

Report of the auditor-general to the Gauteng Provincial Legislature and the council on the Rand West City Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Rand West City Local Municipality set out on pages x to x, 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, except for the effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Rand West City Local 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 Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act, 16 of 2019 (Dora).

Basis for qualified opinion

Property, plant and equipment

3. The municipality's practice is to use its infrastructure assets and community assets for their entire economic life without disposing of these assets. However, the municipality used residual values in its calculation of depreciation of these assets, contrary to the requirements of GRAP 17, *Property, plant and equipment*. Differences were identified between the totals disclosed in the subcategories in note 12 to the financial statements and the sub-ledgers that detail the individual assets between infrastructure assets and community assets. In addition, infrastructure assets and community assets that were vandalised or not in a working condition were not impaired contrary to the requirements of GRAP 26, *Impairment of cash generating assets*. I was not able to determine the full extent of the error in the infrastructure assets and community assets as it was impracticable to do so. There was an impact on the surplus for the period and on the accumulated surplus.

Employee benefit obligations

4. The municipality did not recognise employee benefits as required by GRAP 25, *Employee benefits* for the current and previous year. This was due to the incorrect application of the eligibility criteria of the adopted bargaining council agreement in the calculation of the post-retirement medical benefits, the long service awards liability and the actuarial gains. I was not able to determine the full extent of the error in the employee benefit obligation as it was impracticable to do so. There was an impact on the surplus for the period and on the accumulated surplus.

Net cash flows from operating activities

5. The municipality did not correctly prepare and disclose the net cash flows from operating activities as required by GRAP 2, *Cash flow statements*. This was due to multiple errors in determining cash flows from operating activities. I was not able to determine the full extent of the errors for the current and prior year in the net cash flows from operating activities as it was impracticable to do so.

Net cash flows from investing activities

6. The municipality did not correctly prepare and disclose the net cash flows from investing activities as required by GRAP 2, *Cash flow statements*. This was due to multiple errors in determining cash flows from investing activities. I was not able to determine the full extent of the errors for the current and prior year in the net cash flows from investing activities as it was impracticable to do so.

Statement of comparison of budget and actual amounts

7. The municipality did not correctly prepare and disclose the statement of comparison of budget and actual amounts as required by GRAP 24, *Presentation of budget information in financial statements*. The cash flow statement portion of the statement of comparison of budget and actual amounts and its accompanying note did not agree with the amounts in the cash flow statement. I was not able to determine the full extent of the errors in the statement of comparison of budget and actual amounts as it was impracticable to do so.

Irregular expenditure

8. The municipality did not include all irregular expenditure in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. The municipality did not record all payments made in contravention of the supply chain management (SCM) regulations, resulting in irregular expenditure of R72 184 720.

Statement of changes in net assets

9. The municipality's statement of changes in net assets does not mathematically cast and the municipality did not disclose prior period errors in note 50 to the financial statements as required by GRAP 3, *Accounting policies, estimates and errors*. A difference of R109 203 955 exist between the restated 30 June 2019 accumulated surplus amount per the statement of financial position and the restated 01 July 2019 accumulated surplus amount per the statement of changes in net assets. The nature and the amount of the correction for each financial statement item affected and the amount of the correction at the beginning of the earliest previous period were not disclosed for corrections made to property, plant and equipment, receivables from exchange and non-exchange transactions and debt impairment. I was not able to determine the full extent of the errors in the prior period errors note as it was impracticable to do so. There was an impact on the cash flow statement.

Context for the opinion

10. 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.
11. 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.
12. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Material uncertainty relating to going concern

13. I draw attention to note 53 to the financial statements, which indicates that the municipality incurred a net deficit of R56 048 452 during the year ended 30 June 2020 and, as of that date the municipality's current liabilities exceeds its current assets by R1 086 285 446. As stated in note 53, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matters

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

Material uncertainties

15. With reference to note 47 to the financial statements, the municipality is the defendant in various lawsuits. The municipality is opposing the claims. The ultimate outcome of the matters could not be determined and no provision for any liabilities that may result were made in the financial statements.

Material losses

16. As disclosed in note 58 to the financial statements, material electricity losses of R147 015 179 (2018-19: R115 650 202) were incurred, which represented 25% (2018-19: 24%) of the total electricity purchased.

Material impairment

17. As disclosed in note 4 and note 38 to the financial statements, the receivables from exchange transactions balance was significantly impaired. The allowance for impairment of receivables from exchange transactions was R553 260 282 (2019: R426 726 397). The contribution to the provision for debt impairment was R126 533 886 (2019: R93 169 438).
18. As disclosed in note 5 and note 38 to the financial statements, the receivables from non-exchange transactions balance was significantly impaired. The allowance for impairment of receivables from non-exchange transactions – property rates was R89 203 515 (2019: R73 504 353). The allowance for impairment of receivables from non-exchange transactions –

traffic fines was R16 428 968 (2019: R45 587 449). The contribution to the provision for debt impairment was -R13 459 319 (2019: R8 878 901).

Other matter

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

Unaudited disclosure notes

20. 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

21. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and 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.
22. 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

23. 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.
24. 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

25. 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 material findings on the reported performance information against predetermined objectives for selected strategic objective presented in the annual performance report. I was engaged to perform procedures to identify findings but not to gather evidence to express assurance.

26. I was engaged to evaluate 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 objective presented in the annual performance report of the municipality for the year ended 30 June 2020:

Strategic goal	Pages in the annual performance report
Strategic goal 2: To ensure the provision of basic services to build sustainable and safe communities	x – x

27. The material findings in respect of the usefulness and reliability of the selected strategic goal are as follow:

Strategic goal 2 - To ensure the provision of basic services to build sustainable and safe communities

Various indicators

28. I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined method of collection or that related systems and processes were established to enable consistent measurement and reliable reporting of the actual achievement for the indicator. This was due to insufficient measurement definitions and processes. I was unable to test whether the indicator was well-defined and verifiable by alternative means. As a result, I was unable to audit the reliability of the indicators listed below.

Indicator description	Reported achievement
Percentage (2) reduction of water distribution losses	16%
Percentage (100) on planned water projects implemented per quarter	50%
Percentage (100) on provision of water infrastructure at informal settlements in Thusanang as per the project plan	59.5%
Percentage (100%) of the planned scope of work for the upgrading of the Randfontein waste water treatment works	100%
Percentage (100) of implementation of indigent programmes	48%
Percentage (95) of the planned scope of work for the construction of Droogeheuvel bulk water supply	95%
Percentage (100) on planning of the construction of alternate supply pipeline in Glenharvie	100%
Percentage (100) on planning of the Hillshaven outfall sewer upgrade	100%

Number (10 000) of registered indigent households receiving free basic services

29. The achievement of 4 845 was reported against a planned target of 10 000 in the annual performance report. However, the supporting evidence provided materially differed from the reported achievement.

Various indicators

30. A comparison between the actual performance of the year under review and previous year was not included in the annual performance report for the following indicators:

Indicator description
Percentage (2) reduction of water distribution losses
Percentage (100) on planned water projects implemented per quarter
Percentage (100) on provision of water infrastructure at informal settlements in Thusanang as per the project plan
Percentage (100%) of the planned scope of work for the upgrading of the Randfontein waste water treatment works
Percentage (100) of implementation of indigent programmes
Number (10 000) of registered indigent households receiving free basic services
Percentage (95) of the planned scope of work for the construction of Droogeheuvel bulk water supply
Percentage (100) on planning of the construction of alternate supply pipeline in Glenharvie
Percentage (100) on planning of the Hillshaven outfall sewer upgraded

Other matter

31. I draw attention to the matter below.

Achievement of planned targets

32. Refer to the annual performance report on page(s) x to x; x to x for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 28 to 30 of this report.

Report on the audit of compliance with legislation

Introduction and scope

33. 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.

34. The material findings on compliance with specific matters in key legislations are as follows:

Expenditure management

35. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
36. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with SCM processes.
37. Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R54 885 314, as disclosed in note 56 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest and penalties that were incurred due to cash flow challenges.
38. Reasonable steps were not taken to prevent unauthorised expenditure of R197 849 325, as disclosed in note 55 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by inadequate budgeting processes.

Strategic planning and performance

39. The performance management system and related controls were inadequate as they did not describe how the performance measurement, review and reporting processes should be conducted and managed, as required by municipal planning and performance management regulation 7(1).

Procurement and contract management

40. Some goods and services with 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). Similar non-compliance was also reported in the prior year.
41. Some contracts were not awarded in an economical manner as required by MFMA section 62(1)(a).

Annual financial statements

42. 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 non-current assets, current assets, expenditure, cash flow statement, statement of comparison of budget and actual amounts and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

Consequence management

43. Unauthorised expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(a) of the MFMA.

44. Irregular expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by 32(2)(b) of the MFMA.
45. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by 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 thereon and the selected strategic goal presented in the annual performance report that have been specifically reported on in the 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 goal presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
49. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

50. I considered internal control relevant to my audit of the 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 qualified opinion, the findings on the performance report and the findings on compliance with legislation included in this report.
51. The accounting officer did not adequately perform the oversight responsibility for financial and performance reporting and compliance with applicable legislation. This resulted in material adjustments being required to the financial statements, and material findings on the audit of predetermined objectives and compliance with applicable legislation. Action plans were developed but were not regularly monitored to ensure adequate implementation, taking into account the recommendations by internal audit, external audit and the audit committee.
52. The review processes of financial statements, compliance with legislation and performance reporting by senior management were not always adequate. This resulted in the matters reported under the basis of qualification paragraphs, material adjustments to the financial statements, findings in the performance report and non-compliance with applicable legislation.

Other reports

53. I draw attention to the following engagement conducted by an external party which had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These report did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
54. An independent consultant was investigating an allegation of possible maladministration, fraud, corruption and malpractice at the request of the MEC: Cooperative Governance and Traditional Affairs, Urban Planning and Human Settlement. The investigation took place during January 2021 and February 2021. The outcome of the investigation was not yet finalised at the date of this report.

Auditor-General
Johannesburg

16 April 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 goal 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 related to events or conditions that may cast significant doubt on the ability of the Rand West City Local 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 the 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 continuing as a going concern.
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and 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.

