

Report of the auditor-general to Limpopo provincial legislature on Greater Tzaneen Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Greater Tzaneen Municipality set out on pages 8 to 129, which comprise the statement of financial position as at 30 June 2022, statement of financial performance, statement of changes in net assets and statement of cash flows and statement of comparison of budget information and actual amounts for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Greater Tzaneen Municipality as at 30 June 2022 and its financial performance and cash flows for the year then ended in accordance with Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA), and the Division of Revenue Act 9 of 2021 (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 financial statements section of my report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

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 61 to the financial statements, the corresponding figures for 30 June 2021 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2022.

Litigations and claims

8. With reference to note 40 to the financial statements, the municipality is the defendant in a number of lawsuits. The municipality is opposing these claims. The ultimate outcome of these matters could not be determined and no provision for any liability that may result was made in the financial statements.

Material impairments – Receivables from exchange and non-exchange transactions

9. As disclosed in note 59 to the financial statements, a material loss of R176 252 493 was incurred as a result of impairment of receivables from exchange and non-exchange transactions

Other matters

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

Unaudited supplementary schedules

11. The supplementary information set out on pages 111 to 130 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

Unaudited disclosure notes

12. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA 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

13. The accounting officer is responsible for the preparation and fair presentation of 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.
14. 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.

Auditor-general's responsibilities for the audit of the financial statements

15. 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.

16. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

17. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected development objectives presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
18. My procedures address the usefulness and reliability of the reported performance information, which must be based on the municipality's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the municipality enabled service delivery. My procedures do 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.
19. 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 municipality's annual performance report for the year ended 30 June 2022

Development objective	Pages in the annual performance report
KPA2: Basic service delivery	82 – 127

20. 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.
21. The material findings on the usefulness and reliability of the performance information of the selected objective are as follows:

KPA 02 – Basic service delivery

Various indicators - Reported achievement did not agree with the evidence provided, i.e. not valid and/or accurate and/or complete

22. The achievements reported in the annual performance report materially differed from the supporting evidence provided for the indicators listed below:

Indicator description	Reported achievement
% of electrification of New Rita	8%
% of electrification of New Phepene	8%
% of electrification of Senakwe	0%

Various indicators - Measures taken to improve performance not disclosed

23. The measures taken to improve performance against targets were not reported in the annual performance report.

Indicator description	Planned target
Number of km for construction of Tikckyline to Makhwibuding storm water drainage systems	3KM
% of planning, designs of Marirone to Motupa street	100%
% of planning and designs for the upgrading of Nkowakowa B streets (Hope of Christ Street, Bombelani School street, Giyani Soshangani Street and Xirhombarhomba street)	100%
% of Planning and designs for the upgrading of Topanama access road	100%
% of planning and designs for the upgrading of Thapane street	100%
% of planning and designs for the upgrading of Lenyenye streets	100%
% of planning and designs for the upgrading of Zangoma to Mariveni road	100%
% of planning and designs for the upgrading of Nkowakowa Section D streets (Tommy Spaza Shop via Bridge, Mashaba via Vodacom and Raymond Makelana streets)**	100%
Number of high mast lights erected at Nkowankowa, Petanenge, Zangoma/ Mariveni, Moime/Shikwambana, Lusaka, Sethong and Moleketla	7

Various indicators: Planned indicators and/or targets included in the initial or a revised service delivery budget implementation plan (SDBIP) were removed during the year and were not reported in the annual performance report (APR).

24. The planned targets as per the approved revised SDBIP and the performance against the planned targets were not reported in the APR.

Indicator description	Planned target
Number of km for construction of Tikckyline to Makhwibuding storm water drainage systems	3km
% of planning, designs of Marirone to Motupa street	100%
% of planning and designs for the upgrading of Nkowakowa B streets (Hope of Christ Street, Bombelani School street, Giyani Soshangani Street and Xirhombarhomba street)	100%
% of Planning and designs for the upgrading of Topanama access road	100%
% of planning and designs for the upgrading of Thapane street	100%
% of planning and designs for the upgrading of Lenyenye streets	100%
% of planning and designs for the upgrading of Zangoma to Mariveni road	100%
% of planning and designs for the upgrading of Nkowakowa Section D streets (Tommy Spaza Shop via Bridge, Mashaba via Vodacom and Raymond Makelana streets)	100%
Number of high mast lights erected at Nkowankowa, petanenge, Zangoma/ Mariveni, Moime/Shikwambana, Lusaka, Sethong and Moleketla	7

Other matter

25. I draw attention to the matter below.

Achievement of planned targets

26. Refer to the annual performance report on pages x to x for information on the achievement of planned targets for the year and management's explanations provided for the under/over achievement 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 paragraphs x to x of this report.

Report on the audit of compliance with legislation

Introduction and scope

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

Annual financial statements, performance and annual report

28. 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, current assets, expenditure and disclosure items 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.

Expenditure management

29. Money owed by the municipality was not always paid within 30 days as required by section 65(2)(e) of the MFMA. The non-compliance resulted in a material irregularity as reported in the section on material irregularities
30. Reasonable steps were not taken to ensure that the municipality implements and maintains 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 non-compliance resulted in a material irregularity as reported in the section on material irregularities
31. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R15 558 964, as disclosed in note 45 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. Fruitless expenditure was incurred due to late payment of a service provider, overpayment of service provider, financial loss on a Mulati access road project, settlements of legal disputes and employee separation settlements
32. Reasonable steps were not taken to prevent irregular expenditure amounting to R61 462 750 as disclosed in note 46 to the annual financial statements, as required by section 62(1)(d) of the MFMA. Irregular expenditure was incurred as the municipality did not follow proper tender processes on the appointment of service providers and deviating from supply chain management (SCM) processes.
33. Expenditure was incurred in excess of the approved budget, in contravention of section 87(8) of the MFMA.
34. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R92 973 907, as disclosed in note 44 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. Unauthorised expenditure was incurred due to operating expenditure exceeding the approved budget.

Consequence management

35. Some of the 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
36. Some of the 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
37. 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.

Procurement and contract management

38. 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 SCM regulation 36(1).
39. Bid specifications for one tender were drafted in a biased manner and did not allow all potential suppliers to offer their goods or services, in contravention of SCM regulation 27(2)(a). This non-compliance was identified in the procurement processes for the security services
40. A contracts was awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding, in contravention of SCM regulations 21(b) and 28(1)(a)(i) and the preferential procurement regulations. This non-compliance was identified in the procurement processes for the security services
41. Some of the invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM regulation 22(1) and 22(2). This non-compliance was identified in the procurement processes for the waste management services and managed printing services.
42. Some of the invitation to tender for procurement of commodities designated for local content and production, did not stipulated the minimum threshold for local production and content as required by the 2017 preferential procurement regulation 8(2).
43. Awards were made to providers who were in the service of other state institutions or whose directors / principal shareholders were in the service of other state institutions, in contravention of section 112(1)(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).
44. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of SCM regulation 46(2)(e), the code of conduct for councillors issued in terms of the Municipal Systems Act 32 of 2000 (MSA) and the code of conduct for staff members issued in terms of the MSA.
45. Persons in the service of the municipality who had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of SCM regulation 46(2)(e) / the code of conduct for councillors issued in terms of the MSA.

Other information

46. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report, which includes the audit committee's report. The other information does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report

47. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion on it.
48. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
49. I did not receive the other information prior to the date of this auditor's report. After I receive and read this information, and if I conclude that there is a material misstatement, 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

50. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report
51. The municipality developed a plan to address internal and external audit findings, but the appropriate level of management did not timeously monitor adherence to the plan.
52. The municipality did not have a proper records management system to maintain information that supported the reported performance in the annual performance report.
53. The municipality did not adequately review and monitor compliance with applicable procurement legislation and the MFMA.
54. There was inadequate review of the financial statements and the annual performance report, resulting in several misstatements not identified and corrected timeously.
55. There was no adequate monitoring and implementation of policies and procedures to guide the operations of the municipality, resulting in numerous instances of non-compliance with the MFMA.
56. Supply chain management processes were inadequate resulting in increased irregular expenditure.
57. Expenditure management was inadequate resulting in increased fruitless expenditure
58. The municipality has inadequate control measures around the leave encashment and overtime management.

Material irregularities

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

Material irregularities in progress

60. I identified material irregularities during the audit and notified the accounting officer of these, as required by material irregularity regulation 3(2). By the date of this auditor's report, the responses of the accounting officer were not yet due.

Auditor General

Polokwane

30 November 2022



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 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 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 by the accounting officer.
 - conclude on the appropriateness of 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 relating to events or conditions that may cast significant doubt on the ability of the Greater Tzaneen 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

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 provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence, and to 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.