

# Report of the auditor-general to the Gauteng Provincial Legislature and the council on the Mogale City Local Municipality

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of the Mogale City Local Municipality set out on pages x to x, which comprise the statement of financial position as at 30 June 2019, statement of financial performance, statement of changes in net assets, cash flow statement, statement of comparison of budget and actual amounts and appropriation statement 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 Mogale City Local Municipality as at 30 June 2019, 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, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2018 (Act No. 1 of 2018) (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 sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* and parts 1 and 3 of the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA codes) as well as the 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 codes.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Emphasis of matters

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

### Material impairment

7. As disclosed in note 3 to the financial statements, the receivable from non-exchange transactions balance has been significantly impaired. The allowance for impairment of receivables from non-exchange transactions amounts to R334 823 713 (2017-18: R352 804 129) which represented 68,4% (2017-18: 63,8%) of total receivables from non-

exchange transactions. The contribution to the provision for debt impairment was R92 863 861 (2017-18: R57 520 787).

8. As disclosed in note 4 to the financial statements, the receivable from exchange transactions balance has been significantly impaired. The allowance for impairment of receivables from exchange transactions amounts to R1 100 869 257 (2017-18: R965 065 908) which represented 82,6% (2017-18: 84,7%) of total receivables from exchange transactions. The contribution to the provision for debt impairment was R171 622 988 (2017-18: R200 000 385).

#### **Restatement of corresponding figures**

9. As disclosed in note 47 to the financial statements, the corresponding figures for 30 June 2018 have been restated as a result of errors in the financial statements of the municipality at, and for the year ended 30 June 2019.

#### **Material uncertainties**

10. With reference to note 49 to the financial statements, the municipality is the defendant in various lawsuits. The outcome of these matters cannot presently be determined and/or reliably measured, therefore, no provision for any liabilities that may result has been made in the financial statements.

#### **Other matter**

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

#### **Unaudited disclosure notes**

12. 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 on it.

#### **Responsibilities of the accounting officer for the financial statements**

13. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with 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.
14. In preparing the financial statements, the accounting officer is responsible for assessing the Mogale City Local 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**

15. 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.

16. 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

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 material findings on the reported performance information against predetermined objectives for the selected strategic goals presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
18. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did 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.
19. 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 strategic goal presented in the annual performance report of the municipality for the year ended 30 June 2019:

Strategic goal	Pages in the annual performance report
Strategic goal: To deliver affordable, quality and sustainable services to communities.	x – x

20. 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.
21. The material findings in respect of the usefulness and reliability of the selected strategic goal are as follows:

Strategic goal: To deliver affordable, quality and sustainable services to communities

**Various indicators**

22. I was unable to obtain sufficient appropriate audit evidence to validate the existence of systems and processes that enable reliable reporting of actual service delivery against the indicator. Due to this limitation placed on my work, I was also unable to obtain sufficient appropriate audit evidence for the reported achievements of the indicators listed below. I was unable to validate the existence of the systems and the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements in the annual performance report.

Indicator description	Reported achievement
% of households with access of electricity	86,8%
% of households with access to basic level of sanitation	98,4%
% of households with access to basic level of water	99,7%
Number of households receiving basic level of refuse removal services	8 998
Number of households receiving advanced level of refuse removal services	71 089

**Various indicators**

23. I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined method of collection to be used when measuring the actual achievement for the indicator. This was due to a lack of technical indicator descriptions and I was unable to test by alternative means whether the indicator was well defined.

Indicator description	Reported achievement
Number of houses built at Brick Vale	446 at Foundation level, 256 Wall Plates and 54 houses Roofed.
% implementation of funded PMU capital projects	91%

**Number of public safety activities implemented**

24. The number of public safety activities implemented approved in the service delivery implementation plan was 12. However, the target reported in the annual performance report was six.

**Number of households receiving basic level refuse removal services**

25. I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance against 13 527 households as reported in the annual performance report. This was due to limitations placed on the scope of my work. I was unable to confirm the reported measures taken by alternative means. Consequently, I was unable to determine

whether any adjustments were required to the reported measures taken to improve performance.

#### **Number of employment opportunities on enterprise development and rural development initiatives: expanded public works programme**

26. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of 1 380 job opportunities. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of 1 380 as reported in the annual performance report.

#### **Other matters**

27. I draw attention to the matters below.

##### **Achievement of planned targets**

28. Refer to the annual performance report on pages x to x; x to x 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 22 to 26 of this report.

##### **Adjustment of material misstatements**

29. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of strategic goal: to deliver affordable, quality and sustainable services to communities. As management subsequently only corrected 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**

30. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

31. The material findings on compliance with specific matters in key legislations are as follows:

##### **Procurement and contract management**

32. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by municipal supply chain management (SCM) regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).

33. Some of the invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM regulation 22(1) and 22(2).
34. 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.

#### Expenditure management

35. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R166 303 172, as disclosed in note 51 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by non-cash-related expenditure.
36. Reasonable steps were not taken to prevent irregular expenditure amounting to R221 268 325 as disclosed in note 52 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with SCM regulation 36.
37. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
38. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R13 585 302, as disclosed in note 53 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the fruitless and wasteful expenditure was caused by interest charged on money owed by the municipality.

#### Consequence management

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

#### Other information

40. 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 thereon and those selected strategic goals presented in the annual performance report that have been specifically reported on in the auditor's report.
41. 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 thereon.
42. 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 strategic goals presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
43. The other information I obtained prior to the date of this auditor's report is the accounting officers report, governance report and the human resource report, and the service delivery overview is expected to be made available to us after 30 November 2019.

44. If, based on the work I have performed on the other information that I obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.
45. When I do receive and read the other information contained in the annual report and 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

46. 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 performance report and the findings on compliance with legislation included in this report.
47. The accounting officer did not always provide the required level of oversight to ensure that the annual performance report was free from material misstatement as well as adherence to procurement and contract management regulations. Action plans that were developed were not monitored regularly to ensure that they have been adequately implemented taking into account the recommendations by internal audit and audit committee.
48. Senior management did not always have effective controls to ensure that performance reports were supported by complete, relevant and accurate information. Further, there were inadequate controls over processes that relate to the review and monitoring of compliance with applicable legislation.

*Auditor - General*

Johannesburg

30 November 2019



AUDITOR - GENERAL  
SOUTH AFRICA

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## **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 strategic goals 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 related to events or conditions that may cast significant doubt on the Mogale City Local Municipality’s ability 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 the 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 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, related safeguards.