

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 2020, statement of financial performance, statement of changes in net assets, and cash flow statement and statement of comparison of budget information and actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the possible effects of the matter 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 2020, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance and Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 3 of 2016 (Dora).

Basis for qualified opinion

Payables from exchange transactions

3. I was unable to obtain sufficient appropriate audit evidence that payments received in advance (contract in process) had been properly accounted for, due to the status of the accounting records. I was unable to confirm the payments received in advance (contract in process) by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to payables from exchange transactions, stated at R147 099 346 in note 14 to the financial statements. Additionally, there was an impact on the risk management note for the period.
4. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for payables from exchange transactions. As described in note 51 to the financial statements, the restatement was made to rectify a previous year's 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 R165 631 932 in the financial statements

General expenses

5. The municipality did not classify lease agreements as finance leases where substantially all the risks and rewards incidental to ownership were transferred to the entity in accordance with GRAP 13, *Leases*. The municipality is party to a lease agreement that constitutes finance leases, but these have been accounted for as general expenses – hire. As a result, the general expenses – hire was overstated by R11 888 089. In addition, property plant and equipment, and long term liabilities are understated. I was unable to determine the full extent of the misstatement as it was impractical to do so. Consequently, I was unable to determine whether any further adjustments were necessary to general expenses, stated at R51 705 657 in note 34 to the financial statements. Additionally, there was an impact on the surplus for the period.

Bulk purchases

6. I was unable to obtain sufficient appropriate audit evidence for electricity bulk purchases, as internal controls had not been established to support the accuracy of electricity bulk purchases before their entry in the financial records. I could not confirm whether the electricity bulk purchases had been accurately recorded by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to bulk purchases, stated at R111 705 282 in the financial statements, and the related electricity losses disclosed in note 32 to the financial statements.

Commitments

7. The municipality did not have adequate systems to maintain records of commitments. This resulted in commitments being understated by R6 740 419. In addition, I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed as commitments. I could not confirm commitments by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to commitments, stated at R254 181 425 in note 38 to the financial statements.

Irregular expenditure

8. The municipality did not include all irregular expenditure and the required information in the notes to the financial statements, in contravention of section 125(2)(d) of the MFMA. The municipality did not implement adequate internal control systems to identify and record all instances of irregular expenditure in the current year. This resulted in the irregular expenditure disclosure being understated. In addition, I was unable to obtain sufficient appropriate audit evidence for the restated opening balance of irregular expenditure, as some of the supporting information was not provided. I was unable to confirm the opening balance by alternative means. The full extent of the misstatement identified could not be quantified and I was unable to confirm the amount of irregular expenditure to be disclosed by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the irregular expenditure disclosure, stated at R33 345 382 (R11 126 964) in note 47 to the financial statements.

Unauthorised expenditure

9. The municipality incorrectly calculated unauthorised expenditure in the current year by netting off savings from different votes against each other, resulting in the current year unauthorised expenditure being understated by R20 571 592. Consequently, I was unable to determine whether any further adjustment was necessary to the unauthorised expenditure, stated at R44 369 261 note 45 in to the financial statements

Context for the opinion

10. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
11. 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.
12. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

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

Material losses – debt impairment

14. As disclosed in note 31 to the financial statements, material losses of R28 437 470 were incurred as a result of writing off irrecoverable traffic fines and consumer debts.

Uncertainties relating to the future outcome of exception litigation

15. With reference to note 39 to the financial statements, the municipality is the defendant in unfair termination of contracts lawsuits. The municipality is opposing the claims, as it believes it has reasonable grounds to defend each claim. The ultimate outcome of the matters cannot currently be determined and no provision for any liability that may result has been made in the financial statements.

Other matter

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

Unaudited disclosure notes

17. In terms of section 125(2) (e) of the MFMA, the municipality is required to disclose particulars of non-compliance with MFMA in the financial statements. This disclosure requirement, included

in note 48 to the financial statements, did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

Responsibilities of the accounting officer for the financial statements

18. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
19. 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

20. 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.
21. 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

22. 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 areas presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
23. 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/measures included in the planning documents. My procedures do not examine whether the actions taken by the municipality enabled service delivery. My procedures also do not extend to any disclosures or assertions relating to planned performance strategies and information in respect

of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

24. 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 2020:

Key performance area	Pages in the annual performance report
Key performance area (01) – basic service delivery and infrastructure development	x – x

25. 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.
26. The material findings in respect of the usefulness and reliability of the selected key performance area are as follows:

Key performance area (01) – basic service delivery and infrastructure development

Percentage of work completed as measured according to the PPII for the Bela-Bela: extension of the existing graveyard by 30 June 2020

27. The planned indicator and target were 45% of the work completed, as measured according to the PPII for the Bela-Bela: extension of the existing graveyard by 30 June 2020, but the reported achievement was 15% (approved designs).

Various indicators

28. I was unable to obtain sufficient appropriate audit evidence for the measures taken to improve performance, as reported in the annual performance report, for the indicators listed below. I was unable to confirm the reported measures taken by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported measures taken to improve performance.

Indicator description	Planned target	Reported achievement
Percentage of non-residential properties with access to basic level of water by 30 June 2020	100% (421) non-residential properties with access to basic level of water by 30 June 2020	90% (377) non-residential properties with access to basic level of water by 30 June 2020

Indicator description	Planned target	Reported achievement
Percentage of non-residential properties with access to basic level of sanitation by 30 June 2020	100% (318) non-residential properties with access to basic level of sanitation by 30 June 2020	99% (315) of non-residential properties with access to basic level of sanitation by 30 June 2020
Percentage of non-residential properties with access to waste collection by June 2020	100% (352) non-residential properties with access to waste collection by June 2020	100% (345) non-residential properties with access to waste collection by June 2020
Percentage of non-residential properties to be provided with access to electricity by 30 June 2019	100% (1 209) non-residential properties to be provided with access to electricity by 30 June 2020	152% (1 832) non-residential properties provided with access to electricity

Various indicators

29. The reported measures taken to improve performance against the planned target did not agree with the supporting evidence provided.

Indicator description	Planned target	Reported achievement
Percentage of the work completed as measured according to the PPII for the Bela-Bela: refurbishment of the old section of the water treatment works by 30 June 2020	100% of the work completed as measured according to the PPII for the Bela-Bela: refurbishment of the old section of the water treatment works by 30 June 2020	75% (construction on stage at 50 – 60% complete)
Percentage of the work completed as measured according to the PPII for the Rapotokwane: water desalination plant by 30 June 2020	90% of the work completed as measured according to the PPII for the Rapotokwane: water desalination plant by 30 June 2020	60% (construction stage at 20 – 30% complete)
Percentage of the work completed as measured according to the PPII for the Bela-Bela: waste water treatment works (WWTW) recycling of treated effluent by 30 June 2020	100% of the work completed as measured according to the PPII for the Bela-Bela: waste water treatment works recycling of treated effluent by June 2020	90% (construction stage at 80 – 90% complete)
Percentage of the work completed as measured according to the PPII for the Bela-Bela: Upgrading of the Aventura sewer pump station by 30 June 2020	100% of the work completed as measured according to the PPII for the Bela-Bela: Upgrading of the Aventura sewer pump station by 30 June 2020	75% (construction on stage at 50 – 60% complete)

Indicator description	Planned target	Reported achievement
Percentage of the work completed as measured according to the PPII for the Bela-Bela: 132/ 11kVA 2 x 20MVA sub-station by 30 June 2020	75% of the work completed as measured according to the PPII for the Bela-Bela: 132/11Kva 2X 20 MVA sub-station by 30 June 2020	90% (construction stage at 80 – 90% complete)

Various indicators

30. The source information for achieving the planned indicators was not clearly defined. I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined source information and evidence to be used when measuring the actual achievement for the indicator. This was due to lack of sufficient measurement definitions and processes. I was unable to test whether the indicator was well-defined by alternative means.

Indicator	Planned target	Actual achievement
Percentage of the work completed as measured according to the PPII for the Rapotokwane: water desalination plant by 30 June 2020	90% of the work completed as measured according to the PPII for the Rapotokwane: water desalination plant by 30 June 2020	60% (construction stage at 20 – 30% complete)
Percentage of the work completed as measured according to the PPII for the Bela-Bela: waste water treatment works (WWTW) recycling of treated effluent by 30 June 2020	100% of the work completed as measured according to the PPII for the Bela-Bela: waste water treatment works recycling of treated effluent by 30 June 2020	90% (construction stage at 80 – 90% complete)
Percentage of the work completed as measured according to the PPII for the Bela-Bela ext 8 & future: bulk sewer outfall by 30 June 2020	100% of the work completed as measured according to the PPII for the Bela-Bela ext 8 & future: bulk sewer outfall by 30 June 2020	100% (completion of works and handover)
Percentage of the work completed as measured according to the PPII for the Bela-Bela Spa Park: storm water by 30 June 2020	55% of the work completed as measured according to the PPII for the Bela-Bela Spa Park: storm water by 30 June 2020	70% (construction at 40 – 50% complete)
Percentage of the work completed as measured according to the PPII for the Bela-Bela: 132/ 11kVA 2 x 20MVA sub-station by 30 June 2020	75% of the work completed as measured according to the PPII for the Bela-Bela: 132/11Kva 2X 20 MVA sub-station by 30 June 2020	90% (construction stage at 80 – 90% complete)
Percentage of the work completed as measured according to the PPII for the Bela-Bela: extension of existing graveyard by 30 June 2020	45% of the work completed as measured according to the PPII for the Bela-Bela: extension of the existing graveyard by 30 June 2020	15% (approved designs)

Indicator	Planned target	Actual achievement
Percentage of the work completed as measured according to the PPII for the Bela-Bela Spa Park: development of sports facilities by 30 June 2020	55% (construction stage at 10 – 20%)	80% (construction stage at 60 – 70%)
Percentage of non-residential properties to be provided with access to electricity by 30 June 2019	100% (1 209 non-residential properties to be provided with access to electricity by 30 June 2020)	152% (1 832) non-residential properties provided with access to electricity
Number of kilometers of new roads constructed/surfaced in Bela-bela Exts 4,6,7 & 8	3,5 km of the new roads constructed or surfaced in Bela-bela Exts 4,6,7 & 8 by June 2020	3,5 km road constructed and surfaced

Various indicators

31. Adequate systems and processes were not established to enable consistent measurement and reliable reporting of performance against the predetermined indicator definitions.

Indicator	Planned target	Actual achievement
Percentage of formal households to be provided with access to basic level of electricity by 30 June 2020	100% (10 284 formal households to be provided with access to basic level of electricity by 30 June 2020)	101% (10 436 formal households provided with access to basic level of electricity)
Percentage of non-residential properties to be provided with access to electricity by June 2019	100% (1 209 non-residential properties to be provided with access to electricity by 30 June 2020)	152% (1 832) non-residential properties provided with access to electricity

Other matters

32. I draw attention to the matters below.

Achievement of planned targets

33. 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

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

35. 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.
36. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements, performance and annual report

37. 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 liabilities, revenue, commitments, and expenditure identified by the auditors in the submitted financial statement were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements resulted in the financial statements receiving a qualified opinion.

Expenditure management

38. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
39. Reasonable steps were not taken to prevent irregular expenditure of R48 600 206 disclosed in note 47 to the financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was due to contraventions of the municipality's supply chain management policy, and funds allocated to unspent conditional grants used for other payments.
40. Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R77 570 035, as disclosed in note 46 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest and penalties incurred on late payments of invoices and VAT.
41. Reasonable steps were not taken to prevent unauthorised expenditure of R29 988 454, as disclosed in note 45 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending of the total amount appropriated for various votes in the approved budget.

Consequence management

42. Unauthorised expenditure of R16 439 804 was not authorised through an adjustment budget, as required by section 32(2)(a)(i) of the MFMA.

Procurement and contract management

43. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders that scored the highest points in the evaluation process as required by section 2(1)(f) of Preferential Procurement Policy Framework Act Preferential Procurement Regulations.
44. Some quotations were accepted from prospective providers who were not on the list of accredited prospective providers and did not meet the listing requirements prescribed by the supply chain management (SCM) policy, in contravention of SCM regulations 16(b) and 17(1)(b).
45. Some contracts and quotations were awarded to bidders based on pre-qualification criteria that were not stipulated and/or differed from those stipulated in the original invitation for bidding and quotations, in contravention of the 2017 preferential procurement regulations 4(1) and 4(2).
46. Awards were made to providers who were in the service of other state institutions or whose directors or principal shareholders were in the service of other state institutions, in contravention of MFMA 112(j) and SCM regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM regulation 38(1).
47. The performance of some contractors or providers was not monitored monthly, as required by section 116(2)(b) of the MFMA.
48. The contract performance and monitoring measures and methods were not sufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.

Utilisation of grants

49. The municipal infrastructure grant was not spent for its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of Dora 1 of 2018.
50. The water services infrastructure grant was not spent for its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of Dora 1 of 2018.
51. The integrated national electrification programme was not spent for its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of Dora 1 of 2018.

<h2>Other information</h2>

52. The accounting officer is responsible for the other information. The other information does not include the financial statements, the auditor's report and the selected key performance area

presented in the annual performance report that has been specifically reported in this auditor's report.

53. 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.
54. 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.
55. 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

56. 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.
57. The accounting officer and management did not exercise adequate oversight responsibility regarding financial and performance reporting, compliance and related internal controls. The financial statements and annual performance report were not adequately reviewed before submission for audit, which resulted in material misstatements.
58. Management did not properly prepare accurate, valid and complete financial and performance reports that were supported and evidenced by reliable information.
59. Management did not have adequate review processes in place to ensure that the indicators meet the requirements of reporting standards, that the indicators and targets allow accurate and reliable assessment of achievements against targets, and are verifiable.
60. Management did not consistently review and compare the planned and reported documents.
61. The performance management unit did not implement a proper review process to ensure that the information contained in the annual performance report was complete and agreed to the portfolio of evidence as submitted for audit.
62. Management did not properly and adequately review and monitor controls to prevent non-compliance with legislation.

63. Management did not adequately review the annual performance report to ensure that the report was presented in accordance with legislated requirements and to ensure consistency between the annual performance report and the service delivery and budget implementation plan.

Auditor-General

Pretoria

19 March 2021



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 areas 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 municipal council, which constitutes the accounting officer
 - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists 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 confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, the actions taken to eliminate threats or the safeguards applied.