

Report of the auditor-general to the Eastern Cape Provincial Legislature and the council on Blue Crane Route Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Blue Crane Route Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements 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, 2015 (Act No.1 of 2015) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the 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 municipality'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 financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Blue Crane Route Municipality as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with SA standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

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

Unauthorised expenditure

8. As disclosed in note 46 to the financial statements, unauthorised expenditure to the amount of R15,8 million (2014-15: R1,93 million) was incurred as a result of overspending of the total amounts appropriated for the votes in the approved budget.

Irregular expenditure

9. As disclosed in note 48 to the financial statements, irregular expenditure to the amount of R12,2 million (2014-15: R39,3 million) was incurred as a result of contravention of the supply chain management (SCM) requirements.

Material losses

10. As disclosed in note 27 to the financial statements, electricity losses of 24% (2014-15: 24%) and water losses of 50% (2014-15: 44%) were incurred during the financial year.

Restatement of corresponding figures

11. As disclosed in note 42 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of errors discovered during the current financial year in the financial statements of the Blue Crane Route Municipality at, and for the year ended, 30 June 2015.

Additional matters

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

Unaudited disclosure note

13. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

Unaudited supplementary information

14. The supplementary information (annexure A), set out on pages xx to xx, does not form part of the financial statements and is presented as additional information. I have not audited this annexure and, accordingly, I do not express an opinion thereon.

Report on other legal and regulatory requirements

15. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

16. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the basic service delivery and infrastructure development priority presented on pages x to x of the annual performance report of the municipality for the year ended 30 June 2016:
17. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for Managing Programme Performance Information (FMPPi).
18. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
19. The material findings in respect of the selected development priority are as follows:

Basic service delivery and infrastructure development

Usefulness of reported performance information

20. I did not raise any material findings on the usefulness of the reported performance information for the Basic service delivery and infrastructure development priority.

Reliability of reported performance information

21. The FMPPi requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. The reported achievements against planned targets of 26% indicators were not reliable when compared to the evidence provided.

Additional matters

22. I draw attention to the following matter:

Achievement of planned targets

23. Refer to the annual performance report on page(s) x to x; 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 on the reliability of the reported performance information for the selected development priority reported in paragraph 21 of this report.

Compliance with legislation

24. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Annual financial statements and annual report

25. 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 property, plant and equipment, contingent liabilities, contingent assets and unauthorised expenditure identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

26. Reasonable steps were not taken to prevent unauthorised, irregular as well as fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Consequence management

27. Unauthorised, irregular as well as fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) and (b) of the MFMA.

Procurement and contract management

28. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).

29. Thresholds for local content on designated sectors' procurement were not properly applied in accordance with the requirements of preferential procurement regulation 9.

Human resource management

30. The competencies of the chief financial officer, head of the SCM unit, as well as financial and SCM officials were not assessed in a timely manner to identify and address gaps in competency levels as required by Municipal Regulations on Minimum Competency Levels 13.

Internal control

31. I considered internal control relevant to my audit of the financial statements, the annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the financial statements, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

32. The leadership ensured that all senior management positions and supply chain management vacancies were filled. However, the leadership did not enforce consequences for poor performance and transgressions of legislation, resulting in a culture where repeat findings have become the norm.

Financial and performance management

33. The municipality did not introduce appropriate mechanisms, processes, procedures, systems or internal controls to ensure that transactions are correctly recorded, classified, reconciled, reported on in accordance with the SA standards of GRAP. As a result, material misstatements were identified during the audit process, which were subsequently corrected by management.
34. In areas where the municipality made use of consultants, the consultants were not adequately monitored to ensure that their work was completed on time to allow the municipality to review and properly process that work in the financial statements.
35. In relation to predetermined objectives, management did not ensure that relevant and reliable evidence was maintained to support the reported performance information.
36. Overall, there was a slow response to audit recommendations as evidenced by repeat findings on the financial statements, the annual performance report and compliance with legislation.

Governance

37. Although the internal audit unit and audit committee executed their legislative mandate during the financial year under review, the municipality had recurring material findings on financial and performance management and compliance with legislation. This was as a result of the timing of the internal audit reports and leadership not responding adequately to recommendations made by the internal audit unit as well as the audit committee.

OTHER REPORTS

38. I draw attention to the following engagements that could potentially have an impact on the municipality's financial, performance and compliance related matters. My opinion is not modified in respect of these engagements that are either in progress or have been completed.

Investigations

39. The municipality requested the Department of Cooperative Governance and Traditional Affairs to conduct an investigation into the fraudulent change of a supplier's banking details during the period under review. At the time of this report, the investigation was still in progress.

Auditor General

East London

30 November 2016



**AUDITOR - GENERAL
SOUTH AFRICA**

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