

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 6 to 63, which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets, the cash flow statement, the statement of comparison of budget and actual amounts 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 of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (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 2013 and its financial performance, cash flows and comparison between actual and budgeted amounts 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 city is party to contractual claims by its suppliers and staff that are subject to mediation. The maximum potential liability is estimated at R80,93 million. The ultimate outcome of these claims could not be determined at year end.
9. With reference to note 47.2 to the financial statements, the city is also impacted by the ongoing negotiations between the South African Local Government Association and the trade unions in respect of the wage award. The maximum potential liability cannot be estimated as the outcome could not be determined at year end.

Material impairments

10. As disclosed in note 9 to the financial statements, receivables have significantly been impaired. The impairment of receivables amounts to R4,045 billion (49%) of which R2,548 billion (31%) relates to service debts.

Other provisions

11. As disclosed in note 15 to the financial statements, the city has provided for an amount of R631,11 million based on the agreement reached with taxi associations relating to the implementation of the expanded integrated rapid transit (IRT) routes.

Additional matters

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

Unaudited supplementary schedules

13. The supplementary information set out on pages 64 to 73 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

14. 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

15. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages 123 to 128 of the annual report.

16. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability for the objectives selected for auditing. 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*.
17. The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
18. There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

Compliance with laws and regulations

19. I performed procedures to obtain evidence that the entity had complied with applicable laws and regulations regarding financial matters, financial management and other related matters. I did not identify any instances of 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.

Internal control

20. I considered internal control relevant to my audit of the financial statements, performance report and compliance with laws and regulations. I have not identified any deficiencies in internal control which I considered sufficiently significant for inclusion in this report.

OTHER REPORTS

Investigations

Investigations in progress

21. The investigation into the NASPERS land purchase agreement by the public protector was completed and the recommendations were implemented by the council and management. The investigation did not identify any fraud or corruption but found that the council had not been adequately informed regarding the height restrictions on the land. The report also recommended that the city's forensic investigation unit (FIU) look into the SCM processes of the Cape Town International Convention Centre (CTICC) with regard to the architectural tender. This investigation has been completed and the draft report has been submitted to the CTICC board for its consideration.

22. The city's FIU was, at the time of writing this report, investigating a R9,7 million tender that was awarded to tackle gang-related violence. As at the date of this report the investigation was still in progress.

Auditor-General
Cape Town

29 November 2013



AUDITOR - GENERAL
SOUTH AFRICA

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