

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

Report on the audit of the financial statements

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 2020, 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, the financial statements present fairly, in all material respects, the financial position of the Mangaung Metropolitan Municipality as at 30 June 2020, 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 56 of 2003 (MFMA) and the Division of Revenue Act 16 of 2019 (Dora).

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 this auditor's report.
4. 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.
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. As disclosed in note 60, the average repayment term of suppliers were 284 days and the trade payables included an amount owed to the water board of R538 810 190 (2019: R485 403 376), which was long overdue. Furthermore, the unspent conditional grants of R436 229 060 exceeded the available cash and cash equivalents of R395 231 159. These events or conditions, along with other matters as set forth in note 60, 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

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

Material impairment

9. As disclosed in notes 4, 5, 6 and 7 to the financial statements, consumer and other receivables were impaired by R3 926 902 103 (2019: R3 373 692 109) as a result of uncollectable debt.

Unauthorised expenditure

10. As disclosed in note 62 to the financial statements, unauthorised expenditure of R1 165 090 884 (2019: R1 363 962 321) was incurred, due to overspending of the approved budget.

Irregular expenditure

11. As disclosed in note 64 to the financial statement, irregular expenditure of R1 600 359 586 (2019: R842 457 694) was incurred, due to non-compliance with supply chain management (SCM) requirements.

Underspending of conditional grants

12. As disclosed in note 21, the municipality materially underspent the urban settlement development grant (USDG) by R233 327 552, the public transport infrastructure grant by R103 044 313 and the municipal disaster recovery grant by R69 815 066.

Material losses

13. As disclosed in note 65 to the financial statements, material water distribution losses of R227 623 932 (2019: R186 748 463) were incurred. This was mainly due to burst water pipes, leakages and unmetered sites.

Restatement of corresponding figures

14. As disclosed in note 57 to the financial statements, the corresponding figures for 30 June 2019 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2020.

Events after the reporting period

15. We draw attention to note 61 in the financial statements, which deals with a subsequent event in relation to the settlement agreement that was reached with the water board with regards to the overcharge of the drought water tariff.

Other matters

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

Service delivery

17. 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 that covers the period 2016 to 2020. Since commencement of the process, the municipality has spent R709 447 236 on planning, feasibility studies and the initial stages of the construction process of the programme for phase one which included construction of certain roads and a bus depot in the prior year.
18. One of the projects, the Moshoeshoe trunk route, commenced on 21 January 2019 with a contract amount of R36 180 039 and a planned completion date of 14 November 2019. As at 21 February 2021, the project was not yet completed with the estimated progress on site to be 60% complete due to slow performance of the contractor, inclement weather conditions and the covid-19 pandemic. The project has been delayed with almost 14 months since the commencement, which negatively affects the service delivery.
19. Water and sanitation services was one of the priorities of the metro for the financial year, especially since the commencement of the national state of disaster due to the covid-19 pandemic. The metro received the USDG of R511 856 000 to fund the repair, maintenance and upgrading of water and sanitation infrastructure. Despite the grant funding received, the metro reported in the annual performance report that for 13 of the 30 performance indicators relating to water and sanitation, the targets were not achieved as funds should be made available.

Unaudited disclosure notes

20. 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 thereon.

Responsibilities of the accounting officer for the financial statements

21. 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.
22. 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

23. 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.
24. 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

25. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected key performance areas (KPAs) presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
26. My procedures address the usefulness and reliability of the reported performance information, which must be based on the municipality's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators/measures included in the planning documents. My procedures do not examine whether the actions taken by the municipality enabled service delivery. My procedures also do 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.
27. 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 municipality's annual performance report for the year ended 30 June 2020:

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

28. 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.

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

KPA 1 – basic service delivery

Percentage completed on repair, upgrading and maintenance of infrastructure for a provision of reliable sanitation services

30. I was unable to obtain sufficient appropriate audit evidence for the achievement of 30% reported against the target of 100% completion of Soutpan wastewater treatment works (WWTW) refurbishment in the annual performance report, due to lack of accurate and complete records. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement.

Sealing columns and walls of old and new Arboretum reservoirs and replacement of valves

31. The planned target was request appointment of a professional service provider (PSP), cleaning of reservoirs and replacement of three valves, but the reported achievement referred to sealing columns and walls of old and new Arboretum reservoirs and replacement of valves at 80%. In addition, I was unable to obtain sufficient, appropriate audit evidence for the achievement of 80% reported against the target in the annual performance report due to the lack of accurate and complete records. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustment was required to the reported achievement.

WS3.11 Percentage/ callout responded to within 24 hours (sanitation/ waste water) (length of pipelines to be refurbished)

32. The achievement of 0,6 km was reported against target 0,6 km of sewer pipes to be refurbished in the annual performance report. However, some supporting evidence provided materially differed from the reported achieved, while in other instances I was unable to obtain sufficient appropriate audit evidence. This was due to the lack of accurate and complete records. I was unable to further confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievement.

Other matters

33. I draw attention to the matters below.

Achievement of planned targets

34. 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 30 to 32 of this report.

Adjustment of material misstatements

35. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in 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

36. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the municipality's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
37. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements

38. 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 current assets, liabilities, expenditure and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected and/or the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.
39. The oversight report adopted by the council on the 2018/19 annual report was not made public, as required by section 129(3) of the MFMA.

Expenditure management

40. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
41. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R1 165 090 884 (2019: R1 363 962 321), as disclosed in note 62 to the annual 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.
42. Reasonable steps were not taken to prevent irregular expenditure amounting to R1 600 359 586 (2019: R842 457 694) as disclosed in note 64 to the annual financial statements, as required by section 62(1)(d) of the MFMA. 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).
43. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R5 329 365 (2019: R8 958 981), as disclosed in note 63 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 interest charged on the late payment of suppliers.

Strategic planning and performance management

44. The performance management system and related controls were not regarded as adequate as required by municipal planning and performance management regulation 7(1) due to the significant internal control deficiencies identified.

Procurement and contract management

45. 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). Similar non-compliance was reported in the previous year.
46. The competitive bids were adjudicated by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2). Similar non-compliance was also reported in the prior year.
47. Some of the contracts were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act 5 of 2000 and its regulations. Similar non-compliance was also reported in the prior year.
48. Some of the bid documentation for procurement of commodities designated for local content and production, did not stipulated the minimum threshold for local production and content as required by the 2017 preferential procurement regulation 8(2). Similar non-compliance was also reported in the prior year.
49. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year.
50. 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 also reported in the prior year.

Utilisation of conditional grants

51. The USDG and public transport network grant were not spent for its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of the Dora.
52. Performance in respect of programmes funded by the USDG and the public transport network grant were not evaluated within two months after the end of the financial year, as required by section 11(6)(b) of the Dora.

Consequence management

53. Fruitless and wasteful expenditure incurred 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.
54. Irregular expenditure incurred 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.
55. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.

Other information

56. 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 those selected KPA's presented in the annual performance report that have been specifically reported in this auditor's report.
57. 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 on it.
58. 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's presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
59. 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

60. 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.
61. There was a slow response from leadership to implement and monitor the audit action plan to address prior year findings and internal control deficiencies identified in the previous audit as well as material misstatements (which was subsequently corrected by management) and repeated non-compliance with relevant laws and regulations.

62. Leadership did not take effective steps to ensure that there were consequences for poor performance and transgressions, as unauthorised, irregular and fruitless and wasteful expenditure was not investigated during the financial year.
63. Management did not ensure that internal control processes were adequately implemented to prevent non-compliance with SCM legislation and requirements. This resulted in repeat non-compliance with procurement legislation and excessive irregular expenditure being incurred.
64. There was a lack of adequate oversight and proper record-keeping by management of responsible user departments to ensure project monitoring reports and relating expenditure incurred against contracts were readily available for audit processes. This resulted in documentation not being submitted to the auditors when formally requested in a request for information.
65. Inadequate review by management of the supporting documentation for performance management reporting resulting that some of the achievements reported in the annual performance report not being supported by accurate, complete and reliable information. Furthermore, the metro did not have technical indicator descriptions for all the key performance indicators included the service delivery budget implementation plan (SDBIP).

Material irregularities

66. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit.

Material irregularities in progress

67. I identified a material irregularity during the audit and notified the accounting officer as required by material irregularity regulation 3(2). By the date of this auditor's report, I had not yet completed the process of evaluating the response from the accounting officer. This material irregularity will be included in the next year's auditor's report.

Other reports

68. In addition to the investigations relating to material irregularities, I draw attention to the following engagements conducted by various parties which had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
69. The directorate for priority crime investigation (hawks) was investigating an allegation of overtime payments to VIP/Body guards employed in the offices of the political office bearers. The outcome was unknown as the investigation was in progress at the date of this auditor's report.

70. The hawk was investigating allegations of irregularities in the municipality's procurement processes regarding a security service tender awarded for the period 1 March 2019 to 28 February 2021. The outcome was unknown as the investigation was in progress at the date of this auditor's report.

Auditor-General

Bloemfontein

16 April 2021



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 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 relating to events or conditions that may cast significant doubt on the ability of the Mangaung Metropolitan 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

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, the actions taken to eliminate threats or the safeguards applied.