

CHAPTER 6 – AUDITOR GENERAL REPORTS 2016/17

COMPONENT A: AUDITOR – GENERAL OPINION OF MANGAUNG METROPOLITAN MUNICIPALITY CONSOLIDATED FINANCIAL STATEMENTS

Qualified opinion

1. I have audited the consolidated financial statements of the Mangaung Metropolitan Municipality set out on pages ... to ..., which comprise the consolidated statement of financial position as at 30 June 2017, the consolidated 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 to the consolidated financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects of the matters described in the basis for qualified opinion section of my report, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Mangaung Metropolitan Municipality as at 30 June 2017, 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 of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2016 (Act No. 3 of 2016) (DoRA).

Basis for qualified opinion

Property, plant and equipment

3. I was unable to obtain sufficient appropriate audit evidence for infrastructure – water meters, as the municipality did not have reliable information on the value of the water meters, its acquisition dates or its condition at year-end. I was unable to confirm these water meters by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the infrastructure – water meter assets stated at R114 549 089 (2016: R132 151 554), as included in property, plant and equipment in note 12 to the consolidated financial statements. Furthermore, due to unreliable information, I was also unable to confirm the accuracy of the change in accounting policy of R107 743 217, as disclosed in note 59 to the consolidated financial statements and the depreciation expense for the year.
4. I was unable to obtain sufficient appropriate audit evidence for assets completed and capitalised in the financial year due to the unavailability of reliable supporting information. Consequently, I was unable to determine whether any adjustments were necessary to the closing carrying value of work-in-progress for all asset classes of R1 667 462 332 (2016: R1 584 487 656) included in property, plant and equipment in note 12 to the consolidated financial statements. In addition, the municipality did not capitalise projects with a value of R198 976 845 that had been completed during the year and did not recognise expenditure of R40 828 468 incurred on the construction of assets in accordance with GRAP 17, *Property, plant and equipment*.

Context for the opinion

5. 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 consolidated financial statements section of my report.

6. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and 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 code.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Material uncertainty related to going concern

8. I draw attention to the matter below. My opinion is not modified in respect of this matter.
9. Note 64 to the consolidated financial statements indicates that certain going concern ratios such as the cash coverage and creditors' days are unfavourable. As included in note 17, the average repayment term of suppliers are 95 days (2016: 99 days). Furthermore, trade payables in note 17 includes an amount owed to the water board of R310 269 773 (2016: R96 646 294), which was long overdue. These conditions, along with the matters in paragraph 17 of this report, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to continue as a going concern and to meet its service delivery objectives.

Emphasis of matters

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

Restatement of corresponding figures

11. As disclosed in note 60 to the consolidated financial statements, the corresponding figures for 30 June 2016 have been restated as a result of errors in the consolidated financial statements of the municipality at, and for the year ended, 30 June 2017.

Unauthorised expenditure

12. As disclosed in note 66 to the consolidated financial statements, the municipality incurred unauthorised expenditure of R797 189 381 (2016: R660 833 454) in the year under review due to overspending of the approved budget.

Material losses

13. As disclosed in note 46 to the consolidated financial statements, material losses of R676 656 978 (2016: R249 534 738) were incurred as a result of a write-off of consumer and other trade debtors.
14. As disclosed in note 69 to the consolidated financial statements, material electricity distribution losses of R162 586 611 (2016: R180 249 104) were incurred, mainly due to technical losses, administrative and technical errors, negligence, theft of electricity, tampering with meters and connections that formed part of illegal consumption and faulty meters.
15. As disclosed in note 69 to the consolidated financial statements, material water distribution losses of R217 478 344 (2016: R146 392 570) were incurred, mainly due to burst water pipes, drought tariffs, leakages and unmetered sites.

Material impairments

16. As disclosed in notes 4, 5, 6 and 7 to the consolidated financial statements, consumer and other receivables were impaired by R2 577 534 071 (2016: R2 549 396 429) as a result of uncollectable debtors.

Contingencies

17. As disclosed in note 56 to the consolidated financial statements, the municipality disclosed contingent liabilities of R245 157 386 which, if they realise, will have a material impact on the financial position. These contingent liabilities include R162 850 060 relating to a billing dispute between the municipality and the water board.

Other matters

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

Unaudited disclosure notes

19. 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 consolidated financial statements. This disclosure requirement did not form part of the audit of the consolidated financial statements and, accordingly, I do not express opinion thereon.

Unaudited supplementary information

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

Service delivery issues

21. In 2012-13, the municipality started with the planning and establishment of the airport development (N8) node with the purpose of establishing a new township development area. Since the commencement of this project, the municipality has spent R141 297 484 on the planning and establishment costs. In the year no progress had been with regard to this project and it was not included in the municipality's budget or reported on in the annual performance report. Approval for the township establishment had not been obtained from the Mangaung Municipal Planning Tribunal.
22. In 2012, the Department of Water Affairs initiated a reconciliation strategy study to ensure that present and future water needs of the greater Bloemfontein area would be met. In response to the study, the municipality conducted a feasibility study for the pipeline to draw water from the Gariep Dam to the Bloemfontein area to address the water crisis. To date the municipality has spent R40 052 788 on this project that has been handed over to the water board for further implementation.
23. The municipality is part of the national process driven by the national Department of Transport to develop an integrated transport network in metropolitan areas. Since commencement of the process, the municipality has spent R189 979 330 on the planning and feasibility study for the establishment of the network funded by the conditional grant received for this purpose. The

municipality has developed and approved an operational plan for phase 1 of the integrated public transport network that covers the period 2016 to 2020.

Responsibilities of the accounting officer for the consolidated financial statements

24. The accounting officer is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.
25. In preparing the consolidated financial statements, the accounting officer is responsible for assessing the 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 intention is to liquidate the municipality or cease operations, or there is no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the consolidated financial statements

26. My objectives are to obtain reasonable assurance about whether the consolidated 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.
27. A further description of my responsibilities for the audit of the consolidated financial statements is included in the annexure to the auditor's report.

Report on the audit of the annual performance report

Introduction and scope

28. 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 selected development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
29. 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.

30. 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 development priorities presented in the annual performance report of the municipality for the year ended 30 June 2017:

Development priority	Pages in the annual performance report
Engineering services	x – x
Human settlement	x – x

31. I performed procedures to determine whether the reported performance information 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.

32. The material findings in respect of the reliability of the selected development priorities are as follows:

Engineering services

Number of meters installed

33. The reported achievement for the target relating to the number of meters installed was misstated as the evidence provided indicated 10 214 and not 5 257 as reported.

Various indicators

34. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the indicators listed below. This was due to the unavailability of supporting documentation. I was unable to confirm the reported achievement by alternative means.

Consequently, I was unable to determine whether any adjustments were required to the reported achievements.

Performance indicator	Reported achievement
Percentage of formal erven with access to functioning basic water supply	61,8%
Number of informal settlements with access to refuse removal	62,5% of informal settlements have access to refuse removal
Number of households with weekly kerb-side waste removal services in formal areas	249 735 households with weekly kerb-side waste removal services in formal areas
Tonnage of waste diverted from the landfill sites	11 348,0 tons
Number of households with access to decent sanitation	5 277 households with access to decent sanitation
Complaints were received regarding single fault lights to be handled and completed within 3 days and area faults within 5 days of receipt	67,34% complaints handled and completed within 3 days 64% of area faults handled and completed within 5 days

Human settlement

Various indicators

35. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the indicators listed below. This was due to the unavailability of supporting documentation. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements.

Performance indicator	Reported achievement
Number of title deeds transferred	1 081 title deeds transferred
Number of title deeds issued	2 206 title deeds issued
Households provided with permission to occupy (PTOs)	495 provided with PTO's

Other matters

36. I draw attention to the matters below.

Achievement of planned targets

37. Refer to the annual performance report on pages x to x; and x to x for information on the achievement of planned targets for the year and explanations provided for the underachievement of a significant number of targets. This information should be considered in the context of the material findings on the reliability of the reported performance information in paragraphs 33 to 35 of this report.

Adjustment of material misstatements

38. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of engineering services and human settlement. As management subsequently corrected only some of the misstatements, I reported material findings on the reliability of the reported performance information.

Report on the audit of compliance with legislation

Introduction and scope

39. 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.
40. The material findings in respect of the compliance criteria for the applicable subject matters are as follows:

Annual consolidated financial statements and annual reports

41. 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 net assets, expenditure and disclosure items identified by the auditors in the submitted consolidated financial statements were subsequently corrected, but the uncorrected material misstatements and supporting records that could not be provided resulted in the consolidated financial statements receiving a qualified audit opinion.

42. The 2015-16 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the MFMA.

Expenditure management

43. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
44. Effective steps were not taken to prevent irregular expenditure amounting to R8 752 200 as disclosed in note 68 to the consolidated financial statements, as required by section 62(1)(d) of the MFMA.
45. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R7 832 302, as disclosed in note 67 to the consolidated financial statements, as required by section 62(1)(d) the MFMA.

Budget management

46. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R797 189 381, as disclosed in note 66 to the consolidated financial statements, as required by section 62(1)(d) of the MFMA.

Asset management

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

Procurement and contract management

48. Sufficient appropriate audit evidence could not be obtained that the performance of some of the contractors and providers was monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.

Human resource management

49. Some of the senior managers failed to disclose their financial interests within 60 days from date of appointment, as required by regulation 36(1)(a) on the appointment and conditions of employment of senior managers.
50. Some of the senior managers did not sign performance agreements within the prescribed period, as required by section 57(2)(a) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000).

Consequence management

51. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
52. Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Other information

53. The municipality's 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 consolidated financial statements, the auditor's report thereon and those selected development priorities presented in the annual performance report that have been specifically reported on in the auditor's report.
54. My opinion on the consolidated 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.
55. 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 consolidated financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
56. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, 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

57. I considered internal control relevant to my audit of the consolidated financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
58. The leadership did not effectively monitor and enforce the corrective action plans to address weaknesses in the processes of financial and performance reporting identified in previous financial years.
59. The leadership was slow to respond to the recommendations and the requests of the auditors.
60. The leadership did not implement effective consequence management for poor performance and the non-achievement of deadlines set in the action plan to address the matters reported in the previous financial year.
61. The municipality lacked formalised standard operating procedures to manage performance reporting, including the safeguarding of information and importantly the effective monitoring and evaluation of reported performance information.
62. Weaknesses in the processes and controls pertaining to asset management were not adequately addressed and the lack of regular monitoring and reconciliation of asset information resulted in

the asset register not being reliable. These weaknesses gave rise to material misstatements in the consolidated financial statements.

Bloemfontein

29 January 201 8



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence