

Report of the Auditor-General to the Gauteng Provincial Legislature and Council on the Merafong City Local Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Merafong City Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, cash flow statement and appropriation statement 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 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 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 the Public Audit Act of South Africa, (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 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 municipality'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 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 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 Merafong City Local Municipality as at 30 June 2014, 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.

Emphasis of matters

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

Significant uncertainties

8. With reference to note 42 to the financial statements, the municipality is the defendant in various court cases. The ultimate outcome of these matters cannot presently be determined, and no provision for any liability that may result has been made in the financial statements.

Restatement of corresponding figures

9. As disclosed in note 44 to the financial statements, the corresponding figures for 30 June 2013 have been restated as a result of errors discovered in the financial statements of Merafong City Local Municipality at, and for the year ended 30 June 2014.

Material losses

10. As disclosed in note 55 to the financial statements, the municipality incurred material losses amounting to R 30 348 113 (2012-13: R 23 229 018) as a result of water distribution losses, which represents 41.79% (2012-13: 38.90%) of the total water purchased.
11. As disclosed in note 55 to the financial statements, material losses amounting to R39 981 937 (2012-13: 27 127 640) were incurred as a result of electricity distribution losses which represent 18.16% (2012-13: 18.31%) of total electricity purchased.

Material impairments

12. As disclosed in note 13 to the financial statements, material impairments to the amount of R477 777 162 (2012-13: R610 810 452) were incurred on consumer debtors of R666 446 579 (2012-13: R793 168 534) as these debtors were considered doubtful. This represents 71.69% (2012-13: 77.01%) of total consumer debtors. The contribution to the provision for debt impairment for the current year under review was R124 928 153 (2012-13: R188 533 077)

Additional matters

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

Unaudited supplementary schedules

14. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

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 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

16. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to the reported performance information against predetermined objectives for selected strategic goals presented in the annual performance report, 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

17. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected strategic goals presented in the annual performance report of the municipality for the year ended 30 June 2014:
- Strategic goal 1: Ensure provision of basic services pp. xx - xx
 - Strategic goal 2: Promote local economic development pp. xx - xx
 - Strategic goal 6: Integrated spatial development framework pp. xx - xx
18. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
19. I evaluated the usefulness of the reported performance information to determine whether it is 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).
20. I 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 selected strategic goals are as follows:

Strategic goal 1: Ensure provision of basic services

22. I did not raise any material findings relating to the usefulness and reliability of the reported performance information for strategic goal 1: Ensure provision of basic services.

Strategic goal 2: Promote local economic development

Usefulness of reported performance information

23. I did not raise any material findings relating to the usefulness of the reported performance information for strategic goal 2: Promote local economic development.

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 33% of the targets to assess the reliability of the reported performance information. The auditee's records did not permit the application of alternative audit procedures. This was due to the absence of an adequate document management system.

Strategic goal 6: Integrated spatial development framework

25. I did not raise any material findings relating to the usefulness and reliability of the reported performance information for strategic goal 6: Integrated spatial development framework.

Additional matter

26. I draw attention to the following matter:

Achievement of planned targets

27. Refer to the annual performance report on pages 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 reliability of the reported performance information in paragraph 24 of this report.

Compliance with legislation

28. I performed procedures to obtain evidence that the municipality has complied with applicable legislation regarding financial matters, financial management and other related matters.

29. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the general notice issued in terms of the PAA are as follows:

Annual financial statements

30. 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 irregular and unauthorised expenditure identified by the auditors were subsequently corrected, which resulted in the financial statements receiving an unqualified opinion.

Procurement and contract management

31. Sufficient appropriate audit evidence could not be obtained that bid specifications were approved by accounting officer as required by SCM Regulation 27(3).
32. The invitation to tender was not advertised on the Construction Industry Development Board (CIDB) website as required by CIDB Regulation 24.

Expenditure management

33. The accounting officer did not take reasonable steps to detect and prevent irregular and unauthorised expenditure, as required by section 62(1)(d) of the MFMA.
34. Contractual obligations and money owed by the municipality were not settled within 30 days or an agreed period, as required by section by section 65(2)(e) of the MFMA.

Strategic planning

35. The municipality did not have and maintain effective, efficient and transparent systems of financial and risk management and internal controls as required by section 62(1)(c)(i) of the MFMA.

Internal control

36. 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 non-compliance with legislation included in this report.

Leadership

37. The accounting officer did not exercise adequate oversight responsibility regarding financial, performance reporting, compliance with applicable laws and regulations and controls to address prior year repeat audit findings.

Financial and performance management

38. Management did not adequately monitor controls in place to ensure that performance reports are supported by complete, relevant and accurate information and that compliance with laws and regulations are adhered to.

Governance

39. Internal audit had capacity challenges during the year which resulted in audits being completed and reported late, thus not performing their roles and responsibilities in terms of their approved charter.

Other reports

Investigations in progress

40. There are various investigations in progress relating to procurement irregularities, fraud, theft, negligence and the investigations were ongoing at reporting date.

Johannesburg

30 November 2014



AUDITOR - GENERAL
SOUTH AFRICA

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