

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

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of Greater Tzaneen Municipality set out on pages 07 to 109, which comprise the statement of financial position as at 30 June 2023, 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 30 June 2023, 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 2023 and its financial performance and cash flows for the year then ended in accordance with the Municipal Finance Management Act 56 of 2003 and the requirements of Standards of Generally Recognised Accounting Practice (GRAP) and the Division of Revenue Act 5 of 2022 (DoRA).

### Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the responsibilities of the auditor-general for the audit of the financial statements section of my report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my 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 unqualified 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 2022 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2023

## **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 the 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 R133 215 681 was incurred as a result of impairment of receivables from exchange and non-exchange transactions Performance planning, management and reporting

## **Material losses - Electricity**

10. As disclosed in note 50 to the financial statements, material electricity losses of R68 080 234 (2021-22: R30 132 964) was incurred, which represents 13.7% (2021-2022: 6.11%) of total electricity purchased. Losses amounted was due to copper losses in the conductor and actual readings billed instead of estimates.

## **Other matters**

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

## **Unaudited supplementary schedules**

12. 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 this these schedules and, accordingly, I do not express an opinion on them.

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

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

## **Responsibilities of the auditor-general 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.

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

16. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for the selected development priorities presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

17. I selected the following development priorities presented in the annual performance report for the year ended 30 June 2023 for auditing. I selected development priorities that measures the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.

Development priorities	Page numbers	Purpose
KPA 02: Basic service delivery	60 - 86	The service delivery KPA is aimed at ensuring a sustainable quality of life,
KPA 03: Local economic development	87 - 96	The local economic development KPA is aimed at achieving an Increased Income for all

18. I evaluated the reported performance information for the selected development priorities 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.

19. 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.
- 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.
- there is adequate supporting evidence for the achievements reported and for the measures taken to improve performance.

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

21. I did not identify any material findings on the reported performance information for the development priorities, KPA 02: Basic Service Delivery and KPA 03: Local Economic Development

### Other matters

22. I draw attention to the matter below.

### Achievement of planned targets

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

### KPA 02- Basic service delivery

Targets achieved: 75%		
Key service delivery indicators not achieved	Planned target	Reported achievement
Number of KM of Moseanoka to Cell C Pharare streets upgraded from gravel to paving.	8.8 Km	7.8 km
Number of Km of Risiba, Mnisi Shando to driving school internal street upgraded from gravel to paving.	6.1 Km	5.1 km
% of Electrification of Mokgwathi (120 units)	100%	97.21%
% Electrification of Ramotshinyadi (132 Units)	100%	96%
Number of households electrified in current financial year	1721	1554

### Report on compliance with legislation

24. 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.

25. 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.
26. 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.
27. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

### **Procurement and contract management**

28. Some of the invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of supply chain management (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.
29. 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). This non-compliance was identified in the procurement processes for the vehicles and accommodation for strategic sessions.
30. Some of the tenders achieved the minimum qualifying score for functionality legislative requirement were not evaluated further in accordance with 2017 preferential procurement regulation 5(7). This non-compliance was identified in the panel of service providers for electrification projects and rehabilitation of roads projects
31. 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).

### **Expenditure management**

32. Money owed by the municipality was not always paid within 30 days as required by section 65(2)(e) of the MFMA.
33. 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.
34. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R13 329 202, as disclosed in note 45 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. Fruitless and wasteful expenditure was incurred due to late

payment of a service provider, payment of legal fees that far exceeds the settlement amounts and payment for stands that were never registered.

35. Reasonable steps were not taken to prevent irregular expenditure amounting to R114 605 224 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 as bids were not advertised for the required number of days, no criteria for allocation of work to panel members and deviating from supply chain management processes where there were no emergencies.
36. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R19 894 903, 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.

### **Asset management**

37. Capital assets were disposed of without the municipal council having, in a meeting open to the public decided on whether the assets were still needed to provide the minimum level of basic municipal service as required by section 14(2)(a) of the MFMA.

### **Annual financial statements, performance and annual report**

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 current assets, current liabilities, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

### **Consequence management**

39. 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
40. 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
41. Fruitless and wasteful expenditure were certified by council as irrecoverable without having conducted an investigation to determine the recoverability of the expenditure, in contravention of section 32(2)(b) of the MFMA

<h3><b>Other information in the annual report</b></h3>
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42. 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 development priorities presented in the annual performance report that have been specifically reported in this auditor's report.

43. My opinion on the financial statements 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.
44. 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.
45. 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

46. 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.
47. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the opinion and the material findings on compliance with legislation] included in this report.
48. Management did not implement adequate internal controls to ensure the preparation of accurate financial statements as numerous material misstatements were identified that required material adjustments.
49. 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.
50. The municipality did not adequately review and monitor compliance with applicable procurement legislation and the MFMA.
51. 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.
52. Inadequate supply chain management processes resulted in increased irregular expenditure.
53. Expenditure management was inadequate resulting in increased fruitless expenditure, especially legal fees which contributed to material irregularities.

54. Control measures for the management of overtime are inadequate as evidenced by the excessive overtime claimed.
55. Provision of incorrect information that had to be retracted and replaced which contributed to increased audit time
56. Write off of bad debts without a council resolution and incorrectly writing off fruitless expenditure that caused material irregularities
57. Donation of municipal land to a developer without a council resolution

## Material irregularities

58. 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.

### Material irregularities in progress

#### Payment to replace damaged parts of the road caused by delays.

59. Greater Tzaneen Municipality failed to use the resources of the municipality effectively, efficiently and economically. There was poor contract management on the Mulati access road project which led to project stoppages and the project stoppages caused structural damages.

The municipality incurred additional expenditure to replace and repair structural damages, which is a duplication of work and amounts to a financial loss.

60. The non-compliance with section 62(1)(a) of the MFMA has resulted in a likely material financial loss amounting R2 368 771,73 as at 30 June 2022.

61. The accounting officer was notified of the material irregularity on 24 March 2023. The following action have been taken to resolve the material irregularity:

- The contractor was terminated and replaced with a new contractor who has managed to complete the project
- The PMU Manager was dismissed
- The municipality is now conducting a risk assessment process prior to awarding new bids
- The accounting officer referred the matter for further investigation. I will follow up on the investigation and the implementation of the planned actions during my next audit.

62. Matter is currently under investigation. I will follow up on the investigation and the implementation of the planned actions during my next audit.

#### Duplicate payments to consultants

63. Greater Tzaneen Municipality failed to effectively, efficiently and economically use the resources and manage the Mulati access road project by approving payments for duplicate consulting work that bear no additional benefits.



The municipality failed to prevent the loss by paying for inception, concept and viability and design development twice on the same Mulati access road project.

64. The non-compliance with section 62(1)(a) of the MFMA has resulted in a likely material financial loss amounting R2 222 291,71 as at 30 June 2022.
65. The accounting officer was notified of the material irregularity on 24 March 2023. The following action have been taken to resolve the material irregularity:
- The contractor was terminated and replaced with a new contractor who has managed to complete the project
  - The PMU Manager was dismissed
  - The municipality is now conducting a risk assessment process prior to awarding new bids
  - The accounting officer referred the matter for further investigation.
66. Matter is currently under investigation. I will follow up on the investigation and the implementation of the planned actions during my next audit.

## **Status of previously reported material irregularities**

### **Payment of Interest to Eskom**

67. The municipality procures bulk electricity from Eskom and sells it to customers such a government, business and households. The municipality is billed on a monthly basis by Eskom for electricity supplied and it is expected in terms of section 65(2) (e) of the MFMA to settle the invoices within 30 days.
68. Non-compliance with section 65(2) (e) of the MFMA resulted in a material financial loss R5 413 504 by 30 June 2022 due to the failure to settle within 30 days. This has resulted in Eskom charging the municipality interest which was incurred and paid for late payment.
69. The accounting officer was notified of the material irregularity on 22 November 2022. The following action have been taken to resolve the material irregularity:
- Municipality embarked on customer data cleansing exercise to ensure billing integrity
  - Improved billing accuracy by investigating debtors by type and reclassify debtors that are incorrectly identified on the billing system
  - Managing the revenue environment through regular reports and updates on the income received per area and service for the monitoring of revenue
  - Extensive review of the budget to ensure that there are no unfunded budget items which affect the cash flow of the municipality
  - Municipality is paying Eskom on time and has reduced the interest from R5 413 503 to R1 063 528 in the 2022-23 financial year and continues to work towards the elimination of the interest payments.

70. I will follow up on the implementation of the planned actions during my next audit.

*Auditor-General*

Polokwane

30 November 2023



AUDITOR-GENERAL  
SOUTH AFRICA

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## **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.

- 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**

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	Section 1 - Paragraph (a), (b) & (d) of the definition: irregular expenditure, Section 1 - Definition: service delivery and budget implementation plan, Sections 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 29(1), Sections 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b), Sections 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 62(1)(f)(i), Sections 62(1)(f)(ii), 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b), Sections 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), Sections 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), Sections 122(2), 126(1)(a), 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), Sections 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, Sections 171(4)(a), 171(4)(b)
MFMA: Municipal Budget and Reporting Regulations, 2009	Regulations 71(1), 71(2), 72
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), 13(c)(i), 16(a), 17(1)(a), Regulations 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), Regulations 27(2)(e), 28(1)(a)(i), 28(1)(a)(ii), 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), 38(1)(g)(iii), 43, Regulations 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), 29(3)(b), 34(a), 34(b), Sections 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), 56(a), 57(2)(a), Sections 57(4B), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 93J(1), 96(b)  <b>Parent municipality with ME:</b> Sections 93B(a), 93B(b)

Legislation	Sections or regulations
	<b>Parent municipality with shared control of ME:</b> Sections 93C(a)(iv), 93C(a)(v)
MSA: Municipal Planning and performance Management Regulations, 2001	Regulations 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 3(6)(a), 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)
Annual Division of Revenue Act	Section 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(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8), Regulations 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)
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section 34(1)