

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

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the of the Greater Giyani Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the municipality as at 30 June 2019, and its financial performance and cash flows for the year then ended in accordance with South African Standards 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 the Division of Revenue Act of South Africa, 2018 (Act No.1 of 2018) (DoRA).

Basis for qualified opinion

Employee cost

3. I was unable to obtain sufficient appropriate audit evidence that overtime claims were properly accounted for, as the municipality did not maintain adequate controls over its record keeping. I was unable to confirm this expenditure by alternative means. Consequently, I was unable to determine whether any adjustment to employee costs stated at R133 755 511 to the financial statements was necessary.

Irregular expenditure

4. The municipality did not include the required information on irregular expenditure in the notes to the annual financial statements, as required by section 125(2)(d) of the MFMA. This was due to payments made in contravention of the supply chain management requirements, which resulted in irregular expenditure of R9 069 274. Adequate systems and controls were not in place to ensure that all irregular expenditure was accounted for. I was not able to determine the full extent of the understatement irregular expenditure disclosed in note 50 as it was impracticable to do so.

Other receivables from exchange transactions

5. The municipality did not prepare a reconciliation of the balance of the inter-municipal account of R16 925 521. I identified an unreconciled difference totalling R 5 274 368 between the prior year closing balance of R23 551 913 for intermunicipal general ledger account and the opening balance of the same account in current year of R 18 277 544. Consequently, I was unable to

determine whether any adjustment to inter-municipal account stated at R16 925 521 to the financial statements was necessary.

Context for the opinion

6. 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 this auditor's report.
7. I am independent of the municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* and, parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA codes) as well as 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 codes.
8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

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

Material impairments

10. As disclosed in note 34 to the financial statements, an impairment of trade debtors of R29 161 645 was incurred as a result of doubtful for recovery of debt and inadequate debt collecting systems.

Restatement of corresponding figures

11. As disclosed in note 43 to the financial statements, the corresponding figures for 30 June 2018 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2019.

Other matters

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

Unaudited supplementary schedules

13. 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 schedules and, accordingly, I do not express an opinion on them.

Unaudited disclosure notes

14. 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 accounting officer for the financial statements

15. The accounting officer is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.
16. 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 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 financial statements

17. 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 financial statements.
18. 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

19. 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 development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
20. 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.

21. 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 priorities presented in the annual performance report of the municipality for the year ended 30 June 2019:

Key Performance Area	Pages in the annual performance report
KPA3 – Basic service delivery and infrastructure development	14 – 58

22. 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.

23. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows

Development priority KPA3 – Basic service delivery and infrastructure development

Various Indicators

24. The indicators approved in the Service Delivery and Budget Implementation Plan (SDBIP) were not reported in the annual performance report.

Reported performance indicator / measure	Expected date of achievement
Rehabilitation of Giyani streets in all Sections	30 June 2019
Rehabilitation of Access Roads To Tribal Offices	30 June 2019
Upgrading of Road D3187 from gravel to tar	30 June 2019
To upgrade Nkhensani Access (Sidewalks, Lightning, Bus stop and stalls)	30 June 2019
To Refurbish Shivulani Sports Centre by 30 June 2019	30 June 2019

Various Indicators

25. The planned indicators and targets were inconsistent with the reported achievements

Planned performance indicator / measure	Reported performance indicator / measure
To connect 898 units at Shikhumba, Dzingidzingi, Nkomo B and Nkomo C	To connection and designs – Shikhumba and Dzingidzingi (connections) and Nkomo B and Nkomo C (designs)
To rehabilitate dumping site and approval of designs by Department of Water and Sanitation	To approval of designs by Department of Water and Sanitation
To upgrade 2.9 km from gravel to tar at Giyani Section F	To upgrading of 2.9 km road at Giyani Section F streets from gravel to paving
Xikukwane gravel to tar(RAL) (D3804 & D3805)	To Scoping report and preliminary designs
To connect 500 units at Mbaula villages by	To design of 500 units at Mbaula
Number of km of roads tarred by 30 June 2019	<ul style="list-style-type: none"> - Upgrading of 1.4Km road from gravel to tar at Giyani Section E - Construction of 4.3 Km road at Homu 14 B to 14 A - Paving of 5,6 km at Makosha - To upgrading of 2.9 km road at Giyani Section F streets from gravel to paving

To upgrade Giyani traffic lights from solar to electricity and R81 lighting by 30 June 2019

26. The planned target for this indicator did not specific in clearly identifying the nature and required level of performance.

Alternative road to Giyani from R81 by 30 June 2019

27. The planned target for this indicator was not specific in clearly identifying the nature and required level of performance.

Various Indicators

28. The reported achievement does not agree with supporting documentation.

Planned performance indicator / measure	Reported achievement	Performance achievement as per supporting documents
To upgrade Giyani traffic lights from solar to electricity and R81 lighting by 30 June 2019	Target not achieved, Giyani traffic lights and R81 lighting not upgraded by 30 June 2019.	Target not achieved, however, traffic lights upgrade and new installation at 77%.
Number of km road at Homu 14 B to 14 A tarred by 30 June 2019	Target not achieved, construction of 4.3km road at Homu 14B to 14A not done by 30 June 2019.	Target not achieved, however, mass earthworks, pavement layers of gravel material
To Construct Mageva sport centre by 30 June 2019	Target not achieved, Mageva sports centre not constructed by 30 June 2019	Target not achieved, however, fencing of sports facilities, Netball, basketball and volleyball court, guard house, completion of

		enviro loo toilets at an overall average of 10.6% and steel structure at 80%.
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Other matters

29. I draw attention to the matters below.

Achievement of planned targets

30. Refer to the annual performance report on pages 14 to 58 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 paragraphs 21 to 29 of this report.

Adjustment of material misstatements

31. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA 3: 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

32. 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.

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

Annual financial statements, performance and annual report

34. 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 non-current assets, current assets, current liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Procurement and contract management

35. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM regulation 17(a) and (c).

36. 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).
37. Tender requirements for contracts above R30 million did not include a condition for mandatory subcontracting to advance designated groups, as required by the 2017 preferential procurement regulation 9(1). This non-compliance was identified in the procurement processes for the section F from gravel to paving.
38. Other SCM role players whose associates had a private or business interest in contracts awarded by the municipality participated in the process relating to that contract, in contravention of SCM regulation 46(2)(f).
39. 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).
40. 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).
41. 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 MFMA 112(j) 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).
42. The contract performance and monitoring measures and methods were not sufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.

Expenditure management

43. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R30 660 098 as disclosed on note 49 in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by the impairment of the debtors during the year.

Other information

44. 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 the auditor's report.
45. 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 thereon.
46. In connection with our audit, our 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.

47. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

48. 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 basis for the qualified opinion, the findings on the name of performance report and the findings on compliance with legislation included in this report.

49. Oversight, adequate supervision and review over the operations of the municipality was not properly exercised resulting in over reliance on consultants and Municipal officials did not take ownership of overall work performed for compliance, financial and performance reporting.

50. An action plan was developed to address internal control deficiencies, however the plan was not adequately monitored, hence the recurrence of findings identified in the prior year.

51. Although some of the controls and review over daily and monthly recording and reconciliation of transactions and account balances are in place, management did not monitor them consistently, resulting in material non-compliance with laws and regulations, submission of financial records and performance information which were not accurate and complete

Auditor - General

Polokwane

04 December 2019



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit¹

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 [board of directors, which constitutes 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 related to events or conditions that may cast significant doubt on the Musina Local Municipality’s 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 this auditor’s report. However, future events or conditions may cause a municipality to cease continuing 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, where applicable, related safeguards.