



MANGAUNG
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OFFICE OF THE
SPEAKER

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Date: 09 July 2020

QUESTIONS EMANATING FROM THE ANNUAL REPORT (2018/2019) TO THE CEO OF CENTLEC BY THE MUNICIPAL PUBLIC ACCOUNTS COMMITTEE

THE PROCESS

MFMA Circular No 32:

Annual reports are the key reporting instruments for municipalities to report against the performance targets outlined in their strategic plans. Annual reports are therefore required to contain information on service delivery and outcomes in addition to financial statements. It is meant to be a backward-looking document, focusing on performance in the financial year that has just ended, (2018/2019). It must demonstrate how the budget was implemented and the results of service delivery operations for that financial year.

The following questions, therefore, needs answers and clarities on issues that seem not to adhere to the above statement. The forward-looking plans that seem to be appearing in many instances of this important document should rather be in the budget and IDP documents.

Questions to the CEO - CENTLEC

1. FINDINGS ON THE 2018/19 ANNUAL REPORT REVIEW: CENTLEC

1.1 AG AUDIT REPORT

(a) Material uncertainty relating to going concern

AG reported that current liabilities exceeded current assets with R66 297 390 and you've

indicated that this was due to decrease in ability to pay creditors, collect outstanding debt

and decreasing cash reserves.



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1. **Questions to the CEO**

- 1.1 Why has there been a decrease in your ability to pay creditors? We have also noted a contingent liability of R7 000 000 relating to payments, do you have any other litigations relating to non-payment? What is your plan going forward to ensure that creditors are paid within 30 days as per section 99(2)(b) of the MFMA?
- 1.2 We have noted an increase in your debtor's book of about R182 403 257 and government debt being the highest. Why are you struggling to collect outstanding debt from government, business and residential? What is the strategy going forward to improve collection rate?

(b) **Emphasis of matter**

(i) **Restatement of corresponding figures**

AG reported that corresponding figures for 30 June 2018 were restated as a result of errors in the entity's annual financial statements for 30 June 2019.

2. **Question to the CEO**

Year in, year out AG raise findings on the quality of the entity's annual financial statements. How are you going to ensure that this issue of errors found in the entity's financial statements is resolved for good and error free AFS are submitted to AG henceforth to minimize the auditing period (hours) and audit fees of AG?

Furthermore, can you indicate to the committee what steps did you take to determine the responsibility for this finding and ensure that there is consequence management where applicable.



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Where consultants were used in either the compilation or the review of the AFS, was this issue of errors found by AG raised with them and what remedial action did you take as the CEO?

(ii) Material impairments

AG reported that the entity has disclosed in note 4 to the AFS, consumer receivables from exchange transactions were impaired by R179 084 722 (2018: R232 785 202) as a result of uncollectable debt.

3. Questions to the CEO

Can you explain to the Committee the reasons behind the material impairment disclosed during the period under review and if government and business debts were also included in this figure?

Furthermore, can you indicate to the committee what steps did you take to determine the responsibility for this finding and ensure that there is consequence management where applicable.

(iii) Irregular expenditure

AG indicated that the entity incurred irregular expenditure of R12 484 738 (2018: R107 113 295) mainly due to non-compliance with SCM requirements. Furthermore, the full extent of the irregular expenditure is still in the process of being determined.

4. Questions to the CEO

Why are you failing to comply with the SCM requirements? What are the reasons why all instances of irregular expenditure were not disclosed in the notes to the AFS as required by MFMA Section 125(2)(d)? Also indicate how are you going to ensure that all instances of irregular expenditure are disclosed



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in the AFS in accordance to MFMA SECTION 125(2)(d) to avoid the recurrence of this finding.

Furthermore, can you indicate to the committee what steps did you take to determine the responsibility for this finding and ensure that there is consequence management for failure to disclose all instances of irregular expenditure in the AFS in accordance to MFMA SECTION 125(2)(d).

(c) Report on audit of performance information

AG reported on inconsistencies between what is planned and what is achieved. Furthermore, there were number of instances were AG was unable to obtain sufficient evidence on reported achievements (refer to internal control deficiencies on the report).

5. Questions to CEO

What actions are you going to take to ensure that these findings do not reoccur?
What processes are in place to safeguard documents for audit purposes?

Furthermore, can you indicate to the committee what steps did you take to determine the responsibility for this finding and ensure that there is consequence management.

(d) Report on the audit of compliance with legislation

AG reported that reasonable steps were not always taken to prevent irregular expenditure and fruitless and waste expenditures incurred during the year. Furthermore, some goods and services with transactions over R200 000 were procured without obtaining the required price quotations.

6. Questions to CEO

The entity has a policy on UIFW expenditures, how are you going to ensure that this policy is adhered to?



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Furthermore, can you indicate to the committee what steps did you take to determine the responsibility for this finding and ensure that there is consequence management.

1.2 AUDITED ANNUAL FINANCIAL STATEMENTS

7. The committee has noted a considerable decrease in Cash and cash equivalents from R81 467 990 in 2018 to R13 555 909 in 2019, what was the reason for this decline?
8. The committee has noted a material increase on loss on disposal of assets from R877 029 in 2018 to R3 319 110, what was the reason for such a material increase and which assets did we dispose?
9. The committee has noted an increase of R 47 965 874 on employee costs despite termination of 53 employees during the year, what were the reasons for this increase?
10. The committee noted that there was no revenue reported on fines, penalties and forfeits for the year. Does this mean there were no illegal connections? Please explain the scenario to us.
11. The committee has noted an increase of R13 735 623 in overtime payments for the year, what are the challenges in dealing with overtime and what measures do you have in place to minimise this cost?
12. The committee has noted a material increase on advertising and marketing expenses which doubled, from R883 620 in 2018 to R1 913 679 in 2019 (difference of R1 030 059), what were the reasons for this increase and how are you going to minimise this expenditure?
13. The committee has noted a material increase on cleaning expenses of R740 808 (2019:R815 138 and 2018:R74 330), is this service outsourced? What



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were the reasons for this increase and how are you going to minimise this expenditure?

14. The committee has noted a decrease in entertainment expenses (2019:R173 807 and 2018:R190 470), however; the costs are still high. What are the entertainment activities that the money has been spent on and how are you going to minimise this expenditure further?
15. The committee has noted a material increase on printing and stationery expenses of R932 591 (2019: R2 584 881, 2018: R1 652 290), What were the reasons for this increase and how are you going to minimise this expenditure?

1.3 AUDITED PERFORMANCE REPORTS

16. The committee has noted that the Audit and Risk Management division of the entity is co-sourced at a cost of R5 370 388 in 2019 (2018: R3 972 834), what are the reasons for co-sourcing? Wouldn't it be more cost effective to in-source this division considering the escalating costs of co-sourcing?
17. The committee has noted 29% of targets not achieved together with the reasons and remedial actions provided for non-achievement.
 - 17.1 What strategies do you have to manage public sector debt?
 - 17.2 What were the reasons why the other 15 high-mast lights couldn't be erected?
 - 17.3 Why is it still a challenge to compile performance agreements for executives?
18. The committee has noted that the entity had staff compliment of 720 employees including 42 temporary employees, what is the vacancy rate and what impact did the 54 terminations have on operations?

1.4 AUDIT ACTION PLAN

The committee notes the audit action plan compiled by the entity, however; AG in his report indicated that management were slow to respond to issues



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identified in the audit of the previous financial year and did not address all weaknesses identified.

19. Questions to CEO

How are you going to ensure that findings raised by AG for the year are going to be addressed adequately and timeously, also addresses the weaknesses identified?

20. Questions to CEO

How would you prevent theft, stock losses, and damage to equipment in the company?

21. Questions to CEO

Could you provide us with reasons, and perhaps with examples for need of entertainment, especially from the company expenses.

22. Questions to CEO

Why we use the consultants, are there no experts, or skilled workers within CENTLEC?

23. Questions to CEO

How are going to increase cash injection in future?

END.

CONCLUSION:

THE CHAIRPERSON REQUESTS WRITTEN RESPOSES TO BE EMAILED TO HER OFFICE BY 16TH JULY 2020 BEFORE 14H00. TO ALLOW HER SPACE TO ARRANGE FOR AN MPAC MEETING. THANK YOU.