

Report of the auditor-general to the Free State Legislature and council of the parent municipality on Centlec (SOC) Limited

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of Centlec SOC Limited 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, cash flow statement and the 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 Centlec (SOC) Limited as at 30 June 2019, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP), and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act no. 56 of 2003) (MFMA) and the Companies Act, 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 my report.
4. I am independent of the municipal entity 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.
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 going concern

6. I draw attention to the matter below. My opinion is not modified in respect of this matter.
7. Note 42 to the financial statements indicates that the municipal entity's current liabilities exceeded its current assets by R66 297 390 as at 30 June 2019. This is due to the decreasing ability to pay creditors and to collect outstanding debt, and the decreasing cash reserves. These events or conditions, along with other matters set forth in note 42, indicate that a material uncertainty exists that may cast significant doubt on the municipal entity's ability to continue as a going concern.

Emphasis of matters

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

Restatement of corresponding figures

9. As disclosed in note 40 to the financial statements, the corresponding figures for 30 June 2018 were restated as a result of errors in the financial statements of the municipal entity at, and for the year ended, 30 June 2019.

Material impairments

10. As disclosed in note 4 to the financial statements, consumer receivables from exchange transactions were impaired by R179 084 722 (2018: R232 785 202).

Irregular expenditure

11. As disclosed in note 46 to the financial statements, irregular expenditure of R12 484 738 (2018: R107 113 295) was incurred, mainly due to non-compliance with supply chain management (SCM) requirements. In addition, the full extent of irregular expenditure is still in the process of being determined.

Other matters

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

Unaudited disclosure note

13. In terms of section 125(2)(e) of the MFMA the municipal entity 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.

Unaudited supplementary information

14. The appropriation statement 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 statement 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 the SA Standards 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.
16. In preparing the financial statements, the accounting officer is responsible for assessing Centlec'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 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

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.

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 entity. 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 entity for the year ended 30 June 2019:

| Objectives: | Pages in the annual performance report |
|--------------------|--|
| Engineering wires | x – x |
| Engineering retail | 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. The material findings in respect of the usefulness and reliability of the selected objectives are as follows:

Engineering wires

Planned interruptions of the supply to perform planned maintenance should be restored as per NERSA license requirement

24. The planned target was *Planned interruptions of the supply to perform planned maintenance should be restored as per Nersa licence requirement by 30 June 2019*. However, the reported achievements referred to was *83 notices submitted three days before planned interruptions occurred was restored within six hours*.
25. In addition, I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined source information and method of collection to be used when measuring the actual achievement for the indicator. This was due to a lack of formal standard operating procedures or documented system descriptions. I was unable to test whether the indicator was well-defined by alternative means.

26. I was also unable to obtain sufficient and appropriate evidence for the reported achievement as I could not confirm that the public notices were made available to the public, Furthermore, evidence could not be obtained that the entity complied with the times indicated on the notices. Therefore I was unable to confirm that the electricity was restored as per the stipulations on the notices. This is due to management being unable to reconcile the documents between the different departments. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement reported in the annual performance report of: 83 notices submitted three days before planned interruptions occurred was restored within six hours.

Installed capacity of embedded generators on the municipal distribution network

27. The planned target : *installed capacity of embedded generators on the municipal distribution network by 30 June 2019. However, the target reported in the annual performance report was: 12 applications were received for the embedded generators and registered on Centlec's system..*

28. In addition, I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined source information and method of collection to be used when measuring the actual achievement for the indicator. This was due to a lack of formal standard operating procedures or documented system descriptions. I was unable to test whether the indicator was well-defined by alternative means.

Engineering retail

Ensure that 100% of the latest indigent list as approved by Mangaung Metro Municipality is captured, uploaded and activated on the vending system for allocation of FBE in 2018-19

29. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the indicator. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of 100% reported in the annual performance report.

30. In addition, the systems and processes that enable reliable reporting of achievement against the indicator were not adequately designed, as management could not provide information relating to this indicator for current year.

Inspect, maintain and replace bulk meters in accordance with the infrastructure maintenance plan for 2018-19

31. I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined source information and method of collection to be used when measuring the actual achievement for the indicator. This was due to a lack of formal standard operating procedures or documented system descriptions. I was unable to test whether the indicator was well-defined by alternative means.

Other matters

32. I draw attention to the matters below.

Achievement of planned targets

33. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets 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 24 to 29 of this report.

Adjustment of material misstatements

34. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of objective 5: engineering wires and objective 6: engineering retail. 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 the audit of compliance with legislation

Introduction and scope

35. 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 entity with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

36. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements

37. 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 expenditure and the statement of comparison of budget and actual amounts identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

38. Money owed by the municipal entity was not always paid within 30 days, as required by section 99(2)(b) of the MFMA.

39. Reasonable steps were not taken to prevent irregular expenditure, as required by section 95(d) of the MFMA. The value of R12 484 738, as disclosed in note 46, is not complete as management was still in the process of quantifying the full extent of the irregular expenditure. The majority of the disclosed irregular expenditure was caused by non-compliance with SCM regulations.
40. Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R8 799 353 disclosed in note 45 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 interest charged on overdue accounts.

Procurement and contract management

41. Some goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM regulation 17(a) and (c).

Other information

42. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report, which includes the director's 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 objectives presented in the annual performance report that have been specifically reported in this auditor's report.
43. 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.
44. 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.
45. 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

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 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.

47. Recordkeeping and internal controls relating to the collection, verification and reporting of performance achievements were not effective. The lack of formalised processes and systems resulted in a weak control environment, which had a negative impact on the reliability of performance reporting.
48. Management was slow to respond to issues identified in the audit of the previous financial year and, as a result, did not address all the weaknesses that were previously identified and reported.

AUDITOR - GENERAL

Bloemfontein

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 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 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 Centlec’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 this auditor’s report. However, future events or conditions may cause an 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 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.