

# Report of the auditor-general to Limpopo provincial legislature and the council of Greater Tzaneen Municipality

## Report on the audit of the consolidated and separate financial statements

### Opinion

1. I have audited the consolidated and separate financial statements of the Greater Tzaneen Municipality and its subsidiaries set out on pages ... to ..., which comprise the consolidated and separate statement of financial position as at 30 June 2017, and the consolidated and separate statement of financial performance, statement of changes in net assets and cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.
2. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Greater Tzaneen Municipality as at 30 June 2017, and their financial performance and cash flows for the year then ended in accordance with South African standard of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division Of Revenue Act of South Africa ( Act No.3 of 2016) (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 auditor-general's responsibilities for the audit of the consolidated and separate financial statements section of my report
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) together with the 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.

### Emphasis of matters

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

### **Restatement of corresponding figures**

7. As disclosed in note 60 to the financial statements, the corresponding figures for 30 June 2016 have been restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2017.

### **Uncertainty relating to the future outcome of exceptional litigation**

8. With reference to note 39 to the financial statements, the municipality is the defendant in a claim. The municipality is opposing the claim. The ultimate outcome of the matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements

### **Material losses**

9. As disclosed in note 50 to the financial statements, material losses of 81 444 950 units of electricity amounting to R99 452 000 (2015- 2016: 75 794 203 units amounting to R59 812 000).

### **Material underspending of the conditional grant**

10. As disclosed in note 17 to the financial statements, the municipality has materially underspent the bulk of the budget on improved access to affordable and sustainable basic services to the amount of R19 163 000.

### **Unauthorised expenditure**

11. As disclosed in note 43 to the financial statements, unauthorised expenditure to the amount of R32 399 000 was incurred in the current year due to the municipality overspending on their approved budget

### **Fruitless and wasteful expenditure**

12. As disclosed in note 44 to the financial statements, fruitless and wasteful expenditure amounting to R6 076 000 was incurred in the year under review due to interest on late settlement of accounts and duplicates payments

### **Irregular expenditure**

13. As disclosed in note 45 to the financial statements, irregular expenditure to the amount of R26 024 000 was incurred, as a proper tender process had not been followed.

### **Other matter**

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

### **Unaudited supplementary schedules**

15. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedule(s) and, accordingly, I do not express an opinion thereon

## **Responsibilities of the accounting officer for the financial statements**

16. The accounting officer is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with SA 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 consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.
17. In preparing the consolidated and separate financial statements, the accounting officer is responsible for assessing the Greater Tzaneen Municipality and its entity'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 accounting officer either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

## **Auditor-general's responsibilities for the audit of the consolidated and separate financial statements**

18. My objectives are to obtain reasonable assurance about whether the consolidated and separate 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 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.
19. A further description of my responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to the auditor's report.

## **Report on the audit of the annual performance report**

### **Introduction and scope**

20. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
21. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators/measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

22. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2017:

<b>objectives</b>	<b>Pages in the annual performance report</b>
Objective LED 01 – Increased investment in GTM economy	x – x
Objective SD 01 – Improve access to sustainable and affordable basic services	x – x
Objective SD 02 – Optimise and sustain infrastructure investment and services	x – x

23. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

24. The material findings in respect of the usefulness and reliability of the selected objectives are as follows:

### **Objective LED 01 – Increased investment in GTM economy**

#### **Various indicators**

25. The source information and method of calculation for the achievement of the planned indicator was not clearly defined, as required by the Framework for Managing Programme Performance Information (FMPPi) for the following indicators;

- Number of jobs created through municipal Expanded Public Works Programme initiatives
- Number of job opportunities created through the Community Works Programme
- Number of jobs created through agricultural Programme
- Number of jobs created through municipal Land Economic Development initiatives including Capital Projects

#### **Various indicators**

26. The municipality did not have an adequate record keeping system to enable reliable reporting on achievement of the indicators listed below. Sufficient appropriate audit evidence could not be provided in some instances. In other cases, the evidence provided did not agree to the reported achievements, which resulted in misstatements of the reported achievements, as the evidence provided did not agree to the reported achievements. I was also unable to confirm the reported achievements by alternative



means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievements.

<b>Performance indicator</b>	<b>Reported achievement</b>	<b>Audited value</b>
Number of jobs created through municipal EPWP initiatives (FTE)	7583	1025
Number of jobs created through agricultural Programme	397	175
Number of jobs created through municipal LED initiatives including Capital Projects	9839	1025
Number of meetings held with informal traders	10	5
Number of local Tourism association meetings	9	4
Number of SMMEs capacitated through GTEDA	21	0

## **Objective SD 01 – Improve access to sustainable and affordable basic services**

### **Indicator: Electrification of Leolo, Legobareng, Serare, Mogabe and Tshidinko Phase1**

27. The target determined during planning for this indicator was not specific in clearly identifying the nature and required level of performance as required by the Framework for Managing Programme Performance Information (FMPPI).

#### **Various indicators**

28. The municipality did not have an adequate record keeping system to enable reliable reporting on achievement of the indicators listed below. Sufficient appropriate audit evidence could not be provided in some instances. In other cases, the evidence provided did not agree to the reported achievements, which resulted in misstatements of the reported achievements, as the evidence provided did not agree to the reported achievements. I was also unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievements.

<b>Performance indicator</b>	<b>Reported achievement</b>	<b>Audited value</b>
Percentage of households earning less than R 1100 served with free basic electricity (total registered as indigents)	100%	12%
Percentage of households earning less than R 1100 with access to free basic waste removal (total registered as	11.83%	3.28%

indigents)		
Traffic fine collection rate	30.64%	0
Percentage of Electrification of Leolo, Legobareng, Serare, Mogabe and Tshidinko Phase1	100%	80%

## **Objective SD 02 – Optimise and sustain infrastructure investment and services**

### **Indicator: Energy efficiency and demand side management (Tzaneen, Nkowankowa and Lenyenye)**

29. The target as determined during planning for this indicator was not specific in clearly identifying the nature and required level of performance and measurable, as required by the FMPPI.

### **Indicator: New electricity connections (consumer contributions)**

30. The target as determined during planning for this indicator was not specific in clearly identifying the nature and required level of performance and measurable, as required by the FMPPI.

### **Indicator: Provision of Capital tools (outlying) and Provision of Capital tools (urban)**

31. The source information and method of calculation for the achievement of the planned indicator was not clearly defined, as required by the FMPPI.

## **Various indicators**

32. The municipality did not have an adequate record keeping system to enable reliable reporting on achievement of the indicators listed below. Sufficient appropriate audit evidence could not be provided in some instances. In other cases, the evidence provided did not agree to the reported achievements, which resulted in misstatements of the reported achievements, as the evidence provided did not agree to the reported achievements. I was also unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievements.

<b>Performance indicator</b>	<b>Reported achievement</b>	<b>Audited value</b>
Energy efficiency and demand site management(Tzaneen, Nkowankowa & Lenyenye)	100%	0
Provision of Capital tools (Urban)	100%	0
Provision of Capital tools (outlying)	100%	0
New electricity connections(consumer contributions)	100%	0
Kilo Watt hour electricity loss (Kwh)	99 452 442kwh	81 444 950kwh

Km of overhead lines rebuilt	43km	20km
R-value electricity maintenance	R26 641 947	R11 739 494
Replacing of old SS1 electrical substation circuit breakers with compacts switchgear	100%	0
Replacement of autoreclosers (11kv and 33kv)	40%	20%

### Other matter

33. I draw attention to the matter below.

### Achievement of planned targets

34. Refer to the annual performance report on page(s) x to x; x to x for information on the achievement of planned targets for the year and explanations provided for the under / overachievement of a significant number of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraph(s) x; x; x of this report.

## Report on audit of compliance with legislation

### Introduction and scope

35. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

36. The material findings on compliance with specific matters in key legislations are as follows:

### Annual financial statements, performance and annual reports

37. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA.

Material misstatements of non-current assets identified by the auditors in the submitted financial statement were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

### Strategic planning and performance management

38. The performance management system and related controls were inadequate as it did not describe how the performance planning, monitoring, measurement, review and reporting processes should be conducted, organised and managed, as required by Municipal Planning and Performance Management Regulation 7(1).

## **Procurement and contract management**

39. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of Supply Chain Management regulation (SCM regulation) 36(1). Similar non-compliance was also reported in the prior year.
40. Awards were made to providers who were in the service of other state institutions or whose directors were in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM regulation 38(1).

## **Expenditure management**

41. Effective steps were not taken to prevent irregular expenditure amounting to R26 024 000 as required by section 62(1)(d) of the MFMA. Irregular expenditure amounting to R 7 000 000 was incurred on legal cost
42. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R6 060 000, in contravention of section 62(1)(d) of the MFMA.
43. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA.

## **Consequence management**

44. Losses resulting from unauthorised, irregular as well as fruitless expenditure were not recovered from the liable persons, as required by section 32(2) of the MFMA.

## **Assets management**

45. An effective system of internal control for assets was not in place, as required by section 96(2)(b) of the MFMA.

## **Internal control deficiencies**

I considered internal control relevant to my audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, the findings on the performance report and the findings on compliance with legislation included in this report.

## **Leadership**

46. The accounting officer did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.
47. Effective human resource management was not implemented to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored



48. Key positions were vacant for a significant period

### **Financial and performance management**

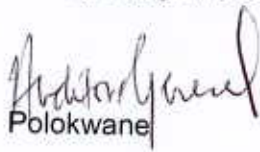
49. The annual financial statements and annual performance report contained numerous misstatements mainly due to a lack of financial monitoring and review

50. The Accounting officer did not review and monitor compliance with applicable legislation

51. Lack of consequence management resulted in unauthorised, irregular as well as fruitless and wasteful expenditure

### **Governance**

52. Those charged with governance did not provide adequate oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations

  
Polokwane

08 December 2017



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

## Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the consolidated and separate financial statements, and the procedures performed on reported performance information for selected objectives and on the municipality’s compliance with respect to the selected subject matters.

### Financial statements

2. In addition to my responsibility for the audit of the consolidated and separate financial statements as described in the auditor’s report, I also:
  - identify and assess the risks of material misstatement of the consolidated and separate 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 by the accounting officer.
  - conclude on the appropriateness of the accounting officer, which constitutes the accounting officer’s 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 related to events or conditions that may cast significant doubt on the Greater Tzaneen Municipality and its subsidiaries ability 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 the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor’s report. However, future events or conditions may cause a municipality to cease to continue as a going concern.
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
  - obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

### **Communication with those charged with governance**

3. 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.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and here applicable, related safeguards.