

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

Report on the financial statements

Introduction

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 2015, 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, 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 financial statements in accordance with South Africa Standards of Generally Recognised Accounting Practise (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, 2014 (Act No. 10 of 2014) (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.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with 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 financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 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 financial statements present fairly, in all material respects, the financial position of the Mangaung Metropolitan Municipality as at 30 June 2015 and its 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 note 60 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of errors discovered during 2014-15 in the financial statements of the municipality at, and for the year ended, 30 June 2014.

Material losses

9. As disclosed in notes 6, 7 and 8 to the financial statements, material losses were incurred as a result of the write-off of consumer and other receivables to the amount of R86 431 274 (2014: R108 875 587).
10. As disclosed in note 67 of the financial statements, material water losses to the amount of R167 576 335 (2014: R117 245 213) were incurred by the municipality mainly due to burst water pipes, leakages and unmetered sites.

Material impairments

11. As disclosed in notes 5, 6, 7 and 8 of the financial statements, management made a provision for the impairment of consumer and other receivables to the amount R2 078 606 189 (2014: R1 467 167 286).

Unauthorised expenditure

12. As disclosed in note 64 to the financial statements, the municipality incurred unauthorised expenditure of R1 006 015 706 (2014: R673 096 965) in the year under review due to expenditure incurred that exceeded the limits of the amounts provided for in the votes of the approved budget.

Underspending of conditional grants

13. As disclosed in note 42 of the financial statements, management has underspent on the public transport infrastructure and systems fund grant by 70% (R21 133 200) and the urban settlement development grant by 12% (R77 535 555) for the year under review.

Additional matter

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

Unaudited disclosure notes

15. 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, as contained in note 73 to the financial statements, did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

Service delivery

16. Included in the cost of buildings, as disclosed in note 13 to the financial statements, is a capital expenditure amount of R351 906 448 (2014: R351 906 448) that relates to the intermodal public transport facility. The construction of the facility has been finalised but the facility has not been occupied to date due to disagreement between the taxi industry and the council.

Report on other legal and regulatory requirements

17. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected key performance areas presented in the annual performance report, compliance with legislation and 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

18. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected key performance areas presented in the annual performance report of the municipality for the year ended 30 June 2015:

- Key performance area (KPA): Poverty eradication, rural and economic development and job creation on pages ... to ...
- KPA: Eradication of bucket system, VIP toilets in Botshabelo, Mangaung and Thaba Nchu, and a focus on the basics, building solar farming, power plant feasibility study, safety and security on pages ... to ...
- KPA: Human settlements on pages ... to ...

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

20. 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 key performance areas. 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).
21. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
22. The material findings in respect of the selected key performance areas are as follows:

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

Reliability of reported performance information

23. 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. Adequate and reliable corroborating evidence could not be provided for 32% of the targets to assess the reliability of the reported performance information. This was due to limitations placed on the scope of my work because the information was not retained and safeguarded throughout the year.

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

Reliability of reported performance information

24. 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. Adequate and reliable corroborating evidence could not be provided for 36% of the targets to assess the reliability of the reported performance information. This was due to limitations placed on the scope of my work because the information was not retained and safeguarded throughout the year.

KPA: Human settlements

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. Adequate and reliable corroborating evidence could not be provided for 38% of the targets to assess the reliability of the reported performance information. This was due to limitations placed on the scope of my work because the information was not retained and safeguarded throughout the year.

Additional matters

26. I draw attention to the following matters:

Achievement of planned targets

27. Refer to the annual performance report on pages ... to ... 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 reliability of the reported performance information for the selected key performance areas reported in paragraphs 23, 24 and 25 of this report.

Adjustment of material misstatements

28. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information of eradication of bucket system, VIP toilets in Botshabelo, Mangaung and Thaba Nchu, a focus on the basics, building solar farming, power plant feasibility study, safety and security, and human settlements. As management subsequently corrected only some of the misstatements, I identified material findings on the reliability of the reported performance information.

Unaudited supplementary schedules

29. The supplementary information set out on pages ... to ... do not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report thereon.

Compliance with legislation

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

Financial statements and annual report

31. The 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 property plant and equipment, provisions and commitments identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

32. The oversight report, containing comments on the annual report, although adopted by council, was not adopted within the prescribed period of two months from the date on which the 2013-14 annual report was tabled, as required by section 129(1) of the MFMA.

Audit committee

33. Contrary to the requirements of municipal planning and performance management regulation 14(4)(a)(iii), the audit committee reported only once during the year on the review of the performance management system to council.

Procurement and contract management

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

Human resource management and compensation

35. The annual report of the municipality did not reflect information on compliance with prescribed minimum competencies as required by regulation 14(2)(b) of the *Municipal regulations on minimum competency levels*.

Expenditure management

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

Asset management

37. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Internal control

38. I considered internal control relevant to my audit of the financial statements, 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

39. Leadership did not effectively monitor and enforce corrective action plans to address weaknesses in the processes of financial and performance reporting that were reported in the previous financial year. As a result, the significant findings reported previously were repeated and again required material adjustments to be effected to the financial statements and resulted in unreliable performance information.

Financial and performance management

40. The municipality lacks adequate personnel with relevant skills and experience pertaining to the management and reporting of financial and performance information within certain directorates. Due to the lack of personnel, daily and monthly controls pertaining to information management were compromised and insufficient reviews were performed to ensure the reliability of the information that is used in reporting.

41. Management did not implement consequence management based on the non-achievement of deadlines that were set in the action plan to address the matters reported in the previous financial year.

T-Auditor-General

Bloemfontein

30 November 2015



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence