

MANGAUNG METROPOLITAN MUNICIPALITY

AUDIT COMMITTEE ORDINARY MEETING MINUTES NO. 05/2021-22/75 HELD ON MICROSOFT TEAMS (VIRTUAL)

Date: 26 November 2021

Time: 11h00

1. OPENING

1.1 Welcome

The Audit Committee Chairperson welcomed all attendees.

1.2 Attendance and apologies

The following members were in attendance;

Audit Committee members:

- Mr. MNG Mahlatsi (Audit Committee Chairperson)
- Me. PME Kaota (Audit Committee Member)
- Me. TPM Lebenya (Audit Committee Member)

Mangaung Metro Municipality:

- Mr. S More (Acting City Manager)
- Mr. S Mofokeng (Chief Financial Officer)
- Mr. T Maine (HOD: Economic and Rural Development)
- Mr. B Mthembu (HOD: Planning)
- Mr. M Ndlovu (HOD: Engineering Services)
- Me. M Mototo (Chief Risk Officer)
- Mr. GA Ntsala (GM: Internal Audit (CAE))
- Me. F Moeng (Scriber)

Auditor General:

- Me. S Steenbok (Senior Manager: AGSA)
- Mr. V Motubatsi (Manager: AGSA)
- Me. I Goosen (Manager: AGSA)
- Mr. S Boya (AGSA Official)

National Treasury:

- Mr. T Selemale (Accounting and Auditing Advisor (National Treasury))

- Me. K Thoka (Deputy Director: Internal Audit (National Treasury))

Apologies received from:

- Mr. B Comakae (Acting DED: Operations)
- Me. N Mdaka (Audit Committee Member)

1.3 Declaration of interests by Audit Committee Members

None. All members present indicated that there are no interests to be declared on any of agenda items to be discussed.

1.4 Confirmation and adoption of Agenda

The Audit Committee confirmed and adopted the agenda with no additions.

2. ITEMS FOR DISCUSSION

2.1 2020-21 Auditor General Draft Management and Audit Reports for Mangaung Metro Municipality

The Audit Committee Chairperson then afforded the AGSA Team an opportunity to present the 2020 - 21 Auditor General Draft Management and Audit Reports for Mangaung Metro Municipality.

Me Steenbok (Senior Manager: AGSA) stated that the 2020-21 Draft Management Report and Audit Report were discussed with management on 17 November 2021 and 24 November 2021 respectively. The final adjusted financial statements were received last night (25 November 2021). The audit process went well, and many meetings were held with management. Me Steenbok then handed over to Me Goosen (Manager: AGSA) to present the Audit Report.

Me Goosen (Manager: AGSA) then presented the first part of the 2020/21 Audit Report, highlighting the following areas;

Opinion – Unqualified

In AGSA's opinion, the financial statements present fairly, in all material respects, the financial position of the Mangaung Metropolitan Municipality as at 30 June 2021, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the and the Division of Revenue Act 10 of 2020 (Dora).

Basis for opinion

AGSA 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

As disclosed in note 60, the average repayment term of suppliers were 280 days and the trade payables included an amount owed to the water board of R765 303 349 (2020: R765 030 409), 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 municipality's ability to continue as a going concern.

Emphasis of matters

Material impairment

Consumer and other receivables were impaired by R4 771 098 115 (2020: R3 892 218 850) as a result of uncollectable debt.

Unauthorised expenditure

Unauthorised expenditure of R570 024 938 (2020: R1 165 090 884) was incurred, due to overspending of the approved budget.

Irregular expenditure

Irregular expenditure of R190 844 856 (2020: R1 600 359 586) was incurred, due to non-compliance with supply chain management (SCM) requirements.

Material losses

Material water distribution losses of R337 156 446 (2020: R221 045 754) were incurred. This was mainly due to burst water pipes, leakages and unmetered sites.

Material uncertainty relating to claims against the municipality

The municipality is the defendant in various claims against the municipality. The municipality is opposing these claims. The ultimate outcome of these matters could not be determined and no provision for any liabilities that may result were made in the financial statements.

Restatement of corresponding figures

The corresponding figures for 30 June 2020 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2021.

Events after the reporting date

In regard of 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.

Report on the audit of the annual performance report

KPA – basic service delivery

- AGSA unable to obtain sufficient appropriate audit evidence for various reported achievements. This was due to the lack of accurate and complete records. AGSA was unable to confirm the reported achievements by alternative means. Consequently, AGSA was unable to determine whether any adjustments were required to the reported achievements in the annual performance report.
- AGSA was unable to obtain sufficient appropriate audit evidence that systems and processes were established to enable consistent measurement and reliable reporting of performance against the predetermined indicator for various
- indicators. This was due to insufficient measurement definitions and processes. As a result, AGSA was also unable to obtain sufficient appropriate audit evidence for the achievements reported in the annual performance report. AGSA was unable to validate the existence of the systems and the reported achievements by alternative means. Consequently, AGSA was unable to determine whether any adjustments were required to the reported achievements.
- AGSA was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined source information and method of collection or that related systems and processes were established to enable consistent measurement and reliable reporting of the actual achievement for various indicators. This was due to a lack of measurement definitions and processes. AGSA was unable to confirm that the indicator is well defined and verifiable by alternative means. As a result, AGSA was unable to audit the reliability of the achievements reported in the annual performance report.

Adjustment of material misstatements

AGSA identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of KPA – 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.

Mr. Motubatsi (Manager: AGSA) then continued presented the last part of the Audit Report, highlighting the following areas;

Report on the audit of compliance with legislation

Annual financial statements

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.

Expenditure management

Reasonable steps were not taken to prevent irregular expenditure amounting to R190 844 856 (2020: R1 600 359 586), as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance to supply chain management regulations and re-curring expenditure from contracts that were reported as irregular in prior financial years.

Reasonable steps were not taken to prevent unauthorised expenditure amounting to R570 024 938 (2020: R1 165 090 884), in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending the approved budget.

Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R19 694 896 (2020: R5 329 365), 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 late payment of suppliers.

Strategic planning and performance management

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 that resulted in usefulness and reliability findings identified.

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 as required by section 116(2) of the MFMA. Similar limitation was also reported in the prior year.

Sufficient appropriate audit evidence could not be obtained that contract performance and monitoring measures were in place to ensure effective contract management as required by section 116(2)(c)(ii) of the MFMA. Similar limitation was also reported in the prior year.

Consequence management

Irregular expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

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.

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.

Internal control deficiencies

AGSA 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 the findings on the annual performance report and the findings on compliance with legislation included in this report.

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 and this resulted in repeat findings.

Leadership again 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.

Inadequate attention or prioritising of performance information as well as lack of adequate planning by management resulted in many targets included in the strategic documents and reported on in the annual performance plan, were not verifiable. It further resulted in targets set where there was no achievement during the year and that some of the achievements reported in the annual performance report not being supported by accurate, complete and reliable information.

Material irregularities

AGSA identified a material irregularity during the prior audit and notified the accounting officer as required by material irregularity regulation 3(2). By the date of this auditor's report, I have received response from the accounting officer and have evaluated the response and I am in progress to conclude whether the actions taken by the accounting officer are appropriate or not.

Other reports

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.

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 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, appointed by council pursuant a council decision dated 1 April 2021, did their investigation into allegations of financial misconduct and mal- administration against the previous city manager of the municipality. The final report, dated 25 June 2021, still has to be tabled in council.

The Audit Committee Chairperson noted with appreciation the presentation by the AGSA team on the 2020/21 AGSA Audit Report and further congratulated management for securing an

unqualified audit opinion. The chairperson further encouraged the municipality to strive for a clean audit by implementing AGSA's recommendations.

The Committee then noted the following;

- The challenges relating to going concern is noted, the Committee will continue monitoring this matter.
- The huge impairment of debt is concerning, management should improve debt collection.
- The decrease in unauthorised expenditure is noted, management should continue monitoring the implementation of actions to reduce unauthorised expenditure even further.
- The decrease in irregular expenditure is noted, this shows that the municipality have made an effort to improve.
- Distribution losses remains a concern for the Committee and should be reduced, as it also contributes to the liquidity levels of the municipality.
- Contingent liability is still high though an improvement is noted, management should focus more on this area.
- The Committee will monitor the performance reporting closely to ensure that amongst other valid, accurate and complete supporting documents are availability for reported achievements.
- The Committee will monitor consequence management closely to ensure there is an improvement in this regard.

The Audit Committee Chairperson then afforded members an opportunity to engage on the 2020/21 Audit Report.

Me Lebenya (Audit Committee Member) also congratulated the municipality for obtaining an unqualified audit opinion. Me Lebenya also took note of the very high contingency liability and urged management to look into this matter. Lack of oversight was also highlighted by AGSA due to non-compliance to legislations, contract management etc., therefore, the Committee urged management to intensify oversight to improve on these areas. Me Lebenya further urged management to develop and implement the audit action plan immediately to ensure issues raised by AGSA are addressed.

The Audit Committee Chairperson noted with appreciation the inputs and further encouraged the municipality to do even better. The Chairperson then afforded the Acting City Manager, Managers directly accountable to Acting City Manager , National Treasury and the CAE (GM: Internal Audit) to reflect on the Audit Report.

The Acting City Manager indicated he is very pleased with audit outcome and further extend his gratitude to AGSA for patiently supporting the municipality during the audit process. The Acting City manager also extended gratitude to the Audit Committee for the guidance, as well as municipality officials for the hard work during the audit process and, further indicated that the municipality will improve on issues raised by the AGSA and those that Audit Committee highlighted.

Mr Selemale (Accounting and Auditing Advisor (National Treasury)) applauded the municipality for maintaining an unqualified audit opinion and then seek clarity from AGSA whether the municipality have improved significantly on certain areas since the previous audit?

Mr Selemale then requested the municipality to indicate what a second unqualified audit opinion in a row means to the municipality when service delivery remains an issue?

The Audit Committee Chairperson then allowed AGSA and the municipality to respond to Mr Selemale clarity seeking questions.

Me Goosen (Manager: AGSA) responded there were improvement in areas such as irregular expenditure which have decreased, as well as grants management that have improved. Fewer adjustments were also made to the financial statements and the quality has improved. Performance Information remains an area of concern.

Me Steenbok (Senior Manager: AGSA) added that UIFW remains a concern however, there is a huge drive from the municipality to ensure that the accounting of financials is complete. More effort is required on service delivery, as there are many projects either not completed or had been halted. Performance Information reporting have regressed and therefore urgent intervention is required. The ICT environment is also an area of concern, as slow progress has been noted in implementing corrective action.

The Acting City Manager responded that the municipality is currently working on several systems to ensure that amongst others, service delivery improves as well, together with issues relating to UIFW and Compliance.

The GM: Internal Audit (CAE) concurred with the Acting City Manager and further congratulating the municipality and AGSA for the level of professionalism displayed during the audit process. The GM: Internal Audit further congratulated the CFO and his team for effectively steering this audit process to ensure that the municipality is where it is now, that is an unqualified audit opinion, as well as ensuring that requests for information and communications from AGSA are adequately responded to by management. The GM: Internal Audit further stated that Internal Audit remains committed to advice management in relation to action plans to address findings raised by AGSA, with the intention to obtain a clean audit, as it is achievable.

The Audit Committee Chairperson noted all responses, inputs and comments and further also congratulated the CFO and his team for the good work, including the Acting City Manager and HODs. The chairperson further encourage management to maintain the current performance and improve even more. The Chairperson then stated that the Committee's main focus in the current financial year will be:

- Unauthorised, Irregular, Fruitless and Wasteful Expenditure.
- Consequence Management
- Financial Sustainability
- Service Delivery
- ICT
- Annual Performance Reporting
- Revenue Collection
- Distribution losses
- Implementation of the Audit Action Plan
- Close work relation with Centlec Audit Committee to ensure performance is on par with that of the Municipality

3. GENERAL

None:

4. CLOSURE

The Audit Committee Chairperson then closed the meeting at 12h50.

Approval of minutes

A handwritten signature in black ink, appearing to read "Bawel", written over a horizontal dotted line.

Name of the Chairperson

