



# **BLUE CRANE ROUTE LOCAL MUNICIPALITY**

Audit Report

*For the year ended 30 June 2020*



**AUDITOR - GENERAL  
SOUTH AFRICA**

*Auditing to build public confidence*

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

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of the Blue Crane Route Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2020, the statement of financial performance, statement of changes in net assets and 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 Local Municipality as at 30 June 2020, and its financial performance and cash flows for the year then ended in accordance with South African Standards of GRAP and the requirements of the Municipal Finance Management Act of South Africa, 2013 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2019 (Act no. 16 of 2019) (Dora).

### Basis of 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 municipality 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 other 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.

### Restatement of corresponding figures

7. As disclosed in note 45 to the financial statements, the corresponding figures for 30 June 2019 have been restated as a result of errors in the financial statements of the municipality identified at, and for the year ended 30 June 2020.

### **Debt impairment**

8. As disclosed in note 33 to the financial statements, impairment of R 23,2 million (2019: R19,4 million) was incurred as a result of allowance for impairment and a write-off of irrecoverable trade debtors.

### **Material Losses**

9. As disclosed in note 27 to the financial statements, material electricity losses of R12,6 million (2019: R11,9 million) was incurred, which represents 20% (2019: 22%) of total electricity purchased.

### **Irregular Expenditure**

10. As disclosed in note 51 to the financial statements, the municipality incurred irregular expenditure of R 6,7 million (2019: R 17,2 million) due to supply chain management regulations not adhered to.

### **Unauthorised Expenditure**

11. As disclosed in note 49 to the financial statements, the municipality incurred unauthorised expenditure of R 24,2 million (2019: R 7,1million) due to debt impairment much more than expected, one capital budget project incorrectly budgeted and increase in depreciation charges due to the infrastructure register being re-created.

### **Other matters**

12. The following other matter paragraph 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 supplementary schedules**

13. The supplementary information 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 these schedules and, accordingly, I do not express an opinion on them.
14. 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 on it.

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

15. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with South African Standards of General Recognised Accounting Practice and the requirements of the MFMA and 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.

16. 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 accounting officer 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**

17. 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 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
18. 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**

19. 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 objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
20. 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.
21. 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 objectives presented in the annual performance report of the municipality for the year ended 30 June 2020:

<b>Development priority</b>	<b>Pages in the annual performance report</b>
KPA 2: Service Delivery and Infrastructure Development	x – x

22. 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.
23. I did not identify any material findings on the usefulness and reliability of the reported performance information for the selected objectives.

### **Other matters**

24. I draw attention to the matters below.

### **Achievement of planned targets**

25. Refer to the annual performance report on pages x to x for information on the achievement of planned targets for the year. This information should be considered in the context of the qualified opinion expressed on the usefulness and reliability of the reported performance information in paragraphs x of this report.

### **Adjustment of material misstatements**

26. We identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA 2: Service Delivery and Infrastructure Development. Management subsequently corrected the misstatements.

## **Report on the audit of compliance with legislation**

### **Introduction and scope**

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

### **Annual financial statements, performance and annual reports**

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 property, plant and equipment were identified by the auditors in the submitted financial statement and were subsequently corrected and/or the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

## Expenditure management

29. Reasonable steps were not taken to prevent irregular expenditure amounting to R 24,9 million as disclosed in note 51 of the annual financial statements, as required by section 62(1)(d) MFMA. The majority of the irregular expenditure was caused by non-compliance with SCM regulations.
30. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R 24,2 million, as disclosed in note 49 of the annual financial statements, as required by section 62(1)(d) of the MFMA.
31. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

## Assets management

32. An effective system of internal control for assets was not in place, as required by section 63(2)(c). The asset register was not adequately maintained.

## Consequences management

33. Some of the irregular expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.
34. Some of the unauthorised expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
35. Some of the fruitless and wasteful expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

## Procurement and contract management

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). Similar non-compliance was also reported in the prior year.
37. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5.
38. 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).
39. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.



40. 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(1)(a) and (c). 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 mayor's foreword, executive summary, governance, organisational development performance and financial performance. The other information does not include the financial statements, the auditor's report and the selected development priority presented in the annual performance report that have been specifically reported in the auditor's report.
42. 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 thereon.
43. 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 financial statements and the selected development priority presented in the annual performance report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated.
44. The following paragraphs will be included in the auditor's report to highlight to the users whether any inconsistencies in the other information exist:
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 basis for opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
47. Leadership did not adequately discharge its oversight responsibilities with regards to the implementation and monitoring of internal controls to ensure sound compliance with laws and regulations.

48. The internal audit and audit committee was functional during the financial year, but were not effective. This is evident by the numerous material non-compliance findings.
49. Management did not effectively review and monitor compliance with laws and regulations relating to financial reporting and performance management.

*Auditor-General*

Auditor-General

East London

28 February 2021



AUDITOR - GENERAL  
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 objectives 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 concerns 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 Local 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 to continue 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.
  - obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

### **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 here applicable, related safeguards.