

REPORT OF THE AUDITOR-GENERAL TO PROVINCIAL PARLIAMENT AND COUNCIL ON THE GROUP FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE CITY OF CAPE TOWN FOR THE YEAR ENDED 30 JUNE 2009

REPORT ON THE FINANCIAL STATEMENTS

Introduction

- 1 I have audited the accompanying group financial statements and financial statements of the City of Cape Town which comprise the consolidated and separate statement of financial position as at 30 June 2009, and the consolidated and separate statement of financial performance, the consolidated and separate statement of changes in net assets and the consolidated and separate cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 60 to 124.

The accounting officer's responsibility for the financial statements

- 2 The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2008 (Act No. 2 of 2008) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Auditor-General's responsibility

- 3 As required by Section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) read with Section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and Section 126(3)(a) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
- 4 I conducted my audit in accordance with the International Standards on Auditing read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
- 5 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
- 6 Paragraph 11 *et seq.* of the Standards of Generally Recognised Accounting Practice, GRAP 1, *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the City of Cape Town in this respect will be limited to reporting on non-compliance with this disclosure requirement.
- 7 I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

- 8 In my opinion these financial statements present fairly, in all material respects, the consolidated and separate financial position of the City of Cape Town as at 30 June 2009 and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended, in accordance with Standards of GRAP and in the manner required by the MFMA and DoRA.

Emphasis of matters

9 Without qualifying my opinion, I draw attention to the following matters:

Amendments to the applicable basis of accounting

10 As set out in note 1.2.2 to the financial statements, the National Treasury allowed the City of Cape Town a departure from the basis of accounting, resulting in the consolidated financial statements excluding the Khayelitsha Community Trust and its related entities. The results of the Khayelitsha Community Trust and its related entities are also detailed in note 1.2.2 to the financial statements.

Restatement of corresponding figures

11 As disclosed in note 46.3 to the financial statements, the corresponding figures for 30 June 2008 have been restated as a result of, amongst others, an error discovered during 2009 relating to the accrual of revenue from service charges and fines in the financial statements of the City of Cape Town at, and for the year ended, 30 June 2008.

OTHER MATTERS

12 I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Unaudited supplementary schedules

13 The supplementary information set out on pages 125 to 131 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

Non-compliance with applicable legislation**MFMA**

14 A fraud prevention plan was not in place for the Cape Town International Convention Centre Company (Proprietary) Limited as required by Section 95(c)(i) of the MFMA.

Governance framework

15 The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the key governance responsibilities addressed below.

Key governance responsibilities

16 The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No. Matter		Economic Entity		Municipality of Cape Town	
		Y	N	Y	N
Clear trail of supporting documentation that is easily available and provided in a timely manner					
1	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	•		•	
Quality of financial statements and related management information					
2	The financial statements were not subject to any material amendments resulting from the audit.		•		•
3	The annual report was submitted for consideration prior to the tabling of the auditor's report.	•		•	
Timeliness of financial statements and management information					
4	The annual financial statements were submitted for auditing as per the legislated deadlines in Section 126 of the MFMA.	•		•	
Availability of key officials during audit					
5	Key officials were available throughout the audit process.	•		•	
Development and compliance with risk management, effective internal controls and governance practices					
6	Audit committee				
	• The Municipality had an audit committee in operation throughout the financial year.	•		•	
	• The audit committee operates in accordance with approved, written terms of reference.	•		•	
	• The audit committee substantially fulfilled its responsibilities for the year, as set out in Section 166(2) of the MFMA.	•		•	
7	Internal audit				
	• The Municipality had an internal audit function in operation throughout the financial year.	Not applicable		•	
	• The internal audit function operates in terms of an approved internal audit plan.	Not applicable		•	
	• The internal audit function substantially fulfilled its responsibilities for the year, as set out in Section 165(2) of the MFMA.	Not applicable		•	
8	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.	•		•	
9	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.	•		•	
10	The information systems were appropriate to facilitate the preparation of the financial statements.	•		•	
11	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in Section 62(1)(c)(i) of the MFMA.	Not applicable		•	
12	Delegations of responsibility are in place, as set out in Section 79 of the MFMA.	•		•	

No. Matter	Economic Entity		Municipality of Cape Town	
	Y	N	Y	N
Follow-up of audit findings				
13	The prior year audit findings have been substantially addressed.		•	•
14	SCOPA/Oversight resolutions have been substantially implemented.		Not applicable	
Issues relating to the reporting of performance information				
15	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.		Not applicable	
16	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		Not applicable	
17	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the Municipality against its mandate, predetermined objectives, outputs, indicators and targets set out in Section 68 of the MFMA.		•	
18	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.		•	

17 The material amendment to the annual financial statements for the Economic Entity relates to a correction made in the calculation of cash receipts from ratepayers, government and other and cash paid to suppliers and employees. The material amendment to the annual financial statements for the Municipality of Cape Town related to the omission of disclosure required by the supply chain management regulations. This material amendment was identified by the auditors during the audit and not the internal controls of the Municipality. This situation could have led to a qualified opinion had the annual financial statements not been adjusted during the audit. An understanding of the financial reporting objectives must be created with staff of the Municipality to mitigate the risks over financial reporting. Furthermore, there should also be a discipline to produce monthly financial statements and management information for review by management.

18 The implementation of audit recommendations for the Municipality of Cape Town requires improved monitoring and supervision by management.

19 The information system framework is not detailed enough to facilitate the preparation of a performance report that is accurate and complete. Furthermore, detailed standard operating procedures setting out the roles and responsibilities of all levels of staff involved in the collection and collation of performance information, from source document to reporting, have not been prepared and communicated throughout the entire municipality. This is indicative of a situation where adequate control processes and procedures were not designed and implemented to ensure the accuracy and completeness of reported performance information and adequate mechanisms were not established to monitor and review the performance management system as required by Section 40 of the Municipal Systems Amendment Act, 2003 (Act No. 44 of 2003).

Investigations

20 The City of Cape Town had commissioned forensic investigations into several possible fraudulent and/or irregular acts by officials and suppliers. The monetary amount of the highest priority cases totalled R14,9 million.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

21 I have reviewed the performance information as set out on pages 146 to 167.

The accounting officer's responsibility for the performance information

22 In terms of Section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality, prepared by the municipality in terms of Section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

The Auditor-General's responsibility

23 I conducted my engagement in accordance with Section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and Section 45 of the MSA.

24 In terms of the foregoing my engagement included performing procedures of a review nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

25 I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the findings reported below.

Findings on performance information

Usefulness and reliability of reported performance information

26 The following criteria were used to assess the usefulness and reliability of the information on the Municipality's performance with respect to the objectives in its annual performance plan:

- Consistency: Has the Municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated plan?
- Relevance: Is the performance information as reflected in the indicators and targets clearly linked to the predetermined objectives and mandate? Is this specific and measurable, and is the time period or deadline for delivery specified?
- Reliability: Can the reported performance information be traced back to the source data or documentation and is the reported performance information accurate and complete in relation to the source data or documentation?

27 The following audit findings relate to the above criteria:

Reported performance information not reliable

28 The reported performance information for the Municipality, for the objective and indicators selected for review, could not be confirmed due to the lack of formally documented processes for collecting and collating data from the original source data to the information recorded on an Excel spreadsheet and reflected in the annual report. Furthermore, the performance information recorded in the Excel spreadsheets are not authorised by the responsible managers at the different departments.

29 The four indicators that were reviewed under *percentage of households with access to basic levels of sanitation, water, electricity and solid waste removal*, are not measurable and verifiable as it is not possible to adequately validate the processes and systems that produce the data for the indicators, as estimated figures were used.

30 The reported information in the annual report, for the objective and indicators selected for review, is materially inconsistent with the evidence obtained during the audit. The estimated figures reported by the different departments differed materially from figures obtained from the strategic and planning directorate and from the actual figures reflected on the SAP system.

OTHER REPORTS

Special audits

31 As requested by the Municipality, an agreed-upon procedures engagement was conducted during the year under review related to the Municipality's Domestic Medium-term Note Programme and the second issue of notes thereto. The procedures performed were in terms of the listing requirements as stipulated by the Bond Exchange of South Africa and included, amongst others, a review of the compliance with the Municipal Regulations on Debt Disclosure issued in terms of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) and the accuracy of the information presented in the pricing supplement supplied to prospective subscribers of the notes. The report covered information presented in the annual report for 30 June 2008 and was submitted to the Municipality on 12 June 2009.

APPRECIATION

32 The assistance rendered by the staff of the City of Cape Town and the other entities of the group during the audit is sincerely appreciated.

Auditor-General

Cape Town
12 January 2010



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence.