

Report of the auditor-general to the Western Cape Provincial Parliament and the council on the 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 59, which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as 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) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (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 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 municipality'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 municipality'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 2015 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.

Material losses/impairments

8. As disclosed in note 8 to the financial statements, material losses of R691,8 million (8% of the gross balance of receivables) were incurred as a result of a write-off of irrecoverable receivables.
9. As disclosed in note 8 to the financial statements, receivables were significantly impaired. The impairment allowance amounted to R4,3 billion (48% of the gross balance of receivables), of which R2,9 billion (32% of the gross balance of receivables) related to service debtors.
10. As disclosed in note 9 to the financial statements, other receivables were also significantly impaired. The impairment allowance amounted to R1,3 billion (65% of the gross balance of other receivables).
11. As disclosed in note 40.3 to the financial statements, energy losses of R314,4 million (11%) were incurred as a result of theft and vandalism.

Material underspending of the budget

12. As disclosed in the statement of comparison of budget and actual amounts, the municipality materially underspent the capital budget by R876,5 million (14%).

Additional matters

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

Unaudited supplementary schedules

14. The supplementary information set out on pages 59 to 70 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.

Unaudited disclosure notes

15. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

Report on other legal and regulatory requirements

16. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected development objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

17. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development objectives presented in the annual performance report of the municipality for the year ended 30 June 2015:
- Objective 1.2: Provide and maintain economic and social infrastructure to ensure infrastructure-led economic growth and development on pages 43 to 61 of the draft annual report
 - Objective 3.2: Ensure increased access to innovative human settlements for increased access to those who need them on pages 100 to 109 of the draft annual report
 - Objective 3.3: Assess the possible sale or transfer of rental stock to identified beneficiaries, using established criteria on page 109 of the draft annual report
 - Objective 3.4: Provide for the needs of informal settlements and backyard residences through improved services on pages 110 to 112 of the draft annual report
18. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
19. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information*
20. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
21. I did not identify material findings on the usefulness and reliability of the reported performance information for the selected development objectives listed in paragraph 17.

Additional matter

22. Although I identified no material findings on the usefulness and reliability of the reported performance information for the selected development objectives, I draw attention to the following matter:

Achievement of planned targets

23. Refer to the annual performance report on pages 43 to 61 and 100 to 112 for information on the achievement of planned targets for the year.

Compliance with legislation

24. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. I did not identify any instances of material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA.

Internal control

25. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. I did not identify any significant deficiencies in internal control.

Other reports

Investigations

26. One hundred and twenty-nine (2013-14: 109) open cases relevant to the City of Cape Town appeared in the forensics, ethics and integrity department (FEID) register at the end of the financial year under review. The movement in the cases was as follows:
- Two hundred and one new cases relating to alleged fraud, corruption, or other criminal activity, maladministration and negligence were investigated by the FEID during the year under review.
 - One hundred and sixty cases were concluded during the year, of which 72 related to the current year and 88 to prior years.

Auditor-General

Cape Town

30 November 2015



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence