

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 8 to 57, which comprise the statement of financial position as at 30 June 2016, the 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, 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, 2015 (Act No. 1 of 2015) (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 2016 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 10 to the financial statements, material losses of R690,7 million were incurred as a result of a write-off of irrecoverable receivables.
9. As disclosed in note 10 to the financial statements, receivables have significantly been impaired. The impairment allowance amounts to R4,7 billion, of which R3,2 billion relates to service debtors.
10. As disclosed in note 11 to the financial statements, other receivables have also significantly been impaired. The impairment allowance amounts to R2,0 billion.
11. As disclosed in note 44.1.2.3 to the financial statements, electricity losses of R370,6 million (11,4%) were incurred as a result of normal system operations, theft and vandalism.

Material underspending of the budget

12. As disclosed in the statement of comparison of budget and actual amounts, the municipality has materially underspent the capital budget by R639,3 million (10,4%).

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 58 to 71 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 strategic focus areas 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 strategic focus areas presented in the annual performance report of the municipality for the year ended 30 June 2016:
- Strategic focus area 1: the opportunity city on pages 30 to 79
 - Strategic focus area 3: the caring city on pages 89 to 107
18. I evaluated the usefulness of the reported performance information to determine whether it was consistent with the planned strategic focus areas. 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.
19. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
20. I did not identify material findings on the usefulness and reliability of the reported performance information for the selected strategic focus areas:
- Strategic focus area 1: the opportunity city
 - Strategic focus area 3: the caring city

Additional matter

21. Although I identified no material findings on the usefulness and reliability of the reported performance information for the selected strategic focus areas, I draw attention to the following matter:

Achievement of planned targets

22. Refer to the annual performance report on pages 30 to 79 and 89 to 107 for information on the achievement of planned targets for the year.

Compliance with legislation

23. 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

24. 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

25. I draw attention to the following engagements that could potentially impact on the municipality's financial, performance and compliance related matters. My opinion is not modified in respect of these engagements that are either in progress or have been completed.

Investigations

26. A total of 168 open cases (2014-15: 129) relevant to the municipality appeared in the forensics, ethics and integrity department's register at the end of the financial year under review. The movement in the cases is as follows:

- A total of 152 new cases relating to alleged fraud, corruption, other criminal activity, maladministration and negligence were investigated by the forensics, ethics and integrity department during the year under review.
- In total, 270 cases were concluded during the year, of which 40 related to the current year and 230 to prior years.

Auditor-General

Cape Town

30 November 2016



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence