

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

Opinion

1. I have audited the financial statements of the Rand West City Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in net assets and 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 Rand West City Local Municipality as at 30 June 2019, 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 of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2018 (Act No. 1 of 2018) (Dora).

Basis for 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 sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* and, parts 1 and 3 of the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA codes) as well as the 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 codes.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Material uncertainty relating to financial sustainability

6. I draw attention to the matter below. My opinion is not modified in respect of this matter.
7. I draw attention to note 55 to the financial statements, which indicates that the municipality incurred a net deficit of R83 835 304 during the year ended 30 June 2019 and, as of that date the municipality's current liabilities exceeded its current assets by R857 348 879. As stated in note 55, 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

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

Material impairments

9. As disclosed in note 4 to the financial statements, the receivable from exchange transactions balance has been significantly impaired. The allowance for impairment of receivables from exchange transactions amounts to R454 655 063 (2018: R311 151 061) which represented 69,4% (2018: 67,4%) of the total receivables from exchange transactions. The contribution to the provision for debt impairment was R158 822 091 (2018: R116 079 350).
10. As disclosed in note 5 to the financial statements, the receivable from non-exchange transactions balance has been significantly impaired. The allowance for impairment of receivables from non-exchange transactions amounts to R152 497 419 (2018: R150 992 200) which represented 80.1% (2018: 85,8%) of the total receivables from non-exchange transactions. The contribution to the provision for debt impairment was R1 505 219 (2018: R15 657 236).
11. As disclosed in note 8 to the financial statements, the long-term receivables balance has been significantly impaired. The allowance for impairment of long-term receivables amounts to R3 351 496 (2018: R7 070 987) which represented 75% (2018: 75%) of the total long-term receivables.

Material uncertainties

12. With reference to note 49 to the financial statements, the municipality is the defendant in various lawsuits. The outcome of these matters cannot presently be determined and/or reliably measured; therefore, no provision for any liabilities that may result has been made in the financial statements.

Restatement of corresponding figures

13. As disclosed in note 52 to the financial statements, the corresponding figures for 30 June 2018 have been restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2019.

Material losses

14. As disclosed in note 60 to the financial statements, material electricity losses of R115 650 202 (2018: R99 423 320) were incurred, which represents 24% (2018: 21%) of total electricity purchased.

Other matter

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

Unaudited disclosure notes

16. 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

17. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with 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.
18. In preparing the financial statements, the accounting officer is responsible for assessing the Rand West City Local 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

19. 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.
20. 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

21. 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 material findings on the reported performance information against predetermined objectives for selected strategic goals presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
22. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did 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.
23. 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 goal presented in the annual performance report of the municipality for the year ended 30 June 2019:

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

24. 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.

25. The material findings in respect of the reliability of the selected strategic goal is as follows:

Strategic goal 2: to ensure provision of basic services to build sustainable and safe communities

Number of registered indigent households receiving free basic services

26. The achievement for the target number of registered indigent households receiving free basic services reported in the annual performance report was 13 994. However, the supporting evidence provided did not agree to the reported achievement and indicated an achievement of 4 898.

Other matters

27. I draw attention to the matters below.

Achievement of planned targets

28. Refer to the annual performance report on pages ... to ... 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 reliability of the reported performance information in paragraph 26 of this report.

Adjustment of material misstatements

29. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of strategic goal 2: to ensure provision of basic services to build sustainable and safe communities. As management subsequently corrected only some of the misstatements, I raised material findings on the reliability of the reported performance information. Those that were not corrected are reported above.

Report on the audit of compliance with legislation

Introduction and scope

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

Annual financial statements

32. 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 misstatement of commitments identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

33. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by municipal supply chain municipality (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).
34. The performance of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.

Expenditure management

35. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R113 029 071, as disclosed in note 57 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed unauthorised expenditure was caused by under-budgeting.
36. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
37. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R32 391 152, as disclosed in note 58 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 that was incurred due to cash flow challenges.
38. Reasonable steps were not taken to prevent irregular expenditure amounting to R171 039 449, as disclosed in note 59 to the annual financial statements, as required by 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with various SCM regulations.

Consequence management

39. 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.
40. Some of the fruitless and wasteful expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.
41. Some of the irregular expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Human resource management and compensation

42. An approved staff establishment was not in place, as required by section 66(1)(a) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).
43. I was unable to obtain sufficient appropriate audit evidence that job descriptions were established for all posts in which appointments were made, as required by section 66(1)(b) of the MSA.

Other information

44. 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 goals presented in the annual performance report that have been specifically reported in this auditor's report.
45. 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 thereon.
46. 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.
47. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information and, 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

48. 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 findings on the annual performance report and the findings on compliance with legislation included in this report.

49. The accounting officer did not adequately perform oversight responsibility of financial and performance reporting as well as compliance with applicable legislation, resulting in material adjustment being required on the financial statements, as well as material findings on the audit of predetermined objectives and compliance with applicable legislation. Action plans that were developed were not monitored regularly to ensure that they have been adequately implemented taking into account the recommendations by internal audit and the audit committee.
50. The review processes of financial statements, compliance with legislation and performance reporting by senior management were inadequate in certain instances, resulting in material adjustments to the financial statements, findings in the performance report and non-compliance with applicable legislation.

Other reports

51. I draw attention to the following engagements conducted by various parties that 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 reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

Investigations

52. An independent consultant was investigating, at the request of the municipality, an allegation of an unauthorised payment. The investigation concluded during November 2018. The matter is awaiting council resolution before corrective action is taken.
53. An independent consultant was investigating, at the request of the municipality, an allegation of fraudulent use of municipal funds. The investigation was concluded during March 2019 and resulted in disciplinary proceedings against three employees. These proceedings were in progress at the date of this auditor's report.

Auditor - General

Johannesburg

30 November 2019



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 goals 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 Rand West City Local Municipality’s ability 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, related safeguards.