allow early identification of further debit orders and timeous submission of reversal requests to the bank.

59. The accounting officer provided further evidence on 17 November 2023 confirming that:

- The outstanding balance for the 30 June 2021 financial year had been reduced to R580 305,08 and the outstanding balance for the 30 June 2022 balance reduced to R325 976,88 due to reversals processed by the bank. This resulted in a total remaining dispute of R906 281,96.
- Confirmation was received from the bank, that they lodged a dispute with the initiating bank to release details of the initiating parties who authorised the request for the debit orders.

60. When a follow-up was made in the current years audit it was confirmed that controls implemented by the municipality are still in place and that further losses were prevented. The accounting officer further provided evidence of submitting his affidavit for commissioning with the NC Directorate for Priority Crime Investigation (Hawks) on the matter, which was acknowledged by them on the 24 June 2025 for investigation.

61. Based on this we concluded that the accounting officer has taken appropriate action and the material irregular is resolved.

AUDITOR GENERAL

Kimberley

01 December 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 priorities and on the municipality's compliance with selected requirements in key legislation.

Financial statements

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

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

Communication with those charged with governance

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

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

Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003	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), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 63(2)(a), 63(2)(c), 64(2)(b), 64(2)(c), 64(2)(e), 64(2)(f), Sections: 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), Sections: 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), 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), Regulations: 28(1)(a)(i), 29(1)(a), 29(1)(b), 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c), 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), Regulations: 38(1)(g)(ii), 38(1)(g)(iii), 43, 44, 46(2)(e), 46(2)(f)
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), Sections: 54A(1)(a),56(1)(a), 57(2)(a), 57(6)(a), 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)

Legislation	Sections or regulations
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), 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: Municipal Staff Regulations	Regulations: 7(1),31
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), 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)