

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 xx to xx, which comprise the statement of financial position as at 30 June 2023, statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, 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 Bela-Bela Local Municipality as at 30 June 2023, 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 Financial Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 5 of 2022 (DoRA).

Basis for qualified opinion

Property, plant and equipment

3. Not all items of property, plant and equipment were recognised in accordance with GRAP 17, *Property, plant and equipment*. Additions to property, plant and equipment were incorrectly recognised as expenditure resulting in property, plant and equipment disclosed in note 10 to the financial statements being understated by R5 029 934 and expenditure being overstated by R5 029 934. Additionally, there was an impact on depreciation, the surplus for the period and on the accumulated surplus in the financial statements.
4. Land recognised by the municipality through a correction of an error during the financial period was not recognized in accordance with GRAP 17, *Property, plant and equipment*. Upon initial recognition, the municipality did not determine the fair value of the land as required by the accounting standards resulting in land being overstated. I was unable to determine the full extent of the overstatement on land stated at R86 689 342 (2022: R86 689 342) in note 10 to the financial statements as it was impracticable to do so. Additionally, as the assets were recognized as a prior period misstatement, note 43 to the financial statements is also misstated as a result of this.
5. I was unable to obtain sufficient appropriate audit evidence for the impairment loss relating to infrastructure assets disclosed in note 43 to the financial statements due to the status of financial records. I was unable to confirm this disclosure by alternative means.

Consequently, I was unable to determine whether any adjustment relating to the impairment loss of R10 459 458 was necessary. Additionally, there was an impact on work in progress stated at R87 592 586 (2022: R70 904 885) in note 10 to the financial statements, surplus for the period and accumulated surplus.

6. The comparative amount for impairment loss of R13 530 107 as disclosed in note 10 to the financial statements was not disclosed as required by GRAP 1, *Presentation of financial statements* due to the inconsistent disclosed amount noted in the statement of financial performance. Consequently, the comparative figure of impairment loss per note 10 in the financial statements is overstated by R9 325 420. There is a resultant impact on property, plant and equipment.

Investment property

7. I was unable to obtain sufficient appropriate evidence that the fair values of investment property determined by the municipality are in accordance with GRAP 16, *Investment property* as I identified significant deficiencies in the assumptions used to determine fair values of investment property and inconsistencies between the assumptions used and the underlying records. Additionally, I also identified properties that were classified as both investment property and property, plant and equipment and properties that were registered in both the name of the municipality and other parties. 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 R277 399 825 (2022: 279 274 316) in note 9 to the financial statements.

Value Added Taxation (VAT)

8. I was unable to obtain sufficient appropriate evidence for amounts recognised as VAT receivables and VAT payables disclosed in notes 7 and 14, respectively, in the financial statements due to the status of accounting records. I was unable to confirm these amounts by alternative means. Consequently, I was unable to confirm if any adjustments were necessary to VAT receivable and VAT payable stated at R139 718 130 (2022: R112 490 009) and R136 004 020 (2022: R106 821 199) in notes 7 and 14, respectively, in the financial statements.
9. VAT receivable was not correctly accounted for in accordance with GRAP 108, *Statutory receivables*. A distinction was not made between VAT receivable from SARS for VAT returns lodged, where a refund is expected and the amount for VAT still to be paid to the municipality's creditors (VAT accrual) and declared on future returns. Additionally, note 14 to the AFS incorrectly described the amount of VAT still to be collected from consumers upon payment of services rendered, as tax refunds payables.

Receivables from non-exchange transactions

10. Statutory receivables relating to traffic fines were not always accounted for in accordance with GRAP 108, *Statutory receivables*. Receivables from traffic fines were incorrectly assessed for impairment, whereas, there was clear evidence that the payment ratio for traffic fines was significantly low, consistent with the previous assessment, a lower provision amount was determined contrary to the available evidence at year end that a

higher provision was necessary. Consequently, receivables from traffic fines stated at R48 086 857 (2022: R37 821 984) per note 6 to the financial statements was overstated. I was unable to determine the full extent of the overstatement of traffic fines as it was impracticable to do so. There was a resultant impact on debt impairment expense, surplus and accumulated surplus for the period.

11. During 2022, the municipality incorrectly accounted for bad debts written off on traffic fines contrary to GRAP 108, *Statutory receivables*. Bad debts 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 R67 457 071 in note 56 to the financial statements was overstated by R8 295 000 while receivables from traffic fines, debt impairment and surplus for the period were misstated by the same amount. 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 is also modified because of the effect of this matter on the comparability of debt impairment and receivables from traffic fines for the current period.
12. I was unable to obtain sufficient appropriate evidence for amounts written off in relation to receivables from non-exchange transactions for traffic fines due to the status of accounting the records. I was unable to confirm the write off by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to amounts written off as uncollectable of R12 971 800 in note 6 to the financial statements.

Payables from exchange transactions

13. The municipality did not have adequate systems of internal controls for reconciling its trade payables. I identified an unexplained difference of R7 719 395 between the financial statements and the underlying records for trade payables. Consequently, trade payables stated at R70 893 233 in note 13 to the financial statements is overstated.
14. The municipality did not correctly account for payables from exchange transactions in accordance with GRAP 104, *Financial instruments*. Included in payables from exchange transactions are other deposits amounting to R8 640 854. I was unable to obtain sufficient appropriate evidence for the other deposits as there were no underlying records to support the other deposits. I was unable to confirm the other deposits by alternative means. Consequently, I was unable to confirm if any adjustments were necessary to other deposits stated at R8 640 854 in note 13 to the financial statements.
15. The municipality did not correctly account for retentions. I was unable to obtain sufficient appropriate evidence for the opening balance of retentions of R21 543 550 per note 13 to the financial statements due to the nature of the accounting records. I was unable to confirm the opening balance by alternative means. Consequently, I was unable to determine if any adjustments were necessary to retentions opening balance stated at R21 543 550.

Cash flow statement

16. The municipality did not correctly prepare and disclose the cash flow statement in accordance with GRAP 2, Cash flow statement. This was due to multiple errors in determining cash flows from operating activities. Additionally, the amount for cash flows from operating activities per note 39 of R87 484 708 (2022: R29 960 425) did not agree to the amount of R123 203 091 (2022: R77 911 858) per the cash flow statement. There was an unexplained difference of R35 718 383 (2022: R47 951 433). The cash and cash equivalents balance per the cash flow statement did not agree to the balance per the statement of financial position. 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 net cash flows from operating activities and net cash flows from operating activities and cash flows from investing activities stated at R123 203 091 (2022: R77 911 858) and R135 024 673 (2022: R84 605 979) respectively in the cash flow statement were necessary.

Statement of comparison of budget and actual amounts

17. 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 approved budget. I identified the following differences between the statement of budget and actual amounts and the budget approved by council:

- Total revenue of R506 044 572 per the statement of comparison does not correspond to the amount per the approved budget of R596 728 000 by R90 683 428
- Total expenditure of 472 580 955 per the statement of comparison does not correspond to the amount per the approved budget of R493 946 000 by R21 365 045
- Current assets of R307 517 566 per the statement of comparison does not correspond to the amount per the approved budget of R337 177 000 by R29 659 434
- Total non-current assets of R269 749 868 per the statement of comparison does not correspond to the amount of R1 225 068 000 per the approved budget by R955 318 132
- Total current liabilities of R293 919 422 per the statement of comparison does not correspond to the amount of R228 550 000 per the approved budget by R65 369 422
- Total non-current liabilities of R55 500 000 (debit) per the statement of comparison does not correspond to the amount of R55 500 000 (credit) per the approved budget by R111 000 000. The liability was incorrectly captured as an asset (debit balance) on the statement.

18. The statement of comparison of budget and actual amounts is not a true reflection of the budget approved by council. Differences identified on the budget amounts had an impact on the explanation of material variance per note 52 in the financial statements.
19. Additionally the municipality did not include information on the comparison of budget and actual amounts for the cash flow statement and the capital budget. Total capital budget per the approved budget amounted to R99 402 000.

Segment reporting

20. The municipality did not disclose reportable segments in accordance with GRAP 18, *Segment reporting* in note 52 to the financial statements. I identified several differences between the financial information disclosed for segment reporting and the underlying records. 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 changes in net assets

21. In terms of GRAP 1, *Presentation of financial statements*, the statement of changes in net assets must for each component of net assets, includes the effects of changes in accounting policies and the corrections of errors recognised in accordance with GRAP 3. Included on the statement of changes in net assets was a correction of error amounting to R192 757 311. The municipality did not properly reconcile, the correction of error amount per the statement of changes in net assets to note 43, prior period adjustments to give a full account of the corrections that makes up the amount per the statement of changes in net assets.

Context for 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 responsibilities of the auditor-general 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

25. I draw attention to the matter below. My opinion is not modified in respect of this matter.
26. I draw attention to note 46 to the financial statements, which indicates that the municipality is struggling to pay its creditors within 30 days as per the MFMA, debtors collection rate is low and that it adopted a budget that was not fully funded as at 30 June 2023. As stated in

note 46, 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 34 to the financial statements, material electricity losses of R 29 379 681 were incurred, which represents 22% of total electricity purchased. Technical losses amounted to R13 220 856 and was due to system failures, unbalanced loading, overloading, low voltage, load shedding and deteriorating infrastructure. Non-technical losses amounted to R16 158 824 and were due to power theft, meter tampering, meter bypass, illegal connections and faulty meters.

Water losses

29. As disclosed in note 34 to the financial statements, material water losses of R 9 930 594 were incurred, which represents 28% of total water purchased. The losses were due to system failures, pipe bursts, deteriorating infrastructure, water theft, meter tampering, meter bypass, illegal connections and faulty meters.

Unauthorised expenditure

30. As disclosed in note 47 to the financial statements, the municipality incurred unauthorised expenditure of R35 089 192, as actual expenditure for three of the municipal votes exceeded the budget.

Irregular expenditure

31. As disclosed in note 49 to the financial statements, the municipality incurred irregular expenditure of R67 456 810, mainly due to non-compliance with supply chain management laws and regulations.

Fruitless and wasteful expenditure

32. As disclosed in note 48 to the financial statements, the municipality incurred fruitless and wasteful expenditure of R4 470 743 due to interest and penalties for late settlement of outstanding amounts.

Litigations and claims

33. With reference to note 41 to the financial statements, the municipality is the defendant in various lawsuits. The municipality is opposing these claims. The ultimate outcome of these matters could not be determined and no provision for any liability that may result was made in the financial statements.

Other matters

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

Unaudited supplementary schedules

35. 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.

Unaudited disclosure notes

36. 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 the accounting for the financial statements

37. 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 the financial statements that are free from material misstatement, whether due to fraud or error.
38. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern; disclosing, as applicable, matters relating to going concern; and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the auditor-general for the audit of the financial statements

39. 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.
40. 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

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

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

Key performance area	Page numbers	Purpose
KPA – Basic service delivery and infrastructure development	[XX]	The key performance area aims to ensure that all households in formal and informal settlements in the municipal area have access to basic services, all registered indigents have access to free basic services and maintenance and upgrading of infrastructure.

43. I evaluated the reported performance information for the selected key performance area against the criteria developed from the performance management and reporting framework, as defined in the general notice. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users on the municipality's planning and delivery on its mandate and objectives.

44. I performed procedures to test whether:

- the indicators used for planning and reporting on performance can be linked directly to the municipality's mandate and the achievement of its planned objectives
- the indicators are well defined to ensure that they are easy to understand and can be applied consistently, as well as verifiable so that I can confirm the methods and processes to be used for measuring achievements
- the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated
- the indicators and targets reported on in the annual performance report are the same as those committed to in the approved initial or revised planning documents
- the reported performance information is presented in the annual performance report in the prescribed manner

- there is adequate supporting evidence for the achievements reported and for the measures taken to improve performance.
45. I performed the procedures for the purpose of reporting material findings only; and not to express an assurance opinion or conclusion.
46. I did not identify any material findings on the reported performance information for the selected development priority – basic service delivery and infrastructure development.

Other matters

47. I draw attention to the matters below.

Achievement of planned targets

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

Material misstatements

49. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for basic service delivery and infrastructure development. Management subsequently corrected all the misstatements and I did not include any material findings in this report.

<h2>Report on compliance with legislation</h2>

50. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting officer is responsible for the [type of auditee]'s compliance with legislation.
51. I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.
52. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the [type of auditee], clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.
53. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statements, performance and annual report

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

Asset management

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

Revenue management

56. 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

57. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
58. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The majority of the disclosed irregular expenditure was caused by non-compliance supply chain management laws and regulations.
59. 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.
60. 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 three votes of the municipality.

Procurement and contract management

61. Invitation to tender for procurement of commodities designated for local content and production, did not stipulated 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 water meters and Steel grading frames.

Other information in the annual report

62. The accounting officer is responsible for the other information included in the annual report which include the audit committee's report. The other information referred to does not include the financial statements, the auditor's report and those selected key performance area presented in the annual performance report that have been specifically reported on in this auditor's report.
63. My opinion on the financial statements, the report on the audit of the annual performance report and the report on compliance with legislation do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.
64. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
65. 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

66. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
67. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion and the material findings on compliance with legislation included in this report.
68. The accounting officer and management did not exercise adequate oversight responsibility regarding financial and performance reporting and compliance with laws and regulations.
69. Leadership did not exercise effective monitoring over the implementation of the audit action plan resulting in recurring prior year findings.
70. The basic accounting principles of daily and monthly accounting and reconciling of transactions were not adequately implemented and monitored.
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.

Material irregularities

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

Material irregularities identified during the audit

73. The material irregularities identified are as follows:

Traffic fines not adjudicated and summons not issued

74. The municipality entered into a service level agreement (SLA) with a service provider for the provision of traffic law enforcement equipment, back office systems and related services for a period of 36 months which commenced on 5 December 2019. The service primarily included the provision of mobile cameras (speed cameras), provision of images of the offending vehicles and storage of the images. The service included the provision of a fully integrated “end to end” system for the prosecutions of speed offences and other offences.
75. There were several instances whereby traffic fines issued subsequently expired. Traffic fines expired because no adjudication/approval by the responsible person, no summonses were issued since 2020 and traffic fines were withdrawn by the system due to system errors.
76. Based on the SLA between the service provider and the municipality (schedule 1 and schedule 2) of the SLA, both parties did not fully perform their expected duties which led to the fines expiring. As per schedule 1 paragraph 3 (K) of the agreement, the service provider was responsible for providing facilities and systems for peace officers of the municipality to adjudicate every image and be able to identify the peace officer responsible for adjudication. Furthermore, schedule 1 paragraph 6(a) also states that the service provider shall be responsible for issuing summons. However, these duties were not consistently carried out by either party. This resulted in a non-compliance with section 64(2)(f) of the MFMA as the municipality failed to ensure that internal controls over collection of revenue from traffic fines operated effectively throughout the year. This resulted in a material financial loss of R5 167 700 as the traffic fines expired and were subsequently written off.
77. The accounting officer was notified of the material irregularity (MI) on 31 March 2023 and invited to make a written submission on the actions taken and that will be taken to address the MI. The accounting officer responded on 4 May 2023 and the following actions have been taken to address the MI:
- The accounting officer appointed a firm of attorneys on 10 April 2023 to investigate circumstances that led to the material irregularity in the 2021-22 financial year and to recover the loss of traffic revenue to the sum of R5 167 700. In addition, loss of traffic revenue for the 2022-23 financial year should be investigated to determine if the MI still exists, to recover such losses and to investigate if there was any transgressions by officials of the municipality.

78. The outcome of the investigation was shared with me through a letter dated 8 August 2023 and the outcome included the following:

- The investigation could not identify any employee of the municipality as being responsible for the material irregularity.
- Traffic fines revenue loss for 2021-22 amounted to R2 865 800 and not R5 167 700 as initially reported.
- An additional loss of R4 483 000 was identified for 2022-23
- The non-compliance was as a result of the service provider's failure to ensure adherence to the agreement.

79. A letter of demand dated 27 September 2023 was issued by the municipality through its attorneys to the service provider. The letter demands a payment of R7 348 800 for the breach of contract that resulted in the loss of traffic revenue within 30 days of the date of the letter, failing which summons will be issued.

80. In a letter dated 28 November 2023, attorneys handling the matter informed the accounting officer, that in consultation with officials of the municipality that were responsible for implementation of the agreement with service provider, are in the process of drafting summons and it is anticipated that it will be served on the service provider during the week of 4 December 2023.

81. I will follow-up on the additional corrective actions during my next audit.

Ineffective use of consultants

82. The municipality appointed three financial reporting consultants to prepare the 2020-21 annual financial statements and for assets management.

83. The municipality failed to keep full and proper records needed to produce credible and GRAP compliant financial statements. This resulted in the municipality not being able to provide the appointed financial reporting consultants with complete, accurate and reliable information as required by section 62(1)(b) of the MFMA to enable them to compile GRAP compliant financial statements. This failure of the municipality to furnish the financial reporting consultants with the necessary records resulted in the municipality obtaining a disclaimed audit opinion on the 2020-21 financial statements. The non-compliance is likely to have resulted in a material financial loss of R1 362 817 for the municipality as the equivalent value of the amounts paid to the consultants could not be obtained as a significant part of the work done by the consultants related to those items where the municipality failed to keep full and proper records.

84. The accounting officer was notified of the material irregularity (MI) on 3 April 2023 and invited to make a written submission on the actions taken and that will be taken to address the MI. The accounting officer responded on 4 May 2023 and the following actions have been taken to address the MI:

- The accounting officer intended to appoint a firm of attorneys from the municipality's panel of legal experts by 12 May 2023 to investigate whether there was any employment contractual breach by any of the official(s) and whether there are any contractual breaches committed by service providers. Attorneys were expected to table their report by 16 June 2023. The attorneys were appointed on 23 May 2023.

85. The outcome of the investigation was shared with me through a letter dated 8 August 2023 and the outcome included the following:

- Consultants faced challenges due to insufficient records and information provided by the municipality.
- The covid-19 pandemic compounded difficulties in record-keeping and management.
- Resignation of archives clerk with immediate effect on 30 April 2021 also played a role in ensuring provision of financial records.
- An improved audit outcome for 2021-22 indicates progress in addressing issues raised.
- Contractual breach by the consultants could not be established.
- Negligence on the part of the accounting officer, chief financial officer and senior management could not be established due to the impact of the sudden onset of Covid-19 pandemic combined with the effect of the sudden resignation of the archives clerk.
- It was recommended that the posts of archives clerk and creditors accountant be permanently filled as a matter of urgency. The positions are budgeted for in the 2023-24 financial year. The recruitment process is yet to commence. It was further recommended that delegations of the municipality be reviewed and updated to delegate and assign all key financial functions within the budget and treasury office in order to ensure full compliance with sections 79 and 82 of the MFMA.
- There was no recommendation for financial loss recovery as neither the consultants nor employees of the municipality were found to have neglected their duties.

86. I will follow-up on the additional corrective actions during my next audit.

Other reports

87. In addition to the investigations relating to material irregularities, I draw attention to the following engagements conducted by various parties. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
88. The Limpopo Department of Roads and Community Safety performed an Enatis audit and security inspection at Bela Bela registering authority and driving licence testing centre (DLTC) to follow up on an allegation of possible system hacking at the registering authority as well as the DLTC. The report made three recommendations and corrective action was required within 14 days of the receipt of the report by the municipality.
89. The accounting officer instructed internal audit unit to investigate allegations of misconduct pertaining to various allegations of irregularities and suspected procurement fraud. The report by internal audit recommended disciplinary action against employees concerned and recovery of the money lost. At year end, the accounting officer was in the processing of implementing recommendations by internal audit.

Polokwane

30 November 2023



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

The annexure includes the following:

- The auditor-general's responsibility for the audit
- The selected legislative requirements for compliance testing

Auditor-general's responsibility for the audit

Professional judgement and professional scepticism

As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected development priorities and on the municipality's compliance with selected requirements in key legislation.

Financial statements

In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made
- conclude on the appropriateness of the use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the municipality to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a [type of auditee] to cease operating as a going concern
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

Communication with those charged with governance

I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003	Section 1 - Paragraph (a), (b) & (d) of the definition: irregular expenditure, Section 1 - Definition: service delivery and budget implementation plan, Sections 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 29(1), Sections 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b), Sections 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 62(1)(f)(i), Sections 62(1)(f)(ii), 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b), Sections 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), Sections 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), Sections 122(2), 126(1)(a), 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), Sections 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, Sections 171(4)(a), 171(4)(b)
MFMA: Municipal Budget and Reporting Regulations, 2009	Regulations 71(1), 71(2), 72
MFMA: Municipal Investment Regulations, 2005	Regulations 3(1)(a), 3(3), 6, 7, 12(2), 12(3)
MFMA: Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014	Regulations 5(4), 6(8)(a), 6(8)(b), 10(1)
MFMA: Municipal Supply Chain Management Regulations, 2017	Regulations 5, 12(1)(c), 12(3), 13(b), 13(c), 13(c)(i), 16(a), 17(1)(a), Regulations 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), Regulations 27(2)(e), 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a), 29(1)(b), Regulations 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c), Regulations 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43, Regulations 44, 46(2)(e), 46(2)(f)
Municipal Systems Act 32 of 2000	Sections 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 29(3)(b), 34(a), 34(b), Sections 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), 56(a), 57(2)(a), Sections 57(4B), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 93J(1), 96(b)

Legislation	Sections or regulations
MSA: Municipal Planning and performance Management Regulations, 2001	Regulations 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 3(6)(a), 7(1), 8, 9(1)(a), 10(a), Regulations 12(1), 15(1)(a)(i), 15(1)(a)(ii)
MSA: Municipal Performance Regulations for Municipal Managers and Managers directly Accountable to Municipal Managers, 2006	Regulations 2(3)(a), 4(4)(b), 8(1), 8(2), 8(3)
MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations 17(2), 36(1)(a)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2), 5(3), 5(6), 8(4)
Annual Division of Revenue Act	Section 11(6)(b), 12(5), 16(1); 16(3)
Construction Industry Development Board Act 38 of 2000	Section 18(1)
Construction Industry Development Board Regulations	Regulations 17, 25(7A)
Municipal Property Rates Act 6 of 2004	Section 3(1)
Preferential Procurement Policy Framework Act 5 of 2000	Sections 2(1)(a), 2(1)(f)
Preferential Procurement Regulations, 2017	Regulations 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8), Regulations 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5) 9(1), 10(1), 10(2), Regulations 11(1), 11(2)
Preferential Procurement Regulations, 2022	Regulations 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4)
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section 34(1)

