

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

Disclaimer of opinion

1. I was engaged to audit 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 2021, 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. I do not express an opinion on the financial statements of the municipality. Because of the significance of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on this financial statements.

Basis for disclaimer of opinion

Propert Plant and equipment

3. I was unable to obtain sufficient appropriate audit evidence that the property, plant and equipment was properly accounted for, due to non-submission of residual value assessments of property, plant and equipment. Furthermore the useful lives assessments were not sufficiently presented for audit purposes due to inaccurate and incomplete underlying accounting records. I was unable to confirm the errors in the useful lives assesment as the approach followed by management was not adequate since only assets with book values of R1 were assessed for useful lives. In addition, the impact of the assessment on the revision of some of the useful lives was not recorded, as a result, there are assets with negative book values still in use. I was unable to confirm the impact by alternative means
4. Furthermore, the municipality did not present the impact of changes in estimates relating to useful lives as required by GRAP 3, Accounting policies, changes in accounting, estimates and errors in the financial statements. I was unable to confirm the impact by alternative means
5. Consequebtly I was unable to confirm if depreciation of R36 million was calculated correctly by management. In addition material difference of R10 million was noted for accumulated depreciation between fixed asset register and financial statements. I was unable to determine the exact impact to the property, plant and equipment stated at R842 million (2019-20: R800 million), depreciation stated at R36 million (2019-20: R30 million) in note 11 and 30 to the financial statements as it was impracticable to do so.

6. I was unable to obtain sufficient appropriate audit evidence that the property, plant and equipment was properly accounted for, as the impairment assessment for property, plant and equipment were presented for audit purposes without accurate and complete underlying accounting records, the impairment assessment was not all performed even though indicators of possible impairment considerations existed. As a result, I was unable to confirm the assessments by alternative means. I was unable to determine the exact impact to the property, plant and equipment stated at R842 million (2019-20: R800 million), depreciation stated at R36 million (2019-20: R30 million) in note 11 and 30, respectively to the financial statements as it was impracticable to do so.
7. I was unable to obtain sufficient appropriate audit evidence relating to the additions in the financial statements disclosed in the property, plant and equipment balance due to the poor status of accounting records. Furthermore, the fixed asset register did not have acquisition dates for some of the assets. I was unable to confirm the additions to property, plant and equipment disclosed in note 11 by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to additions stated at R79 million.
8. The municipality incorrectly accounted for the property, plant and equipment in accordance with GRAP 17, property were not accounted for in accordance with GRAP 16, Investment property, as properties owned by the municipality, which are leased out are classified under property plant and equipment. Consequently, property, plant and equipment was overstated by R18 million and investment property was understated by R18 million

Investment Property

9. I was unable to obtain sufficient appropriate audit evidence for the fair values of investment property determined by the municipality, as the fair value assessment provided for audit purposes did not have accurate and complete audit evidence to support the assumptions made by the municipality. In addition, included in the register is land with negative fair value, however, there is no indication that the land was revalued, nor the revaluation method selected for subsequent measurement of land as required by the standard. The land was impaired. Consequently, I was unable to confirm the assessments by alternative means. I was unable to determine the exact impact to the investment property stated at R279 million in note 10 to the financial statements as it was impracticable to do so.

Payable from exchange transactions

10. 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 as stated in the payments received in advance at R18 million (2019-20:R18 million) in note 14 and risk management note 44 in the financial statements.

11. Payables from exchange transactions were materially misstated by R13 million due to the cumulative effect of individually immaterial uncorrected misstatements in:
- Trade payables as it was understated by R5 million
 - Year end accruals of R8 million which we could not obtain sufficient appropriate audit evidence

Consequently I was unable to confirm payables from exchange transactions by alternative means. Due to this I was unable to determine whether any adjustment was necessary to payables from exchange transactions.

Allowance for impairment

12. The municipality did not account for provision for impairment in accordance with GRAP 104, financial instruments. This was due to management not classifying indigent debtors correctly to determine the status risk. Consequently, I was unable to determine whether any adjustments were necessary to allowance for impairment R216 million (2019-20: R198 million) in note 5, allowance for impairment R10 million (2019-20: R17 million) note 6 and debt impairment R68 million (2019-20: R28 million) in note 32 to the financial statements.

Contracted services

13. The municipality did not account for settlement agreement in accordance with GRAP 1, Presentation of financial statements, and GRAP 104, Financial Instruments. The municipality did not accrue for the settlement agreement when the agreement was signed, contracted services – legal fees is overstated by R11 million (2019-2020: R14 million). In addition, current liabilities are understated. Furthermore, the other income is overstated by R11 million (2019-2020: R14 million). Additionally, there was an impact on the surplus for the period

Net cash flows from operating activities

14. 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 flow statement. 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 R68 million in the cash flow statement were necessary.

Cash flows from financing activities

15. The municipality did not correctly prepare and disclose the net cash flows from financing activities in accordance with GRAP 2, Statement of Cash Flows. This was due to material classification error in determining cash flows from financing activities. I was not able to determine the full extent of the errors in the net cash flows from financing activities as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to cash flows from financing activities as stated at R13 million in the financial statements, was necessary.

Segment reporting

16. The municipality did not disclose segment reporting, as required by GRAP 18, segments reporting. I was unable to determine the full extent of the omission of segment reporting note to the financial statements as it was impracticable to do so.

Irregular expenditure

17. 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 of R63 million (2019-20: R48 million) as disclosed in note 49 to the financial statements by alternative means. I could not determine the correct irregular expenditure as it was impractical to do so.

Unauthorised expenditure

18. The municipality incorrectly calculated unauthorised expenditure in the previous year, in contravention of section 125(2)(d) of the MFMA, by netting off savings from different votes against each other, resulting in the current year unauthorised expenditure being understated by R21 million

Commitments

19. The municipality did not correctly recognise the commitment in accordance with accounting policy. Included in the commitment balance disclosed in note 40 is amounts relating to not yet contracted for and authorised by accounting officer commitments, this is due to inadequate systems of internal controls over financial reporting. Furthermore, projects that are in progress were not included in the commitments. I could not determine the correct figure as it was impractical to do so.

Prior-year adjustments

20. I was unable to obtain sufficient appropriate audit evidence for the prior-year adjustments as the municipality did not provide accurate and complete calculations of the correction of prior period errors as presented in note 54 to the financial statements. As described in note 54 to the financial statements, the restatements were made to correct prior year misstatements, but these restatements were not accurate.

21. Furthermore, prior period errors were also not corrected in the years in which the errors occurred in order to comply with the requirements of GRAP 3, Accounting policies, changes in accounting estimates and errors. I was unable to obtain sufficient appropriate audit evidence by alternative means in the matters described above. Consequently, I was unable to determine whether any adjustment was necessary for each financial statement item affected as disclosed in correction of prior period errors per note 54 to the financial statements.

Risk management

22. The municipality did not adequately disclose credit risk disclosure in accordance with the requirements of GRAP 104, Financial Instruments. This was due to the municipality not disclosing collateral held and other credit enhancements. In addition the municipality did not disclose information relating to concentrations risk in the financial statements. Consequently, I was unable to determine whether any adjustments were necessary to the risk management note 44 to the financial statements.

Preparation of the financial statements

23. I was unable to obtain sufficient appropriate audit evidence that the accounting officer has fulfilled its responsibility for the preparation of the financial statements in accordance with the GRAP, as written representations in this respect were not provided. I was also unable to obtain written representations from the accounting officer that I had been provided with all relevant information and access as agreed in terms of the audit engagement, and that all transactions had been recorded and were reflected in the financial statements. I could not determine the effect of the lack of such representations on the financial position of the municipality at 30 June 2021 or the financial performance and cash flows and related disclosure notes for the year then ended.

Emphasis of matters

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

Emphasis of matter paragraphs

25. The following emphasis of matter paragraphs will be included in our auditor's report to draw the users' attention to matters presented or disclosed in the financial statements:

Material losses – Water and Electricity

26. As disclosed in note 34 to the financial statements, electricity losses of R21 million, were incurred as a result of power theft, meter tampering, illegal connections, and faulty meters.

27. As disclosed in note 34 to the financial statements, water losses of R8 million, were incurred as a result of and water theft, meter tampering, illegal connections, and faulty meters.

Uncertainties relating to the future outcome of exception litigation

28. With reference to note 41 to the financial statements, the municipality is the defendant in a number of 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 paragraphs

29. The following other matter paragraphs will be included in our auditor's report to draw the users' attention to matters regarding the audit, the auditor's responsibilities and the auditor's report:

Unaudited disclosure notes

30. 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 50 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

31. 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.
32. 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

33. My responsibility is to conduct an audit of the financial statements in accordance with the International Standards on Auditing and to issue an auditor's report. However, because of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.
34. I am independent of the entity 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 the other ethical requirements that relevant to my audit of the financial statements in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

Report on the audit of the annual performance report

Introduction and scope

35. 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 objective presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
36. 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.
37. 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 objectives presented in the Municipality's annual performance report for the year ended 30 June 2021:

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

38. I performed procedures to determine whether the reported performance information 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.
39. The material findings on the usefulness and reliability of the performance information of the selected development objectives are as follows:

KPA 1 - Basic service delivery and infrastructure development

40. I was unable to obtain sufficient appropriate audit evidence that systems and processes were established to enable consistent measurement and reliable reporting of performance against the predetermined indicator definitions. This was due to limitations on the scope of our work. We were unable to test whether the indicator was well-defined and verifiable by alternative means. As a result, we were unable to audit the reliability of the achievement of the indicators listed on the table below.

KPI	NAME OF INDICATOR
KPI 4	Percentage of the work completed as measured according to the PPII for the construction of 1ML water treatment package plant in masakhane and the refurbishment of 2X existing boreholes by 30 June 2021
KPI 5	Percentage of the work completed as measured according to the PPII for the refurbishment of the Warmbad Dam Bela Bela: by 30 June 2021
KPI 6	Percentage of the work completed as measured according to the PPII for the water supply source augmentation and construction of the water reticulation network Rapotkwane by 30 June 202
KPI 7	Percentage of the work completed as measured according to the PPII for the refurbishment of the old section of the water treatment works (WTW) by 30 June 2021
KPI 8	Percentage of the work completed as measured according to the PPII for the construction of the water desalination plant in Rapotwane by 30 June 202
KPI 9	Percentage of formal households to be provided with basic level of water by 30 June 2021
KPI 10	Percentage of informal households to be provided with basic level of water by 30 June 2021
KPI 11	Percentage of non-residential properties (business, churches, schools & hospitals) provided with access to basic level of water by 30 June 2021
KPI 13	Percentage of the work completed as measured according to the PPII for the upgrading the aventura sewer pump station by 30 June 2021
KPI 14	Percentage of the work completed as measured according to the PPII for the refurbishment and automation on the Bela Bela waste water treatment works(WWTW) Phases 1A by 30 June 2021
KPI 15	Percentage of the work completed as measured according to the PPII for the refurbishment of sewer outfall from Aventura PS to Bela Bela waste water treatment works(WWTW) by 30 June 2021
KPI 16	Percentage of formal households with access to basic level of Sanitation by 30 June 2021
KPI 17	Percentage of non-residential properties (business, churches, schools & hospitals) to be provided with access to basic level of sanitation by 30 June 2021
KPI 18	Percentage of the work completed as measured according to the PPII for the construction of stormwater in Bela Bela Spa Park by 31 December 2020
KPI 19	Percentage of the work completed as measured according to the PPII for the construction of road paving & stormwater in Bela Bela Ext 5 & Hostel view by 30 June 2021
KPI 20	Percentage of the work completed as measured according to the PPII for the construction of the R101 Intersection in Bela Bela Ext 6 by 30 June 2021
KPI 21	Percentage of the work completed as measured according to the PPII for the construction of road paving & stormwater in Bela Bela Ext 6 Phase 1 by 30 June 2021
KPI 22	Percentage of the work completed as measured according to the PPII for the construction of road paving & stormwater in Bela Bela Ext 7 Phase 1 by 30 June 2021
KPI 23	Percentage of the work completed as measured according to the PPII for the construction of road paving & stormwater in Bela Bela Ext 8 Phase 1 by 30 June 2021
KPI 24	Percentage of the work completed as measured according to the PPII for the construction of road paving & stormwater in Bela Bela Ext 4, 6, 7 & 8 by 30 June 2021

KPI	NAME OF INDICATOR
KPI 25	Number of households connected with electricity supply in Bela-Bela X9 by 30 June 2021
KPI 26	Percentage of formal households to be provided with access to basic level of electricity by 30 June 2021.
KPI 27	Percentage of non-residential properties(Business, Churches, Schools & Hospitals) to be provided with access to electricity by 30 June 2021
KPI 40	Percentage of the work completed as measured according to the PPII for the extension of existing grave yard in Bela Bela by 30 June 2021
KPI 41	Percentage of the work completed as measured according to the PPII for the construction of a sports facility in Spa Park by 30 June 2021
KPI 42	Percentage of the work completed as measured according to the PPII for the construction of a sports facility in Leseding by 30 June 2021
KPI 43	Percentage of the work completed as measured according to the PPII for the construction of a Moloto Street Stadium by 30 June 2021

Percentage of formal households with access to solid waste removal by 30 June 2021

41. I am unable to conclude whether the actual reported performance information achievement on the annual performance report as at 30 June 2021 is materially misstated because I was unable to obtain sufficient appropriate audit evidence on KPI -31: Percentage of formal households with access to solid waste removal by 30 June 2021 as described in Basic Service Delivery and Infrastructure Development. I have identified differences between the source document that was provided which was not sufficient for us to obtain appropriate audit evidence and the annual performance report that resulted to a material misstatement.

Other matters

42. We draw attention to the matters below. Our opinion is not modified in respect of these matters.

Achievement of planned targets

43. Refer to the annual performance report on page x to x for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings raised on the usefulness and reliability of the reported performance information in paragraphs x of this report.

Audit of compliance with legislation

44. Included below are material findings on compliance with selected specific requirements of applicable legislation, as set out in the general notice issued in terms of the PAA.

Annual financial statements, performance and annual report

45. 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 on current assets, liabilities 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 misstatement resulted in the financial statements receiving a disclaimer of opinion.

Asset management

46. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
47. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Expenditure management

48. 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 could not be quantified as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by contraventions of the municipality's supply chain management policy, and funds allocated to unspent conditional grants used for other payments.
49. Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R834 003, as disclosed in note 48 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.
50. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the unauthorised expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed unauthorised expenditure was caused by overspending of the total amount appropriated for various votes in the approved budget.

Revenue management

51. An adequate management, accounting and information system which accounts for debtors was not in place, as required by section 64(2)(e) of the MFMA.

Conditional grants

52. I was unable to obtain sufficient appropriate audit evidence that the Municipal Water Infrastructure Grant(MSIG) was spent for its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of the Division of Revenue Act (Act 4 of 2020).

Consequence management

53. In some instance the loss resulting from irregular expenditure were not recovered from the liable person, as required by section 32(2) of the MFMA.

Procurement and contract management

54. Some of the quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM Regulation 13(c).
55. Some of the contracts were awarded to bidders based on functionality criteria that differed from those stipulated in the original invitation for bidding, in contravention of 2017 Preferential Procurement Regulation 5(1) & 5(3).
56. Some of the tenders which failed to achieve the minimum qualifying score for functionality criteria were not disqualified as unacceptable tender in accordance with 2017 Preferential Procurement Regulation 5(6).
57. Some of the 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).
58. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of SCM regulation 46(2)(e) and the code of conduct for staff members issued in terms of the Municipal Systems Act.
59. Sufficient appropriate audit evidence could not be obtained that contracts were extended or modified with the approval of a properly delgated official as required by SCM Regulatin 5. This limitation was identified in the procurement processes for the following key project: Bela-Bela Spa Park Storm water; Bela-Bela ext. 6 : R101 Intersection; Bela-Bela Ext 6 - Road paving & storm water - phase 1; Extension of graveyard, gravelling of graveyard access roads and construction of ablution block & septic tank provision of paliside fencing
60. This Sufficient appropriate audit evidence could not be obtained that the performance of contractors or service providers was monitored on a monthly basis as required by section 116(2) of the MFMA. This limitation was identified in the procurement processes for the following key projects: Bela-Bela Spa Park Storm water; Bela-Bela ext. 6 : R101 Intersection; Bela-Bela Ext 6 - Road paving & storm water - phase; Extension of graveyard, gravelling of graveyard access roads, construction of ablution block & septic tank provision of paliside fencing; Bela-Bela: Refurbishment of the Warm bad Dam; Rapotokwane: Water Augmentation and reticulation; Bela-Bela Ext 9 and Electrification of Households (900HH)-Phase 2 (503HH).

61. Sufficient appropriate audit evidence could not be obtained that contract performance and monitoring measures were in place to ensure effective contract management as required by section 116(2)(c)(ii) of the MFMA. This limitation was identified in the procurement processes for the following key projects: Bela-Bela Spa Park Storm water; Bela-Bela ext. 6 : R101 Intersection; Bela-Bela Ext 6 - Road paving & storm water - phase; Extension of graveyard, gravelling of graveyard access roads, construction of ablution block & septic tank provision of palisade fencing; Bela-Bela: Refurbishment of the Warm bad Dam; Rapotokwane: Water Augmentation and reticulation; Bela-Bela Ext 9 and Electrification of Households (900HH)-Phase 2 (503HH).

Other information

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

63. Our opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and we do not express an audit opinion or any form of assurance conclusion on thereon.

64. In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements and the selected objectives presented in the annual performance report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Internal controls

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

Leadership

Oversight responsibility

66. The accounting authority did not exercise adequate oversight on the financial statements and the annual performance report before submitting them for audit. We identified material misstatements to the financial statements and annual performance report submitted for audit.

67. BBLM leadership did not exercise oversight responsibility regarding financial reporting, compliance and related internal controls to ensure that compliance requirements are met in order to prevent irregular and fruitless and wasteful expenditure because of insufficient understanding of SCM laws and regulations and formulating a compliance driven internal control environment.
68. The municipality did not have sufficient monitoring controls to ensure the proper implementation of the overall process of performance management systems and processes. There were no internal documented procedures that guide management on facilitation of effective performance monitoring, evaluation and corrective action.

Policies and procedures

69. The municipality did not have documented and approved internal policies and procedures to address planning, implementation, monitoring and reporting processes and events pertaining to performance management and reporting.
70. The municipality did not have sufficient monitoring controls to ensure the proper implementation of the overall process of performance management systems and processes. There were no internal documented procedures that guide management on facilitation of effective performance monitoring, evaluation and corrective action. This is due to leadership lacking in understanding required in ensuring adherence to the requirements of the FMPPI.

Information technology governance framework

71. Information technology governance was found to be inadequately designed and implemented due to the following key internal control deficiencies:
72. There was an oversight in the execution of management responsibilities, which led to services of an IT third party service provider not being monitored.
73. There was budget constrains which led to the following control weaknesses:
- Key vacancies within the IT Department not being filled
 - The IT strategy not being developed and implemented

Financial and performance management

Proper record keeping

74. The municipality entity did not have a proper record management system to maintain information and support the reported performance in the annual performance report. This included information that related to the collection, collation, verification, storing and reporting of actual performance information. This extended to expenditure management where there was no proper record.
75. In terms of our engagement letter, we agreed that all information requested for audit purposes would be submitted within 3 working days of the request by the auditors. Despite this agreement, management did not supply the documentation requested in the following instances:

- Audit of performance information – Average 7 days for the team to receive information requested.

76. Communication of findings with regards to the limitation of scope were issued in these same section mentioned above where management again extended submissions beyond the agreed response period.

Regular, accurate and complete financial and performance reports

77. The financial statements contained numerous misstatements that were corrected. This was mainly due to staff not fully understanding the requirements of the financial reporting framework.

78. Management did not ensure that the classification and allocation of the Munsoft general ledger accounts supports accurate disclosure in the AFS as no critical review of the nature of trail balance accounts were performed beforehand.

Implement controls over IT systems

79. Non-compliance to the disaster recovery plan (DRP) led to the DRP not being tested at the required frequency.

80. Due to system limitation, the auditee was unable to extract anti-virus and patch management exception reports. This led to anti-virus and patch management exceptions not being monitored during the period under review.

81. Management implemented a trial version of Manage Engine to query the active directory. This led to the auditee being unable to generate a complete user list on the active directory (AD). As a results, we were unable to confirm whether user access rights had been granted appropriately on the active directory and whether system administrator activities were appropriate.

82. Due to system limitations, the Payday system did not have the functionality to generate certain reports. This led to the following control weaknesses:

- A user list that included the access creation date, access modification date and password reset date. As a result, we unable to confirm whether user access rights had been granted appropriately on the Payday system.
- A system generated a change log could not be generated. As a result, we were unable to confirm whether changes had been authorised appropriately.

83. There was budget constrains which led to the following control weaknesses:

- Environmental controls in the server room not being maintained during the period under review
- Water detectors, fire suppression system, lightning protector and security cameras not being installed
- Lack of a testing environment to test security patches prior to deploying to production environment

- Lack of firewall backup infrastructure
- Lack of a system to extract system administrator activities and firewall logs to enable management to perform the necessary reviews.

84. There was oversight in the execution of responsibilities by IT Management which led to the following control weaknesses:

- IT security policy omitting key aspects
- ICT backup policy omitting key aspects
- ICT Firewall policy omitting key aspects
- User access management policy omitting key aspects
- Data centre and server room standards omitting key aspects
- Lack of a documented process to manage the inventory of sensitive information

Governance

Risk management

85. Although a risk assessment framework is in place, management does not adequately monitor and report on progress of controls implemented, or respond to new risks that may arise. Therefore the risk management process of the entity is not considered to be adequate or effective.

Internal audit

86. Although a Leadership did not act on a timely basis on the internal audit units recommendations or reports, thus negatively affecting its effectiveness as an assurance provider to the leadership of the entity

87. Timeframes in place for the preparation and internal review of the financial statements are not adequate as no reviews were performed on the draft financial statements by the internal audit unit due to time constraints and capacity.

Auditor-General

Pretoria

29 March 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 programmes and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the [board of directors, which constitutes the accounting officer.
 - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of BBLM 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.