



*Auditing to build public confidence*

**AUDITOR-GENERAL  
SOUTH AFRICA**

# **Blue Crane Route Municipality**

## **Audit Report**

**For the year ended 30 June 2017**

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

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of the Blue Crane Route Municipality set out on pages ... to ..., which comprise statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with 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, the financial statements present fairly, in all material respects, the financial position of the Blue Crane Route Municipality as at 30 June 2017, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practise (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2015 (Act No.1 of 2015) (DoRA).

### Basis for opinion

3. 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 report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) together with the 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.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Emphasis of matters

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

### Unauthorised expenditure

7. As disclosed in note 46 to the financial statements, unauthorised expenditure of R8 million (2015-16: R15,8 million) was incurred as a result of overspending of the total amounts appropriated for the votes in the approved budget.

### **Irregular expenditure**

8. As disclosed in note 48 to the financial statements, irregular expenditure of R14,3 million (2015-16: R12,2 million) was incurred. This resulted from a contravention of the Supply Chain Management (SCM) Regulations.

### **Material losses**

9. As disclosed in note 27 to the financial statements, electricity losses of 22% (2015-16: 24%) and water losses of 48% (2015-16: 50%) were incurred during the financial year.

### **Restatement of corresponding figures**

10. As disclosed in note 42 to the financial statements, the corresponding figures for 2015-16 have been restated as a result of an error discovered during 2016-17 in the financial statements of the municipality for the year ended 30 June 2016.

### **Other matter**

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

### **Unaudited supplementary schedules**

12. The supplementary information set out on pages x to x does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

### **Responsibilities of the accounting officer for the financial statements**

13. 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.
14. In preparing the financial statements, the accounting officer is responsible for assessing the Blue Crane Route 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 intention is to liquidate the municipality or cease operations, or there is no realistic alternative but to do so.

### **Auditor-general's responsibilities for the audit of the financial statements**

15. 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.

16. 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

17. 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 material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
18. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did 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.
19. 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 priorities presented in the annual performance report of the municipality for the year ended 30 June 2017:

Development priorities	Pages in the annual performance report
Key performance area (KPA) 2: basic service delivery and infrastructure development	x – x
KPA 3: local economic development	x – x

20. 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.
21. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

### **KPA 2: basic service delivery and infrastructure development**

Key performance indicator (KPI) 47: streetlights in the intersection of R335 and Charles Street installed

22. Annual target of the indicator was not measurable as it did not indicate the unit of measure to be used to report to the annual performance report.

**KPI 49: purchased and install street lights (Cookhouse and Pearston)**

23. Annual target for the indicator was not measurable as it did not indicate the unit of measure to be used to report to the annual performance report.

**KPI 20: number of restaurants inspected**

24. Annual target for the indicator was not measurable as it was not clear whether the target reported was 40 or 24 in the annual report.

**KPI 19: number of inspections in butcheries conducted (compliance with Regulation R962 of 2013)**

25. The reported target achieved for this indicator was 16, only 15 could be verified. There was an additional inspection identified but not reported.

**KPI 46: by installing 1600m of streetlight aerial bundle conductor and lights**

26. Annual target of the indicator was not measurable as it did not indicate the unit of measure to be used to report to the annual performance report.

### **KPA 3: local economic development (LED)**

**Number of small, medium and micro enterprises (SMMEs) supported by KPI 59 (LED)**

27. The municipality did not have an indicator description or standard operating procedures for KPI 59. Municipal target was to assist four SMMEs; I could not get to how the municipality was planning to assist the SMMEs, what kind of programmes and the end result of the SMME after being assisted by the municipality. The municipality relied on programmes facilitated by other organs of state within municipal boundaries as evidence that it provided support.

### **Other matters**

28. I draw attention to the matters below.

#### **Achievement of planned targets**

29. Refer to the annual performance report on pages... to....for information on the achievement of the planned targets for the year.

#### **Adjustment of material misstatements**

30. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA 2: basic service delivery and infrastructure development. 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 audit of compliance with legislation

### Introduction and scope

31. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
32. The material findings on compliance with specific matters in key legislations are as follows:

### Strategic planning and performance management

33. For the LED function the performance management system and related controls were inadequate as it did not describe how the performance measurement and review processes should be conducted and managed, as required by municipal planning and performance management regulation 7(1).

### Expenditure management

34. Effective steps were not taken to prevent irregular expenditure of R14,3 million, as disclosed in note 48 to the annual financial statements, as required by section 62(1)(d) of the MFMA.
35. Reasonable steps were not taken to prevent unauthorised expenditure of R8 million, as disclosed in note 46 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.

### Annual financial statements, performance and annual reports

36. 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, investment property and financial statements identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

### Procurement and contract management

37. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(a) and (c).
38. Some of the quotations were accepted from bidders who did not submit a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).

39. Some awards were made to providers who were in the service of other state institutions or whose directors were in the service of other state institutions, in contravention of section 112(j) of the MFMA 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).
40. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1). Similar non-compliance was also reported in the previous year.
41. Some of the contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43.
42. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5.

#### Other information

43. The Blue Crane Route Municipality's 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 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.
44. 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 thereon.
45. 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

46. 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 thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the development priorities and the findings on compliance with legislation included in this report.
  - In relation to performance reporting, management did not ensure that predetermined objectives were useful and reliable evidence was not maintained to support the



reported performance information. Overall, there was slow response to audit recommendations as evidenced by repeat findings on the annual performance report and non-compliance with legislation.

- The annual performance report contained material misstatements due to lack of proper review, which includes scrutinising and verifying the supporting evidence for each target reported in the annual performance report. Quarterly reports were not signed by relevant directors. The schedule of contingent liabilities, commitments, irregular expenditure and fixed asset register were not adequately maintained and reviewed to ensure that the schedules were accurate and complete. This resulted in material adjustments to the financial statements.
- The leadership ensured that all senior management positions and SCM vacancies were filled, except for vacancies in human resource management. However, the leadership did not enforce consequences for poor performance and transgressions of legislation, resulting in repeat findings on performance reporting and compliance with legislation.



East London

30 November 2017



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SOUTH AFRICA

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## **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 development priorities 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 the 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 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 related to events or conditions that may cast significant doubt on the Blue Crane Route Municipality’s ability 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 the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor’s report. However, future events or conditions may cause a municipality to cease continuing as a going concern
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and 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, related safeguards.