

Report of the auditor-general to the Gauteng Provincial Legislature and the 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 2016, 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 the Division of Revenue Act of South Africa, 2015 (Act No. 1 of 2015)(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 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 2016, 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.

Significant uncertainties

8. As disclosed in note 42 to the financial statements, the municipality is the defendant in a number of legal 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. If the outcome of these matters change and a liability is raised, these matters can have a material impact on the financial sustainability of the municipality.

Restatement of corresponding figures

9. As disclosed in note 45 to the financial statements, the corresponding figures for 30 June 2015 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 2016.

Water distribution losses

10. As disclosed in note 56 to the financial statements, the municipality incurred material losses amounting to R46 738 845 (2014-15: R44 574 184) as a result of water distribution losses, which represents 47.69% (2014-15: 46.23%) of the total water purchased. The total technical losses of water amounted to R36 669 347 (2014-15: R35 659 347). Non-technical losses amounted to R10 069 498 (2014-15: R8 914 836) and are mainly due to deterioration of water reticulation system, burst pipes and unauthorised consumption.

Electricity distribution losses

11. As disclosed in note 56 to the financial statements, material losses amounting to R58 765 650 (2014-15: R44 268 749) were incurred as a result of electricity distribution losses which represent 29.44% (2014-15: 22.68%) of total electricity purchased. The total technical losses of electricity amounted to R 49 728 426 (2014-15: R37 628 436). Non-technical losses amounted to R9 037 224 (2014-15: R6 640 312) and are due to unauthorised consumption, tampering and faulty meters.

Material impairments

12. As disclosed in note 14 to the financial statements, material impairments to the amount of R742 454 319 (2014-15: R612 808 474) were incurred on consumer debtors of R984 947 451 (2014-15: R784 427 937) as these debtors were considered doubtful. This represents 82% (2014-15: 78%) of total consumer debtors. The contribution to the provision for debt impairment for the current year under review was R236 495 811 (2014-15: R250 725 985).

Additional matter

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

Unaudited disclosure notes

14. 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

15. 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 development priorities 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

16. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2016:

- Development priority 1 – Ensure provision of basic services pp. xx - xx
- Development priority 5 – Good governance and public participation pp. xx - xx
- Development priority 6 – Integrated spatial development framework pp. xx – xx

17. 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).

18. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

19. I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected development priorities.

Additional matters

20. Although I identified no material findings on the usefulness and reliability of the reported performance information for the selected development priorities, I draw attention to the following matters:

Achievement of planned targets

21. Refer to the annual performance report on pages x to x for information on the achievement of the planned targets for the year.

Adjustment of material misstatements

22. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information of Development priority 1: Ensure provision of basic services and Development priority 6: Integrated spatial development framework. As management subsequently corrected the misstatements I did not identify any material findings on the reliability of the reported performance information.

Compliance with legislation

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

Expenditure management

24. The accounting officer did not take reasonable steps to detect and prevent irregular and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

25. Money owed by the municipality was not always settled within 30 days, as required by section 65(2)(e) of the MFMA.

Internal control

26. 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 compliance with legislation included in this report.

Leadership

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

Financial and performance management

28. Senior management did not adequately monitor controls in place to ensure that performance reporting is supported by accurate information and that compliance with laws and regulations are adhered to.

Other reports

Investigations

29. I draw attention to the following engagements that could potentially impact on the municipality's financial, performance and compliance related matters. My opinion is not modified in respect of these engagements that are either in progress or have been completed
30. There are various investigations in progress relating to procurement irregularities. The investigations were ongoing at reporting date.

Johannesburg
30 November 2016



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