

REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE LEGISLATURE AND THE COUNCIL ON MANGAUNG METROPOLITAN MUNICIPALITY

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Introduction

1. I have audited the consolidated financial statements of the Mangaung Metropolitan Municipality and its municipal entity set out on pages xx to xx, which comprise the consolidated statement of financial position as at 30 June 2014, the consolidated statement of financial performance, statement of changes in net assets, cash flow statement, the statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with 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, 2013 (Act No. 2 of 2013) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on the consolidated financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Mangaung Metropolitan Municipality and its municipal entity as at 30 June 2014 and their financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

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

Restatement of corresponding figures

8. As disclosed in notes 55 and 56 to the consolidated financial statements, the corresponding figures for 30 June 2013 have been restated as a result of errors discovered during the 2013-14 financial year in the consolidated financial statements of the municipality at, and for the year ended, 30 June 2013.

Material losses

9. As disclosed in note 66 to the consolidated financial statements, material water losses amounting to R117 245 213 (2013: R116 966 482) were incurred mainly due to burst water pipes, leakages and unmetered water sites while electricity losses amounting to 237 761 593 kWh (2013: 204 919 232 kWh) to the value of R152 417 857 (2013: R193 265 509) were incurred mainly due to tampering with electricity meters, electricity connections which form part of illegal consumption and faulty meters.

Material impairments

10. As disclosed in note 8 to the consolidated financial statements, a provision for debt impairment to the amount of R66 199 957 (99,7%) (2013: R66 671 129) (99,3%) was made with regard to housing selling scheme loans, erven loans, vehicle loans, study loans and the cricket stadium amounting to R66 379 135 (2013: R67 165 469).
11. As disclosed in note 11 to the consolidated financial statements, a provision for debt impairment to the amount of R81 327 862 (74,4%) (2013: R40 260 398) (44,6%) was made with regard to amounts owed to the municipality in respect of commercial rental income and other miscellaneous services rendered by the municipality amounting to R109 259 565 (2013: R90 292 128).
12. As disclosed in note 14 to the consolidated financial statements, a provision for debt impairment to the amount of R1 411 418 405 (71,7%) (2013: R1 255 533 478) (69,7%) was made with regard to amounts owed to the municipality in respect of water services, electricity services, sanitation services and housing rental amounting to R1 968 275 364 (2013: R1 800 084 734).
13. As disclosed in note 15 to the consolidated financial statements, a provision for debt impairment to the amount of R376 933 296 (52,0%) (2013: R322 537 417) (73,9%) was made with regard to amounts owed to the municipality in respect of property rates amounting to R724 871 609 (2013: R436 569 652).

Unauthorised expenditure

14. As disclosed in note 60 to the consolidated financial statements, the municipality incurred unauthorised expenditure of R498 003 019 (2013: R19 535 661) in the year under review because it exceeded the limits of the amounts provided for in the votes of the approved budget.

Irregular expenditure

15. As disclosed in note 62 to the consolidated financial statements, irregular expenditure amounting to R46 980 591 (2013: R85 403 986) was incurred during the year under review due to non-compliance with supply chain management regulations.

Service delivery

16. Included in the cost of buildings as disclosed in note 5 to the consolidated financial statements, is a capital spending amount of R351 906 448 (2013: R351 906 448) that relates to the intermodal public transport facility. The construction of the facility was

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finalised but the facility has not been occupied to date due to disagreements between the taxi industry and the council.

Additional matter

17. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

18. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

19. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

20. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2014:

- Key performance area (KPA) 1: Poverty eradication, rural and economic and job creation on pages xx to xx
- KPA 3: Environmental management on pages xx to xx
- KPA 4: Spatial development and built environment on pages xx to xx
- KPA 5: Eradication of bucket system, VIP toilets in Botshabelo, Mangaung and Thaba Nchu, focus on the basics, building solar farming, power plant feasibility study, safety and security on pages xx to xx
- KPA 7: Social and community services on pages xx to xx
- KPA 8: Financial management on pages xx to xx
- KPA 9: Human Settlements on pages xx to xx
- KPA 10: Good Governance on pages xx to xx.

21. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

22. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).

23. I assessed the reliability of the reported performance information to determine whether it

was valid, accurate and complete.

24. The material findings in respect of the selected objectives are as follows:

KPA 1: Poverty eradication, rural and economic and job creation

Reliability of reported performance information

25. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of the reported performance information. This was due to limitations placed on the scope of my work because the municipality could not provide sufficient appropriate evidence in support of the reported performance information.

KPA 3: Environmental management

26. I did not raise any material findings on the usefulness and reliability of the reported performance information for this KPA.

KPA 4: Spatial development and built environment

27. I did not raise any material findings on the usefulness and reliability of the reported performance information for this KPA.

KPA 5: Eradication of the bucket system, VIP toilets in Botshabelo, Mangaung and Thaba Nchu, focus on the basics, building solar farming, power plant feasibility study, safety and security

Usefulness of reported performance information

28. The FMPPI requires the following:

- Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 43% of the significantly important targets were not specific.
- Performance targets must be measurable. I could not measure the required performance for 32% of the significantly important targets.
- The period or deadline for delivery of targets must be specified. A total of 51% of the significantly important targets were not time bound.
- Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. A total of 60% of the significantly important indicators were not well defined.
- Performance indicators must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator/measure. A total of 29% of the significantly important indicators were not verifiable.

29. This was due to a lack of proper systems and processes for performance planning and management to provide for the development of performance indicators and targets included in the annual service delivery and implementation plan.

Reliability of reported performance information

30. The FMPPi requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of the reported performance information. This was due to limitations placed on the scope of my work because the auditee could not provide sufficient appropriate evidence in support of the reported performance information and the auditee's records not permitting the application of alternative audit procedures.

KPA 7: Social and community services

31. I did not raise any material findings on the usefulness and reliability of the reported performance information for this KPA.

KPA 8: Financial management

32. I did not raise any material findings on the usefulness and reliability of the reported performance information for this KPA.

KPA 9: Human settlements

Reliability of reported performance information

33. The FMPPi requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of the reported performance information. This was due to limitations placed on the scope of my work because the municipality could not provide sufficient appropriate evidence in support of the reported performance information.

KPA 10: Good governance

34. I did not raise any material findings on the usefulness and reliability of the reported performance information for this KPA.

Additional matters

35. I draw attention to the following matters:

Achievement of planned targets

36. Refer to the annual performance report on pages x to x for information on the achievement of the 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 for the selected objectives reported in paragraphs x to xx of this report.

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Adjustment of material misstatements

37. I identified material misstatements in the annual performance report submitted for auditing in the reported performance information of KPA 1: Poverty eradication, rural and economic and job creation; KPA 4: Spatial development and built environment; KPA 5: Eradication of bucket system, VIP toilets in Botshabelo, Mangaung and Thaba Nchu, focus on the basics, building solar farming, power plant feasibility study, safety and security; KPA 7: Social and community services; and KPA 9: Human settlements. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information.

Compliance with legislation

38. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Budgets

39. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.

Annual financial statements, performance and annual reports

40. The consolidated financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, cash flow statement, budget disclosures and other disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided, resulting in the financial statements receiving an unqualified audit opinion.
41. The oversight report, containing comments on the annual report, was not adopted by the council within two months from the date on which the 2012-13 annual report was tabled, as required by section 129(1) of the MFMA.

Expenditure management

42. Reasonable steps were not taken to prevent unauthorised expenditure and irregular expenditure, as required by section 62(1)(d) of the MFMA.

Procurement and contract management

43. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.

Conditional grants

44. The municipality did not evaluate its performance in respect of programmes funded by the Public Transport Infrastructure allocation, as required by section 12(5) of the DoRA.

Asset management

45. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
46. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.

Internal control

47. I considered internal control relevant to my audit of the financial statements, the annual performance report and compliance with legislation. 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.

Leadership

48. Due to the lack of an automated management information system for performance reporting and the slow response to internal and external audit findings, adequate evidence was not kept to support the reported information in the quarterly, mid-year and annual performance reports.

Financial and performance management

49. The asset controllers of the different directorates within the municipality did not on a monthly basis compare the physical assets within their directorates to the asset listings kept at the respective offices. In addition, inadequate communication and document distribution between the different directorates and the finance division resulted in information in the asset registers relating to the physical location of the assets not being updated on a regular basis.
50. Inadequate communication between the different directorates resulted in incomplete and inaccurate financial reporting relating to future contractual commitments and capital projects in progress. The finance division also did not perform adequate review functions to substantiate the completeness and accuracy of the commitment register, which resulted in adjustments to the annual financial statements.
51. Inadequate staff in the engineering department and the organisational performance management sub-directorate resulted in processes to manage, coordinate and monitor the performance systems and procedures not being effective. As a result, attempts to gather and compile information to support actual performance reported started late and such information could not be provided in time for audit purposes. This resulted in the report on predetermined objectives being subject to material adjustments.

OTHER REPORTS

Investigations

52. Fourteen investigations relating to alleged theft, financial corruption, fraud, tender irregularities and non-compliance with municipal supply chain management regulations by the council employees were finalised during the year. The investigations resulted in the suspension of and criminal proceedings being instituted against municipal officials.

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53. Six investigations relating to alleged theft, financial corruption, fraud, tender irregularities and non-compliance with municipal supply chain management regulations were still in progress at year-end.

Auditor - General

Bloemfontein

14 January 2015



A U D I T O R - G E N E R A L
S O U T H A F R I C A

Auditing to build public confidence