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

Report on the audit of the consolidated financial statements

Qualified opinion

1. I have audited the consolidated financial statements of the Mangaung Metropolitan Municipality and its municipal entity (the group) set out on pages … to …, which comprise the consolidated statement of financial position as at 30 June 2022, 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 the notes to the consolidated financial statements, including a summary of significant accounting policies.

2. In my opinion, except for the effects and possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the consolidated financial statements present fairly, in all material respects, the financial position of the group as at 30 June 2022, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 9 of 2021 (Dora).

Basis for qualified opinion

Employee-related costs

3. I was unable to obtain sufficient appropriate audit evidence for expenditure relating to overtime, shift and standby allowances included in employee-related costs due to inadequate processes to ensure that a need was established for overtime to be worked or that overtime was actually worked by the municipal officials. I was unable to confirm overtime, shift and standby allowances by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to overtime, shift and standby allowances, stated at R233 731 926 in note 43 to the consolidated financial statements.

Current liabilities

4. The group did not recognise all current liabilities that met the definition of a liability in accordance with GRAP 1, *Presentation of financial statements*. The group received goods and services before year-end; however, these were not recognised as current liabilities. Consequently, current liabilities were understated and general expenditure and contracted services were understated by R105 692 508.

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 consolidated financial statements section of my report.

6. 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.

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

Material uncertainty relating to going concern

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

9. Note 62 to the consolidated financial statements indicates that the group incurred a net loss of R872 688 325 (2021: R20 230 382) during the year ended 30 June 2022 and that, as of that date, the group's current liabilities exceeded its total assets by R485 444 061 (2021: R167 767 918). The municipality was experiencing labour difficulties and vacancies in key positions (91%) and the average payment term of suppliers was 165 days (2021: 162 days). In addition, the group owed the water board R568 836 830 (2021: R670 029 022) as at 30 June 2022, which amount was long overdue. These events or conditions, along with other matters as set forth in note 62, 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

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 70 to the consolidated financial statements, the corresponding figures for 30 June 2021 were restated as a result of errors in the consolidated financial statements of the group at, and for the year ended, 30 June 2022.

Material impairments

12. As disclosed in note 49 to the consolidated financial statements, material losses of R1 857 510 907 (2021: R823 611 587) were incurred as a result of bad debts written off and impairment of consumer and traffic fine receivables.

Material losses

13. As disclosed in note 51 to the consolidated financial statements, material water losses of R406 666 962 (2021: R337 156 450) were incurred, which represent 45% (2021: 45%) of total water purchased. These losses were due to burst water pipes, leakages and unmetered sites.

14. As disclosed in note 51 to the consolidated financial statements, material electricity distribution losses of R241 915 025 (2021: R182 694 562) were incurred, which represent 10,96% (2021: 10,05%) of total electricity purchased The losses were as a result of line losses, tampering, theft, and variances due to monthly consumption estimates.

Underspending of the conditional grant

15. As disclosed in note 20 to the consolidated financial statements, the group materially underspent the conditional grants by R571 039 043 because most of the funds were received close to year-end, leaving the group with limited time to meet the grant requirements.

Unauthorised expenditure

16. As disclosed in note 64 to the consolidated financial statements, the group incurred unauthorised expenditure of R1 448 495 011 (2021: R757 143 500) due to overspending of the budget.

Irregular expenditure

17. As disclosed in note 66 to the consolidated financial statements, the group incurred irregular expenditure of R186 535 056 (2021: R222 865 051) due to non-compliance with supply chain management processes.

Fruitless and wasteful expenditure

18. As disclosed in note 65 to the consolidated financial statements, the group incurred fruitless and wasteful expenditure of R93 607 043 mainly due to payments made on key service delivery projects that were not delivered.

Events after the reporting date

19. I draw attention to note 63 in the consolidated financial statements which deals with subsequent events and specifically the effects of the council resolution to write off the additional indigent accounts in the 2022 financial year. The additional write-off was included in the 2022 financial year's transactions.

Other matter

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

Unaudited disclosure notes

21. In terms of section 125(2)(e) of the MFMA, the group 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

22. 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.

23. 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 to cease operations, or has no realistic alternative but to do so.

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

24. 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.

25. 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

26. 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 selected key performance areas (KPAs) presented in the consolidated annual performance report. I was engaged to perform procedures to identify material findings but not to gather evidence to express assurance.

27. 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 consolidated annual performance report for the year ended 30 June 2022:

KPA	Pages in the consolidated annual performance report
KPA 2 – Basic service delivery	x – x

28. 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.

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

KPA 2 – Basic service delivery

Percentage of length of pipeline completed – Botshabelo main outfall sewer

30. The planned indicator and target were 'final detail designs', but the reported achievement referred to was the 'detail design completed', and the supporting evidence provided materially differed from the reported achievement.

Percentage of households with access to basic sanitation – upgrading of Wilcocks Road and Rayton sanitation pipeline

31. The planned indicator and target were the 'completion of the construction work', but the reported achievement referred to was the 'retention period expired and practical completion granted on 6 April 2022'.

Length of electrical infrastructure completed, target 1000 m MV reticulation completed and project Vista Park Ext. (251) 2 electricity

32. 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. This was due to insufficient measurement definitions and processes. As a result, I was also unable to obtain sufficient appropriate audit evidence for the achievement of zero reported against the target '1 000 m MV reticulation completed' in the consolidated annual performance report. I was unable to validate the existence of systems and confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement.

Length of electrical infrastructure completed, Park Ext. (256,257,261) 3 electrical infrastructure

33. The planned indicator and target were '70% completion of the switch room building', but the reported achievement referred to was 'zero'. Furthermore, 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. This was due to insufficient measurement definitions and processes. As a result, I was unable to obtain sufficient appropriate audit evidence for the achievement and the related measures taken to improve performance as reported in the consolidated annual performance report. I was unable to validate the existence of the systems and confirm the reported achievement and the reported measures taken by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements and the reported measures taken to improve performance.

Number of new households – Makurung internal water reticulation

34. The planned indicator and target were to 'finalise detail designs', but the reported achievement referred to was the 'final detailed design report completed'. Furthermore, 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 insufficient measurement definitions or processes. I was unable to test by alternative means whether the indicator was well defined. As a result, the achievements reported in the consolidated annual performance report materially differed from the supporting evidence provided.

To upgrade the pump station – Hamilton Park pump station refurbishment

35. The planned indicator and target were to 'start with construction', but the reported achievement referred to was 'tender approved by the bid evaluation committee (BEC)'. Furthermore, I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined method of collection or that related systems and processes were established to enable consistent measurement and reliable reporting of the actual achievement for the indicator. This was due to insufficient measurement definitions and processes. I was unable to test by alternative means whether the indicator was well defined and verifiable. As a result, I was unable to audit the reliability of the achievement for the indicator. I was also unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance against the target – the tender was approved by the BEC, as reported in the consolidated 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.

Draft sanitation masterplan reports finalised draft WSDP topics developed (3-8) – sewer master and development plans

36. The masterplan reports of Botshabelo and Thaba Nchu and the small towns (Dewetsdorp, Wepener, Van Stadensrus, Soutpan) have has been compiled. Soutpan was assigned to a sub-consultant appointed by the Mangaung Metropolitan Municipality (MMM) (ROMH) and the draft was in progress. WSDP document preparation (draft in progress, pending the outcome of

masterplan data collection) was reported on against the target in Bloemfontein, Thaba Nchu, Dewetsdorp, Wepener, Van Stadensrus and Soutpan WSDP topics 3-8 in the consolidated annual performance report. However, the supporting evidence provided differed materially from the reported achievement. Furthermore, I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance against this target, as reported in the consolidated annual performance report. This was due to limitations placed on the scope of my work, as the corroborating evidence for the measures taken to improve performance was not submitted. 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.

Refurbish 60 Ml/d – Maselspoort WTW upgrade

37. The planned indicator and target were ‘land surveying’, but the reported achievement referred to was ‘submitted to the MMM’ where Legal had to assist with land matters submitted. However, the supporting evidence provided differed materially from the reported achievement. Furthermore, I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance against the target ‘land surveying’ as reported in the consolidated annual performance report. This was due to limitations placed on the scope of my work, as the corroborating evidence for the measures taken to improve performance was not submitted. 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.

Percentage of households with access to basic sanitation – Extension Thaba Nchu WWTW (Selosesha) mechanical and electrical

38. The planned indicator and target were ‘100% spending on the allocated budget’, but the reported achievement was that the allocated budget for the project had been spent within the financial year and they were busy finalising designs for mechanical and electrical works. However, some supporting evidence provided materially differed 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. Furthermore, I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance against the target of ‘100% spending on the allocated budget’ as reported in the consolidated annual performance report. This was due to limitations placed on the scope of my work, as the corroborating evidence for the measures taken to improve performance was not submitted. I was unable to confirm the reported achievements and measures taken by alternative means. Consequently, I was unable to determine whether any adjustments were required to these reported achievements and measures taken to improve performance.

Various indicators

39. The planned indicators and targets were not consistent with the reported achievements for the listed indicators below. Furthermore, I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance as reported in the consolidated annual performance report for these indicators. This was due to limitations placed on the scope of my work, as the corroborating evidence for the measures taken to improve performance was not submitted. 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:

Indicator description	Planned target	Reported achievement
Households connected – sewer connections	30 households connected	None (budget to be moved)
% completion of mechanical and electrical work (sludge stream) – north eastern WWTW mechanical and electrical works (sludge stream)	Appoint PSP	0

Various indicators

40. The planned indicators and targets of the following indicators as per the approved revised consolidated annual performance plan and the performance against the planned targets were not reported in the consolidated annual performance report. As a result, a comparison between the planned and actual performance and the measures taken to improve performance against the target were not reported in the consolidated annual performance report.

Indicator description	Planned target
WS1.11 Number of new sewer connections meeting minimum standards	30
WS2.11 Number of new water connections meeting minimum standards	423
WS3.11 Percentage of callouts responded to within 24 hours (sanitation/wastewater)	80%
WS3.21 Percentage of callouts responded to within 24 hours (water)	80%
ENV5.21 Number of inland water samples tested for monitoring purposes	Need to be determined

Various indicators

41. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of nine of the 60 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 consolidated annual performance report for the indicators listed below:

Indicator description	Planned target	Reported achievement
Percentage of households with access to basic sanitation – refurbishment of sewer systems	100% spending on the approved budget	100% spending on the approved budget
Percentage of households with access to basic sanitation – refurbishment of WWTW's	100% Spending on the approved budget	100% spending on the approved budget
Length of pipeline completed for internal water and sewer on CCP subsidised units - Vista Park Ext. (251) 2 - internal water & sewer	1000 m completed of internal water and sewer on CCP subsidised units	0
Length of bulk sewer pipeline completed - Vista Park Ext. (251) 2 bulk sewer	850 m length of bulk sewer pipeline completed	0
Number of households living in informal settlements provided with sewer - Botshabelo Sec D installation of sewer	100 households connected with sewer	0
Number of households living in informal settlements provided with sewer - Botshabelo Sec M installation of sewer	100 households connected with sewer	0
Number of households living in informal settlements provided with water and sewer - Soutpan installation of water and sewer reticulation	22 households connected with water and sewer	0
Number of erven installed with water and sewer - Dewetsdorp installation of water and sewer	100 households connected with water and sewer	0
WS5.21 infrastructure leakage index	0	0,01

Various indicators

42. I was unable to obtain sufficient appropriate audit evidence for the achievement and the related measures taken to improve performance as reported in the consolidated annual performance report for the indicators listed below. Limitations were placed on the scope of my work, as the actual level of achievement for the year was not quantified. I was unable to confirm the reported achievement and the reported measures taken by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements and the reported measures taken to improve performance.

Indicator description	Planned target	Reported achievement
Percentage of households with access to basic sanitation – Extension Thaba Nchu WWTW (Selosesha) civil	100% spending on the approved budget	The allocated funds for the project were spent and 45% on billed items certified
Percentage of households with access to basic sanitation – refurbishment of sewer systems in Soutpan	100% spending on the approved budget	0% expenditure on the Soutpan Vote but the work was done and claimed on other refurbishment vote

Percentage of households with access to basic water - refurbishment of water supply systems	100% completion of all targeted unplanned system failures	95% completion of all targeted unplanned system failures
WS4.11 percentage of water treatment capacity unused	80%	98,2%
WS4.31 percentage of wastewater treatment capacity unused	14%	0%
WS5.31 percentage of total water connections metered	100%	81,1%

Various indicators

43. I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance against the targets as reported in the consolidated annual performance report for the indicators listed below. This was due to limitations placed on the scope of my work, as the corroborating evidence for the measures taken to improve performance was not submitted. 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.

Indicator description	Planned target	Reported achievement
Number of pressure reducing vales (PRVs) commissioned and refurbished – pressure and network zone management (including auditing of valves and PRV commissioning	Number of PRVs: 24	19 PRVs commissioned / refurbished
Number of households living in informal settlements provided with water and sewer – Bloemside 9 installation of water and sewer	200 households connected with water and sewer	0
Number of households living in informal settlements provided with water and sewer – Bloemside 10 installation of water and sewer	100 households connected with water and sewer	0
KPI: Number of households living in informal settlements provided with water and sewer – Bloemside 7 installation of water and sewer	500 households connected with water and sewer	0
Number of households living in informal settlements provided with water and sewer – Sonderwater phase 2 installation of water and sewer reticulation	80 households connected with water and sewer	0
Number of households living in informal settlements provided with water and sewer – Chris Hani 28747 installation of water and sewer reticulation	50 households connected with water and sewer	0
Number of households living in informal settlements provided with water and sewer – F/Dom SQ 37321 Zuma SQ installation of water and sewer reticulation	117 households connected with water and sewer	0
Number of households living in informal settlements provided with water and sewer – Marikana SQ installation of water and sewer reticulation	80 households connected with water and sewer	0
Number of households living in informal settlements provided with water and sewer – Botshabelo Section C and E – installation of water and sewer reticulation	138 households connected with water and sewer	0
Number of households living in informal settlements provided with water and sewer – Thabo Mbeki SQ installation of water and sewer reticulation	48 households connected with water and sewer	0

Number of erven installed with water and sewer – Maditlhabela installation of water and sewer	938 households connected with water and sewer	0
Number of erven installed with water and sewer – Matlharantlheng installation of water and sewer	3 108 households connected with water and sewer	0

Various indicators

44. I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined method of collection or that related systems and processes were established to enable consistent measurement and reliable reporting of the actual achievement for the indicator. This was due to insufficient measurement definitions and processes. I was unable to test by alternative means whether the indicator was well defined and verifiable. As a result, I was unable to audit the reliability of the achievement for the indicators listed below. Furthermore, I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance against the targets as reported in the consolidated annual performance report for the listed indicators. 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.

Indicator description	Planned targets	Reported achievement
Percentage of households with access to basic sanitation – Sterkwater WWTW phase 3 mechanical and electrical (liquid stream)	Complete documentation and start SCM process	None
% complete pump station and rising main – Botshabelo section K pump station and rising main	Continue with designs	None
Total metres of sewer pipeline upgraded – Bloemspruit network upgrade because of densification in MMM	Appoint PSP, complete field work, designs and documentation and start with SCM process	None

Various indicators

45. 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 measurement definitions and processes. I was unable to test by alternative means whether the indicators were well defined. Furthermore, I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance as reported in the consolidated annual performance report for the indicators listed below. This was due to limitations placed on the scope of my work, as the corroborating evidence for the measures taken to improve performance was not submitted. 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.

Indicator description	Planned target	Reported achievement
Households – waterborne sanitation ward 8	Appoint PSP	None
Households – waterborne sanitation ward 17	Appoint PSP	None

Unplanned interruptions of the supply should be restored as per Nersa licence requirement in terms of NRS 047 by 30 June 2022

46. I was unable to obtain sufficient appropriate audit evidence for the achievement reported in the consolidated annual performance report against the target tabled below, due to the lack of accurate and complete records. 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 achievement.

Indicator description	Planned target	Reported achievement
Unplanned interruptions of the supply should be restored as per Nersa licence requirement in terms of NRS 047 by 30 June 2022.	Unplanned interruptions of the supply should be restored as per Nersa licence requirements in terms of NRS 047 (2005) by 30 June 2022.	A) Calls within 1,5 hours 26%
		b) Calls within 3,5 hours 57%
		c) Calls within 7,5 hours 91%
		d) Calls within 24 hours 100%
		e) Calls within a week 100%

Percentage of valid customer applications for new electricity connections processed in terms of municipal services by June 2022

47. The planned target for this indicator was not specific in identifying the required level of performance.

Installed capacity of approved embedded generators on the municipal distribution network by June 2022

48. The planned target was ‘approved applications received for embedded generation by June 2022’, but the reported achievement referred to was ‘installed capacity of small-scale embedded generators on the municipal distribution network’. Therefore, the target and the reported achievement are not consistent.

Other matters

49. I draw attention to the matters below.

Achievement of planned targets

50. Refer to the consolidated annual performance report on page(s) 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 material findings on the usefulness and reliability of the reported performance information in paragraphs 30 to 48 of this report. The MMM achieved 13% of the planned targets for the year in respect of the selected KPA – Basic service delivery. Some of the planned targets that were not achieved related to key service delivery indicators on water, sanitation and electricity, per the table below:

No.	Indicator	Planned target	Reported achievement
1	WS4.31 Percentage of wastewater treatment capacity unused	14%	0%
2	EE1.11 Number of dwellings provided with connections to the mains electricity supply by municipality	1 550 dwellings provided with electricity connections by 30 June 2022	0
3	Length of pipeline completed for internal water and sewer on CCP subsidised units – Vista Park Ext. (251) 2 – internal water & sewer	1000m completed of internal water and sewer on CCP subsidised units	0
4	Length of bulk sewer pipeline completed – Vista Park Ext. (251) 2 bulk sewer	850m length of bulk sewer pipeline completed	0
5	Length of electrical infrastructure completed - Vista Park Ext. (251) 2 Electricity; - Vista Park Ext. (256,257,261) 3 Electrical Infrastructure	1 000m MV reticulation completed	0
		70% completion of switch room building	0
6	Number of households living in informal settlements provided with sewer – Botshabelo Sec D installation of sewer; Botshabelo Sec M installation of sewer	100 households connected with sewer	0
		100 households connected with sewer	0
7	Number of households living in informal settlements provided with water and sewer	200 households connected with water and sewer	0
		100 households connected with water and sewer	0
		500 households connected with water and sewer	0
		80 households connected with water and sewer	0
		50 households connected with water and sewer	0
		117 households connected with water and sewer	0
		80 households connected with water and sewer	0
		111 households connected with water and sewer	0
		124 households connected with water and sewer	0
		138 households connected with water and sewer	0
		48 households connected with water and sewer	0
		80 households connected with water and sewer	0
		22 households connected with water and sewer	0
		119 households connected with water and sewer	0
8	Number of households living in informal settlements provided with water: - Grassland Phase 4 Installation of water reticulation - Botshabelo West installation of water reticulation - Botshabelo Sec R installation of water reticulation (1 000 U) - Ratau Ext. 40 installation of water reticulation	1 000 households connected with water	0
		1 000 households connected with water and sewer	0
		1000 households connected with water and sewer	0

No.	Indicator	Planned target	Reported achievement
		100 households connected with water and sewer	0
9	Number of erven installed with water and sewer	100 households connected with water and sewer	0
		22 households connected with water and sewer	0
		90 households connected with water and sewer	0
		34 households connected with water and sewer	0
		938 households connected with water and sewer	0
		3 108 households connected with water and sewer	0
		320 households connected with water and sewer	0
10	Percentage of households with access to basic sanitation - Sterkwater WWTW phase 3 mech and electrical (liquid stream)	Complete documentation and start SCM process.	None
11	Households – waterborne sanitation ward 8	Appoint PSP	None
12	Households – waterborne sanitation ward 17	Appoint PSP	None
13	Households connected	30 households connected	None (budget to be moved)
14	% complete pump station and rising main – Botshabelo section K pump station and rising main	Continue with designs	None
15	Total metres of sewer pipeline upgraded – Bloemspruit network upgrade because of densification in MMM	Appoint PSP, complete field work designs and documentation and start with SCM process	None
16	% completion of mechanical and electrical work (sludge stream) – north eastern WWTW mechanical and electrical works (sludge stream)	Appoint PSP	0%

Adjustment of material misstatements

51. I identified material misstatements in the consolidated annual performance report submitted for auditing. These material misstatements were in the reported performance information of KPA 2 – 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

52. 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.

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

Financial statements and annual reports

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

55. The council failed to adopt an oversight report containing the council's comments on the 2020-21 annual report, as required by section 129(1) of the MFMA.

Procurement and contract management

56. 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. A similar limitation was also reported in the prior year.

57. 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. A similar limitation was also reported in the prior year.

58. Two contracts above R30 million did not include a condition for mandatory subcontracting to advance designated groups, as required by the 2017 preferential procurement regulation 9(1).

Expenditure management

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

60. Reasonable steps were not taken to ensure that the municipality implemented and maintained an effective system of expenditure control, including procedures for the approval, authorisation and payment of funds, as required by section 65(2)(a) of the MFMA.

61. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred, and accounted for creditors as required by section 65(2)(b) of the MFMA.

62. Reasonable steps were not taken to prevent irregular expenditure amounting to R186 535 056 as disclosed in note 66 to the consolidated financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with supply chain management regulations and recurring expenditure from contracts that had been reported as irregular in prior financial years.

63. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R93 607 043, as disclosed in note 65 to the consolidated financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful was caused by payments made on key service delivery projects that were not delivered.

64. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R1 448 495 011, as disclosed in note 64 to the consolidated 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.

Utilisation of conditional grants

65. I was unable to obtain sufficient appropriate audit evidence that the public transport network grant (PTNG) was spent for its intended purposes in accordance with the applicable grant framework, as required by section 16(1) of Dora.

66. Performance in respect of programmes funded by the PTNG was not evaluated within two months after the end of the financial year, as required by section 12(5) of Dora.

67. I was unable to obtain sufficient appropriate audit evidence that the urban settlement development grant (USDG) was spent for its intended purposes in accordance with the applicable grant framework, as required by section 16(1) of Dora.

68. Performance in respect of programmes funded by the USDG was not evaluated within two months after the end of the financial year, as required by section 11(6)(b) of Dora.

69. The informal settlement upgrading partnership grant was not spent for its intended purposes in accordance with the applicable grant framework, as required by section 16(1) of Dora.

Consequence management

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

71. 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.

72. Fruitless and wasteful 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.

Strategic planning and performance management

73. The performance management system and related controls were inadequate due to the significant internal control deficiencies identified, resulting in findings on the usefulness and reliability of indicators and targets, in contravention of municipal planning and performance management regulation 7(1).

Revenue management

74. An effective system of internal control for revenue was not in place, as required by section 64(2)(f) of the MFMA.

Asset management

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

Human resource management

76. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the Municipal Systems Act 32 of 2000.

Environmental management

77. The Botshabelo, Thaba Nchu, Bloem industrial, Bainsvlei, Northern Works, Welvaart, Bloemspruit, Dewetsdorp, Wepener, Soutpan and Van Stadensrus wastewater treatment works did not have a valid operating licence, as required by section 22(1)(b) of the National Water Act 36 of 1998.

78. The Wepener solid waste management facility did not have a valid operating licence, as required by section 20(b) of the National Environmental Management Waste Act 56 of 2018.

Other information

79. 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 those selected KPAs presented in the consolidated annual performance report that have been specifically reported in this auditor’s report.

80. 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 on it.

81. 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 KPAs presented in the consolidated annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

82. 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

83. 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 that resulted in the basis for the qualified opinion, the findings on the consolidated annual performance report and the findings on compliance with legislation included in this report.

84. There has been a slow response from management to address governance concerns within the group due to frequent changes in the role of the accounting officer and high vacancy rate within key positions.

85. Leadership did not adequately monitor and enforce the implementation of the corrective measures included in the audit action plan to address inadequate internal control measures and apply consequence management for weaknesses identified during prior year audits.

86. Management's failure to prioritise, develop and apply standard operating procedures to manage performance reporting, including the safeguarding of information and effective monitoring and evaluation of reported performance information against the set indicators, resulted in material findings in the consolidated annual performance report.

87. Management's lack of detailed review of the consolidated financial statements and the underlying records resulted in material misstatements which were not detected and corrected or prevented by the group's internal processes. The corrected misstatements resulted in material non-compliance included in this report.

88. Management did not prepare regular, accurate and complete financial and performance reports that are supported by reliable information, as the consolidated financial statements and consolidated annual performance report contained numerous misstatements.

89. Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

Material irregularities

90. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit and on the status of the material irregularities reported in the previous year's auditor's report.

Material irregularities in progress

91. I identified material irregularities during the audit and notified the accounting officer, as required by material irregularity regulation 3(2). By the date of this auditor's report, I had not yet completed the process of evaluating the responses from the accounting officer. These material irregularities will be included in the next year's auditor's report.

Status of previously reported material irregularities

Under-declaration of employee taxes

92. 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 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 the form of a penalty of R1 070 034 and interest of R627 282 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 2020-21 financial statements.

93. The accounting officer was notified of this material irregularity on 8 March 2021. The following actions have been taken to resolve the material irregularity:

- A permanent project leader was appointed with effect from 1 September 2020 to process Sars submissions to prevent such non-compliance from recurring.
- The municipality requested remission from Sars on 16 November 2021 to waive the interest and penalties. In a letter dated 9 December 2021, Sars confirmed that the penalties had been waived.
- The responsible official has been subjected to an internal disciplinary process.

94. Therefore, the material irregularity has been resolved.

Other reports

95. 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 group's 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.

96. The Special Investigating Unit (SIU) received information regarding alleged corruption within the metro police and IPTN at the municipality during the period 2017 to date. However, the municipality has not submitted all the requested documents to the SIU. The SIU is still analysing the partially submitted information in order to establish the legitimacy of the allegations. These proceedings were still in progress at the date of this auditor's report.

97. An independent consultant was investigating an allegation of improper procurement of buses and appointment/rollout of the infrastructure project for the IPTN as from the 2015-16 financial

year to date. The investigation is still in progress. The outcome of the first stage of the investigation is expected in January 2023, while the second stage of the investigation is still ongoing.

98. 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, which covered the period 2017 to December 2021. These proceedings were still in progress at the date of this auditor's report.

99. 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.

100. An independent legal firm was appointed to provide a legal opinion on allegations of the irregular appointment and payment of political staff. It is alleged that the political staff were appointed to occupy positions that were not vacant or provided for in the staff establishment for a period of two months starting in January 2022. The report was issued to the Municipal Public Accounts Committee (MPAC) on 19 April 2022; however, the MPAC has not finalised its own report on this matter. The investigation was concluded on 25 February 2022 and resulted in the salaries being disclosed as irregular expenditure.

Auditor-General

Cape Town

26 January 2023

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 group’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 group’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 consolidated financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the consolidated 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 group 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 consolidated 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 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 bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.