



AUDITOR - GENERAL  
SOUTH AFRICA

# 2020-21 consolidated audit outcomes Mangaung Metropolitan Municipality

## Tabling in Council

31 January 2022



# Our mission and vision

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We have a constitutional mandate and, as the supreme audit institution of South Africa, exist to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.



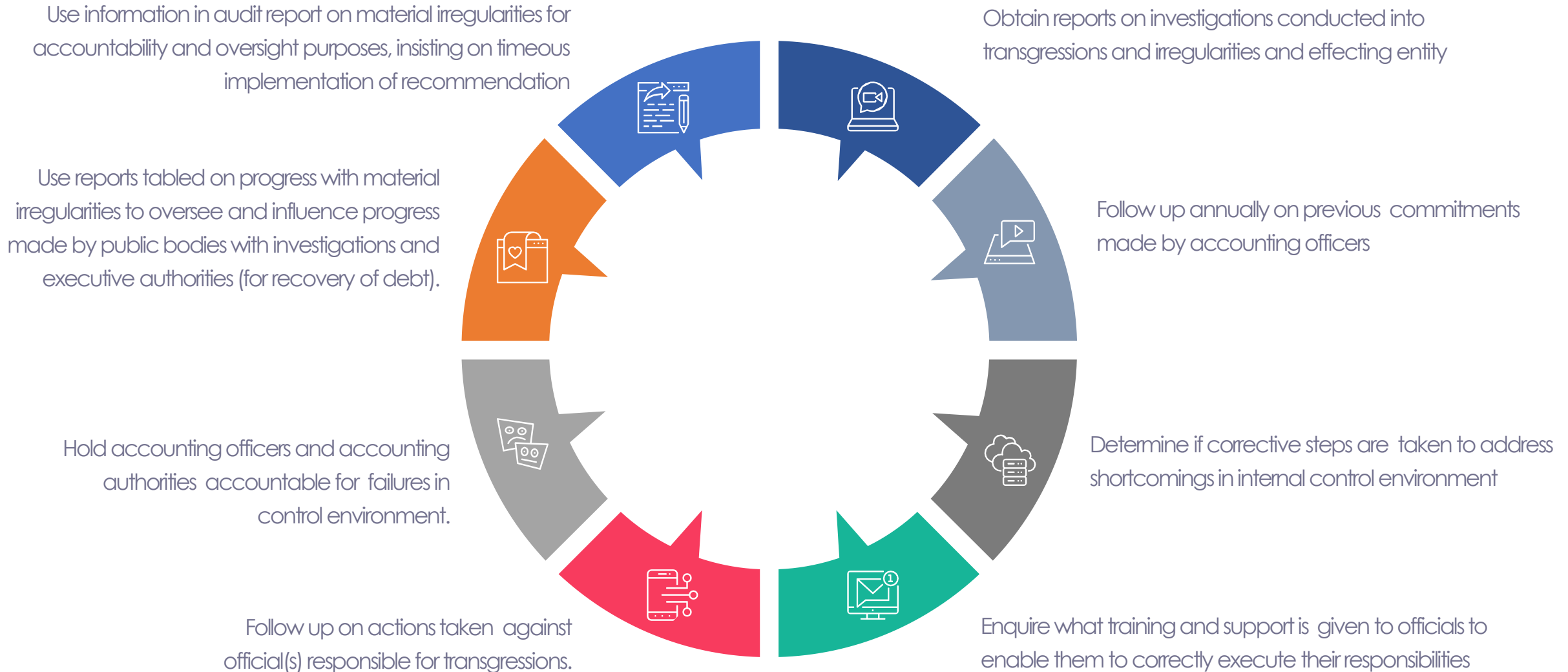
To be recognised by all our stakeholders as a relevant supreme audit institution that enhances public sector accountability

## Role of the AGSA in the reporting process

Our role as the Auditor-General of South Africa (AGSA) is to reflect on the audit work performed to assist the council in its oversight role of assessing the performance of municipalities and its entities.



# What we understand as the role of oversight










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# FOCUS



# AGSA audit outcomes

Unqualified opinion with no findings (clean audit)	Financially unqualified opinion with findings	Qualified opinion	Adverse opinion	Disclaimed opinion
				
<p>Auditee:</p> <ul style="list-style-type: none"> <li>produced credible and reliable financial statements that are free of material misstatements</li> <li>reported in a useful and reliable manner on performance as measured against predetermined objectives in the annual performance plan (APP)</li> <li>complied with key legislation in conducting their day-to-day operations to achieve their mandate</li> </ul>	<p>Auditee produced financial statements without material misstatements or could correct the material misstatements, but struggled in one or more area to:</p> <ul style="list-style-type: none"> <li>align performance reports to the predetermined objectives they committed to in APPs</li> <li>set clear performance indicators and targets to measure their performance against their predetermined objectives</li> <li>report reliably on whether they achieved their performance targets</li> <li>determine the legislation that they should comply with and implement the required policies, procedures and controls to ensure compliance</li> </ul>	<p>Auditee:</p> <ul style="list-style-type: none"> <li>had the same challenges as those with unqualified opinions with findings but, in addition, they could not produce credible and reliable financial statements</li> <li>had material misstatements on specific areas in their financial statements, which could not be corrected before the financial statements were published.</li> </ul>	<p>Auditee:</p> <ul style="list-style-type: none"> <li>had the same challenges as those with qualified opinions but, in addition, they had so many material misstatements in their financial statements that we disagreed with almost all the amounts and disclosures in the financial statements</li> </ul>	<p>Auditee:</p> <ul style="list-style-type: none"> <li>had the same challenges as those with qualified opinions but, in addition, they could not provide us with evidence for most of the amounts and disclosures reported in the financial statements, and we were unable to conclude or express an opinion on the credibility of their financial statements</li> </ul>

## The AG's annual audits examine:

1. Fair presentation and absence of significant misstatements in **financial statements**
2. Reliable and credible **performance information** for predetermined objectives
3. **Compliance with laws and regulations** governing financial matters

**Movement** over the previous year is depicted as follows:

-  Improved
-  Unchanged
-  Regressed

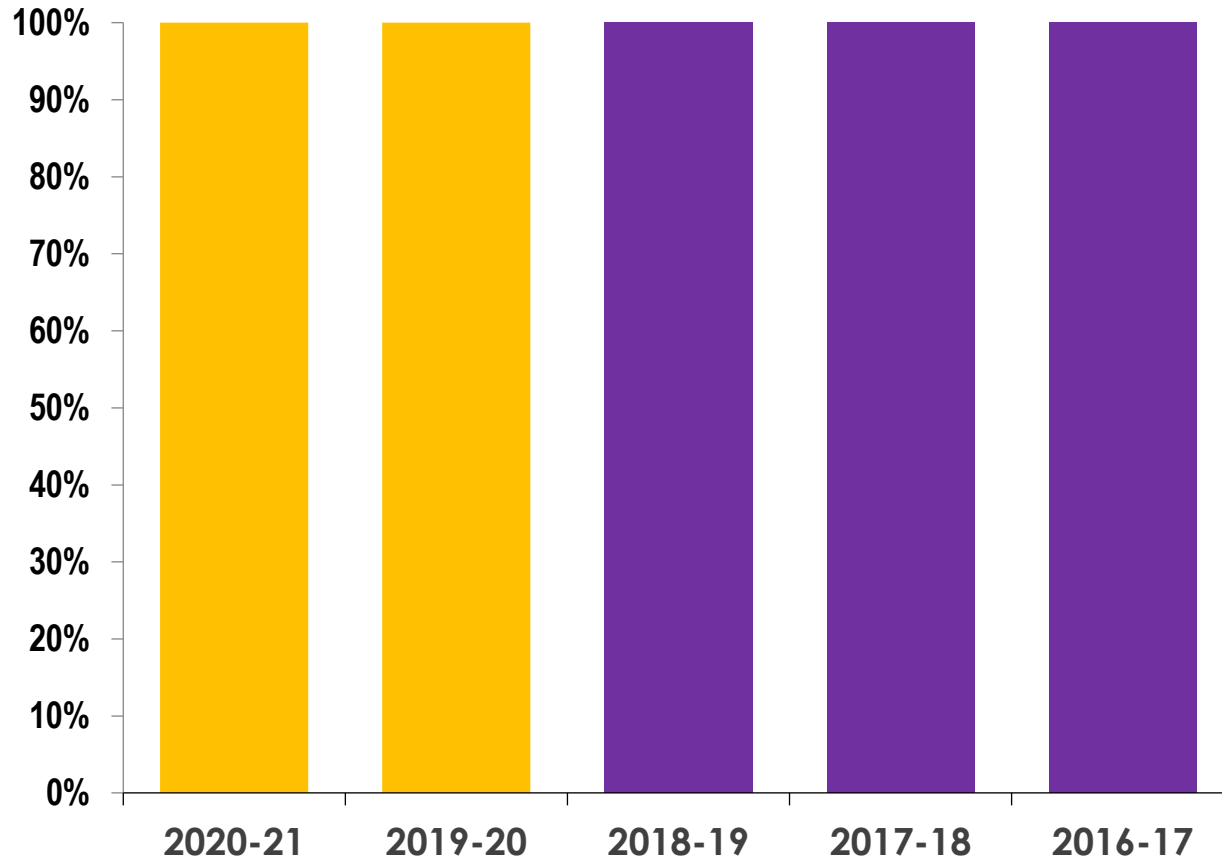


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# Outcomes



# Audit outcomes of the group over five years



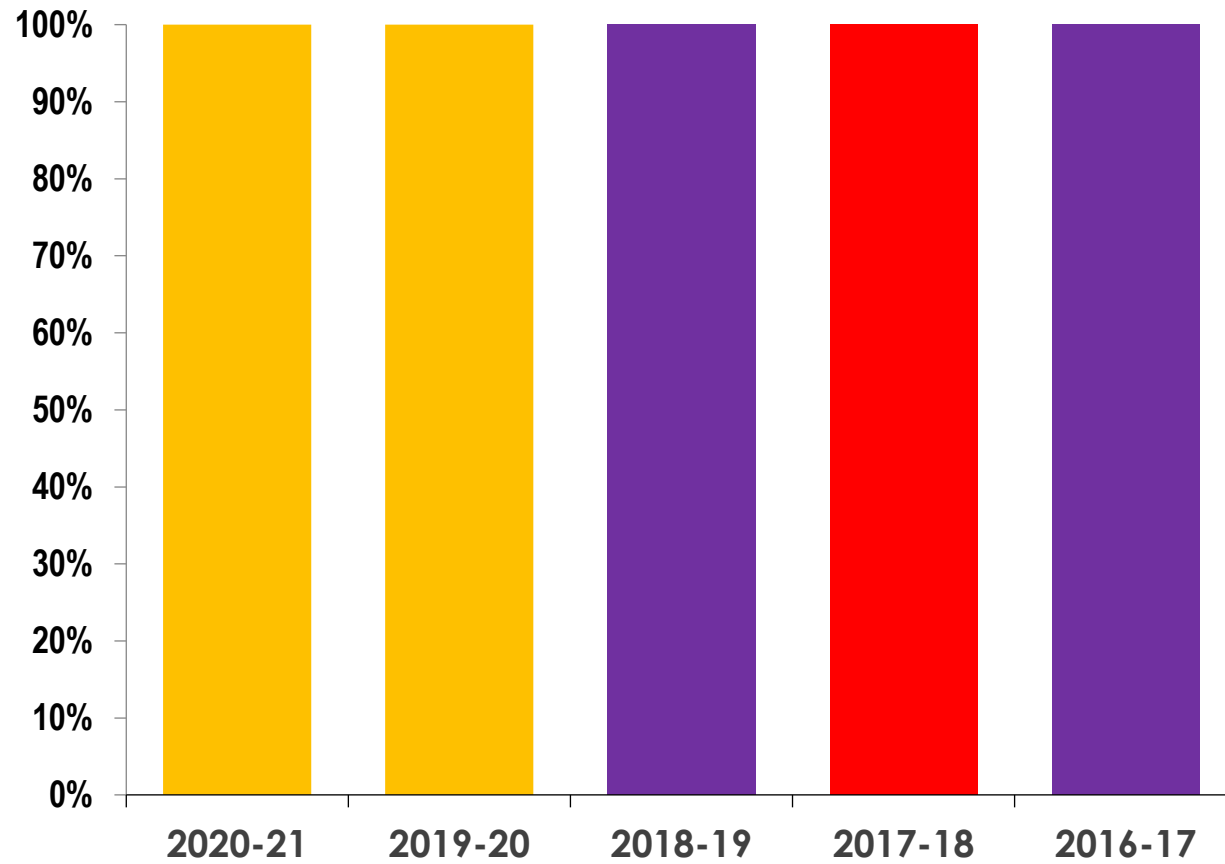
There was an improvement in the audit outcome of the group over the five year term but due to less attention given to compliance with legislation and performance information reporting, the audit outcome stagnated during the previous year.

Audit outcomes are depicted as follows:

- Unqualified with no findings
- Unqualified with findings
- Qualified with findings
- Adverse with findings
- Disclaimed with findings
- Outstanding audits



# Audit outcomes of the Mangaung stand-alone over five years

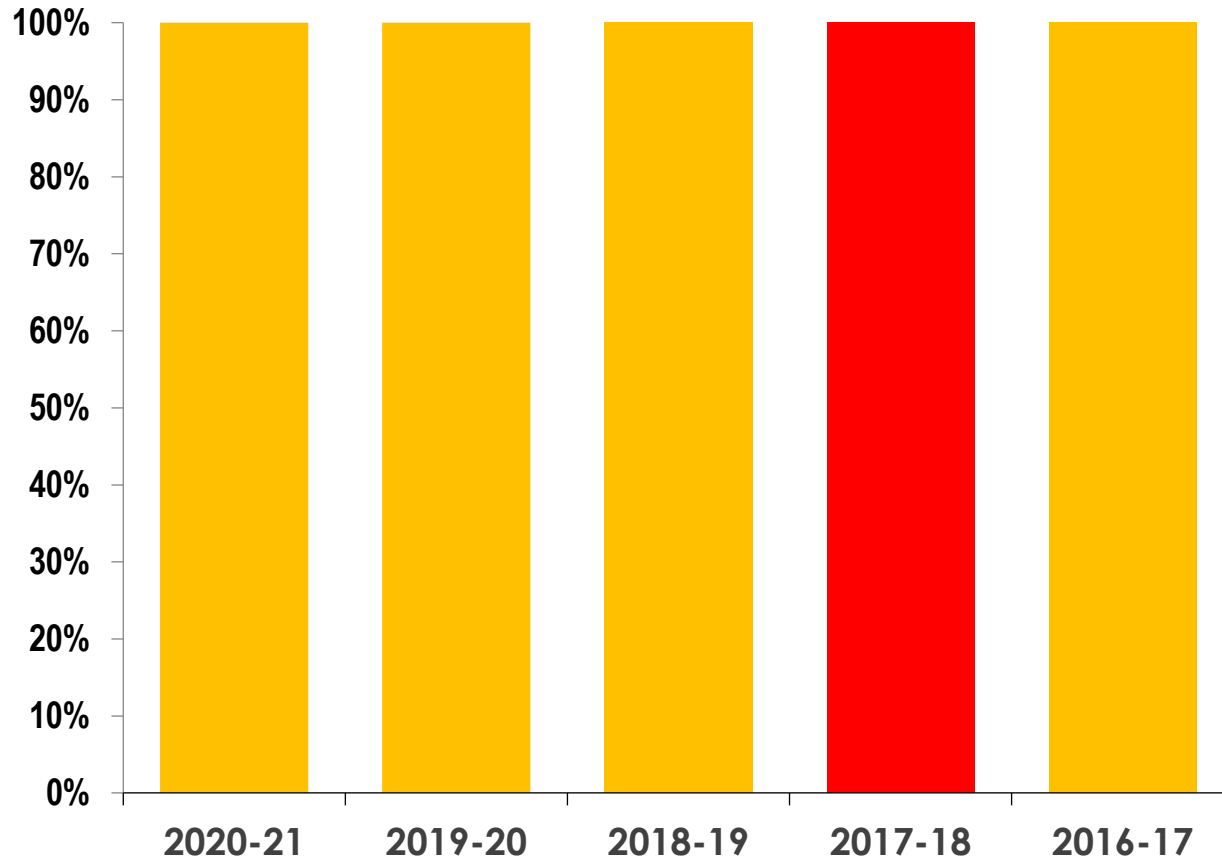


The audit outcome of Mangaung improved over the five year period, but stagnated in the last year due to less attention to performance information reporting as well compliance with legislation.

Audit outcomes are depicted as follows:

-  Unqualified with no findings
-  Unqualified with findings
-  Qualified with findings
-  Adverse with findings
-  Disclaimed with findings
-  Outstanding audits

# Audit outcomes of Centlec standalone over five years



- The overall outcomes stagnated over the five year term. This is mainly due to findings identified in performance information and compliance with legislation.

Audit outcomes are depicted as follows:





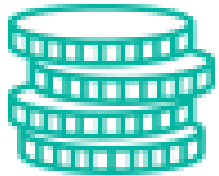
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# Quality of financial and performance reporting



# First focus area: credible financial reporting

## Financial statements



Submission of financial statements by legislated date



2020-21

100%

2019-20

100%

Financial statements submitted without material errors



0%

0%

Quality of final submission after audit



100%

100%

### Root cause analysis

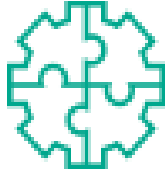
- Although there was an improvement in the quality of the submitted financial statements, inadequate review processes of the financial statements as well as slow response from leadership to implement and monitor the audit action plan to address prior year findings on the financial statements resulted in repeat findings reported as well as material corrections processed.

### Recommendations

- The review processes of the financial statements should be more rigorous in future to eliminate findings that result in material adjustments.
- Management should develop an action plan to address findings raised, and internal audit should monitor the action plan developed by management
- Effective monitoring and oversight by the audit committee is critical
- Controls with regard to the quality of the financial statements should improve. This can occur by ensuring that controls are implemented throughout the year and not only at year-end.

# Second focus area: credible performance reporting

## Performance report



Performance report submitted without errors

Performance report adjusted for material misstatements to improve reliability

Number of findings

### Movement



### 2020-21

### 2019-20

2020-21	2019-20
0%	0%
100%	100%
5	3

## Root cause analysis

- Management's insufficient emphasis on performance information and lack of adequate planning resulted in multiple targets included in the strategic documents and reported on in the annual performance plan, not being verifiable.
- It further resulted in no achievement being reported for some targets developed while in other instances, some achievements reported in the annual performance report were not supported by accurate, complete, and reliable information.
- Furthermore, the municipality did not develop standard operating procedures for all indicators and targets for the financial year.

## Recommendations


- Implementation by management of the recommendation made in internal audit reports
- The Metro should not only focus on their financial audit opinion, but also put effort into the accurate reporting of the achievement of their service delivery targets.
- The Performance Management Unit (PMU) should be strengthened and supported by leadership
- Sound financial management to ensure funds are available to meet priorities.



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# Compliance with legislation

# Third focus area: compliance with legislation

	Movement	2020-21	2019-20
Number of findings		10	18

## Non-compliance with legislation were raised in the audit report on the following matters:

### Annual financial statements:

- The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of the MFMA.

### Expenditure management:

- Appropriate steps were not taken to prevent irregular expenditure.
- Appropriate steps were not taken to prevent fruitless and wasteful expenditure.
- Appropriate steps were not taken to prevent unauthorised expenditure.

### Strategic planning:

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

## Recommendations

- Controls with regard to the quality of the financial statements should improve. This can occur by ensuring that controls are implemented throughout the year and not only at year-end.
- Management should implement steps and controls to prevent Irregular, unauthorized and fruitless & wasteful expenditure.
- Management should give adequate attention to performance management to improve the quality of the annual performance report.

## Findings on compliance with key legislation



# Third focus area: compliance with legislation (continued)

## Non-compliance with legislation were raised in the audit report on the following matters:

### Procurement and contract management:

- Sufficient appropriate audit evidence could not be obtained that the performance of contractors or providers was monitored on a monthly basis.
- Sufficient appropriate audit evidence could not be obtained that contract performance and monitoring measures were in place to ensure effective contract management.

### Consequence management:

- Unauthorised expenditure incurred by the municipality was not investigated to determine whether any person is liable for the expenditure.
- Irregular expenditure incurred by the municipality was not investigated to determine whether any person is liable for the expenditure.
- Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine whether any person is liable for the expenditure.

## Recommendations

- Management should implement more stringent controls to ensure that the performance of contractors is monitored monthly and that there is evidence thereof.
- Investigation of irregular, unauthorized and fruitless & wasteful expenditure should be done in time and where necessary, consequence management should be implemented.

## Findings on compliance with key legislation



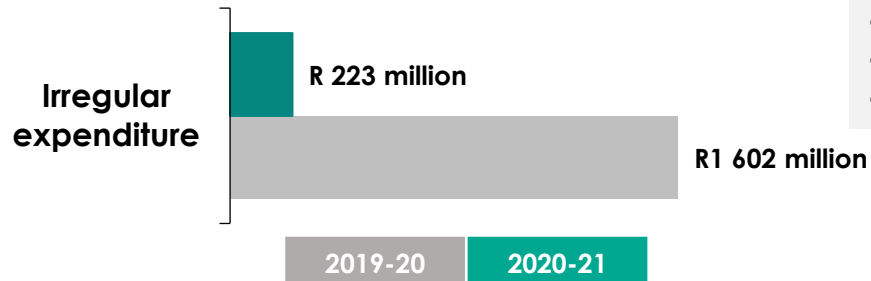


# Irregular expenditure over 2 years

## Definition

Expenditure incurred in contravention of key legislation; goods may have been delivered but prescribed processes not followed

## Irregular expenditure incurred by entities in portfolio



- R223 million – non-compliance in 2020-21
- R1 602 million – non-compliance in 2019-20
- Irregular expenditure has reduced by 86% compared to prior year

## Nature of irregular expenditure

Highest contributors to irregular expenditure:

- Service providers where contracts were extended without council approval (R 181 481 008)
- Expenditure items identified where supply chain process was not followed (R9 231 468)

## Previous year irregular expenditure reported for investigation

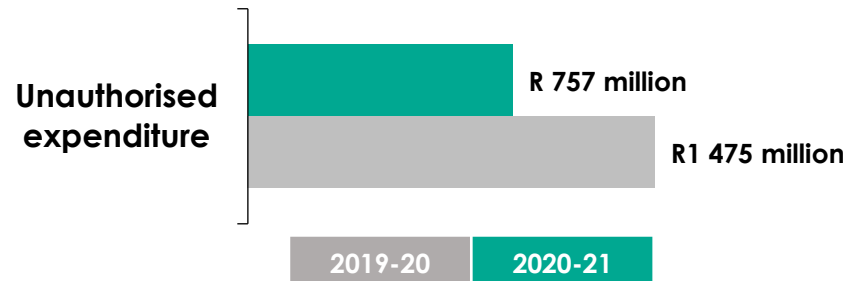


# Unauthorised expenditure over 2 years

## Definition

Overspending of a vote or a main division within a vote, or expenditure that was not made in accordance with the purpose of a vote or, in the case of a main division, in accordance with the purpose of the main division

## Unauthorised expenditure incurred by entities in portfolio



- R757 million – non-compliance in 2020-21
- R1 475 million – non-compliance in 2019-20
- Unauthorised expenditure has reduced by 86% compared to prior year

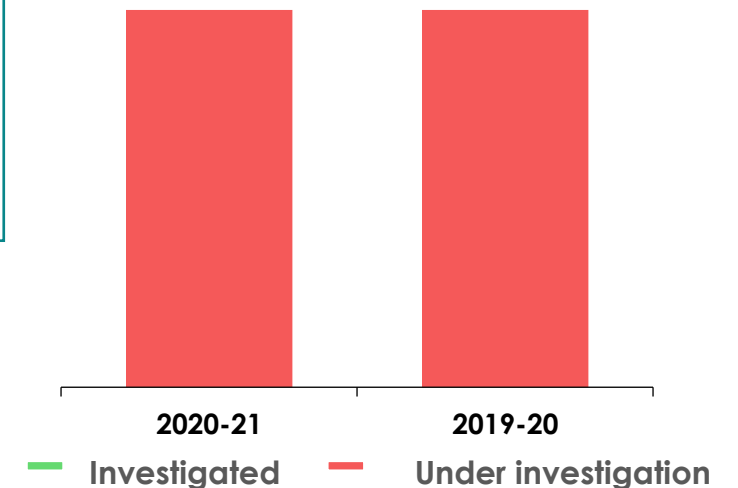
## Nature of unauthorised expenditure

The majority of the unauthorised expenditure was caused by overspending the approved budget

Driver of overspending:

- Corporate Service– R212 million
- Engineering Service – R281 million
- Centlec – R187 million

## Previous year unauthorised expenditure reported for investigation

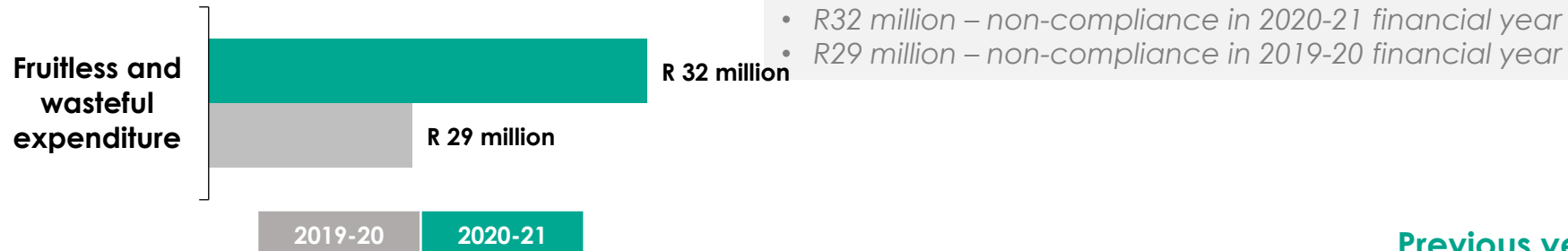


# Fruitless and wasteful expenditure over 2 years

## Definition

Expenditure incurred in vain and that could have been avoided if reasonable steps had been taken – **no value for money!**

## Fruitless and wasteful expenditure incurred by entities in portfolio



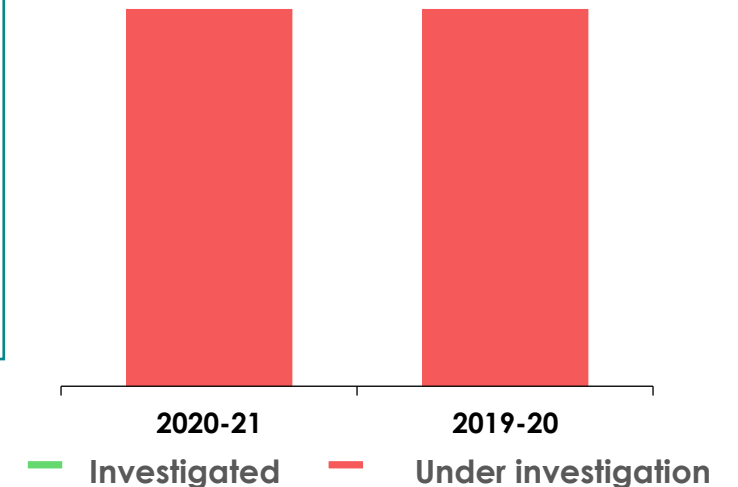
## Nature of fruitless and wasteful expenditure

Total fruitless and wasteful expenditure identified amounts to R32 million, up from the reported prior year value of R29 million

Major contributors to current year fruitless and wasteful expenditure:

- R16,9 million (53,4%) of the fruitless and wasteful expenditure relates IPTN projects where service providers claimed extension of time ( EOT).
- R12 million (38,9%) of the fruitless and wasteful expenditure relates to Interest paid to Eskom SOC due to late payment.

## Previous year fruitless and wasteful expenditure reported for investigation

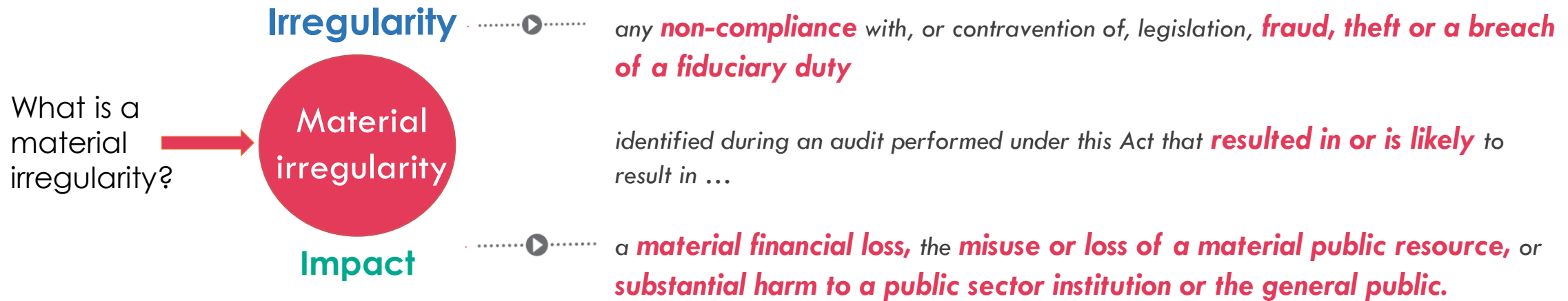




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# Material irregularities

# At the center of the PAA amendments – material irregularity



To allow for establishing capacity and processes, we will follow a **phased-in approach** for identifying MIs in 2020-21 based on:

1. the type of material irregularity to be identified and reported
2. the auditees where it will be implemented

## Type of material irregularity

### Selection criteria

Any non-compliance in line with the definition stated above.

The MI process is implemented at selected auditees audited by the AGSA that represent **a significant portion of the expenditure budget and the irregular expenditure** of national, provincial and local government, including state-owned entities. The selection is also focused on auditees that are key contributors to **government priorities**. **For 2021, Mangaung metro was selected for MI implementation.**

# Implementation of expanded mandate in 2020-21



## Status of MIs in progress

### Under-declaration of employee taxes

For the month of July 2019, the municipality withheld pay-as-you-earn (PAYE) from its employees' salaries but under-declared the amount paid to the South African Revenue Service (Sars) in contravention of section 2(1) of the fourth schedule of the Income Tax Act 58 of 1962. Under-declaration of these amounts resulted in a material financial loss for the municipality in respect of a penalty of R1 070 034 and interest of R627 282 being charged by Sars. The penalty and interest formed part of the prior year amount disclosed as fruitless and wasteful expenditure in note 63 to the financial statements.

The accounting officer was notified of this material irregularity on 8 March 2021 and was invited to make a written submission on the actions taken and that will be taken to address the matter. The accounting officer has responded as follows:

- Disciplinary action against the official responsible has commenced. An acknowledgement of receipt of the notice of misconduct was signed by the responsible official on 22 November 2021.
- A permanent project leader has been appointed to process Sars submissions to prevent such non-compliance from recurring.
- A process has been initiated to engage with Sars regarding the possibility of refunding the interest and penalties. A written submission was made on 29 October 2021 in this regard.

The actions implemented by the accounting officer will be followed up during the next audit.

### Recommendations:

- The council should use information in the audit report on material irregularities for accountability and oversight purposes, insisting on timeous implementation of recommendations
- Hold the accounting officer accountable for failures in the control environment
- Follow up on the actions taken against the official(s) responsible for transgressions

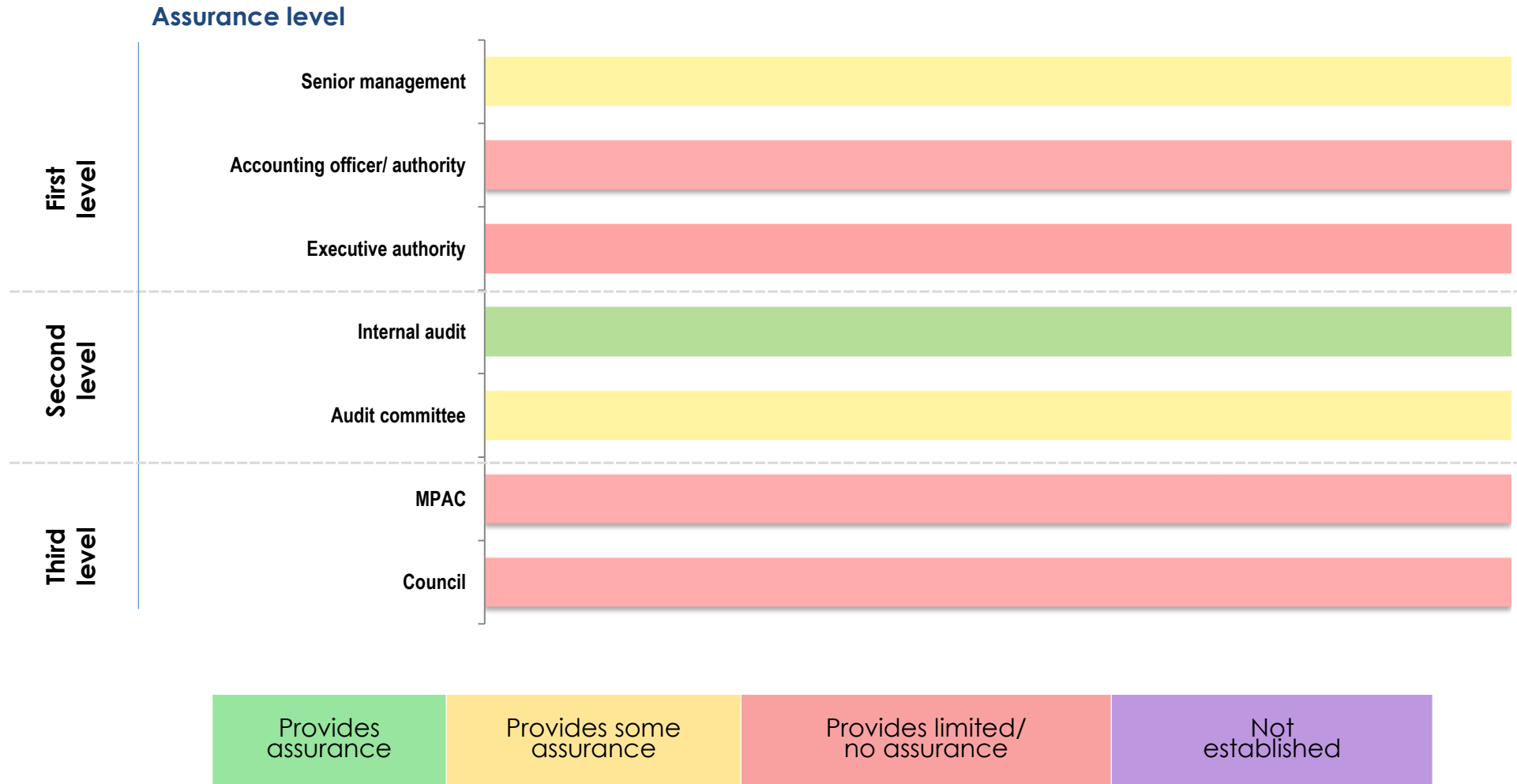


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# Governance and internal controls

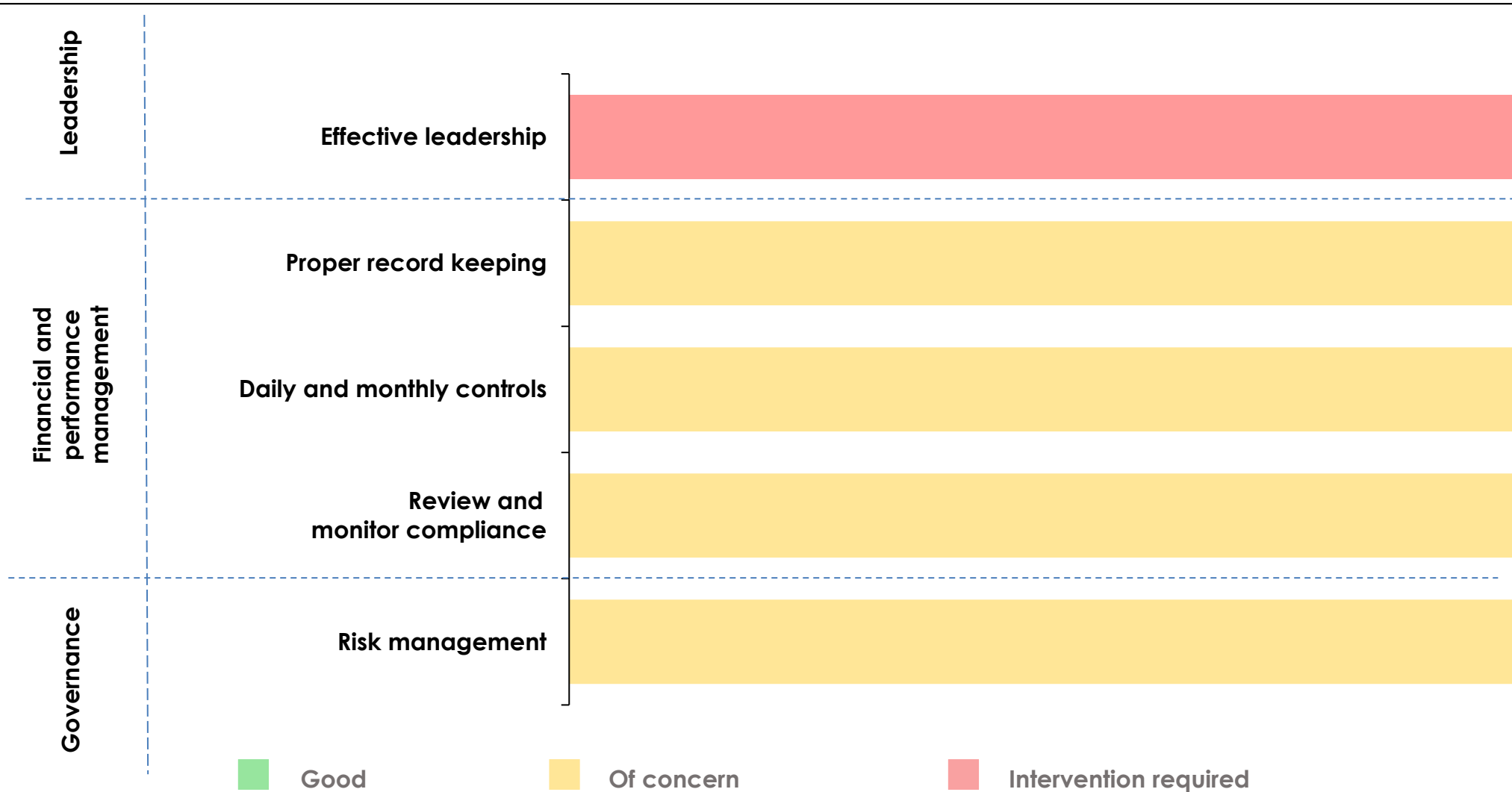


# Assurance provided





# Status of internal control



\* CBDA is not included in assessment of internal controls, which is not performed for small auditees.

# Summary of three key root causes



Management did not ensure that internal control processes were adequately implemented to prevent material corrections to the financial statements as well non-compliance with legislation.



Management did not adequately review or prioritize the supporting documentation for performance management reporting.



Management was not effective in developing and monitoring implementation of action plans and consequence management.



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# Other matters

# Going concern

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- The average repayment term of suppliers was 164 days
- The municipality owed R765 303 349 (2020: R765 030 409) to the water board, as at 30 June 2021, which was long overdue.

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 group's ability to continue as a going concern.

# Emphasis of matters

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## **Unauthorised expenditure**

As disclosed in note 62 to the consolidated financial statements, unauthorised expenditure of R757 143 501 (2020: R1 475 175 240) was incurred, due to overspending of the budget.

## **Irregular expenditure**

As disclosed in note 64 to the consolidated financial statement, irregular expenditure of R222 865 051 (2020: R1 601 748 845) was incurred, due to non-compliance with supply chain management (SCM) requirements.

## **Material impairment**

As disclosed in notes 4, 5, 6, and 7 to the consolidated financial statements, consumer and other receivables were impaired by R5 382 972 836 (2020: R4 485 984 072).

## **Material losses**

As disclosed in note 65 to the consolidated financial statements, material water distribution losses of R337 156 445 (2020: R221 045 754) were incurred mainly due to burst water pipes, leakages, and unmetered sites.

As disclosed in note 65 to the consolidated financial statements, material electricity distribution losses of R127 757 457 (2020: R138 776 833) were incurred mainly due to line losses, tampering, theft, and variances due to monthly consumption estimates.

# Emphasis of matters continued

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## **Material uncertainty relating to claims against the municipality**

With reference to note 54 to the consolidated financial statements, the group is the defendant in various claims. The group is opposing these claims. The ultimate outcome of these matters could not be determined and no provision for any liabilities that may result was made in the consolidated financial statements.

## **Restatement of corresponding figures**

As disclosed in note 57 to the consolidated financial statements, the corresponding figures for 30 June 2020 were restated as a result of errors in the financial statements of the group at, and for the year ended, 30 June 2021.

## **Events after the reporting date**

We draw attention to note 61 in the consolidated financial statements, which deals with a council resolution passed on 4 June 2021 for a new sale-of-business agreement between the municipality and its entity, Centlec (SOC) Limited to be implemented within 21 days. Due to legal and accounting implications, council resolved to defer the implementation of the agreement from the 2020-21 financial period to the 2022-23 financial period.



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# Progress on other reports



## Other reports

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- The Directorate for Priority Crime Investigation (Hawks) was investigating an allegation of overtime payments to VIP bodyguards employed in the offices of the political office bearers. The outcome was unknown as the investigation report was in progress at the date of this auditor's report.
- The Hawks were 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 report was in progress at the date of this auditor's report.
- An independent investigation panel investigated allegations of financial misconduct and maladministration against the previous city manager of the municipality at the request of the council on 1 April 2021, for the duration of his term of office. The investigation was concluded on 25 June 2021 and the investigation report was tabled in council on 28 July 2021 where council resolved that pursuing disciplinary steps were unnecessary as the previous city manager had resigned from the municipality.





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# Recommendations

# Recommendations



Fill key positions with skilled and experienced personnel



Develop and implement effective action plans to address audit findings



Monitor performance and consequence management



Accounting officers/ authorities should strengthen preventative controls to prevent non-compliance

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