

REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL PARLIAMENT AND THE COUNCIL ON CITY OF CAPE TOWN

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the City of Cape Town set out on pages 12 to 64, which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP), the requirements of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion the financial statements present fairly, in all material respects, the financial position of the City of Cape Town as at 30 June 2012 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

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

Significant uncertainties

8. With reference to note 47.2 to the financial statements, the municipality is party to contractual claims by its suppliers and staff that are subject to mediation. The maximum potential liability is estimated at R285,52 million. The ultimate outcome of these claims could not be determined at year-end.

Restatement of corresponding figures

9. As disclosed in note 42.1 to the financial statements, the corresponding figures for 30 June 2011 have been restated as a result of errors discovered during 2012 in the financial statements of the City of Cape Town at, and for the year ended, 30 June 2011.

Material impairments

10. As disclosed in note 9 to the financial statements, receivables have significantly been impaired. The impairment of receivables amounts to R4,18 billion (51%) of which R2,64 billion (32%) relates to service debtors.

Material losses

11. As disclosed in note 41.3 to the financial statements, the City of Cape Town suffered a significant electricity loss of R225,05 million (10,75%). This is as a result of non-technical losses such as theft and vandalism.

Additional matters

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

Material inconsistencies in other information included in the annual report

13. The draft annual report has not yet been received for review. As a result, it has not been reviewed for any inconsistencies with the financial statements. The draft annual report as well as the final printer's proof of the annual report will be reviewed and any material inconsistencies then identified will be communicated to management. Should the inconsistencies not be corrected, it may result in the matter being included in the audit report.

Unaudited supplementary schedules

14. The supplementary information set out on pages 65 to 72 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

15. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

16. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages 1 to 8 of the annual report.
17. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*.
18. The reliability of the information in respect of the selected programmes is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
19. There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

Additional matter

20. Although no material findings concerning the usefulness and reliability of the performance information were raised in the annual performance report, I draw attention to the following matter.

Achievement of planned targets

21. Of the total number of planned targets, only 29 were achieved during the year under review. This represents 31% of total planned targets that were not achieved during the year under review. The latter includes six out of 16 (38%) targets that are qualitatively material, in relation to the City's key service delivery objectives. This was mainly due to the fact that indicators and targets were not suitably developed during the strategic planning process.

Compliance with laws and regulations

22. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations, as set out in the *General Notice* issued in terms of the PAA, are as follows:

Annual financial statements, performance and annual report

23. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

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

Procurement and contract management

25. Awards were made to providers whose directors / principal shareholders are persons in the service of the municipality, in contravention of MFMA supply chain management (SCM) regulation 44. Furthermore, the provider failed to declare that he/she was in the service of the municipality, as required by SCM regulation 13(c).

Human resource management

26. Persons in the service of the municipality who had a private or business interest in contracts awarded by the municipality failed to disclose such interest, as required by SCM regulation 46(2)(e) and the code of conduct for staff members issued in terms of the Municipal Systems Act, Act 32 of 2000 (MSA).
27. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, as required by SCM regulation 46(2)(e) and the code of conduct for staff members issued in terms of the MSA.

Internal control

28. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on compliance with laws and regulations included in this report.

Leadership

29. Although the City has taken steps to address the issues identified in the prior year audit report and there has been some improvement, the commitments made by management to address the audit findings of the prior year, which were included in the 2010-11 annual report, were not specific and detailed enough, leading to action plans that were similarly not clear and specific. The commitments indicated that measures to ensure full compliance with regulations were implemented by May 2011, however, this was not achieved as the supplier declaration forms for all goods were only fully implemented in December 2011 and the revised employee declaration forms were only rolled out to higher levels of staff in April 2012. The action plan arising from these commitments was only revised during the second half of the financial year and, as a result, the findings relating to supply chain management and human resource management have recurred, as effective actions were not implemented timeously.

Financial and performance management

30. The supply chain management unit processes a large volume of transactions, yet some of the key processes are manual processes and, therefore, lends itself to some degree of human/administrative error. The review processes implemented to mitigate this risk and to prevent and detect errors before they result in irregular expenditure or material non-compliance were not effective, resulting in the findings reported under compliance with laws and regulations above.
31. The planning of the compilation of the annual financial statements was not adequate and did not include appropriate processes to ensure that new systems/processes and changes to the financial statements are implemented in a timely manner and are properly reviewed before submission for audit.

OTHER REPORTS

Investigations

Investigations in progress

32. Municipal Public Accounts Committee (MPAC) had requested a number of investigations, which, had not been finalised at the date of this report. These include:

- an investigation into irregular expenditure resulting from contraventions of the municipal SCM regulations, as reported in the 2009-10 financial statements
- items disclosed as irregular expenditure in note 42 to the 2010-11 annual financial statements
- awards to family of employees in the service of the state as disclosed in note 43.1.2 to the 2010-11 financial statements.

33. The National Public Protector is investigating the land purchase agreement with Naspers.

Investigations completed during the financial year

34. A number of investigations initiated by MPAC were finalised during the year under review. These include the following:

- Late payment of interest to the South African Revenue Service (SARS) resulting in fruitless and wasteful expenditure disclosed in the 2009-10 financial statements. Council has certified the amount of R7 688 to be irrecoverable.
- An investigation was conducted into non-compliance with the conditions of the memorandum of agreement relating to certain grants and subsidies. The council resolved that the amount of R140 000 reported as fruitless and wasteful expenditure in the City's 2009-10 consolidated financial statements would not be classified as fruitless and wasteful expenditure as the grant beneficiaries had submitted the required documentation in November 2010.
- MPAC investigated expenditure relating to FIFA World Cup costs, reported as fruitless and wasteful expenditure in the 2009-10 notes to the financial statements. Council certified an amount of R19 620 to be irrecoverable.
- Amounts from the 2008 Sicoca Ikapa Special Project deemed to be irrecoverable were under investigation. The amount of R119 399 relating to the Sicoca Ikapa project was condoned by council. It was decided that no further amounts for the Sicoca Ikapa project would be considered for condonement or write-off by MPAC in future as the Directorate: Finance had confirmed in writing that a reconciliation had been performed and that the amount submitted for write-off was the final amount in respect of the Sicoca Ikapa project.

35. During the year a number of investigations were conducted in relation to the contravention of SCM policies and procedures. The investigations were initiated based on allegations made by management, as well as through the fraud hotline. The nature of the cases investigated included possible collusion by service providers and deviations from policies in the extension or granting of contracts and tenders. Instances of valid deviations or fruitless and wasteful expenditure were adequately disclosed in the financial statements.

Agreed-upon procedures engagements

36. The City has accepted an agreed-upon procedures engagement to be performed on the Housing Accreditation: Systems/Controls. The audit report was issued on 21 May 2012.

Auditor-general
Cape Town

29 November 2012



AUDITOR-GENERAL
SOUTH AFRICA

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