

ANNEXURE C

Report of the auditor-general to the Gauteng Provincial Legislature and the council of City of Ekurhuleni Metropolitan Municipality on Brakpan Bus Company SOC Limited

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Brakpan Bus Company SOC Limited (BBC) set out on pages xx to xx, which comprise, the Statement of Financial Position as at 30 June 2018, 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 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 Brakpan Bus Company SOC Limited as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with South African Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Companies Act of South Africa, 2008 (Act No. 71 of 2008) (Companies Act).

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 auditor's report.
4. I am independent of the municipal entity in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and 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.

Material uncertainty relating to financial sustainability

6. I draw attention to note 36 to the financial statements, which indicates that the municipal entity incurred a net loss of R15 660 978 during the year ended 30 June 2018. As stated, this condition, along with other matters as set forth in note 36, indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern.

Emphasis of matters

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

Restatement of corresponding figures

8. As disclosed in note 34 to the financial statements, the corresponding figures for 30 June 2017 have been restated as a result of an error in the financial statements of the municipal entity at, and for the year ended, 30 June 2018.

Municipal Systems Act section 78 process

9. As disclosed in note 36 to the financial statements, the shareholder, initiated the review and development of the municipal entity's governance framework and delivery model in terms of section 78 of the Municipal Systems Act (MSA). The review process is ongoing and is not expected to be finalised within the next financial year.

Other matter

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

Unaudited disclosure notes

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

Responsibilities of the accounting officer for the financial statements

12. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with SA standard of GRAP and the requirements of the MFMA and the Companies Act, 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.

13. In preparing the financial statements, the accounting officer is responsible for assessing the BBC 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 municipal entity or to cease operations, or has no realistic alternative but to do so.

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

14. 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.

15. 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

16. 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 strategic objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
17. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipal entity. I have not evaluated the completeness and appropriateness of the performance indicators/ measures 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.
18. 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 strategic objectives presented in the annual performance report of the municipal entity for the year ended 30 June 2018:

Strategic objective	Pages in annual performance report
Strategic objective 1 – Ensure delivery of bus services in authorized routes within Ekurhuleni metropolitan Municipality by 2018	xx

19. I performed procedures to determine whether the 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.
20. I did not raise any material findings on the usefulness and reliability of the reported performance information for this strategic objective.

Other matter

21. I draw attention to the matter below.

Achievement of planned targets

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

Introduction and scope

23. 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 municipal entity with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
24. The material findings on compliance with specific matters in key legislations are as follows:

Annual financial statements

25. 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, non-current liabilities, current liabilities, taxation and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

26. Money owed by the municipal entity was not always paid within 30 days, as required by section 99 (2)(b) of the MFMA.
27. Reasonable steps were not taken to prevent irregular expenditure amounting to R4 343 731, as disclosed in note 39 to the annual financial statements, as required by section 95(d) of the MFMA. The majority of the irregular expenditure was a result of the contravention of the Supply Chain Management regulation (SCM regulation) 17(a) and 17(b).
28. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R883 715, as disclosed in note 38 to the annual financial statements, in contravention of section 95(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by penalties imposed on the municipal entity by the South African Revenue Services.

Revenue management

29. An effective system of internal control for revenue was not in place, as required by section 97(i) of the MFMA.

Consequence management

30. Irregular and fruitless and wasteful expenditure incurred by the municipal entity was not investigated to determine if any person is liable for the expenditure, as required by municipal budget and reporting regulations 75(1).
31. Allegations of financial misconduct laid against officials of the municipal entity were not investigated, as required by section 172(3)(a) of the MFMA.
32. Appropriate action was not taken against officials of the municipal entity where investigations proved financial misconduct, as required by section 172(3)(b) of the MFMA and municipal regulations on financial misconduct procedures and criminal proceedings 6(8).

Strategic planning and performance management

33. The annual performance objectives and indicators were not established by agreement with the parent municipality, as required by section 93B(a) of the MSA.

Procurement and contract management

34. 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 Supply Chain Management Regulation (SCM regulation) 17(a) and (c).

35. 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 SCM policy, in contravention of SCM regulation 16(b) and 17(b).

36. 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).

37. Some of the quotations were accepted from bidders whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43.

38. The preference point system was not applied to some of the procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act.

39. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5.

40. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year.

Other information

41. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the directors' report, the audit committee's report and the company secretary's certificate as required by the Companies Act. The other information does not include the financial statements, the auditor's report and those selected strategic objectives presented in the annual performance report that have been specifically reported in this auditor's report.

42. 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.

43. 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 strategic objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

44. If based on the work I have performed, I conclude that there is a material misstatement in this other information, I am required to report that fact. I have nothing to report in this regard.

Internal control deficiencies

45. 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 findings on compliance with legislation included in this report.
46. Senior management did not ensure that sufficient controls are in place to prepare accurate and complete financial statements that are supported and evidenced by reliable information. This resulted in the material amendments to the financial statements. In addition, there was a lack of monitoring controls to ensure compliance with laws and regulations including procurement and contract management, expenditure management and revenue management.
47. There was a lack of proper record keeping to ensure that complete, relevant and accurate information is available and accessible to support financial reporting.

Johannesburg

30 November 2018



A U D I T O R - G E N E R A L
S O U T H A F R I C A

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 objectives and on the municipal entity’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 municipal entity’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 BBC 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 this auditor’s report. However, future events or conditions may cause a municipal entity 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 accounting authority 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.