

Report of the auditor-general to the Free State Provincial Legislature and the council on the Matjhabeng Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Matjhabeng Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2024, statement of financial performance, statement of changes in net assets, 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 possible effects of the matter 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 Matjhabeng Local Municipality as at 30 June 2024, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 5 of 2023 (Dora).

Basis for qualified opinion

Service charges

3. I was unable to obtain sufficient appropriate audit evidence for revenue from the sale of water and electricity included in service charges in note 19 to the financial statements as the municipality did not have reliable data to support the estimates billed for water and electricity consumption. I was unable to confirm the revenue from the sale of water and electricity by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the sale of water and electricity included in service charges, stated at R1 242 155 383 (2023: R1 119 943 891) in note 19 to the financial statements.

Context for opinion

4. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the responsibilities of the auditor-general for the audit of the financial statements section of my report.
5. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

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

Material uncertainty relating to going concern

7. I draw attention to the matter below. My opinion is not modified in respect of this matter.
8. Note 47 to the financial statements indicates that the municipality had an accumulated deficit of R4 705 600 077 as at 30 June 2024, and as of that date. Additionally, the municipality incurred a deficit of R273 686 576 for the year ended 30 June 2024. The municipality also owed Eskom R6 098 942 684 (debt relief portion: R5 250 339 733) (2023: R5 630 675 806) and Vaal Central Water R6 161 839 566 (2023: R5 436 424 698), with these accounts being long overdue. These events or conditions, along with other matters outlined in note 47, indicate the existence of material uncertainty that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matters

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

Restatement of corresponding figures

10. As disclosed in note 46 to the financial statements, the corresponding figures for 30 June 2023 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2024.

Material impairment

11. As disclosed in notes 5 and 6 to the financial statements, receivables from exchange transactions and receivables from non-exchange transactions were impaired by R5 128 242 232 (2023: R4 495 085 681) and R801 788 308 (2023: R677 315 986).

Material losses

12. As disclosed in note 36 to the financial statements, material electricity losses of R204 066 688 (2023: R144 258 609) were incurred due to the status/condition and age of the network, weather conditions, and load on the system as well as non-technical losses such as theft and vandalism. In addition, material water losses of R417 742 117 (2023: R239 831 884) were incurred due to metering inefficiencies, ageing pipeline infrastructure, burst water pipes, leakages and unmetered connections.

Underspending and withholding of conditional grants

13. As disclosed in note 16 to the financial statements, the municipality materially underspent the conditional grants by R74 598 566 (2023: R118 957 275). As disclosed in note 28 to the financial statements, the National Treasury withheld R20 007 000 equitable share from the municipality due to an arrangement with the National Treasury for the repayment of unspent conditional grants.

Material uncertainty relating to claims against the municipality

14. With reference to note 43 to the financial statements, the municipality is the defendant in various claims against the municipality. The municipality is opposing these claims. The ultimate outcome of these matters could not be determined and no provision for any liabilities that may result were made in the financial statements.

Unauthorised expenditure

15. As disclosed in note 49 to the financial statements, the municipality incurred unauthorised expenditure of R1 048 403 955 (2023: R1 067 576 614), due to overspending of the budget.

Fruitless and wasteful expenditure

16. As disclosed in note 50 to the financial statements, the municipality incurred fruitless and wasteful expenditure of R239 024 031 (2023: R339 841 917), mainly due to interest and penalties on late payments to creditors.

Irregular expenditure

17. As disclosed in note 51 to the financial statements, the municipality incurred irregular expenditure of R123 755 994 (2023: R146 754 378), mainly due to non-compliance with supply chain management regulations (SCM).

Other matter

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

Unaudited disclosure notes

19. 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

20. 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.
21. 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

22. 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.
23. 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 on pages xx to xx, forms part of our auditor's report.

Report on the audit of the annual performance report

24. 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 (KPA) presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.
25. I selected the following KPA presented in the annual performance report for the year ended 30 June 2024 for auditing. I selected a KPA that measures the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.

KPA	Page numbers	Purpose
Basic services		Supporting the delivery of municipal services to the right quality and standard

26. I evaluated the reported performance information for the selected KPA 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.
27. 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.

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

29. I did not identify any material findings on the reported performance information for the selected KPA.

Other matter

30. I draw attention to the matter below.

Achievement of planned targets

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

32. The table that follows provides information on the achievement of planned targets and list 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 services

<i>Targets achieved: 50%</i> <i>Budget spent: 99%</i>		
Key service delivery indicators not achieved	Planned target	Reported achievement
Percentage of refurbishment work completed at Kutlwanong wastewater treatment works by 30 June 2024	100%	97%
Number of sumps cleaned around all six towns by 30 June 2024	6	4
Percentage works completed on the refurbishment and upgrading of two sewer pump-stations in Virginia and Meloding by 30 June 2024	100%	91%
Percentage works completed on installation of sanitation to 617 stands in Thabong X15 and Bronville by 30 June 2024 (multi-year projects)	100%	99%

<i>Targets achieved: 50%</i> <i>Budget spent: 99%</i>		
Key service delivery indicators not achieved	Planned target	Reported achievement
Percentage replacement of old, galvanized water pipes with UPVC pipes in Kutlwanong (multi-year).	100%	99%
Square meters of potholes in formal roads at Matjhabeng Central patched to reduce deterioration and ensure safe usage thereof	7 900m2	3 285,96m2
Square meters of potholes in formal roads at Matjhabeng West patched to reduce deterioration and ensure safe usage thereof	3 950m2	1 440m2
Square meters of potholes in formal roads at Matjhabeng East patched to reduce deterioration and ensure safe usage thereof	3 950m2	1 141m2
Kilometres of stormwater system constructed in Nyakallong.	2km	0km
Kilometres of stormwater cleaned in Matjhabeng East	1,775km	0km
Kilometres of unlined stormwater canals cleaned in Matjhabeng West.	1,4km	0,315km
Kilometres of unlined stormwater canals cleaned in Matjhabeng East	1,4km	0km
Percentage of end-to-end work completed for the provision and installation of substation (multi-year project) (Phase 2)	100%	61%
Number of Streetlights repaired and maintained	1 300	1 181
Number of existing control rooms upgraded	2	0
Number of compactor trucks procured	5	4
Number of approved social compact guideline	1	0
Number of approved social compact guideline	3 000	455
Number of land audit reports on the municipal and private owned land	1	0
Number of guidelines on restrictive access areas	4	0

Material misstatements

33. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for basic services. Management subsequently corrected all the misstatements, and I did not include any material findings in this report.

Report on compliance with legislation

34. 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.

35. 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.
36. 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.
37. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statements and annual reports

38. 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, liabilities, revenue and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.
39. The council failed to adopt an oversight report containing the council's comments on the 2022/23 annual report, as required by section 129(1) of the MFMA.

Expenditure management

40. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
41. Reasonable steps were not taken to prevent irregular expenditure amounting to R123 755 994 as disclosed in note 51 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with the SCM regulations.
42. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R239 024 031, as disclosed in note 50 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 the interest charged on overdue accounts.
43. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R1 048 403 955, as disclosed in note 49 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.

Revenue management

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

Asset management

45. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.
46. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.

Procurement and contract management

47. Contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43. Similar non-compliance was also reported in the prior year.

Consequence management

48. Unauthorised expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
49. 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.

Other information in the annual report

50. 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 the selected KPA presented in the annual performance report that have been specifically reported on in this auditor's report.
51. 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.
52. 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 KPA presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
53. 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

54. 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.
55. 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.
56. Management did not implement daily and monthly processing and reconciling of transactions to ensure that property, plant and equipment were accurately updated on a regular basis.
57. Management did not implement adequate controls to ensure that records were accurate and complete resulting in material corrections to the financial statements.
58. Management did not implement appropriate controls to timeously identify non-compliance in applicable laws and regulations resulting in recurring material non-compliance findings.
59. There was an inadequate implementation of consequence management by leadership (council) on the transgressions of laws and regulations.
60. The executive authority and its oversight committees did not exercise its oversight responsibilities effectively as the municipality has stagnated on its audit outcomes.

Material irregularities

61. 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

Payment for attenuation dam not constructed at Nyakallong storm water system phase 1

62. On 12 April 2017, the municipality awarded a contract of R13 744 408 for the construction of the Nyakallong storm water system to a contractor. Two variation orders amounting to R3 268 705 were approved in 2017 and 2019. Payments estimated at R7 214 719 were made for an attenuation dam after the consulting engineer certified it had been completed. However, during a site visit, the auditors confirmed that the project was incomplete, the attenuation dam had not been constructed, the contractor had abandoned the project site, and the work performed was not of the required quality. This contravened section 65(2)(a) of the MFMA, as an effective system of expenditure control for the approval and payment of funds was not

maintained. The overpayments made on the project are likely to result in a material financial loss for the municipality, if not recovered.

63. The accounting officer was notified of the material irregularity on 5 May 2020. The accounting officer could not provide sufficient and appropriate evidence of the actions that had been taken in response to being notified of the material irregularity. On 9 June 2021, I referred the material irregularity to the Directorate for Priority Crime Investigation (the Hawks) for investigation, as provided for in section 5(1A) of the PAA. The current progress with the investigation is that three individuals were arrested and appeared in court. The investigation is ongoing.

Pollution of water resource not prevented – Hennenman Waste Water Treatment Works

64. The Hennenman wastewater treatment works has totally collapsed and has not been operating effectively. This resulted in continued spilling and discharge of raw/untreated sewage into the adjacent environment, including the groundwater, Rietspruit and its extended watercourse. The municipality did not take reasonable measures to prevent pollution or degradation of the environment and water resource from occurring, continuing or recurring, as required by section 28(1) of the NEMA and section 19(1) of the NWA. The discharge of raw/untreated sewage into the environment is likely to cause substantial harm to the communities exposed to, and dependent on, the contaminated water resources.

65. The accounting officer was notified of the material irregularity on 7 December 2022. The accounting officer did not take appropriate action to resolve the material irregularity. On 27 February 2024, I referred the material irregularity to the Department of Water and Sanitation (DWS) as provided for in section 5(1A) of the PPA. The investigation is currently in progress.

Pollution of water resource not prevented – Phomolong Waste Water Treatment Works

66. The Phomolong wastewater treatment works has totally collapsed and has not been operating effectively. This resulted in continued spilling and discharge of raw/untreated sewage into the adjacent environment, including the groundwater, Slootspruit, and its extended watercourse. The municipality did not take reasonable measures to prevent pollution or degradation of the environment and water resource from occurring, continuing or recurring, as required by section 28(1) of the NEMA and section 19(1) of the NWA. The discharge of raw/untreated sewage into the environment is likely to cause substantial harm to the communities exposed to, and dependent on, the contaminated water resources.

67. The accounting officer was notified of the material irregularity on 7 December 2022. The accounting officer did not take appropriate action to resolve the material irregularity. On 27 February 2024, I referred the material irregularity to the DWS as provided for in section 5(1A) of the PPA. The investigation is currently in progress.

Pollution of water resource not prevented – Witpan Wastewater Treatment Works

68. The Witpan wastewater treatment works has totally collapsed and has not been operating effectively. This resulted in continued spilling and discharge of raw/untreated sewage into the adjacent environment, including the groundwater, Sand river and its extended watercourse. The municipality did not take reasonable measures to prevent pollution or degradation of the environment and water resources from occurring, continuing or recurring, as required by

section 28(1) of the National Environmental Management Act 107 of 1998 (NEMA) and section 19(1) of the National Water Act 36 of 1998 (NWA). The discharge of raw/untreated sewage into the environment is likely to cause substantial harm to the communities exposed to, and dependent on, the contaminated water resources.

69. The accounting officer was notified of the material irregularity on 13 February 2023. The accounting officer did not take appropriate action to resolve the material irregularity. On 27 February 2024, I referred the material irregularity to the DWS as provided for in section 5(1A) of the PPA. The investigation is currently in progress.

Late payment of employee taxes

70. The municipality did not pay over money deducted from employees within seven days after the end of the month during which the amounts were deducted or withheld from employees in respect of their liability for normal tax, as required by section 2(1) of the fourth schedule of the Income Tax Act 58 of 1962. The late payment resulted in a material financial loss for the municipality due to interest of R650 640 and penalties of R1 881 783 incurred for the period 1 April 2019 to 30 June 2020.

71. The accounting officer was notified of this material irregularity on 15 April 2021. The accounting officer did not take appropriate action to address the material irregularity as adequate steps were not taken to prevent further losses. I recommend that the accounting officer should take the following actions to address the material irregularity, which should be implemented by 14 July 2023:

- Appropriate action should be taken to develop and to commence with the implementation of a financial recovery plan as approved by council, to address the financial problems of the municipality that are preventing it from paying the South African Revenue Service (SARS) within seven days, as required by section 2(1) of the Fourth Schedule of the Income Tax Act. The financial plan should include realistic timeframes and milestones to be achieved and include, as a minimum, strategies to:

(a) enhance the existing *Revenue enhancement and debt collection plan* with the intention to increase revenue; and

(b) efficiently manage the available resources of the municipality to optimise and reduce costs by eliminating wastage whilst obtaining value in respect of all costs incurred.

72. The accounting officer has not adequately implemented the above recommendations. I notified the accounting officer on 9 November 2023 of the following remedial actions to address the material irregularity, which must be implemented by 9 April 2024 with a progress report after two months:

- Appropriate action must be taken to formalise and commence with the implementation of the financial recovery plan. The financial recovery plan must be approved by Council and must address the financial problems of the municipality that are preventing it from paying SARS within seven (7) days, as required by Section 2(1) of the Fourth Schedule of the Income Tax Act 58 of 1962. The financial recovery plan must include realistic timeframes and milestones to be achieved.

73. The following actions have been taken to address the material irregularity:

- The accounting officer developed a document "*Matjhabeng Local Municipality Financial Viability Plan*" that includes measures to optimise revenue, increase cash flow and enhance the control environment, including effecting budget techniques to implement financial disciplines. The plan was tabled in Council on 31 May 2024. The implementation has commenced with some action being completed such as the roll-out of smart metres and developing standard procedures to achieve and monitor performance. The actions in progress are monitored through an implementation plan and completion thereof will contribute in improving the financial viability of the municipality.
- The municipality developed a cost containment policy. Although not approved as yet by Council, the municipality has already commenced implementing the measures in the policy in reducing costs and expenditure.
- For the period 1 March 2023 to 30 June 2024 the municipality has been making PAYE payments on time and no further interest and penalties were incurred during this period.

74. The actions taken by the accounting officer to implement the remedial action are deemed appropriate and have addressed the material irregularity and therefore the material irregularity has been resolved.

75. I will continue to monitor the implementation of the initiatives in the financial viability plan and the impact thereof in my subsequent audit.

Eskom not paid within 30 days

76. The accounting officer did not take all reasonable steps to ensure that amounts due to Eskom or the bulk purchase of electricity were paid within 30 days of receiving the relevant invoice or statement, as required by section 65(2)(e) of the MFMA. As a result of the late payment, the municipality incurred interest of R255 516 913 for the financial year ended 30 June 2019. The interest incurred is likely to result in a material financial loss for the municipality due to the liability to pay the interest to Eskom.

77. The accounting officer was notified of the material irregularity on 4 May 2020. The accounting officer did not take appropriate action to address the material irregularity. I recommend that the accounting officer should take the following actions to address the material irregularity, which should be implemented by 30 June 2024 with progress reports every two months:

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

- Increase revenue;
- Increase the collection of revenue;

- Efficiently manage the available resources of the municipality by accurate budgeting, budget management and cost cutting;
- Reduce electricity distribution losses; and
- Negotiate a reasonable payment arrangement with Eskom and properly budget for the amounts to be paid.

78. On 1 July 2024, the accounting officer's responses on the actions implemented was received. I evaluated the accounting officer's responses and substantiating documentation received on the implementation of the recommendations. The following actions were taken to address the material irregularity:

- As stated in paragraph 73 the accounting officer developed a document "*Matjhabeng Local Municipality Financial Viability Plan*" that includes measures to optimise revenue, increase cash flow and enhance the control environment, including effecting budget techniques to implement financial disciplines.
- The accounting officer submitted an application for the Eskom municipal debt relief progress, which was approved by National Treasury on 3 November 2023. Evidence was provided that the municipality has between November 2023 and June 2024 made payments to Eskom totalling approximately R205 million. Should the municipality continue to comply with the conditions of the debt relief programme, Eskom is likely to write-off an amount of approximately R5,2 billion in interest.

79. The actions taken by the accounting officer to implement the recommendations are deemed appropriate and have addressed the material irregularity and therefore the material irregularity has been resolved.

80. I will continue to monitor the compliance with the Eskom debt relief programme and the impact of the initiatives implemented in accordance with the financial viability plan during my subsequent audit.

Other reports

81. In addition to the investigations relating to material irregularities, I draw attention to the following engagements conducted by various parties. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

82. There was an ongoing investigation by the Directorate for Priority Crime Investigation (DPCI) into the allegation of payroll fraud as the IP address of the official was compromised and unauthorised access was obtained, which resulted in the alteration of the banking details of various employees. The investigation covers the specific incident that occurred on 22 January 2020. The outcome was unknown at the date of this auditor's report as the investigation was in progress.

83. There was an ongoing investigation by the DPCI into the allegation that a contractor claimed and was paid for goods and services not delivered. The last payment occurred on

3 August 2018. The outcome was unknown at the date of this auditor's report as the investigation was in progress.

84. There was an ongoing investigation by the *South African Police Service* (SAPS) into the allegation of unauthorised amendments to the supplier's banking details on the municipality's accounting system. The investigation covers the specific incident that occurred on 13 May 2016. The outcome was unknown at the date of this auditor's report as the investigation was in progress.
85. There was an ongoing investigation by the AGSA into procurement and contract management that the executive mayor requested the AGSA to perform. The outcome was unknown at the date of this auditor's report as the investigation was in progress.
86. There was an ongoing investigation into allegations of forgery of a signature of a municipal official that resulted in a payment being made without a service having been rendered to the municipality. This investigation is being conducted by the SAPS and covers a specific incident that occurred on 11 November 2015. The outcome was unknown at the date of this auditor's report as the investigation was in progress.
87. There was an investigation into allegations of the illegal sale of land belonging to the municipality. This investigation is being conducted by the SAPS and covers a specific incident that occurred in 2008. The outcome was unknown at the date of this auditor's report as the investigation was in progress.

Auditor - General

Bloemfontein

14 February 2025



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

1. 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

2. 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 KPA and on the municipality's compliance with selected requirements in key legislation.

Financial statements

3. 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

4. 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.
5. 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) Sections: 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) Sections: 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) Sections: 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), 122(2) Sections: 126(1)(a), 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), 129(1) Sections: 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, 171(4)(a) Sections: 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) Regulations: 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) Regulations: 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2) Regulations: 27(2)(a), 27(2)(e), 28(1)(a)(i), 29(1)(a), 29(1)(b) Regulations: 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c) Regulations: 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii) Regulations: 38(1)(g)(iii), 43, 44; 46(2)(e), 46(2)(f)
Municipal Systems Act 32 of 2000	Sections: 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 34(a), 34(b) Sections: 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) Sections: 67(1)(d), 74(1), 96(b)
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) Regulations: 12(1), 15(1)(a)(i), 15(1)(a)(ii)
MSA: Municipal Performance Regulations for Municipal Managers and Managers directly Accountable to Municipal Managers, 2006	Regulations: 2(3)(a), 4(4)(b), 8(1), 8(2), 8(3)
MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations: 17(2), 36(1)(a)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations: 5(2), 5(3), 5(6), 8(4)
MSA: Municipal Staff Regulations	Regulations: 7(1), 31
Division of Revenue Act 5 of 2023	Sections: 11(6)(b), 12(5), 16(1), 16(3)
Construction Industry Development Board Act 38 of 2000	Section 18(1)
Construction Industry Development Board Regulations	Regulations: 17, 25(7A)
Municipal Property Rates Act 6 of 2004	Section 3(1)
Preferential Procurement Policy Framework Act 5 of 2000	Sections 2(1)(a), 2(1)(f)

Preferential Procurement Regulations, 2017	Regulations 4(2), 5(3), 5(6), 5(7), 6(2), 6(3), 6(6), 6(8) Regulations 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5) 10(1), 10(2) Regulations 11(1), 11(2)
Preferential Procurement Regulations, 2022	Regulations 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4)
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section 34(1)