

Report of the auditor-general to Limpopo Provincial Legislature and the council on Greater Giyani Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Greater Giyani municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2022, the statement of financial performance, statement of changes in net assets and cash flow statement and statement of comparison of budget information with actual information 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 Giyani Municipality as at 30 June 2022, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2021 (Act No. 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 60 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, and for the year ended, 30 June 2022.

Significant uncertainty

8. With reference to note 49 to the financial statements, the municipality is the defendant in multiple lawsuits. 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

9. As disclosed in note 39 to the financial statements, material impairment of R14 419 155 was incurred as a result of debt of which recovery is doubtful due to inadequate collecting systems.

Other matters

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

Unaudited disclosure schedules

11. 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. The disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

Unaudited supplementary schedules

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. The 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 the financial statements in accordance with the standards of GRAP and the requirements of the MFMA, 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, 2004 (Act No. 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 priorities 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 the extent of achievements in the current year or 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 development priority presented in the municipality's annual performance report for the year ended 30 June 2022:

Development priority	Pages in the annual performance report
KPA 3 – Basic services and infrastructure	x – x

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 development priorities are as follows:

KPA 3: Basic services and infrastructure development

Various indicators

22. The achievement below were reported in the annual performance report for the listed indicators. However, some supporting evidence provided, materially differed from the reported achievement, while in other instances I was unable to obtain sufficient appropriate audit evidence. This was due to lack of accurate and complete records. I was unable to further confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievements.

Indicator description	Reported achievement
To connect 413 units at Mavalani Village by 30 June 2022	Target achieved (413 households connected with electricity)
To connect 250 units at Ndengeza Village by 30 June 2022	Target not achieved (213 households connected with electricity)
To develop a waste disposal site by 30 June 2022	Target achieved (Construction of waste disposal site development)

Various indicators

23. I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined source information and method of collection or that related systems and processes were established to enable consistent measurement and reliable reporting of the actual achievement of the indicators listed below. This was due to a lack of measurement definitions and processes. I was unable to confirm that the indicator is well-defined and verifiable by alternative means. As a result, I was unable to audit the reliability of the achievements reported in the annual performance report of the listed indicators.

Indicator description	Planned outcomes	Reported achievement
Construction of Ndhambi taxi rank	Construction of Ndhambi taxi rank	Target not achieved (In progress)
To develop a waste disposal site by 30 June 2022	Construction of waste disposal site development by 30 June 2022	Target achieved (Construction of waste disposal site development)
To upgrade access road to Nkhensani hospital by 30 June 2022	Designs to upgrade access road to Nkhensani hospital by 30 June 2022	Target not achieved (Detailed design report not conducted)
To develop and construct Mavalani indoor sport centre by 30 June 2022	Designs and draft tender document by 30 June 2022	Target not achieved (Service provider not appointed)
To develop and construct Jim Nghalalume community hall by 30 June 2022	Designs and draft tender document by 30 June 2022	Target achieved (Detailed designs and draft tender document)

Indicator description	Planned outcomes	Reported achievement
To develop and construct Nwazekudzoku community hall by 30 June 2022	Designs and draft tender document by June 2022	Target not achieved
To construct an extension of Mageva soccer pitch	To construct an extension of Mageva soccer pitch by June 2022	Target not achieved (service provider not appointed)
Construction of sports centre at section E by 30 June 2022	Section E sports centre constructed by 30 June 2022	Target not achieved

Other matters

24. I draw attention to the matters below.

Achievement of planned targets

25. Refer to the annual performance report on pages ... to... for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraph 21 to 23 of this report.

Adjustment of material misstatements

26. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of basic service delivery and infrastructure development. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

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.

28. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements, performance and annual report

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

Material misstatements of current assets, liabilities and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

30. 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) and Supply Chain Management (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).
31. Some of the quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulations 13(c). Similar non-compliance was also reported in the prior year.

Expenditure management

32. Reasonable steps were not taken to prevent irregular expenditure amounting to R6 281 720 as disclosed in note 55 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed irregular expenditure was caused by the non-compliance with SCM regulations.
33. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R5 027 908, as disclosed in note 54 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 late payments of suppliers and payment of free basic electricity to non-qualifying beneficiaries.
34. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R49 095 505, as disclosed in note 56 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by non-cash items.

Strategic planning and performance management

35. The performance management system and related controls were not maintained due to internal control deficiencies identified, as required by the municipal planning and performance management regulation 7(1).

Other information

36. 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.

37. 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.
38. 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 development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
39. I did not receive the other information prior to the date of this auditors 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 the auditor's report and re-issue an emended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

40. 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 the annual performance report and the findings on compliance with legislation included in this report.
41. The financial statements contained material misstatements which were subsequently corrected. This is mainly due to insufficient reviews performed on the annual financial statements.
42. Non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored. The municipality did not take reasonable steps to prevent irregular expenditure, fruitless and wasteful expenditure and unauthorised expenditure.
43. The annual performance report contained material misstatements which were subsequently corrected. This is mainly due to insufficient reviews performed on the annual performance report.

Material irregularities

44. 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 the material irregularities reported in the previous year's auditor's report.

Material irregularities identified during the audit

Prohibited investment with a mutual bank

45. The municipality invested a total of R153 254 435 with Venda Building Society Mutual Bank (VBS), which accrued interest of R6 008 257, the first investment of R100 000 000 was made in March 2017, which was re-invested after maturity. An amount of R104 598 153 was re-invested in September 2017. An additional investment of R48 656 282 million was made in October 2017. The municipality did not comply with regulation 6 of the municipal investment regulations as VBS is not registered in terms of the Bank's Act.
46. The non-compliance is likely to result in a financial loss of R142 526 625 for the municipality if the amount invested is not recovered in full from the estate of VBS.
47. The accounting officer was notified of the material irregularity on 9 December 2021 and invited to make a written submission on the actions taken to address the matter. The accounting officer responded on 24 February 2022 and indicated the following actions were taken:
- On 11 May 2018, the municipal council approved the suspension of the Chief financial officer (CFO) and director: technical services and further approved the appointment of an independent investigator to investigate the alleged acts of misconduct committed by the CFO and the director: technical services, the investigation was finalised on 25 June 2022.
 - On 29 June 2018, the municipal council approved to initiate disciplinary processes against the CFO and director: technical services. Council authorised the municipal manager to appoint and sign letters of appointment of an external chairperson and prosecutor/ officer to lead evidence for the disciplinary proceedings for the suspended officials. Council further approved that civil recovery measures be instituted against all who are implicated in the financial misconduct of irregular investments with VBS.
 - The director: technical services resigned on 13 July 2018 and the CFO was found guilty and subsequently dismissed on 19 October 2018.
 - The municipality instituted civil action proceedings against the CFO and director: technical service to recover a portion of money lost as a result of the investment with VBS in terms of section 32(1)(c) and (d) and section 32(2) of the MFMA. The same was also instituted against VBS.
48. The municipality received an amount of R10 727 810 on 4 February 2022 from the liquidator and will continue to monitor the liquidation process.
49. I will follow up on progress made during my next audit.

Free basic electricity provided to none qualifying customers.

50. During the 2020-21 and 2021-22 financial year, the municipality paid Eskom an estimated amount of R4 386 484 for free basic electricity relating to beneficiaries who did not qualify to be classified as indigents as some were either deceased, employed by other organs of state and/ or the spouse where employed by an organ of state. This matter is a non-compliance with section 78(1)(a) of the MFMA as the senior managers of the municipality did not take

reasonable steps within their respective areas of responsibility to ensure that the system of financial management and internal control established for the municipality is carried out diligently as the municipality established an internal policy which stipulated the process and steps to be followed for identification, validation and approval of customers as indigents.

51. The non-compliance has resulted in a likely material financial loss of R4 386 484 for the municipality, as payment was made for non-qualifying customers.

52. The accounting officer was notified of the material irregularity on 22 February 2022 and invited to make a written submission on the actions that will be taken to address the matter. The accounting officer responded on 22 March 2022 and 4 November 2022 and indicated that the following actions will be taken:

- The beneficiary list that lead to the material irregularity was cancelled on 1 March 2022 with Eskom and the beneficiaries were re-registered up until 30 June 2022. A new beneficiary list was compiled, validated and sent to Eskom in October 2022.
- The likely financial loss of R4 386 484 was disclosed as fruitless and wasteful expenditure in note 54 to the annual financial statements for the 2021-22 financial year.
- An investigation was instituted to investigate and report on the circumstances that lead to the material irregularity on 4 November 2022. The investigation is planned to be finalised on or before February 2023. The accounting officer plans to take action against the person/s found responsible and to initiate steps to recover the financial loss based on the outcome of the investigation.

53. I will follow up on this investigation and the implementation of any planned actions during my next audit.

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 development priorities 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 Giyani 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.