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

## Report on the audit of the consolidated financial statements

### Opinion

1. I have audited the consolidated financial statements of the Mangaung Metropolitan Municipality and its municipal entity (the group) set out on pages xx to xx, which comprise the consolidated statement of financial position as at 30 June 2021, the consolidated statement of financial performance, statement of changes in net assets, cash flow statement, and statement of comparison of budget and actual amounts for the year then ended, as well as notes to the consolidated financial statements, including a summary of significant accounting policies.

2. In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as at 30 June 2021, and their financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 10 of 2020 (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 consolidated financial statements section of my report.

4. I am independent of the group in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other 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.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Material uncertainty relating to going concern

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

7. Note 60 to the consolidated financial statements indicates that the average repayment term of suppliers was 164 days and that the municipality owed R765 303 349 (2020: R765 030 409) to the water board, as at 30 June 2021, which was long overdue. These events or conditions, along with other matters as set forth in note 60, indicate that a material uncertainty exists that may cast significant doubt on the group's ability to continue as a going concern.

## Emphasis of matters

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

### Unauthorised expenditure

9. As disclosed in note 62 to the consolidated financial statements, unauthorised expenditure of R757 143 501 (2020: R1 475 175 240) was incurred, due to overspending of the budget.

### Irregular expenditure

10. As disclosed in note 64 to the consolidated financial statement, irregular expenditure of R222 865 051 (2020: R1 601 748 845) was incurred, due to non-compliance with supply chain management (SCM) requirements.

### Material impairment

11. As disclosed in notes 4, 5, 6, and 7 to the consolidated financial statements, consumer and other receivables were impaired by R5 382 972 836 (2020: R4 485 984 072).

### Material losses

12. As disclosed in note 65 to the consolidated financial statements, material water distribution losses of R337 156 445 (2020: R221 045 754) were incurred mainly due to burst water pipes, leakages, and unmetered sites.

13. As disclosed in note 65 to the consolidated financial statements, material electricity distribution losses of R127 757 457 (2020: R138 776 833) were incurred mainly due to line losses, tampering, theft, and variances due to monthly consumption estimates.

### Material uncertainty relating to claims against the group

14. With reference to note 54 to the consolidated financial statements, the group is the defendant in various claims. The group is opposing these claims. The ultimate outcome of these matters could not be determined and no provision for any liabilities that may result was made in the consolidated financial statements.

### Restatement of corresponding figures

15. As disclosed in note 57 to the consolidated financial statements, the corresponding figures for 30 June 2020 were restated as a result of errors in the financial statements of the group at, and for the year ended, 30 June 2021.

### Events after the reporting date

16. We draw attention to note 61 in the consolidated financial statements, which deals with a council resolution passed on 4 June 2021 for a new sale-of-business agreement between the municipality and its entity, Centlec (SOC) Limited to be implemented within 21 days. Due to legal and accounting implications, council resolved to defer the implementation of the agreement from the 2020-21 financial period to the 2022-23 financial period.

### Other matter

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

#### Unaudited disclosure notes

18. 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 an opinion thereon.

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

19. The accounting officer is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the 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.

20. In preparing the consolidated financial statements, the accounting officer is responsible for assessing the group'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 group or cease operations or has no realistic alternative but to do so.

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

21. 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

22. A further description of my responsibilities for the audit of the consolidated financial statements is included in the annexure to this auditor's report.

## Report on the audit of the consolidated annual performance report

### Introduction and scope

23. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for the selected key performance area (KPA) presented in the annual performance report. I was engaged to perform procedures to identify findings but not to gather evidence to express assurance.

24. I was engaged to evaluate 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 KPA presented in the group's annual performance report for the year ended 30 June 2021:

| KPA | Pages in the annual performance report |
|---|---|
| KPA – basic service delivery | x – x |

25. The material findings on the usefulness and reliability of the performance information of the selected KPA are as follows:

### KPA – basic service delivery

#### WS3.3 – frequency of unplanned water service interruptions

26. The achievement of zero was reported against the target of "Complaints received and resolved on time" in the annual performance report. However, some supporting evidence provided differed materially from the reported achievement, while in other instances I was unable to obtain sufficient appropriate audit evidence. This was due to the lack of accurate and complete records. I was unable to further confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievement.

#### Various indicators

27. I was unable to obtain sufficient appropriate audit evidence for the reported achievements of 10 of the 39 listed indicators relating to this KPA. This was due to the lack of accurate and complete records. I was unable to confirm 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 for the indicators listed below:

| Indicator descriptions | Planned targets | Reported achievements |
|---|---|---|
| Percentage of households with access to basic sanitation (Refurbishment of sewer systems) | 100% completion of all targeted unplanned system failures | 100% completion of all targeted unplanned system failures |

| Indicator descriptions | Planned targets | Reported achievements |
| --- | --- | --- |
| Percentage of households with access to basic sanitation (Extension Thaba Nchu WWTW (Selosesha) civil) | 50% completion of targeted civil works at Thaba Nchu WWTW | 10% |
| Number of bulk water meters replaced/installed (bulk supply, meters, location, replacement, calibration and installation of control meters) | 40 bulk meters replaced/installed | None |
| WS3.21 – Percentage of complaints/callouts responded to within 24 hours (water) | 100,0% | 47,0% |
| WS3.11 – Percentage of complaints/callouts responded to within 24 hours (sanitation/wastewater) | 100,0% | 47,0% |
| WS3.1 – Frequency of sewer blockages | Complaints received and resolved on time | 0 |
| WS3.2 – Frequency of water mains failures | Complaints received and resolved on time | 0 |
| WS4.2 – Wastewater quality compliance according to the water use licence | 100% inspections | 68,33% |
| WS5.31 – Percentage of total water connections metered | 100,0% | 157,60% |
| WS5.4 – Percentage of water reused | 100% | 0% |

### Various indicators

28. I was unable to obtain sufficient appropriate audit evidence that systems and processes were established to enable consistent measurement and reliable reporting of performance against

the predetermined indicator definitions for the indicators listed below. This was due to insufficient measurement definitions and processes. As a result, I was also unable to obtain sufficient appropriate audit evidence for the achievements reported in the annual performance report. 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.

| Indicator descriptions | Planned targets | Reported achievements |
|---|---|---|
| Percentage of households with access to basic sanitation (Refurbishment of sewer systems in Soutpan) | 100% completion of all targeted unplanned system failures | 100% |
| To complete 25% of the project (pump station upgrade) (Hamilton Park pump station refurbishment) | To complete 25% of the project (pump station upgrade) | 13% |
| Percentage of households with access to basic water supply (Krugersdrift WTW) | 100% completion of all targeted unplanned system failures | 58% |
| Percentage of non-revenue water (Real loss reduction programme (water)) | 100% replace pipeline portions, valves, chambers and approval of EIA & WULA | 100% replacement of pipeline portions, valves, and chambers |

### Various indicators

29. I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined source information and method of collection or that related systems and processes were established to enable consistent measurement and reliable reporting of the actual achievement of the indicators listed below. This was due to a lack of measurement definitions and processes. I was unable to confirm that the indicator is well-defined and verifiable by alternative means. As a result, I was unable to audit the reliability of the achievements reported in the annual performance report of the listed indicators.

| Indicator descriptions | Planned targets | Reported achievements |
|---|---|---|
| Percentage of Sterkwater WWTW phase 3 civil | 5% | 10,5% (Review of designs and finalisation of scoping report) |
| Fully functional WWTW (Sterkwater WWTW phase 3 mechanical and electrical) | 0,5% completion of mechanical and electrical work | 0,5% (Review of designs and finalisation of scoping report) |
| % land matters process (Maselspoort water re-use (Gravity line to Mockesdam)) | 100% land matters process | 30% |
| % land matters process (Maselspoort water re-use pump station and rising main)) | 100% land matters process | 30% |
| % land matters process (Maselspoort water re-use (Bulkwater augmentation Mockesdam)) | 100% land matters process | 0% |
| % land matters process (Maselspoort water re-use (Gravity to NE-WWTW)) | 100% land matters process | 5% |
| % land matters process (Maselspoort WTW upgrading (Maselspoort filters)) | 100% land matters process | 47% |

## Other matters

30. I draw attention to the matters below.

### Achievement of planned targets

31. Refer to the annual performance report on pages … to … 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 26 to 29 of this report.

### Adjustment of material misstatements

32. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of KPA – basic service delivery. As management subsequently corrected only 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

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

34. The material findings on compliance with specific matters in key legislation are as follows:

### Annual financial statements

35. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and/or the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

### Expenditure management

36. Reasonable steps were not taken to prevent irregular expenditure of R222 865 051 as disclosed in note 64 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with SCM requirements and recurring expenditure from contracts that were reported as irregular in prior financial years.

37. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R757 143 501 as disclosed in note 62 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending the approved budget.

38. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R31 613 197 as disclosed in note 63 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was due to the extension of time and additional costs incurred on projects.

### Strategic planning and performance management

39. The performance management system and related controls were not adequate as required by municipal planning and performance management regulation 7(1) due to the significant internal control deficiencies identified.

### Procurement and contract management

40. Sufficient appropriate audit evidence could not be obtained that the performance of contractors or providers was monitored on a monthly basis as required by section 116(2) of the MFMA. Similar non-compliance was also reported in the prior year.

41. Sufficient appropriate audit evidence could not be obtained that contract performance and monitoring measures were in place to ensure effective contract management as required by section 116(2)(c)(ii) of the MFMA. Similar non-compliance was also reported in the prior year.

### Consequence management

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

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

44. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine whether any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

## Other information

45. 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 consolidated financial statements, the auditor's report, and the KPA presented in the annual performance report that has been specifically reported in this auditor's report.

46. My opinion on the consolidated financial statements and findings on the reported performance information and compliance with legislation does not cover the other information and I do not express an audit opinion or any form of assurance conclusion on it.

47. 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 KPA in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

48. 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

49. 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 on it. The matters reported below are limited to the significant internal control deficiencies the findings on the annual performance report and the findings on compliance with legislation included in this report.

50. There was a slow response from leadership to implement and monitor the audit action plan to address prior year findings on the financial, performance management, compliance with

legislation, and internal control deficiencies identified in the previous audit which resulted in repeat findings reported as well as material corrections processed.

51. Leadership failed repeatedly to take effective steps to ensure that there were consequences for poor performance and transgressions, as council did not investigate unauthorised, irregular and, fruitless and wasteful expenditure incurred in the prior financial years.

52. Management's insufficient emphasis on performance information and lack of adequate planning resulted in multiple targets included in the strategic documents and reported on in the annual performance plan, not being verifiable. It further resulted in no achievement being reported for some targets developed while in other instances, some achievements reported in the annual performance report were not supported by accurate, complete, and reliable information. Furthermore, the municipality did not develop standard operating procedures for indicators and targets for the financial year.

## Material irregularities

53. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit. The material irregularity identified is as follows:

### Under-declaration of employee taxes

54. For the month of July 2019, the municipality withheld pay-as-you-earn (PAYE) from its employees' salaries but under-declared the amount paid to the South African Revenue Service (Sars) in contravention of section 2(1) of the fourth schedule of the Income Tax Act 58 of 1962. Under-declaration of these amounts resulted in a material financial loss for the municipality in respect of a penalty of R1 070 034 and interest of R627 282 being charged by Sars. The penalty and interest formed part of the prior year amount disclosed as fruitless and wasteful expenditure in note 63 to the consolidated financial statements.

55. The accounting officer was notified of this material irregularity on 8 March 2021 and was invited to make a written submission on the actions taken and that will be taken to address the matter. The accounting officer has responded as follows:

- Disciplinary action against the official responsible has commenced. An acknowledgement of receipt of the notice of misconduct was signed by the responsible official on 22 November 2021.
- A permanent project leader has been appointed to process Sars submissions to prevent such non-compliance from recurring.
- A process has been initiated to engage with Sars regarding the possibility of refunding the interest and penalties. A written submission was made on 29 October 2021 in this regard.

56. I will follow up on the investigation and implementation of the planned actions during my next audit.

## Other reports

57. In addition to the investigations relating to material irregularities, I draw attention to the following engagements conducted by various parties which had, or could have, an impact on the matters reported in the groups consolidated financial statements, reported performance information, compliance with applicable legislation, and other related matters. These reports did not form part of my opinion on the consolidated financial statements or my findings on the reported performance information or compliance with legislation.

58. The Directorate for Priority Crime Investigation (Hawks) was investigating an allegation of overtime payments to VIP bodyguards employed in the offices of the political office bearers. The outcome was unknown as the investigation report was in progress at the date of this auditor's report.

59. The Hawks were investigating allegations of irregularities in the municipality's procurement processes regarding a security service tender awarded for the period 1 March 2019 to 28 February 2021. The outcome was unknown as the investigation report was in progress at the date of this auditor's report.

60. An independent investigation panel investigated allegations of financial misconduct and maladministration against the previous city manager of the municipality at the request of the council on 1 April 2021, for the duration of his term of office. The investigation was concluded on 25 June 2021 and the investigation report was tabled in council on 28 July 2021 where council resolved that pursuing disciplinary steps were unnecessary as the previous city manager had resigned from the municipality.

Auditor-General

Cape Town

27 January 2022

AUDITOR-GENERAL
SOUTH AFRICA

*Auditing to build public confidence*

## 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 consolidated financial statements and the procedures performed on reported performance information for selected KPA and on the municipality's compliance with respect to the selected subject matters.

### Consolidated Financial statements

2. In addition to my responsibility for the audit of the consolidated financial statements as described in this auditor's report, I also:

   - identify and assess the risks of material misstatement of the consolidated 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 consolidated financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the Mangaung Metropolitan Municipality and its municipal entity 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 my 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 consolidated financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
   - obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

## 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 provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.