

# Report of the auditor-general to the Gauteng Provincial Legislature and the council on the City of Tshwane Metropolitan Municipality

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of the City of Tshwane Metropolitan Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2020, 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 to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the City of Tshwane Metropolitan Municipality as at 30 June 2020, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practices (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act, 2003 (Act no. 56 of 2003) (MFMA) and the Division of Revenue Act, 2019, (Act no.16 of 2019) (Dora).

### Basis for the opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' International code of ethics for professional accountants (including International Independence Standards) (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my unqualified opinion.

## Key audit matters

6. Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial statements for the current period. These matters were addressed in the context of my audit of the financial statements as a whole and in forming my opinion, and I do not provide a separate opinion or conclusion on these matters.

Key audit matter	How the matter was addressed in the audit
<b>Revenue recognition - Service charges water and electricity sales</b>	
<p>1. Revenue from service charges for water and electricity, as disclosed in note 26 to the financial statements, was recognised based on actual meter readings and where meter readings were not available, based on estimates of consumption. Some of these estimations were for a substantial period of time exceeding 12 months.</p> <p>Revenue recognition for water and electricity service charges has, as a result of above, been identified as a key audit matter due to significant judgement applied in calculating the estimations of the consumption used and the significant volume of transactions processed through a complex information system.</p>	<p>My procedures included the following:</p> <ul style="list-style-type: none"> <li>• Understanding and evaluating the flow of information, the information technology (IT) systems and the controls relating to the meter reading process, the billing process and the systems interface process, which included involving IT audit specialists.</li> <li>• Performing application controls test for the systems utilised for water and electricity meter readings and recording.</li> <li>• Performing substantive tests of details using computer assisted audit techniques by IT audit specialists on the water and electricity consumption billed to identify estimations used, performing recalculations based on the management assumptions and the meter reading processes.</li> <li>• Physical inspection of a sample of water and electricity readings to validate the actual meter readings captured after year end.</li> </ul> <p>I found that manual and IT controls were effectively designed, however these controls were not adequately implemented in some instances. These were communicated to those charged with governance and accounting officer.</p> <p>I found that the significant judgements made by management in calculating the estimate were reasonable. Actual readings obtained after year end further confirmed the reasonability of the estimates at year end. My substantive procedures revealed that no material adjustments to the municipality's financial statements were required.</p>

## Significant difficulties encountered in obtaining information requested for audit purposes

2. The engagement letter signed by the accounting officer agreed to provide requested documents within five working days. In some instances, the municipality was unable to provide requested information within agreed timelines. These significant difficulties had an adverse impact on the allocated time for audit execution and the evaluation of audit evidence.

- Monitoring the submission of documents in response to the request for information, a tracking mechanism was set up between the municipality and senior members of the audit team.
- Notifications to the accounting officer and the Mayor on the status of delays in the receipt of information
- Weekly meetings with the Group Chief financial officer (GCFO) to reconcile information received and information outstanding.
- Weekly audit steering committee meetings were also held where the non-timeous submission of requested information was also discussed.

All material outstanding information was provided and sufficient time was available to assess and report where applicable.

## Emphasis of matters

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

## Disclosure on the impact of Covid-19

8. I draw attention to note 79 in the financial statements, which deals with the impact of Covid-19 on the municipality's current and future performance.

## Restatement of corresponding figures

9. As disclosed in note 62 to the financial statements, the corresponding figures for 30 June 2019 were restated as a result of errors discovered in the financial statements of the municipality at, and for the year ended, 30 June 2020.

## Material uncertainties

10. With reference to note 58 to the financial statements, the municipality is the defendant in various lawsuits. The outcome of these matters could not be determined and/or reliably measured, therefore no provision for any liabilities that may result was made in the financial statements.

## Material impairments

11. As disclosed in note 4 to the financial statements, the consumer debtors' balance has been significantly impaired. The allowance for impairment of consumer debtors' amounts to R10,90 billion (2018-19: R7,78 billion), which represents 64% (2018-19: 62%) of total consumer debtors. The contribution to the provision for debt impairment, as disclosed in note 4 to the financial statements, was R3,67 billion (2018-19: R2,15 billion).

## Material losses – electricity losses

12. As disclosed in note 67 to the financial statements, material electricity losses of R1,94 billion (2018-19: R1,65 billion) was incurred, which represents 22,3% (2018-19: 18,2%) of total electricity purchased. Technical losses amounted to R611,74 million (2018-19: R557,87 million) and was due to the electricity that was lost when it was distributed from the source of generation through the transmission and distribution network to the consumers. Non-technical losses amounted to R1,11 billion (2018-19: R898,97 million) and were due to administrative and technical errors, negligence, theft of electricity, tampering with meters and connections which form part of illegal consumption and faulty meters.

## Material losses – water losses

13. As disclosed in note 66 to the financial statements, material water losses of R988,88 million (2018-19: R1,05 billion) was incurred, which represents 30,2% (2018-19: 29,8%) of total water purchased. Technical losses amounted to R 791,10 million (2018-19: R841,14 million) and these were due to physical loss of water through the water distribution network. Non-technical losses amounted to R 197,77 million (2018-19: R210,28 million) and were due to meter inaccuracies, meter estimations, non-metering of water and unauthorised consumption.

## Other matter

14. I draw attention to the matter below. My opinion is not modified in respect of this matter.

## 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 in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

## Responsibilities of the accounting officer for the financial statements

16. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practices (SA Standards of GRAP) and the requirements of the Municipal Management Finance Act, 2003 (Act no. 56 of 2003) (MFMA) and the Division of Revenue Act, 2019, (Act no.16 of 2019) (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.

17. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

### **Auditor-general's responsibilities for the audit of the financial statements**

18. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
19. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

## **Report on the audit of the annual performance report**

### **Introduction and scope**

20. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected strategic pillar presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
21. My procedures address the usefulness and reliability of the reported performance information, which must be based on the municipality's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the municipality enabled service delivery. My procedures also do not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
22. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected strategic pillar presented in the municipality's annual performance report for the year ended 30 June 2020:

<b>Strategic pillar</b>	<b>Pages in the annual performance report</b>
Strategic pillar 3 – A city that delivers excellent services and protects the environment	x – x

23. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
24. I did not identify any material findings on the usefulness and reliability of the reported performance information for the following strategic pillar:
- Strategic pillar 3 – A city that delivers excellent services and protects the environment

### **Other matters**

25. I draw attention to the matters below.

### **Achievement of planned targets**

26. Refer to the annual performance report on pages...to...for information on the achievement of planned targets for the year and explanations provided for the under achievement of a significant number of targets.

### **Implementation of new rationalised set of indicators as per MFMA Circular 88 of 2019**

27. MFMA Circular 88 of 2019 issued 30 November 2019 on the rationalisation of planning and reporting requirements for the 2019-20 Medium Term Revenue and Expenditure Framework (MTREF), aims to support the alignment of planning and reporting instruments for a prescribed set of performance indicators for metropolitan municipalities from the 2019-20 financial year onwards. The City of Tshwane Metropolitan Municipality did not include the common set of indicators in the Integrated Development Plan (IDP) and/or “top-layer” Service Delivery and Budget Implementation Plan (SDBIP) for the 2019-20 planning and reporting cycle due to standard operating procedures and internal processes that were not finalised to realise and commit to the implementation of said indicators within the city.

## **Report on the audit of compliance with legislation**

### **Introduction and scope**

28. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the municipality’s compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
29. The material findings on compliance with specific matters in key legislation are as follows:

## Annual Financial Statements

30. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of the property, plant and equipment, contingencies, statement of changes in net assets, cash flow statement and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

## Revenue management

31. An effective system of internal control for revenue was not in place, as required by section 64(2)(f) of the MFMA.

## Asset management

32. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

## Expenditure management

33. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
34. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R2 249 134 139 as disclosed in note 52 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by over-expenditure on non-cash items.
35. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R300 057 443 as disclosed in note 53 to the financial statements, in contravention of section 62(1)(d) of the MFMA.
36. Reasonable steps were not taken to prevent irregular expenditure amounting to R2 530 139 390 as disclosed in note 54 to the financial statements, as required by section 62(1)(d) of the MFMA.

## Procurement and contract management

37. Sufficient appropriate audit evidence could not be obtained that some of the contracts were awarded in accordance with the legislative requirements as the information was not provided for audit.
38. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).
39. Measures to combat the abuse of the SCM system were not implemented as per the requirements of SCM regulation 38(1), because some of the contracts were awarded to providers who committed a corrupt or fraudulent act in competing for the contract.



40. Some of the contracts were not awarded in an economical manner and the prices of the goods or services were not reasonable as required by MFMA sec 62(1)(a).
41. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5.
42. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year.
43. Awards were made to providers who were in the service of other state institutions or whose directors / principal shareholders were in the service of other state institutions, in contravention of MFMA 112(j) and SCM regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM regulation 38(1).
44. 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, in contravention of the code of conduct for staff members issued in terms of the Municipal Systems Act, 2000 (Act 32 of 2000) (MSA).

#### Consequence management

45. Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

#### Other information

46. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and the selected strategic pillar presented in the annual performance report that have been specifically reported in this auditor's report.
47. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion on it.
48. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected strategic pillar presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
49. If based on the work I have performed, I conclude that there is a material misstatement in this other information, I am required to report that fact. I have nothing to report in this regard.



## Internal control deficiencies

50. I considered internal control relevant to my audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the unqualified opinion, and the findings on compliance with legislation included in this report.
51. The accounting officer did not adequately exercise oversight responsibility regarding financial reporting, compliance with legislation and implementation of consequence management for poor performance and transgressions.
52. Senior management did not ensure that adequate controls were in place over the preparation of accurate and complete financial reports and there was inadequate review of reports and supporting schedules which resulted in repeat audit findings. In addition, action plans that were developed were not monitored regularly by management to ensure that they have been adequately implemented taking into account the recommendations by internal audit and audit committee.

## Material irregularities

53. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit and on the status of the material irregularities reported in the previous year's auditor's report.

### Material irregularities in progress

54. I identified material irregularities during the audit and notified the accounting officer of these, as required by material irregularity regulation 3(2). By the date of this auditor's report, the response of the accounting officer was not yet due for one material irregularity and for the other, I had not yet completed the process of evaluating the response from the accounting officer. These material irregularities will be included in the next year's auditor's report.

### Status of previously reported material irregularities

#### Inadequate system of internal controls to safeguard assets (Annlin reservoir project)

55. The municipality did not take all reasonable steps to ensure that it has adequate system of internal controls for the purpose of safeguarding its assets, as assets were stolen and vandalised resulting in non-compliance with section 63(2)(c) of the MFMA.
56. The non-compliance resulted in a material financial loss of R5 523 136 for the municipality based on the value of the assets that were stolen and vandalised on 08 January 2018 as disclosed in note 74 of the 2018-19 financial statements.
57. The accounting officer was notified of the material irregularity on 11 December 2019. The following actions have been taken to resolve the material irregularity:

- Reported the matter to the South African Police Services for investigation on 11 January 2018 and the investigation is not yet concluded.
- Installed electronic locks and welded steel doors on access doors to prevent further losses on 9 January 2018.
- The accounting officer had committed to appoint a security company to safeguard assets and prevent further losses by 31 March 2020. The delay in the finalisation of the appointment process by the committed date is due to the late appointment of the technical team and non-availability of bid evaluation committee members as a result of the Covid-19 pandemic and lockdown restrictions. The new committed date is 30 June 2021.
- Referred the matter to the internal forensic services division for investigation on 12 February 2020 with the investigation planned to be completed on or before 30 June 2020. The investigation was completed on 26 June 2020, however it did not cover adherence to the assets management policy of the municipality at the time of the incident, verification and quantification of the financial loss as well as whether there was any fraud, corruption or misconduct related to the material irregularity. The accounting officer has committed to conclude the investigation that covers the entire scope by 1 July 2021. Upon completion of the investigation, the accounting officer plans to institute disciplinary actions against the officials found responsible for the loss and recover all monies lost.

58. I will follow up on the implementation of the planned actions during my next audit.

#### **Inadequate system of internal controls to safeguard assets (Baviaanspoort waste water treatment works)**

59. The municipality did not take all reasonable steps to ensure that it has adequate system of internal controls for the purpose of safeguarding its assets, as assets were stolen and vandalised resulting in non-compliance with section 63(2)(c) of the MFMA.

60. The non-compliance resulted in a material financial loss of R3 904 346 for the municipality based on the value of the assets that were stolen and vandalised on 10 February 2016 as disclosed in note 74 of the 2018-19 financial statements.

61. The accounting officer was notified of the material irregularity on 17 December 2019. The following actions have been taken to resolve the material irregularity:

- Reported the matter to the South African Police Services for investigation on 10 February 2016. Two arrests were made on 8 and 11 March 2016 respectively. The perpetrators were sentenced to 12 years and 10 years respectively.
- Some of the minor assets that were stolen or vandalised were insured and the insurance company reimbursed the municipality R174 716 on 24 February 2017 for the loss.
- Security personnel was increased and all buildings housing motor control equipment and electrical transformers were reinforced with grating on 6 September 2019.
- Approved the appointment of a contractor to erect a security fence on 5 December 2019 to prevent further losses. Erection of the security fence was completed in March 2021.
- The accounting officer had committed to appoint a security company to safeguard assets and prevent further losses by 31 March 2020. The delay in the finalisation of the appointment process by the committed date is due to the late appointment of the technical

team and non-availability of bid evaluation committee members as a result of the Covid-19 pandemic and lockdown restrictions. The new committed date is 30 June 2021.

- Referred the matter to the internal forensic services division for investigation on 12 February 2020 with the investigation planned to be completed on or before 30 June 2020. The investigation was completed on 26 June 2020, however it did not cover adherence to the assets management policy of the municipality at the time of the incident, verification and quantification of the financial loss as well as whether there was any fraud, corruption or misconduct related to the material irregularity. The accounting officer has committed to conclude the investigation that covers the entire scope by 1 July 2021. Upon completion of the investigation, the accounting officer plans to institute disciplinary actions against the officials found responsible for the loss and recover all monies lost.

62. I will follow up on the implementation of the planned actions during my next audit.

## Other reports

63. In addition to the investigations relating to material irregularities, I draw attention to the following engagement conducted by various parties which had, or could have, an impact on the matters reported in the municipality's consolidated and separate financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the consolidated and separate financial statements or my findings on the reported performance information or compliance with legislation.

64. The Special Investigating Unit (SIU) is investigating the procurement process followed by the municipality in the appointment of service providers to supply homeless people with catering during COVID-19 lockdown/national state of disaster.

*Auditor - General*

Johannesburg

07 May 2021



AUDITOR - GENERAL  
SOUTH AFRICA

Auditing to build public confidence

## **Annexure – Auditor-general’s responsibility for the audit**

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for the selected strategic pillar and on the municipality’s compliance with respect to the selected subject matters.

### **Financial statements**

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
  - identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
  - obtain an understanding of internal control relevant to the audit 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
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
  - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the City of Tshwane Metropolitan Municipality to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a municipality to cease operating as a going concern
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

### **Communication with those charged with governance**

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, the actions taken to eliminate threats or the safeguards applied.
  
5. From the matters communicated to those charged with governance, I determine those matters that were of most significance in the audit of the financial statements for the current period and are therefore key audit matters. I describe these matters in this auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in this auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest of such communication.