

Report of the auditor-general to the Limpopo Provincial Legislature and the council on the Bela-Bela Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Bela-Bela Local 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 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 Bela-Bela Local Municipality as at 30 June 2022, and its financial performance and cash flows for the year then ended in accordance with the Standards of Recognised Accounting Practice (Standards of GRAP) and the requirements of the Municipal Financial Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 9 of 2021 (DoRA).

Basis for qualified opinion

Investment property

3. I was unable to obtain sufficient appropriate evidence for the fair values of investment property determined by the municipality as the fair value assessment provided did not have adequate and complete audit evidence to support the assumptions made. Additionally, included in the register, is land valued at R1. This land was not subject to a fair value determination in the current year. The land was impaired. I was unable to confirm the fair value of investment property by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to investment property stated at R134 917 076 (2020-2021: R109 865 416) in note 3 to the financial statements.

Receivables

4. The municipality did not account for allowance for impairment of doubtful receivables in accordance with GRAP 104, *financial instruments* and GRAP 108, *statutory receivables*. This was due to management not correctly determining the risk rating of consumers. Inactive accounts were classified as active as management did not correctly close the accounts. I was unable to confirm the impairment by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the allowance for

impairment of R114 297 392 (2020-2021: R107 190 064) and R128 032 116 (2020-2021: R108 641 613) for receivables from exchange transactions and non-exchange transactions (property rates) respectively in note 11 and 14 to the financial statements. There is a resultant impact on receivables from exchange transactions in note 11 to the financial statements, receivables from non-exchange transactions (property rates) in note 14 to the financial statements and debt impairment in note 31 to the financial statements.

5. I was unable to obtain sufficient appropriate audit evidence for amounts recognised as receivables from non-exchange transactions - other, due to the status of the accounting records. There were no underlying records to support the opening balance of R5 191 067. I was unable to confirm the receivables from non-exchange transactions - other by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to receivables from non-exchange transactions - other, stated at R5 217 902 (2020-2021: R5 191 067) in note 14 to the financial statements.
6. The municipality incorrectly accounted for bad debts written off on traffic fines. Bad debts amounting to R8 285 470 were expensed in the statement of financial performance instead of being written off against the provision for impairment of traffic fines. Consequently debt impairment stated at R65 266 022 in note 31 to the financial statements is overstated by R8 295 000. There is a resultant impact on the receivables from traffic fines and surplus for the period.

Payables from exchange transactions

7. I was unable to obtain sufficient appropriate audit evidence for amounts recognised as payments received in advance, due to the status of the accounting records. I was unable to confirm the payments received in advance by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to payments received in advance, stated at R19 160 797 (2020-2021: R18 089 340) in note 7 to the financial statements.
8. I was unable to obtain sufficient appropriate audit evidence for amounts recognised as unknown deposits, due to the status of the accounting records. I was unable to confirm the unknown deposits by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to unknown deposits, stated at R5 269 359 in note 7 to the financial statements.
9. During 2020-2021, I identified an understatement of trade payables amounting to R5 080 206. My audit opinion on the financial statements for the period ended 30 June 2022 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the trade payables for the current period.

Cash and cash equivalents

10. The municipality did not establish internal control for regularly reconciling its cash and cash equivalents. I identified unreconciled differences between the balance for cash and cash equivalents as per the accounting records and the bank records at year end. I was unable to confirm the unreconciled difference by alternative means. Consequently, I was unable

determine whether any adjustments were necessary to cash and cash equivalents stated at R16 830 835 in note 15 to the financial statements.

Revenue from exchange transactions

11. Included in the comparative figure for other income of R16 177 543 in note 22 to the financial statements, are items amounting to R12 938 061 that do not meet the definition of revenue from exchange transactions in terms of GRAP 9, *Revenue from exchange transactions*. The comparative figure for other income is overstated by R12 938 061. I was unable to determine the impact of the overstatement on other account balances and classes of transactions.
12. I identified a difference of R27 80 440 between service charges of R189 321 078 and the amount as per the underlying records. The municipality did not have adequate systems of internal controls for accounting for service charges. Additionally, I identified sewerage charges amounting to R6 667 410 that I was unable to confirm if the municipality was entitled to the revenue recognised. I could not find the consumers that the municipality billed in any of the underlying records. Consequently, I was unable to determine whether any further adjustment was necessary to service charges of R189 321 078 as per note 18 to the financial statements.

Expenditure

13. The municipality did not have adequate internal control systems for classifying expenditure by nature as required by GRAP 1, *Presentation of financial statements*. I identified contracted services and items that qualify to be property, plant and equipment in terms of GRAP 17, *Property, plant and equipment*, that were incorrectly classified as general expenses. Consequently, general expenses are overstated by R12 205 152. There is a resultant impact on contracted services and property, plant and equipment.
14. The municipality did not have an adequate internal control systems for classifying expenditure by nature as required by GRAP 1, *Presentation of financial statements*. I identified general expenses of R6 459 136 that were incorrectly classified as contracted services. Consequently, contracted services is overstated by R6 459 136 and general expenses are understated by the same amount.

Cash flow statement - Net cash flows from operating activities

15. The municipality did not correctly prepare and disclose cash flow statement in accordance with GRAP 2, *Cash flow statement*. This was due to multiple errors in determining cash flows from operating activities. I was not able to determine the full extent of the errors in the cash flow statement as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to cash flows from operating activities stated at R56 799 931 (2020-2021: R82 046 991) in the cash flow statement were necessary.

Water distribution losses

16. I was unable to obtain sufficient appropriate audit evidence for water losses. The amount of the water losses as per the financial statements differed materially to the underlying records. Additionally, some of the assumptions used by management in the computation of

the water losses could not be substantiated. I was unable to confirm the water losses by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to water losses stated at R15 560 195 in note 33 to the financial statements.

Irregular expenditure

17. The municipality did not include the particulars of all irregular expenditure in the notes to the financial statements as required by section 125(2)(d)(i) of the MFMA. Furthermore, the municipality did not implement adequate internal control systems to identify and record all instances of irregular expenditure in both the current and prior year. This resulted in the irregular expenditure disclosure being understated. The full extent of the misstatement of irregular expenditure could not be quantified as it was impracticable to do so. Consequently, I was unable to determine the extent of adjustments necessary to the opening and closing balance of irregular expenditure disclosure stated at R138 569 710 (2020-2021: R90 947 125) in note 40 to the financial statements.

Segment reporting

18. The municipality did not disclose reportable segments in accordance with GRAP 18, *Segment reporting* in note 41 to the financial statements. Several disclosures required by GRAP 18 were not disclosed in the financial statements. I did not list all the omitted disclosures in this report. I was unable to determine the full extent of the omission of these disclosures in the financial statements.

Statement of comparison of budget and actual amounts

19. GRAP 24, *Budget information* requires the municipality to present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements. The municipality did not have adequate controls in place for reconciling the statement of comparison of budgets and actual amounts to the other components of the financial statements. I identified a difference of R83 591 491 between the amount for total assets of R1 121 872 639 as per the budget statement and the amount of total assets of R1 038 281 148 as per the statement of financial position. I further identified a difference of R83 590 587 between the amount for total liabilities of R393 454 233 as per the budget statement and R309 863 646 for total liabilities as per the statement of financial position.
20. The municipality did not by way of a note disclosure provide an explanation of material differences between the budgets for which the municipality is held publicly accountable and actual amounts for some of the identified variances as required by GRAP 24, *Budget information*.

Presentation of financial statements

21. GRAP 1, *Presentation of financial statements* requires an entity to disclose a summary of significant accounting policies and the other accounting policies that are relevant to an understanding of the financial statements. The municipality omitted accounting policies for related parties, restatement of corresponding figures, other MFMA disclosures,

remuneration of councillors, deviations, commitments and material losses through criminal conduct contrary to the requires of GRAP 1.

Context for the opinion

22. 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.
23. 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.
24. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Material uncertainty relating to going concern/ financial sustainability

25. I draw attention to the matter below. My opinion is not modified in respect of this matter.
26. I draw attention to note 37 to the financial statements, which indicates that the municipality's current liabilities exceeded its current assets by R104 091 358 as at 30 June 2022. As stated in note 37, these events or conditions, along with other matters as set forth in the note, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matters

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

Electricity losses

28. As disclosed in note 33 to the financial statements, material electricity losses of R30 877 920 was incurred due technical losses, illegal connections, faulty meters and theft.

Unauthorised expenditure

29. As disclosed in note 38 to the financial statements, the municipality incurred unauthorised expenditure of R52 945 881, as actual expenditure for vote1: chief financial officer and vote 7: social and community services exceeded the appropriated budget.

Fruitless and wasteful expenditure

30. As disclosed in note 39 to the financial statements, the municipality incurred fruitless and wasteful expenditure of R2 166 691 due to interest and penalties for late settlement of outstanding amounts.

Restatement of corresponding figures

31. As disclosed in note 36 to the financial statements, some corresponding figures for 30 June 2021 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2022.

Other matters

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

Unaudited supplementary schedules

33. The supplementary schedule set out on pages xx to xx does not form part of the financial statement and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

Responsibilities of the accounting officer for the financial statements

34. 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 the 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.
35. 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

36. 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.
37. 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

38. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
39. 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.
40. 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 municipality's annual performance report for the year ended 30 June 2022:

Development priorities	Pages in the annual performance report
KPA 1 - Basic service delivery and infrastructure development	x – x

41. 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.
42. The material findings on the usefulness and reliability of the performance information of the selected development priorities are as follows:

KPA – Basic service delivery and infrastructure development

Various indicators

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

Indicator description	Reported achievement
KPI 18: Percentage of formal households to be provided with access to basic level of electricity	100.43% (10 628 formal households were provided with access to basic level Electricity)
KPI 19: Percentage of non-residential properties to be provided with access to electricity	78% (1 205 non-residential properties (businesses, churches, schools & hospitals) were provided with access to electricity)
KPI 6: Percentage of non-residential properties (businesses, churches, schools & hospitals) provided with access to basic level of water	98% (410 non-residential properties (businesses, churches, schools & hospitals) were provided with basic level of water)

Other matters

44. I draw attention to the matter/s below.

Achievement of planned targets

45. 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 41 of this report.

Adjustment of material misstatements

46. We identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA 1 – Basic services delivery and infrastructure development. As management subsequently corrected the misstatements, we did not raise any material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are included in the basis for qualified opinion paragraphs.

Report on the audit of compliance with legislation

Introduction and scope

47. 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.

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

Annual financial statements, performance and annual report

49. 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 disclosures identified by the auditors in the submitted financial statements were subsequently corrected and, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

Asset management

50. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Revenue management

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

Expenditure management

52. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
53. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with 2017 preferential procurement regulations on local content requirements.
54. Reasonable steps were not taken to prevent fruitless and wasteful expenditure as required by section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest charged on late payment of service providers.
55. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The disclosed unauthorised expenditure was caused by overspending on two votes of the municipality.

Consequence management

56. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
57. 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.
58. 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 .

Procurement and contract management

59. Some of the quotations were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act 5 of 2000 and 2017 preferential procurement regulations 11.
60. Some of 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.

Other information

61. 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.
62. 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.
63. 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.
64. 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

65. 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 annual performance report and the findings on compliance with legislation included in this report.
66. The accounting officer and management did not exercise adequate oversight responsibility regarding financial and performance reporting and compliance with laws and regulations.

67. Leadership did not exercise effective monitoring over the implementation of the audit action plan resulting in recurring prior year issues.
68. Consequence management is moving at a slow pace.
69. The basic accounting principles of daily and monthly accounting and reconciling of transactions have not been adequately implemented and monitored.
70. The financial statements and the annual performance report are not reviewed for accuracy and completeness by the accounting officer.
71. Internal controls for monitoring compliance with laws and regulations are ineffective as they do not detect and prevent instances of non-compliance with applicable laws and regulations.
72. The internal control monitoring mechanisms of the municipality are not functioning optimally, as many control weaknesses are only discovered during the audit of the financial statements and performance information.
73. Slow responses by management to address the root cause of poor audit outcomes.

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 Bela-Bela Local 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.