

# Report of the auditor-general to the Limpopo provincial council and the council of Blouberg Local Municipality

## Report on the audit of the financial statements

### Qualified opinion

1. I have audited the financial statements of the Blouberg Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in net assets and cash flow 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, except for the possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Blouberg Local Municipality as at 30 June 2019, and its financial performance and cash flows for the year then ended in accordance with South African Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Municipal Finance Management Act, 2003 (Act no 56 of 2003)(MFMA) and Division of Revenue Act, 2017 (Act No.3 of 2017)(DORA).

### Basis for qualified opinion

#### Cash flow statement

3. The municipality did not prepare the cash flow statement in terms of GRAP 2, *Cash flow statements*. I identified an unexplained difference of R3 400 000 between the cashflow statement and cash generated from operations disclosed in note 34 to the financial statements. Consequently, the cash flow statement as at the end of the year was misstated by R3 400 000.

### Context for the opinion

4. 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.
5. I am independent of the local municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* and, parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA codes) as well as 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 codes.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

## **Emphasis of matter**

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

## **Restatement of corresponding figures**

8. As disclosed in note 38 to the financial statements, the corresponding figures for 30 June 2019 were restated as a result of errors in the financial statements of the local municipality for the year ended, 30 June 2019.

## **Uncertainty relating to the future outcome of exceptional litigation**

9. With reference to note 36 to the financial statements, the municipality is the defendant in claims. The municipality is opposing the claims. The ultimate outcome of the matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

## **Material losses – electricity**

10. As disclosed in note 47 to the financial statements, material electricity losses to the amount of R3 054 194 (2017-2018: R 2 547 359) was incurred which represents 10,05% (2017-2018: 9,71%) of total electricity purchased.

## **Other matters**

11. I draw attention to the [matter/s] below. My opinion is not modified in respect of these matters:

## **Unaudited supplementary information**

12. 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 this schedule and, accordingly, I do not express an opinion thereon

## **Unaudited disclosure notes**

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

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

15. The accounting officer, which constitutes the accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with South African standards of GRAP 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 Blouberg Local 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

appropriate governance structure either intends to liquidate the local 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 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.
18. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

<b>Report on the audit of the annual performance report</b>
---

### **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 local municipality. 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 local municipality for the year ended 30 June 2019:

<b>Objectives</b>	<b>Pages in the annual performance report</b>
Basic services delivery and infrastructure management	13 – 27

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. The material finding in respect of the usefulness of the selected development priority is as follows:

**Objective 01 – Basic service delivery and infrastructure development**

**Indicator 1: % of energy efficient equipment purchased and installed by June 2019**

Performance indicator not well defined and/or targets were not specific.

24. The source of information for achieving the planned indicator was not clearly defined.

**Other matters**

25. I draw attention to the matters below.

**Achievement of planned targets**

26. Refer to the annual performance report on pages 12 to 27 for information on the achievement of planned targets for the year [and explanations provided for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 04 of this report.

**Adjustment of material misstatements**

27. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Basic Services delivery and infrastructure management. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information. 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.

<b>Report on the audit of compliance with legislation</b>
---

**Introduction and scope**

28. 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 local municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

29. The material findings on compliance with specific matters in key legislations are as follows:

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

30. 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 identified by the auditors in the submitted financial statements were not adequately corrected, which resulted in the financial statements receiving a qualified audit opinion.

## **Expenditure management**

- 31. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
- 32. Effective steps were not taken to prevent irregular expenditure amounting to R12 586 203 as disclosed in note 44 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by the non-compliance with procurement regulations.

## **Human resource management**

- 33. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the MSA.

## **Procurement and contract management**

- 34. 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).
- 35. 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.
- 36. The contract performance and monitoring measures and methods were not sufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.

<b>Other information</b>
--------------------------

- 37. 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 of South Africa, 2008 (Act No. 71 of 2008) (Companies Act)]. The other information does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.
- 38. 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.
- 39. 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 objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
- 40. I did not receive the other information prior to the date of this auditor's report. After I receive and read this information, and if I conclude that there is a material misstatement, 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

41. 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 the annual performance report and the findings on compliance with legislation included in this report.

### Leadership

42. The accounting officer 's oversight role shows some improvement, however more efforts are still needed to exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

### Financial Management

43. The financial statements were not adequately reviewed for accuracy and completeness as the financial statements submitted for audit contained numerous uncorrected and corrected material misstatements not detected by the municipality 's own system of internal control.

44. The municipality did not develop an effective system which verified the accuracy, completeness and reliability of the reported performance contained in the annual performance report.

Auditor-General

30 November 2019



AUDITOR - GENERAL  
SOUTH AFRICA

*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 local 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 this auditor’s report, I also:
  - identify and assess the risks of material misstatement of the [consolidated and separate] 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 local municipality’s internal control
  - 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
  - conclude on the appropriateness of the board of directors, which constitutes 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 Blouberg local municipality 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 local 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
  - [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]<sup>1</sup>

### **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.