

# Report of the auditor-general to the Free State Legislature and the council on the Mangaung Metropolitan Municipality

## Report on the audit of the financial statements

### Qualified opinion

1. I have audited the financial statements of the Mangaung Metropolitan 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, 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, 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 Mangaung Metropolitan Municipality 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 Division of Revenue Act of South Africa, 2018 (Act no. 1 of 2018) (Dora).

### Basis for qualified opinion

#### Payables from exchange transactions

3. I was unable to obtain sufficient appropriate audit evidence for accrued leave pay included in payables from exchange transactions as management could not provide support for the accrued leave due to the status of the accounting records in relation to leave. I could not confirm the accrued leave pay by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the accrued leave pay, stated at R128 683 365 (2018: R90 896 219) in note 18 to the financial statements.

#### Employee benefit obligation

4. During 2018, the municipality did not value the employee benefit obligation in accordance with GRAP 25, *Employee benefits* due to certain assumptions in the actuarial valuation report being incorrect. As a result, I was unable to determine the full extent of the misstatement of the previous year's employee benefit obligation closing balance, disclosed in note 25 to the financial statements, as it was impracticable to do so. In the current year, the opening balance of the employee benefit obligation of R500 661 035 remained misstated and had an impact on the current year's movement of interest cost, current service cost and the actuarial gain/loss disclosed in note 25. I was unable to determine the full extent of the misstatement of the

interest cost, current service cost and the actuarial gain/loss, as it was impracticable to do so. Additionally, there was an impact on expenditure, the deficit for the current and previous period, and on the accumulated surplus.

### **Fines, penalties and forfeits**

5. The municipality did not account for all fines revenue, as required by GRAP 23, *Revenue from non-exchange transactions*, due to an inadequate system of internal control for the accurate record keeping of fines by the municipality. I was unable to determine the full extent of the understatement of fines revenue disclosed in note 40 to the financial statements for the current and previous year, as it was impracticable to do so. Additionally, there was an impact on the deficit for the period, receivables from non-exchange transactions and on the accumulated surplus.

### **Irregular expenditure**

6. The municipality did not disclose all instances of irregular expenditure in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. The municipality made payments in contravention of the supply chain management (SCM) requirements, which were not disclosed. I was unable to determine the full extent of the understatement of irregular expenditure, stated at R842 457 693 in note 63 to the financial statements, as it was impracticable to do so.

### **Context for the opinion**

7. 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.
8. I am independent of the 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.
9. 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**

10. I draw attention to the matter below. My opinion is not modified in respect of this matter.
11. Note 59 to the financial statements indicates that the municipality incurred a net loss of R303 603 400 during the year ended 30 June 2019. As disclosed in note 18, the average

repayment term for suppliers was 142 days (2018: 142 days), and the trade payables included R485 403 376 (2018: R172 291 791) owed to the water board, which was long overdue. Furthermore, as disclosed in note 21 to the financial statements, the unspent conditional grants of R459 078 487 (2018: R329 735 327) exceeded the available cash and cash equivalents of R114 430 316 (2018: R154 433 923) disclosed in note 11 to the financial statements. These events or conditions, along with other matters set forth in note 59, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

## **Emphasis of matters**

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

### **Unauthorised expenditure**

13. As disclosed in note 61 to the financial statements, unauthorised expenditure of R1 363 962 321 (2018: R852 316 053) was incurred, due to overspending the approved budget.

### **Restatement of corresponding figures**

14. As disclosed in note 56 to the financial statements, the corresponding figures for 30 June 2018 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2019.

### **Material losses**

15. As disclosed in note 46 to the financial statements, material losses of R349 974 014 (2018: R70 380 966) were incurred as a result of a write-off of consumer and other trade debtors.

16. As disclosed in note 64 to the financial statements, material water distribution losses of R186 748 463 (2018: R266 368 991) were incurred. This was mainly due to technical losses, burst water pipes, leakages, faulty meters and unmetered sites.

### **Material impairment**

17. As disclosed in notes 4, 5, 6 and 7 to the financial statements, consumer and other receivables were impaired by R3 373 376 111 (2018: R2 875 352 522) as a result of uncollectable debt.

## **Other matters**

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

## Service delivery

19. The municipality is part of the national process driven by the national Department of Transport to develop an integrated transport network in the metropolitan areas. The municipality has developed and approved an operational plan for phase one of the integrated public transport network (IPTN) that covers the period 2016 to 2020. Since commencement of the process, the municipality has spent R435 653 265 on planning and feasibility studies and R43 300 500 for the initial stages of the construction process of the project for phase one, which included construction of certain roads and a bus depot in the current year. The project is being done in phases and is taking significantly longer than expected.
20. In 2012-13, the municipality started with the planning and establishment of the airport development (N8) node to establish a new township development area. Since the commencement of this project, the municipality has spent R142 839 754 on the planning and establishment costs. In the previous year and the year under review, there's been some progress as the land survey was completed and approval for the township establishment has been obtained from the Mangaung Municipal Planning Tribunal. However, this project has been negatively affected as it is taking significantly longer than expected.

## 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 SA 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.
23. In preparing the financial statements, the accounting officer is responsible for assessing the Mangaung Metropolitan 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.

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

24. 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.

25. 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

26. 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 the selected key performance area (KPA) presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
27. My procedures address the reported performance information, which must be based on the approved performance planning documents of the metro 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.
28. 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 KPA presented in the annual performance report of the municipality for the year ended 30 June 2019:

KPA	Pages in the annual performance report
KPA 1 – basic service delivery	x – x

29. 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.
30. The material findings in respect of the usefulness and reliability of the selected KPA are as follows:

## KPA 1 – basic service delivery

### Various indicators

31. The reported achievements in the annual performance report, for the following indicators and targets, were not consistent with the planned indicators and targets approved in the service delivery and budget implementation plan.

Key performance indicator	Planned target	Reported achievement
Percentage of households with access to basic sanitation	1 141 (waterborne sanitation in MMM)	84,8%
	1 188 (waterborne in Thaba Nchu)	45%
	1 010 (waterborne in Botshabelo)	55,7%
Percentage of complaints/callouts responded to within 24 hours (sanitation/wastewater)	100% of number of complaints received and attended (sewer infrastructure maintenance)	R = 16 500 A = 10 725 Only one contractor to assist the teams
Percentage of complaints/callouts responded to within 24 hours(water)	100% of number of complaints received and attended (water infrastructure maintenance)	R = 15 600 A = 12 480 Three contractors assisted the teams
% Refurbishment of WTW percentage of total water losses reduced from 35,2% to 34%	100% completed Botshabelo internal bulk water (pipeline), 750m excavation and laying of pipe line (Botshabelo internal bulk water (pipeline)	750m
	To replace/install 130 conventional and bulk meters (replace water meter and fire hydrants)	591
	To purchase 170 bulk water meters (metering of unmetered sites)	168
	To install/replace 2 000 automated meter reading and prepaid water meters (refurbishment of water supply systems: automated meter reading and prepaid programme)	5 465
	To install/replace or refurbish 50 valves (replacement/refurbishment of valves)	401

Key performance indicator	Planned target	Reported achievement
Number of formal sites serviced	100% approved designs for 400 sites in Lourierpark (100 sites) – installation of water and internal sewer reticulation	100%
Number of new water and sewer connections meeting minimum standards	100% realignment of bulk water and sewer pipe (Vistapark 2 – realignment (rerouting) of bulk water pipe)	82%
Number of new water and sewer connections meeting minimum standards	100% realignment of bulk water and sewer pipe (Vistapark 3 - realignment (rerouting) of bulk water pipe)	81,3%
No. of permitted landfill sites maintained and upgraded	1,5 km of new fence at northern landfill site (new fence at northern landfill sites)	95%
No. of permitted landfill sites maintained and upgraded	1,5km of new fence at southern landfill site (new fence at southern landfill sites)	95%
Percentage of planned maintenance performed	Planned interruptions of the supply to perform planned maintenance should be restored as per Nersa licence requirement by 30 June 2019 - (Vote: Centlec)	One hundred and twelve (112) notices were submitted 2 days before planned interruptions took place. Seventy six (76) planned interruptions were restored as per Nersa license requirement and within the stipulated time frames as per notices communicated. Thirty six (36) planned interruptions were cancelled due to various reasons.
Installed capacity of embedded generators on the municipal distribution network	Installed capacity of embedded generators on the municipal distribution network by 30 June 2019 - (Vote: Centlec)	Sixteen (16) applications of 3,258 KVA were received for the embedded generators and registered on Centlec's system

### *All indicators*

32. The measures taken to improve performance against targets, did not include the comparison between the previous year's actual, planned and achieved targets in the annual performance report.

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

33. The system and processes that enable reliable reporting of the achievement against the indicator were not adequately designed, as they could not provide information relating to the 2018-19 financial year only.

*Various indicators*

34. 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 following indicators. This was due to lack of formal standard operating procedures or documented system descriptions. I was unable to test whether the indicator was well-defined by alternative means.

Key performance indicator
Percentage of planned maintenance performed
Installed capacity of embedded generators on the municipal distribution network
Inspect, maintain and replace bulk meters in accordance with the infrastructure maintenance plan for 2018-19

*Various indicators*

35. I was unable to obtain sufficient appropriate audit evidence for the reported achievements of the indicators listed below. 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 reported achievements in the annual performance report of the indicators listed below:

Indicator description	Reported achievement
Percentage of complaints/callouts responded to within 24 hours (sanitation/wastewater)	R=16 500 A=10725 Only one contractor to assist the teams
Percentage of complaints/callouts responded to within 24 hours (water)	R=15 600 A=12 480 Three contractors assisted the teams
Ensure that 100% of the latest indigent list as approved by MMM is captured, uploaded and activated on the vending system for allocation of FBE in 2018-19 (Vote: Centlec)	100% of valid and correct indigent list was implemented as provided by MMM
Percentage of planned maintenance performed	One hundred and twelve (112) notices were submitted 2 days before planned interruptions took place. Seventy six (76) planned interruptions were restored as



Indicator description	Reported achievement
	per Nersa license requirement and within the stipulated time frames as per notices communicated. Thirty six (36) planned interruptions were cancelled due to various reasons.

*Various indicators*

36. The municipality did not have an adequate record keeping system to enable reliable reporting on the achievement of the indicators listed below. As a result, I was unable to obtain sufficient appropriate audit evidence in some instances, while in other cases the supporting evidence provided did not agree with the reported achievements. Based on the supporting evidence provided, the achievement of these indicators was different to the reported achievement in the annual performance report. I was also unable to further confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievements of the indicators listed below:

Indicator description	Reported achievement	Audited value
Percentage of households with access to basic sanitation: waterborne sanitation in MMM	84,8%	Impracticable to determine
Percentage of households with access to basic sanitation: waterborne sanitation in Thaba Nchu	45%	Impracticable to determine
Percentage of households with access to basic sanitation: waterborne sanitation in Botshabelo	55,7%	Impracticable to determine
To replace/install 130 conventional and bulk meters (replace water meter and fire hydrants)	591	744
To install/replace 2 000 automated meter reading and prepaid water meters (refurbishment of water supply systems: automated meter reading and prepaid programme)	5 464	7 489
To install/replace or refurbish 50 valves (replacement /refurbishment of valves)	401	430
Number of formal households that have access to weekly door-to-door refuse removal	217 711	138 161
Percentage of known informal settlements receiving integrated waste handling services	95,5%	66%

## **Other matters**

37. I draw attention to the matters below.

### **Achievement of planned targets**

38. 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 31 to 36 of this report.

### **Adjustment of material misstatements**

39. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA 1: basic service delivery. 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**

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

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

### **Annual financial statements and annual report**

42. 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, current assets, liabilities, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

43. The council failed to adopt an oversight report containing the council's comments on the annual report as required by section 129(1) of the MFMA.

### **Expenditure management**

44. Money owed by the municipality was not always paid within 30 days as required by section 65(2)(e) of the MFMA.

45. An adequate management and accounting system that recognised expenditure when it was incurred was not in place, as required by section 65(2)(b) of the MFMA.
46. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure, as indicated in the basis for qualification paragraph. The majority of the irregular expenditure was caused by competitive bids adjudicated by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2).
47. Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R8 958 981 (2018: R25 866 875) disclosed in note 62 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasterul expenditure was caused by interest charged on the late payment of suppliers.
48. Reasonable steps were not taken to prevent unauthorised expenditure of R1 363 962 321 (2018: R852 316 053) disclosed in note 61 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending the approved budget.

#### **Revenue management**

49. An effective system of internal control for fines revenue was not in place, as required by section 64(2)(f) of the MFMA.

#### **Strategic planning and performance management**

50. The performance management system and related controls were not regarded as adequate, due to the lack of standard operating procedures to describe how the performance planning, monitoring, measurement, reviewing, reporting and improvement processes should be conducted, organised and managed, as required by municipal planning and performance management regulation 7(1).

#### **Procurement and contract management**

51. 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). Similar non-compliance was reported in the previous year.
52. Sufficient appropriate audit evidence could not be obtained in some instances that quotations and contracts were awarded only to bidders who submitted a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). Similar non-compliance was reported in the previous year.
53. Sufficient appropriate audit evidence could not be obtained that some quotations and some contracts were only awarded to bidders whose tax matters had been declared by the South African Revenue Service to be in order, as required by SCM regulation 43.

54. Some goods and services with a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Some deviations were also approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).
55. Some contracts were awarded through competitive bidding processes and it could not be confirmed that they were adjudicated by the bid adjudication committee as required by SCM Regulation 29(1).
56. Competitive bids were adjudicated by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2). In some instances the non-compliance was identified in the procurement processes of a key project, the IPTN panel appointment (C582).
57. Some contracts were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM regulation 29(5)(b).
58. Some contracts were awarded to bidders based on preference points that were not calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act of South Africa, 2000 (Act no. 5 of 2000) (PPPFA) and its regulations.
59. Some contracts were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of the PPPFA and the Preferential Procurement Regulations.
60. Some contracts were awarded to bidders based on prequalification criteria that differed from those stipulated in the original invitation for bidding, in contravention of the 2017 preferential procurement regulation 4(1) and 4(2).
61. Some construction contracts were awarded to a contractor that did not qualify for the contract in accordance with section 18(1) of the Construction Industry Development Board Act of South Africa, 2000 (Act no. 38 of 2000) (CIDB Act) and CIDB regulations 17 and 257(A).
62. Bid documentation for procuring commodities designated for local content and production did not stipulate the minimum threshold for local production and content, as required by the 2017 preferential procurement regulation 8(2). Similar non-compliance was reported in the previous year.
63. The performance of some contractors or service providers were not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was reported in the previous year.
64. 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. Similar non-compliance was reported in the previous year.

## Human resource management

65. I was unable to obtain sufficient appropriate audit evidence to confirm whether senior managers appointed had previously been dismissed for financial misconduct, and I could therefore not confirm whether they were re-appointed only after the expiry of 10 years, as required by section 57A(3) of the Municipal Systems Act of South Africa, 2000 (Act no. 32 of 2000).
66. Appropriate systems and procedures to monitor, measure and evaluate staff performance were not developed and adopted, as required by section 67(1)(d) of the Municipal Systems Act.

## Conditional grants

67. The urban settlement development grant was not spent for its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of Dora.
68. The public transport network grant was not spent for its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of Dora.
69. The municipal disaster grant was not spent for its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of Dora.

## Consequence management

70. Some fruitless and wasteful expenditure by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.
71. Some irregular expenditure by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

## Other information

72. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and the selected KPA presented in the annual performance report that has been specifically reported in this auditor's report.
73. 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.
74. 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 KPA presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

75. 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

76. 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 basis for the qualified opinion, findings on the annual performance report and the findings on compliance with legislation included in this report.
77. Leadership did not in all cases establish adequate mechanisms to hold individuals accountable where internal controls relating to financial reporting, performance information and compliance were not adhered to. The measures taken were more corrective than preventative and the previous year's transgressions were repeated in the current year.
78. Management did not ensure that internal control processes were adequately designed and implemented to ensure proper planning and cost-effective procurement in certain instances and to prevent non-compliance with SCM requirements. This resulted in repeat non-compliance with procurement legislation and excessive irregular expenditure.
79. There was a lack of adequate oversight and review by the project management unit to ensure adequate supporting documentation was obtained from the externally appointed consultants and engineers for each project. There was also a lack of proper communication between engineering services and the asset management unit, with regards to the submission of adequate supporting documentation for each project. Reconciliation controls only existed at year-end, and such controls were not implemented on time and throughout the year. This resulted in the information used to prepare the financial statements being incomplete and inaccurate.
80. There were delays in the submission of bid documentation such as the declaration of interests, minutes of meetings sub-contracted detail, winning bidder files and tax clearance certificates that were requested during the audit process. This resulted in bid documentation not being submitted to the auditors when formally requested in a request for information. The bid documentation was only submitted after an audit communication was issued. This could have occurred due to a lack of adequate controls being implemented for the safeguarding of information at the SCM directorate.
81. Management did not prepare accurate and complete financial and performance reports that were supported and evidenced by reliable reports and information due to the lack of monthly

reconciliations and weak internal controls over processing transactions and safeguarding supporting documents.

82. Leadership's lack of accountability for sound financial management and unwillingness to budget for non-cash items had a negative impact on the municipality's financial sustainability, and resulted in overspending of the budget and unauthorised expenditure not being prevented in the current and previous financial years.

*Auditor-General*

**Bicemfontein**

**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 the selected KPA 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 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 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 Mangaung Metro 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 this auditor’s report. However, future events or conditions may cause a 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.

### **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.