Report of the auditor-general to the Western Cape Provincial Parliament and the council of 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 9 to 101, which comprise the statement of financial position as at 30 June 2022, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

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 2022, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 9 of 2021 (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 consolidated and separate financial statements section of my 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.

Key audit matters

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

Emphasis of matters

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

Restatement of corresponding figures

8. As disclosed in note 37.2 to the consolidated and separate financial statements, the corresponding figures for 30 June 2021 were restated as a result of errors in the consolidated and separate financial statements of the municipality at, and for the year ended, 30 June 2022.

Impairment of trade debtors

9. As disclosed in note 9 to the consolidated and separate financial statements, the municipality provided for impairment of receivables from exchange and non-exchange transactions of R8,1 billion (2021: R7,4 billion).

Other matters

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

Unaudited disclosure notes

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

Unaudited supplementary schedules

12. The supplementary information set out on pages 102 to 122 does not form part of the consolidated and separate financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

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

13. The accounting officer is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the 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.

14. 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 municipality 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

15. 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.

16. 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

17. 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 the selected strategic focus area presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

18. 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 do not extend to any disclosures or assertions relating to the extent of achievements in the current year or 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.

19. 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 2022:

Strategic focus area	Pages in the annual performance report
Strategic focus area 3 – Caring city	1–2

20. 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.

21. I did not identify any material findings on the usefulness and reliability of the reported performance information for this strategic focus area.

Other matter

22. I draw attention to the matter below.

Achievement of planned targets

23. Refer to the annual performance report on pages 1 to 2 for information on the achievement of planned targets for the year. The City of Cape Town achieved 87% of the planned targets for the year in the selected strategic focus area 3 – the caring city. One of the planned targets not achieved related to key service delivery indicators on housing, as in the table below:

Indicator	Planned target	Reported achievement
3.H Number of human settlements opportunities provided (formal sites serviced)	1 940	1 423

24. Reasons for the underachievement of targets are included in the annual performance report on pages 1 to 2.

Report on the audit of compliance with legislation

Introduction and scope

25. 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.

26. I did not identify any material findings on compliance with the specific matters in key legislation set out in the general notice issued in terms of the PAA.

Other information

27. 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 strategic focus areas presented in the annual performance report that have been specifically reported in this auditor's report.

28. My opinion on the consolidated and separate 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.

29. 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 strategic focus area presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

30. 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

31. 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.

32. I did not identify any significant deficiencies in internal control.

Material irregularities

33. 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.

Status of previously reported material irregularities

Payments made for plumbing repairs and installation services not received

34. The municipality paid contractors from July 2019 to June 2020 to repair plumbing and install water management devices at domestic properties occupied by indigent households. I 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.

35. The overpayments to contractors for these services is in contravention of section 78(1)(a) of the MFMA, as municipal officials 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.

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

37. The accounting officer was notified of the material irregularity on 17 May 2021.

38. In the response to the notification, the accounting officer committed to conduct a forensic investigation into this material irregularity. On 14 March 2022, the accounting officer provided a submission indicating that the forensic investigation had been concluded, but that additional investigations would be conducted by the municipality. The outcomes of the municipality's investigations were reported to the AGSA on 5 May 2022.

39. The forensic investigation confirmed the non-compliance and identified officials responsible for the breakdown of internal controls that led to the non-compliance. The accounting officer calculated the actual financial loss and, during July and August 2022, civil claims were filed in the high court against the four service providers to recover the financial losses. Controls have been implemented to prevent further overpayments. Except for one official, the officials responsible for the non-compliance subsequently left the employment of the municipality. Disciplinary steps have been taken against the one remaining official.

40. The material irregularity is therefore considered resolved. I will however continue to monitor the high court proceedings.

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

41. The municipality paid contractors from July 2019 to June 2020 to repair plumbing and install water management devices at domestic properties occupied by indigent households. I 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.

42. 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.

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

44. The accounting officer was notified of the material irregularity on 17 May 2021.

45. In the response to the notification, the accounting officer committed to conduct a forensic investigation into this material irregularity. On 14 March 2022, the accounting officer provided a submission indicating that the forensic investigation had been concluded, but that additional investigations would be conducted by the municipality. The outcomes of the municipality's investigations were reported to the AGSA on 5 May 2022.

46. The forensic investigation confirmed the non-compliance and identified officials responsible for the breakdown of internal controls that led to the non-compliance. The accounting officer calculated the actual financial loss and, during July and August 2022, civil claims were filed in the high court against the four service providers to recover the financial losses. Controls have been implemented to prevent further overpayments. Except for one official, the officials responsible for the non-compliance subsequently left the employment of the municipality. Disciplinary steps have been taken against the one remaining official.

47. The material irregularity is therefore considered resolved. I will however continue to monitor the high court proceedings.

Auditor-General

Cape Town

30 November 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 strategic focus area and on the municipality's compliance with respect to the selected subject matters.

Consolidated and separate 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 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 consolidated and separate 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 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 consolidated and separate financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the consolidated and separate 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 consolidated and separate 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 provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence, and communicate 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.