

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

Report on the audit of the financial statements

Qualified 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 2024, statement of financial performance, statement of changes in net assets, and cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies
2. In my opinion, except for the effects and 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 Blue Crane Route Local Municipality as at 30 June 2024, and its financial performance and cash flows for the year then ended in accordance with the Standard of Generally Recognised Accounting Practice and the requirements of the Municipal Finance Management Act and the Division of Revenue Act 5 of 2023 (DoRA).

Basis for qualified opinion

Property, Plant and Equipment

3. The municipality did not assess all assets for impairment in accordance with GRAP 21, Impairment of non-cash-generating assets. Infrastructure and community assets with impairment indicators were not assessed for impairment, and the impairment loss calculation recorded was determined on the carrying value at the beginning of the financial year. Furthermore the municipality did not account for its property, plant and equipment in accordance with GRAP 17, Property plant and equipment. Certain fixed assets recorded in the municipality's fixed asset register could not be physically verified because of duplications and missing barcodes of assets.

In addition, I was unable to obtain sufficient and appropriate audit evidence for property, plant and equipment to determine the full extent of the misstatement due the state of accounting records. I could not confirm this by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to property, plant and equipment stated at R820 million.

4. The municipality did not disclose capital work-in-progress where construction was halted for the 2023-2024 financial year as required by GRAP17, "*Property, plant and equipment*". Consequently, the carrying value of property, plant and equipment where construction or development has been halted as disclosed in note 10 in the financial statements was understated by R20, 7 million.

Payables from exchange transactions

5. I was unable to obtain sufficient appropriate audit evidence for payables for the current year due to the status of record keeping. I was unable to confirm payables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to payables stated at R123,42 million.

Service charges

6. Service charges were not accounted for in accordance with GRAP 9, *Revenue from exchange transactions*. This was due to incorrect tariffs used to bill customers. In addition, I was unable to obtain sufficient appropriate audit evidence due to the state of the billing records. I could not confirm the service charges by alternative means. I was unable to determine the full extent of the misstatement as it was impractical to do so. Consequently, I was unable to determine whether any further adjustments were necessary to service charges stated at R159,90 million.

Statement of comparison of budget and actual amounts

7. The municipality did not correctly account for the statement of comparison of budget and actual amounts in accordance with GRAP 24, Presentation of budget information in financial statements as budget amounts presented in the statement of comparison of budget and actual amounts, for the statement of financial position and the statement of financial performance, did not agree to the approved budget amounts. Furthermore, the amounts in the statement of financial position did not agree to the amounts presented on the actual amounts on comparable basis. Consequently, the statement of comparison of budget and actual amounts is overstated by an amount of R8,58 million.

Cash flow statement

Reconciliation of net cash flows from operating activities

8. The municipality did not recognise net cash flows from operating activities in accordance with GRAP 2, cash flow statements. This was due to the municipality incorrectly accounting for the movement of receivables from non-exchange transactions. As a result, reconciliation of net cash flows from operating activities is understated by an amount of R14, 7million.

Segment Reporting

9. I was unable to obtain sufficient appropriate audit evidence regarding the segment reporting disclosed in note 51 to the financial statements, as the disclosure presented in the financial statements for auditing purposes was not based on accurate and complete underlying accounting records. I was unable to audit the disclosure in the financial statements by

alternative means. Consequently, I was unable to determine whether any adjustments were necessary to segment reporting.

Context for opinion

10. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the responsibilities of the auditor-general for the audit of the financial statements section of my report.
11. 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.
12. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Material uncertainty relating to going concern

13. I draw attention to the matter below. My opinion is not modified in respect of this matter.
14. As disclosed in note 46 to the financial statements which indicates high levels of electricity losses and contingent liabilities negatively impacting future cash flows if court ruling are not in favour of the municipality. These events or conditions, along with other matters as set forth in note 46, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern. The steps taken by management to address the risk and ensure the municipality's financial stability are also highlighted in note 46 to the financial statements.

Emphasis of matters

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

Restatement of corresponding figures

16. As disclosed in note 32 to the financial statements, the corresponding figures for 30 June 2023 financial year were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2024.

Material impairments- Trade receivables from non-exchange transactions

17. As disclosed in note 5 of the financial statements, provision for bad debts of R58, 51 million (2022-23: R38, 96 million) was incurred.

Material impairments- Trade receivables from exchange transactions

18. As disclosed in note 6 of the financial statements, allowance for impairment of R127, 30 million (2022-23: R89, 06 million) was incurred.

Material losses- Electricity losses

19. As disclosed in note 24 of the financial statements, a material loss of 12% (2022-23: 24%) was incurred as a result of aging infrastructure, electricity theft and outdated metres.

Other matters

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

Unaudited disclosure notes

21. 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

22. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the Generally Recognised Accounting Practice and the requirements of the Municipal Finance Management 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.

23. 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 appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the auditor-general for the audit of the financial statements

24. My objectives are to obtain reasonable assurance about whether 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.

25. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report. This description, forms part of our auditor's report.

Report on the annual performance report

26. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance information against predetermined objectives for the selected material

performance indicators presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

27. I selected the following material performance indicators related to KPA 1- Basic service delivery presented in the annual performance report for the year ended 30 June 2024. I selected those indicators that measure the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.

- % progress on the upgrading of Cookhouse water treatment works (phase 1)
- % progress on the refurbishment of Khanyiso waterpipe line and booster pump
- No of houses service connections in Millennium Park (Pearston)
- Number of streetlights retrofitted
- % progress on the paving of gravel roads in BCRM
- % progress on the refurbishment of Glen Avon Street
- % progress on Installation of ablution facilities in Aeroville cemetery
- Number of illegal dumps reduced

28. I evaluated the reported performance information for the selected material performance indicators against the criteria developed from the performance management and reporting framework, as defined in the general notice. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users on the municipality's planning and delivery on its mandate and objectives.

29. I performed procedures to test whether:

- the indicators used for planning and reporting on performance can be linked directly to the municipality's mandate and the achievement of its planned objectives
- all the indicators relevant for measuring the municipality's performance against its primary mandated and prioritised functions and planned objectives are included
- the indicators are well defined to ensure that they are easy to understand and can be applied consistently, as well as verifiable so that I can confirm the methods and processes to be used for measuring achievements
- the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated
- the indicators and targets reported on in the annual performance report are the same as those committed to in the approved initial or revised planning documents
- the reported performance information presented in the annual performance report in the prescribed manner

30. there is adequate supporting evidence for the achievements reported and measures taken to improve performance.
31. I performed the procedures to report material findings only; and not to express an assurance opinion or conclusion.
32. I did not identify any material findings on the reported performance information for the selected indicators.

Other matters

33. I draw attention to the matters below.

Achievement of planned targets

34. The annual performance report includes information on reported achievements against planned targets and provides explanations for over- or under achievements.
35. The table that follows provides information on the achievement of planned targets and lists the key service delivery indicators that were not achieved as reported in the annual performance report. The reasons for any underachievement of targets are included in the annual performance report on pages xx to xx.

KPA1: Basic Service Delivery

<p><i>Targets achieved: 75%</i></p> <p><i>Budget spent: 100%</i></p>		
Key indicator not achieved	Planned target	Reported achievement
% progress on the upgrading of Cookhouse water treatment works (phase 1) (KPI 1)	100% Progress on the upgrading of Cookhouse water treatment works (phase1)	89% Progress on the upgrading of Cookhouse water treatment works (phase1)
% progress on Installation of ablution facilities in Aeroville cemetery	100% progress on Installation of ablution facilities in Aeroville cemetery	0% progress on the installation of ablution facilities in Aeroville cemetery.

Report on compliance with legislation

36. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting officer is responsible for the municipality's compliance with legislation.
37. I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa

(AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.

38. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the municipality, clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.
39. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statements, performance report and annual report

40. The financial statements submitted for auditing were not fully prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements on Property, Plant and Equipment, Revenue, Receivables from exchange transactions and Disclosures identified by auditors in the submitted financial statements were not corrected, resulting in the financial statements receiving a qualified audit opinion.

Procurement and contract management

41. Some of the invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM Regulation 22(1) and 22(2).

Consequence management

42. Some irregular expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Asset management

43. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.
44. Capital assets were permanently disposed of that were needed to provide the minimum level of basic municipal services, in contravention of section 14(1) of the MFMA.
45. Capital assets were disposed of without the municipal council having, in a meeting open to the public, decided on whether the assets were still needed to provide the minimum level of basic municipal services.

Expenditure management

46. Reasonable steps were not taken to prevent irregular expenditure amounting to R7,20 million as disclosed in note 50 to the annual financial statements, as required by section 62(1) (d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with regulations of the Municipal Supply Chain Regulations.
47. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R16,3 million as disclosed in note 49 to the annual financial statements, in contravention of

section 62(1) (d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by the payment of capital and interest amounts to the Municipal Workers Union Retirement Fund as per court order.

Utilisation of conditional grants

48. I was unable to obtain sufficient appropriate audit evidence that the (Expanded Public Works Programme Integrated Grant for Municipalities (EPWP) was spent for its intended purposes in accordance with the grant Schedule 5B, as required by section 16(1) of the Division of Revenue Act (Act 5 of 2023).

Other information in the annual report

49. The accounting officer is responsible for the other information included in the annual report. The other information referred to does not include the financial statements, the auditor's report and those selected material indicators in the scoped-in key performance area presented in the annual performance report that have been specifically reported on in this auditor's report.
50. My opinion on the financial statements, the report on the audit of the annual performance report and the report on compliance with legislation do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.
51. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the financial statements and the selected material indicators in the scoped-in indicators presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
52. I did not receive any 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 the audit report and re-issue an amended report as appropriate. However, if it is corrected, this will not be necessary.

Internal control deficiencies

53. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
54. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, and the material findings on compliance with legislation included in this report.
55. The municipality's action plan to address external audit findings from the prior years was not adequate as it was identified that a lot of the recommendations from the prior year, were not addressed by management. Furthermore, the audit action plan was not implemented and

monitored timeously by management, this has contributed to material misstatements and internal control deficiencies that could have been avoided.

56. Management did not prepare regular, accurate and complete financial reports that are supported and evidenced by reliable information evidenced by the number of material misstatements noted, which some were subsequently corrected.
57. Management did not perform their oversight responsibility of the municipality's internal controls on a regular basis. This is evidenced by the significant errors in the annual financial statements submitted for audit.
58. Material non-compliance with key legislation and policies of the municipality was identified. This indicates that the audit action plan was not effective as matters communicated to management in the prior year were not addressed in the current reporting period.
59. The municipality did not maintain a proper record management system for records, or for the timely retrieval thereof, as evidenced by limitations experienced during the audit. There were also inadequate reviews performed by management.
60. Leadership did not exercise oversight over financial, performance reporting and compliance requirements, as the annual financial statements, annual report and compliance were not adequately reviewed, which contributed to the material findings reported.

Auditor General

Auditor-General

East London

30 November 2024



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

The annexure includes the following:

- The auditor-general's responsibility for the audit
- The selected legislative requirements for compliance testing

Auditor-general's responsibility for the audit

Professional judgement and professional scepticism

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 material performance indicators and on the municipality's compliance with selected requirements in key legislation.

Financial statements

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 municipality's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made
- conclude on the appropriateness of the 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 relating to events or conditions that may cast significant doubt on the ability of the municipality 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 my 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 municipality to cease operating as a going concern
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine 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

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.

I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated to those charged with governance, I determine those matters that were of most significance in the audit of the financial statements for the current period and are therefore key audit matters. I describe these matters in this auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in this auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest of such communication.

Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Municipal Finance Management Act (Act No. 56 of 2003)	Section 122 (1) Section 122 (2) Section 126 (1) (a) and 126 (1)(b) Section 133 (1)(a) and 133 (1)(c) Section 127 (2) and 127 (5)(a) Section 129 (1) and 129 (3) Section 65 (2) (e) and 65 (2) (a) Section 11 (1) Section 62 (1)(d) Section 87 (8) Section 15 Section 29 (1) and 29 (2) (b) Section 62(1)(f)(i) and 62(1)(f)(ii) Section 63(2)(a) Section 64(2)(e) and 64 (2) (b) Section 64(2) (c) and 64(2)(g) Section 13(2) Section 14(1) Section 14(2)(a) and 14(2)(b) Section 33(2) Section 170 Section 32(2) and 32(6)(a) Section 171 (4)(a) Section 53(1)(c)(ii) Section 1 Section 72(1)(a)(ii) Section 24(2)(c)(iv) Section 54(1)(c) Section 117
Municipal Budget and Reporting Regulations	Regulation 71 (1) and 71 (2) Regulation 72
Municipal Structures Act ,(Act No.32 of 2000)	Section 74(1) Section 96 (b) Section 29(1)(b)(ii) Section 42

Legislation	Sections or regulations
	Section 25(1) Section 26 Section 41(1)(a) and 41(1)(b) Section 43(2) Section 4(a) and 41(1)(c)(ii) Section 34(b) Section 38(a)
Municipal Property Rates Act ,(Act No.06 of 2004)	Section 3 (1)
Municipal investment regulations	Regulation 3(1)(a) and 3(3) Regulation 6 Regulation 7 Regulation 12(2) and 12(3)
Prevention and Combatting of Corrupt Activities Act (Act No.12 of 2004)	Section 34(1)
Municipal Planning and Performance Management Regulations	Regulation 15(1)(a)(i) Regulation 2(1)(e) Regulation 2(3)(a) Regulation 9(1)(a) Regulation 10(a) Regulation 12(1) Regulation 3(4)(b) and 15(1)(a)(ii) Regulation 3(3) Regulation 8 Regulation 7(1)
Disciplinary Regulations for Senior Managers	Regulation 5 (2) Regulation 5 (6) Regulation 8 (4)
Financial Misconduct Regulations	Regulation 5(4) Regulation 6(8)(a) Regulation 10(1)
Supply Chain Management Regulations	Regulation 121(1)(c) Regulation 16(a) Regulation 17(a) and (c) Regulation 17(b) Regulation 43 Regulation 19(a) &(b)

Legislation	Sections or regulations
	Regulation 3691)(a) Regulation 12(3) Regulation 27(2)(a)&(e) Regulation 22(1)(b) & 22(2) Regulation 28(1)(a)(i) Regulation 21(b) Regulation 29(1) (a) & (b) Regulation 29(5)(a)(ii) & (b)(i) Regulation 13(c) Regulation 38(1) (c.) Regulation 38(1)(d)(ii) & (g)(iii) Regulation 38(1) (e.) Regulation 38(1)(g)(i) and 38(1)(g)(ii) Regulation 32 Regulation 5 Regulation 44 Regulation 46(2)(e) and 46(2)(f)
Preferential Procurement Policy Framework Act,(Act No.5 of 200)	Section sec 2(1)(a) Section 2(1)(f)
Public Procurement Regulations of 2017	Regulation 6(1) and 7(1) Regulation 6(8), 7(8), 10(1)&(2) & 11(1) Regulation 5(1) & 5(3) Regulation 5(6) Regulation 5(7) Regulation 9(1)
Public Procurement Regulations of 2022	Regulation 4(1) and 5(1) Regulation 4(4) & 5(4)