

# REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE BLUE CRANE ROUTE MUNICIPALITY

## REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

### Introduction

1. I have audited the accompanying consolidated and separate financial statements of the Blue Crane Route Municipality, which comprise the consolidated and separate statement of financial position as at 30 June 2011, and the consolidated and separate statement of financial performance, consolidated and separate statement of changes in net assets and consolidated and separate cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, as set out on pages .. to ...

### Accounting officer's responsibility for the consolidated financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (GRAP) and in the manner required of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2010 (Act No. 1 of 2010) (DORA), as well as for such internal control as management determines necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor-general's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these consolidated and separate financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the consolidated and separate financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence for the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated and separate financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and separate financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my unqualified audit opinion.

### **Opinion**

7. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the Blue Crane Route Municipality and its subsidiaries as at 30 June 2011, and their financial performance and cash flows for the year then ended in accordance with GRAP and the requirements of the MFMA.

### **Emphasis of matter**

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

### **Restatement of corresponding figures**

9. As disclosed in note 42 to the financial statements, the corresponding figures for 30 June 2010 have been restated. This restatement was due to prior period errors that were identified and corrected during the year under review.

### **Provision for environmental rehabilitation**

10. Disclosed in note 19 to the financial statements are details of a landfill site that is operated by the municipality at Pearston. The municipality is still in the process of obtaining a permit to operate this site.

### **Irregular expenditure**

11. As disclosed in note 48 to the financial statements, irregular expenditure of R1,7 million was incurred due to contraventions of Supply Chain Management (SCM) regulations. In addition, the municipal entity incurred further irregular expenditure of R72 663 due to salary increases and leave that was not authorised.

### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

12. In accordance with the PAA and in terms of *General notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages ... to ... and material non-compliance with laws and regulations applicable to the municipality and its subsidiary.

### **Predetermined objectives**

#### **Usefulness of information**

13. The following criteria are relevant to the findings below:
  - Consistency: Objectives, indicators and targets are consistent between planning and reporting documents.
  - Relevance: A clear and logical link exists between the objectives, outcomes, outputs, indicators and performance targets.
  - Measurability: Indicators are well defined and verifiable, and targets are specific and measurable.

Audit findings:

#### **Planned indicators are not relevant to the objectives of the entity**

- Forty-three percent (43%) of the indicators, as set out in the service delivery budget and implementation plan, did not relate directly to the municipality's strategic goals and objectives in the integrated development plan (IDP).

**Reported objectives are not consistent when compared with the planned objectives**

- Fifty-seven percent (57%) of the reported objectives in the annual performance report did not agree to those in the approved IDP.

**A clear and logical link cannot be made between reported objectives, indicators and targets**

- No logic link can be made between reported objectives, indicators and targets as the annual performance report does not contain any indicators and targets.

**Changes to planned objectives are not approved**

- Forty-three percent (43%) of the objectives of the approved IDP did not agree to the five year strategic plan.

**Reliability of information**

14. The following criteria are relevant to the findings below:

- **Validity:** Actual reported performance has occurred and pertains to the entity.
- **Accuracy:** Amounts, numbers, and other data relating to reported actual performance have been recorded and reported appropriately.
- **Completeness:** All actual results and events that should have been recorded have been included in the annual performance report.

Audit findings:

**Measures taken to improve performance were not supported by adequate and reliable corroborating evidence**

- The measures taken to improve performance were not supported by adequate and reliable corroborating evidence.

**Sufficient appropriate evidence was not submitted to support reported performance**

- Sufficient appropriate evidence for the reported performance of priority infrastructure could not be obtained. There were no satisfactory audit procedures that I could perform to obtain the required assurance as to the validity, accuracy and completeness of the reported performance against predetermined objectives.

**Compliance with laws and regulations**

**Strategic planning and performance management**

15. The IDP did not include the key performance indicators and performance targets, as required by sections 26(i) and 41(1)(b) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) and regulation 12 of the Local Government: Municipal Planning and Performance Management Regulations, 2001 (MPPR) published in *General notice 796 of 24 August 2001*.
16. The strategic plan of the municipal entity did not include a multi-year business plan with key financial and non-financial performance objectives and measurements criteria aligned with the parent municipality. There is also no consistency between the budget and the integrated strategic plan (section 93B of the MSA).
17. The service level agreement between the parent municipality and municipal entity is not linked to the parent municipality's key performance indicators as is required by section 76(b) of the MSA and regulation 9(2)(b)(ii) of the MPPR.

### **Annual financial statements and annual report**

18. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of expenditure, capital assets, current liabilities, and disclosure items were identified during the audit and were subsequently corrected.
19. The annual performance report of the municipality was not submitted within two months after year-end as required by section 6 of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*.
20. The municipal entity did not submit the annual performance report as required by section 46 of the MSA and section 121(3)(c) of the MFMA.
21. The council's oversight report for the 2009-10 annual report was not made public within seven days of its adoption, as required by section 129(3) of the MFMA.
22. As the municipality did not have indicators and targets in the IDP, the annual performance report did not include a comparison of the performance of each external service provider with development priorities, objectives and performance indicators set out in its IDP, as required by section 46 of the MSA.
23. The annual budget was not based on the development priorities and objectives as is required by regulation 6 of the MPPR.
24. The municipal entity did not submit VAT returns to South African Revenue Service for the year ended 30 June 2011, as prescribed by section 28 of the Value Added Tax Act of South Africa, 1991(Act No. 89 of 1991).
25. Details of the municipal entity's credit card accounts which were opened were not submitted to the parent municipality in writing within 90 days after the entity opened these accounts, as required by section 86 of the MFMA.

### **Audit committee**

26. The performance audit committee or another committee functioning as the performance audit committee did not review the municipality's performance management system and make recommendations in this regard to the council or submit an auditor's report to the council regarding the performance management system at least twice during the financial year (regulation 14 of the MPPR).
27. The municipal entity did not have an active audit committee as required by section 166(1) of the MFMA.

### **Internal audit**

28. The municipal entity did not have an internal audit unit in place as required by section 165(1) of the MFMA.

### **Procurement and contract management**

29. Goods and services with a transaction value of between R2 000 and R200 000 were procured by the municipal entity without obtaining written price quotations from at least three different prospective providers as per the requirements of SCM regulation 17(a) and (c).

30. Quotations were accepted by the municipal entity from prospective providers who are not on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy in contravention of SCM regulation 16(b) and 17(b).
31. Awards were made by the municipal entity to suppliers who did not submit a declaration of their employment by the state or their relationship to a person employed by the state as per the requirements of SCM regulation 13(c).
32. The prospective providers list of the municipal entity for procuring goods and services through quotations was not updated at least quarterly to include new suppliers that qualify for listing and prospective providers were not invited to apply for such listing at least once a year as required by SCM regulation 14(1)(a)(ii) and 14(2).

#### **Asset management**

33. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained:
  - a management, accounting and information system which accounts for the assets of the municipality, as required by section 63(2)(a) of the MFMA, and
  - an effective system of internal control for assets (including an asset register), as required by section 63(2)(c) of the MFMA.

#### **Transfers and conditional grants**

34. The accounting officer did not evaluate the performance of the municipality in respect of programmes funded or partially funded by a schedule 4 allocation within two months after the end of the financial year, as required by section 11(6) of DORA.

#### **INTERNAL CONTROL**

35. In accordance with the PAA and in terms of *General notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

#### **Leadership**

36. The risks relating to predetermined objectives were not adequately identified and addressed by the leadership. This, together with the inadequate structuring of the performance reporting processes, ultimately resulted in findings in this report.

#### **Financial and performance management**

37. The performance management systems that were in place in the municipality were not adequate to ensure that sufficient, reliable and relevant documentation was available to support the actual achievements of the municipality that were reported in the performance report.
38. The municipality does not have adequate processes in place to ensure compliance with laws and regulations and has thus not fully complied with all requirements of the MFMA, MSA, DORA, SCM regulations and MPPR.

## **Governance**

39. The performance audit committee or another committee functioning as the performance audit committee did not carry out a review of the municipality's performance management system.
40. The municipal entity did not have an internal audit unit or an audit committee for the financial year under review.

## **OTHER REPORTS**

### **Investigations**

41. An investigation on the allegation of possible fraudulent reversal of prepaid electricity sales was conducted by an independent consulting firm on request of the municipality. This investigation was still ongoing at the reporting date.

*Auditor-General*

East London

15 December 2011



AUDITOR - GENERAL  
SOUTH AFRICA

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