

Report of the auditor-general to Limpopo Provincial Legislature and the council of Ba-Phalaborwa Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Ba-Phalaborwa 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, cash flow statement and statement of comparison of budget 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, except for the effects and possible 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 Ba-Phalaborwa 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 Practices (GRAP) and the requirements of Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 9 of 2021 (DoRA).

Basis for qualified opinion

Cash and cash equivalent

3. I was unable to obtain sufficient and appropriate audit evidence for cash and cash equivalents as the bank reconciliations were not prepared to reconcile the differences between the bank confirmation as at 30 June 2022 and the underlying records. I was unable to confirm cash and cash equivalent by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the cash and cash equivalent to the value of R68 026 572 (2021: R69 319 706) in note 11 to the financial statements.

Receivables from non-exchange transactions and consumer debtors

4. The municipality did not calculate the allowance for impairment on receivables from non-exchange transactions and consumer debtors in accordance with the Standards of GRAP 104, *Financial Instruments*. The municipality calculated the allowance as the difference between the carrying amount of debtors and present value of discounted carrying amounts instead of the estimated future cash flows. Consequently, I was unable to determine the value of the misstatement on receivables and consumer debtors and the allowances for impairment as it was impracticable to do so. There was a resultant impact on the surplus for the period and on the accumulated surplus.

Consumer debtor - service charges

5. The municipality did not implement internal controls over the billing of service charges. The municipality billed municipal properties with service charges resulting in overstatement of consumer debtors by R63 441 482. Consequently, service charges is overstated by R13 051 842 and accumulated surplus for the year overstated by R50 389 640. Additionally, there was an impact on the deficit for the period

Revaluation reserves

6. The municipality did not recognise the value of the illegally occupied municipal land in the reserve, as required by IGRAP 18, *Recognition and derecognition of Land*. Land has been impaired in the prior years in the underlying asset register and that was not recognised for the revaluation reserve. This resulted in revaluation reserve being overstated by R24 653 138 and accumulated surplus understated by the same amount.

General expenses – consumables

7. I was unable to obtain sufficient appropriate audit evidence for consumables of R11 936 166 included in general expenses due to a lack of proper record keeping. I was unable to confirm these consumables by alternative means. Consequently, I was unable to determine whether any further adjustment to consumables stated at R29 760 622 in note 42 to the financial statements was necessary.

Contingencies

8. The municipality did not assess the best estimate of the liability in terms of GRAP 19, *Provisions, Contingent liabilities and Contingent assets*. The municipality valued contingencies based on claims received. I was unable to determine the impact on the current and prior year contingencies stated at R21 584 247 (2021: R22 685 008) in note 46 to the financial statements, as it was impracticable to do so.

Payables from exchange transactions

9. The municipality did not recognise an accrual as a liability in terms of GRAP 19, *Provisions, Contingent liabilities and Contingent assets*. Goods and services have been received in the current year but not yet invoiced. This resulted in accruals and general expenses being understated by R13 739 841. Additionally, there was an impact on the surplus for the period.
10. I was unable to obtain sufficient appropriate audit evidence for unallocated deposits received included in payables from exchange transactions, due to the non-submission of underlying records and supporting evidence. I was unable to confirm this payable by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to unallocated deposits received stated at R68 761 925 (2021: R33 227 120) in note 14 to the financial statements.
11. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding amounts for payables from exchange transactions, namely trade payables, sundry creditors and payroll accruals. As described in note 48, the restatement amounting to R21 229 721 was made to rectify a previous year misstatement, but the restatement could not

be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the payables from exchange transactions corresponding figure stated at R595 049 379 in the financial statements.

12. Payables from exchange transactions was materially misstated by R2 366 946 due to the cumulative effect of an individually immaterial uncorrected misstatement in trade payables. In addition, I was unable to obtain sufficient and appropriate audit evidence and to confirm the payroll accruals and sundry payables by alternative means:

- Payroll accruals of R5 371 017 as included in the disclosed balance of R5 076 774.
- Sundry payables of R3 142 7433 as included in the disclosed balance of R3 214 462.

Consequently, I was unable to determine whether further adjustment was necessary to payables from exchange transactions.

Total revenue and expenditure

13. Total revenue and expenditure were materially misstated by R2 431 520 and R3 320 725, respectively, due to the cumulative effect of individually immaterial uncorrected misstatements in the following items:

- Service charges stated at R123 585 004 was overstated by R1 150 196.
- Interest income stated at R13 766 025 was understated by R3 581 716.
- Depreciation and amortisation stated at R72 475 714 was understated by R3 320 725.

In addition I was unable to obtain sufficient appropriate audit evidence and to confirm total revenue and expenditure by alternative means:

- Interest income of R4 295 584 as included in the disclosed balance of R13 766 025.
- Employee costs of R1 989 179 as included in the disclosed amount of R168 415 875.

Contracted services: Outsourced services – Traffic fines management

14. The municipality did not recognise its percentage of monies received for licenses on behalf of the principal in terms of the agreement. The municipality recognised the total amount paid to the principal as contracted services instead to recognise the percentage allowable as revenue. Contracted services and revenue – licenses and permits were overstated by R19 296 745. Additionally, there was an impact on the surplus for the period.

Cash Flow Statement

15. The municipality did not correctly prepare and disclose the net cash flows from operating activities as required by GRAP 2, *Cash flow statements*. This was due to multiple errors in determining cash flows from operating activities. I was unable to determine the full extent of the errors in the net cash flows from operating activities as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to cash flows from

operating activities as stated as R55 979 388 (2021: R75 030 501) in the financial statements were necessary. This has an impact on the cash and cash equivalents at the end of the year.

Context for the opinion

16. 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.
17. 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.
18. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matter

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

Restatement of corresponding figures

20. As disclosed in note 42 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.

Other matter

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

Unaudited disclosure notes

22. 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 in note 56 to the financial statements did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Responsibilities of the accounting officer for the financial statements

23. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the 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.

24. 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

25. 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.

26. 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

27. 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 key performance area presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

28. 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.

29. 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 key performance area presented in the municipality's annual performance report for the year ended 30 June 2022:

Key performance area (KPA)	Pages in the annual performance report
KPA 2: Basic service delivery	x – x

30. 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.

31. The material findings on the usefulness and reliability of the performance information of the selected key performance area are as follows:

KPA 2 - Basic Service Delivery

Indicator: Number of rural villages with access to basic waste removal services (Mashiimale & Makhushane) by 30/06/2022

32. The target of zero per the approved service delivery and budget implementation plan was changed without the necessary approval

Various indicators

33. The achievement reported in the annual performance report materially differed from the supporting evidence for the indicators listed below:

Indicator description	Reported achievement
Number of indigent HH receiving free basic electricity by 30/06/2022	421
Number of indigent households receiving free basic waste removal service by 30/06/2022	252

Indicator: Number of urban households with access to basic waste removal services (Phalaborwa town, Gravelotte, Namakgale and Lulekani) by 30/06/2022

34. The achievement of 12 590 was reported against the target of 12 605 in the annual performance report for the indicator. However, some supporting evidence provided materially differed from the reported achievement, while in other instances I was unable to obtain sufficient audit evidence. This was due to the lack of accurate and complete records. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any further adjustments were required to these reported achievements:

Other matters

35. I draw attention to the matters below.

Achievement of planned targets

36. 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 paragraphs X to X of this report.

Adjustment of material misstatements

37. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of key performance area of basic service delivery. 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

38. 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.

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

Annual financial statements, annual performance report and annual report

40. 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, 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.

Strategic planning and performance management

41. The performance management and related controls were inadequate as it did not function how the performance monitoring, review and reporting processes should be managed, as required by municipal planning and performance management regulation 7(1).

Procurement and contract management

42. The invitation to tender for procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by the 2017 Preferential Procurement Regulation 8(2). Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes for the provision of consultancy services and electrification of 500 units (houses) at Sebera Village, ward 2, provision of consultancy services and electrification of 300 units (houses) at Garden view village, ward 2 and provision of consultancy services and electrification of 314 units (houses) at Majeje /Hector Village, ward 3/15 turnkey project

43. Awards were made to providers whose directors were in the service of other state institutions, in contravention of MFMA 112(1)(j) and SCM Regulation 44

Expenditure management

44. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

45. Reasonable steps were not taken to prevent irregular expenditure amounting to R40 549 188 as disclosed in note 53 to the financial statements, as required by section 62(1)(d) of the MFMA. The majority of the disclosed irregular expenditure was caused by non-compliance with supply chain management regulations.

Revenue Management

46. An effective system of internal control for revenue was not in place, as required by section 64(2)(f) of the MFMA.

47. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

Other information

48. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected key performance areas presented in the annual performance report that have been specifically reported in this auditor's report.

49. 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.

50. 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 key performance area presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

51. 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 will be 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

52. 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 of opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

53. There is a slow response from senior management to improve the internal controls, prepare and submit credible financial statements and performance report.
54. The municipality did not have sufficient monitoring controls to ensure the proper implementation of the overall processes of reporting on predetermined objectives.
55. Senior management did not adequately oversee the operations of the municipality, as the financial statements and annual performance report contained material misstatements not detected by the municipality's own system of internal control.
56. Proper record keeping was not implemented to ensure that complete, relevant and accurate information was accessible and available to support financial and performance reporting.
57. Controls over daily and monthly processing, following up and reconciling of transactions were inadequate. Control accounts are not reconciled and monthly bank reconciliations not performed. Differences between the underlying records and the financial statement items had a detrimental impact on the outcome of the audit.
58. Internal controls for monitoring compliance with legislation were ineffective as it did not detect and prevent instances of non-compliance with legislation.
59. Risks were not sufficiently mitigated to address institutional challenges at the municipality as evidenced by audit matters identified during the prior year's audit process.

Material irregularities

60. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit.

Material irregularity in progress

61. I identified a material irregularity during the audit and notified the accounting officer, as required by material irregularity regulation 3(2). By the date of this auditor's report, the response of the accounting officer was not yet due. This material irregularity will be included in the next year's auditor's report.

Other reports

62. I draw attention to the following engagement conducted which had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. This report did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

63. The South African Police Service's Serious Corruption Investigation Unit is investigating allegations of fraud, corruption and theft at the municipality. The investigation was on-going at the date of the audit report.

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 key performance area and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

64. 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 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

65. 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.
66. 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.