Report of the auditor-general to the Western Cape Provincial Parliament and the council on the City of Cape Town

Report on the audit of the consolidated and separate financial statements

Opinion

1. I have audited the consolidated and separate financial statements of the City of Cape Town set out on pages 10 to 93 , which comprise the statement of financial position, 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 consolidated and seperate financial statements, including a summary of significant accounting policies as at the 30 June 2021.

2. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the City of Cape Town as at 30 June 2021, and its financial performance and cash flows for the year then ended in accordance with South African Standards of Generally Recognised Accounting Practice (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 Act 16 of 2019 (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 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 opinion.

Context for the opinion

6. 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 consolidated and separate financial statements section of my report.

7. I am independent of the City of Cape Town 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.

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

Key audit matters

9. I have determined that there are no key audit matters to communicate in this auditor’s report.

Emphasis of matters

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

Material losses/ impairments

11. As disclosed in note 9 to the financial statements, the municipality provided for impairment of receivables from exchange and non-exchange transactions of R7, 4 billion (2020: R7, 8 billion).

Significant Underspending

12. As disclosed in the statement of comparison of budget and actual amounts, the municipality has materially underspent the operating budget by R1,5 billion and the capital budget by R847 million. The underspending is mainly due to the impact of the covid-19 lockdown, community dynamics and influences, delays with the appointment of service providers and contractor performance.

Other matters

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

Unaudited disclosure notes

14. 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, we do not express an opinion on it.

Unaudited supplementary schedules

15. The supplementary information set out in pages 94 to 113 does not form part of the financial statements and is presented as additional information. We have not audited these schedules and accordingly, we do not express an opinion thereon.

Responsibilities of the accounting officer for the consolidated and separated financial statements

16. The accounting officer is responsible for the preparation and fair presentation of the consolidated and separate 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 consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

17. In preparing the consolidated and separate 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 City of Cape Town or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the consolidated and separate financial statements

18. My objectives are to obtain reasonable assurance about whether the consolidated and separate 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 consolidated and separate financial statements.

19. A further description of my responsibilities for the audit of the consolidated and separate 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 focus areas 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/measures 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 focus area presented in the municipality's annual performance report for the year ended 30 June 2021:

Strategic Focus Area (SFA)	Pages in the annual performance report
Strategic focus area 3 – the caring city	2-3

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 this strategic focus area.

Other matters

25. I draw attention to the matter below.

Achievement of planned targets

26. Refer to the annual performance report on pages 2 to 3 for information on the achievement of planned targets for the year.

Report on the audit of compliance with legislation

Introduction and scope

27. 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.

28. The material findings on compliance with specific matters in key legislation are as follows:

Expenditure Management

29. Reasonable steps were not taken to prevent all occurences of irregular expenditure disclosed in note 38.3.2.1 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with the municipal supply chain management (SCM) regulation 5.

Procurement and contract management

30. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5. Similar non-compliance was also reported in the prior year.

Other information

31. 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 consolidated and separate financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.

32. 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.

33. 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 consolidated and separate financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

34. I have nothing to report in this regard

Internal control deficiencies

35. 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 compliance with legislation included in this report.

36. In some instances adequate compliance monitoring processes were not implemented resulting in material non-compliance being reported in the area of supply chain management. This was due to contract management and regular contract performance management processes not

being adhered to which resulted in expenditure being incurred after the expiry date of contracts without following an appropriate procurement process.

Material irregularities

37. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit.

Material irregularities identified during the audit

38. The material irregularities identified are as follows:

Payments made for plumbing repairs and installation services not received

39. During the previous audit the municipality made payments from July 2019 to June 2020 to contractors for the repair of plumbing and installation of water management devices at domestic properties occupied by indigent households. We identified instances where contractors billed for items that were not indicated on the respective job cards. The amounts claimed were therefore not always in line with the actual work completed and as a result, overpayments occurred. The overpayments occurred in the 2019-20 financial year and continued until the 2020-21 financial year.

40. The overpayments to contractors for these services is in contravention of section 78(1) (a) of the MFMA as officials of the municipality exercising financial management responsibilities did not take all reasonable steps within their respective areas of responsibility to ensure that the system of financial management and internal control established for the municipality was carried out diligently.

41. The non-compliance is likely to result in a material financial loss if the overpayments are not recovered.

42. The accounting officer was notified of the material irregularity on 17 May 2021 and was invited to make a written submission on the actions that have been and that will be taken to address the matter. The accounting officer provided a submission on 11 June 2021 and subsequently on 7 December 2021.

43. The accounting officer appointed a forensic investigator on 8 June 2021 to quantify the full extent of the loss as well as the parties responsible for the loss. The financial loss will be recovered from the service providers and responsible officials identified once the outcome of the forensic investigation is known. The investigation had not yet been concluded and it is anticipated that a final report will be available no later than 31 March 2022.

Needs analysis to inform the required number of standby teams for plumbing repairs not performed

44. During the previous audit the municpality made payments from July 2019 to June 2020 to contractors for the repair of plumbing and installation of water management devices at domestic properties occupied by indigent households. We identified that the municipality paid

in excess of the actual standby hours required for the period as the municipality did not perform a needs analysis for standby teams required over weekends and after hours on weekdays. As a result the municipality paid for standby allowances that were not used. The overpayments occurred in the 2019-20 financial year and continued until the 2020-21 financial year.

45. The municipality paid contractors to be at full capacity over weekends and after hours on weekdays. The contract did not specify how the number of standby teams would be determined. The municipality's calculation of the number of standby teams also did not take into account demand trends and historical data of calls received during weekends and after hours on weekdays. The payment of standby hours not used is in contravention of section 78(1) (b) of the MFMA that requires effective management of resources of the municipality.

46. The non-compliance is likely to result in a material financial loss.

47. The accounting officer was notified of the material irregularities on 17 May 2021 and was invited to make a written submission on the actions that have been and that will be taken to address the matters. The accounting officer provided a submission on 11 June 2021 and subsequently on 7 December 2021.

48. The accounting officer appointed a forensic investigator on 8 June 2021 to investigate the full extent of the loss and circumstances and control deficiencies that led to the findings and to recommend the necessary corrective actions and disciplinary steps to be taken. The investigation had not yet been concluded and it is anticipated that a final report will be available no later than 31 March 2022.

49. We will follow up on the implementation of the planned actions during the next audit cycle.

Auditor-General

Cape Town

10 February 2022

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 consolidated and separate financial statements and the procedures performed on reported performance information for selected objectives 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 consolidated and separate financial statements as described in this auditor's report, I also:

- identify and assess the risks of material misstatement of the consolidated and separate 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 '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 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 Cape Town, Cape Town Stadium and Cape Town International Convention Centre 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
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

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 provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or 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 consolidated and separate 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.