Report of the auditor-general to the Gauteng Provincial Legislature and council of West Rand District Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the West Rand District Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2023, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as 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 West Rand District Municipality as at 30 June 2023, and its financial performance and cash flows for the year then ended in accordance with the 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 5 of 2022 (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 my report.

4. I am independent of the district 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.

Material uncertainty relating to going concern

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

7. As disclosed in note 49 to the financial statements, the municipality had an accumulated surplus (deficit) of (R113 891 233) and that the district municipality's total liabilities exceed its assets by (R113 891 233). The district municipality is presently implementing a financial recovery plan with seven (7) strategies and reports on progress to the National Treasury, National Department of Cooperative Governance and Traditional Affairs (Cogta), Gauteng Provincial Treasury and Gauteng Provincial Cogta on monthly basis. These events and

conditions, along with the other matters as set out in note 50, indicate that a material uncertainty exists that may cast significant doubt on the district municipality's financial sustainability.

Emphasis of matters

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

Restatement of corresponding figures

9. As disclosed in note 47 to the financial statements, the corresponding figures for 30 June 2022 were restated as a result of errors in the financial statements of the West Rand District Municipality at, and for the year ended, 30 June 2023.

Material uncertainties relating to contingent liabilities

10. As disclosed in note 45 to the financial statements, the district municipality is the defendant in a number of lawsuits. The district municipality is opposing the claims, as it believes that the claims are not valid. The ultimate outcome of these matters could not be determined and no provision for any liability that may result was made in the financial statements.

Other matter

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

Unaudited disclosure notes

12. In terms of section 125(2)(e) of the MFMA, the particulars of non-compliance with the MFMA should be disclosed 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

13. 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.

14. In preparing the financial statements, the accounting officer is responsible for assessing the district 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 district municipality or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the auditor-general for the audit of the financial statements

15. 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.

16. 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 annual performance report

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 material findings on the usefulness and reliability of the reported performance information against predetermined objectives presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

18. I selected the following material performance indicators related to regional outcome 1: basic service delivery presented in the annual performance report for the year ended 30 June 2023. I selected those indicators that measure the district municipality's performance on its primary mandated functions and that are of significant national, community or public interest:

    - Number (4) of reports on implementation of the Neighbourhood Development Partnership Grant funded projects
    - Number (4) of engagements with Department of Water and Sanitation to monitor quality of water and sanitation
    - Number (4) of reports on the coordination & monitoring of Rural Roads Asset Management System
    - Reports on Programmes / Activities (2) being undertaken to support the District Integrated Transport Plan.

19. I evaluated the reported performance information for the selected material performance indicators against the criteria developed from the performance management and reporting framework, as defined in the general notice. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users on the district municipality's planning and delivery on its mandate and objectives.

20. I performed procedures to test whether:

    - the indicators used for planning and reporting on performance can be linked directly to the district municipality's mandate and the achievement of its planned objectives

    - the indicators are well defined to ensure that they are easy to understand and can be applied consistently, as well as verifiable so that I can confirm the methods and processes to be used for measuring achievements

    - the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated

- the indicators and targets reported on in the annual performance report are the same as those committed to in the approved initial or revised planning documents
- the reported performance information is presented in the annual performance report in the prescribed manner
- there is adequate supporting evidence for the achievements reported and for the reasons provided for any over- or underachievement of targets / measures taken to improve performance.

21. I performed the procedures to report material findings only; and not to express an assurance opinion or conclusion.
22. I did not identify any material findings on the reported performance information for the selected indicators.

Other matter

23. I draw attention to the matter below.

Achievement of planned targets

24. The annual performance report includes information on reported achievements against planned targets and provides measures taken to improve performance. This information should be considered in the context of the material findings on the reported performance information.

Report on compliance with legislation

25. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting officer is responsible for the district municipality's compliance with legislation.
26. I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.
27. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the district municipality, clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.
28. The material finding on compliance with the selected legislative requirements, presented per compliance theme, is as follows:

Expenditure management

29. Reasonable steps were not taken to prevent unauthorised expenditure of R5 114 614, as disclosed in note 51 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 budget processes.

Other information in the annual report

30. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report, which includes the audit committee's report. The other information does not include the financial statements, the auditor's report and those selected material indicators in the scoped-in programme presented in the annual performance report that have been specifically reported in this auditor's report.

31. My opinion on the financial statements, the report on the audit of the annual performance report and the report on compliance with legislation do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.

32. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the financial statements and the selected material indicators in the scoped-in programme presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

33. 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

34. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.

35. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the opinion and the material findings on compliance with legislation included in this report.

36. The accounting officer did not adequately exercise their oversight responsibility for compliance with laws and regulations, as unauthorised expenditure was incurred.

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 and on the status of material irregularities as previously reported in the auditor's report.

Status of the previously reported material irregularity

Prohibited investment into Venda Building Society Mutual Bank (VBS)

38. In the 2017-18 financial year, the district municipality invested funds at VBS Mutual Bank, which was not a registered bank, in contravention of municipal investment regulation 6.

39. The non-compliance is likely to result in a material financial loss of R 76 114 645 for the district municipality if the amount invested is not recovered in full from the estate of VBS Mutual Bank. The amount is disclosed in note 6 to the 2018-19 financial statements.

40. The accounting officer was notified of the material irregularity on 15 December 2021.

41. The actions the accounting officer took to resolve the material irregularity were as follows:

- The banking and investment policy of the district municipality was reviewed to ensure that the district municipality only invests in the regulated banks of South Africa and was approved by the council in November 2020
- A claim was lodged by the district municipality and approved by the VBS Mutual Bank liquidator to recover the financial loss in March 2018
- An amount of R5,3 million was received in February 2022 from the VBS Mutual Bank liquidator through the first distribution account. If the liquidator is unable to recover the remaining financial loss, the Directorate for Priority Crimes Investigation (Hawks) will refer such to the Asset Forfeiture Unit of the National Prosecuting Authority for further action
- Employees who were determined to be responsible for the investment by the investigation were found liable and the former accounting officer's contract expired in January 2020
- A criminal case was opened against the implicated ex-officials in February 2020. The ongoing criminal case will determine appropriate actions to be taken against the implicated ex-officials.

42. The material irregularity has been resolved.

Auditor-General

Johannesburg

30 November 2023

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

The annexure includes the following:

- The auditor-general's responsibility for the audit
- The selected legislative requirements for compliance testing

Auditor-general's responsibility for the audit

Professional judgement and professional scepticism

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 selected material performance indicators and on the district municipality's compliance with selected requirements in key legislation.

Financial statements

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 district municipality's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made
- conclude on the appropriateness of the 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 district 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 district 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

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.

I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence and 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.

Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003 (MFMA)	Sections 122(1), 122(2), 126(1)(a), 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii) Sections 11(1), 15, 29(1) , 29(2)(b), 62(1)(d), 65(2)(a), 65(2)(b), 65(2)(e) Sections13(2), 14(1), 14(2)(a), 14(2)(b), 63(2)(a), 63(2)(c) Section 53(1)(c)(ii) Section 1 – Definition of SDBIP Sections 72(1)(a)(ii), 24(2)(c)(iv), 54(1)(c) Section 1 – paragraphs (a), (b) & (d) of the definition: irregular expenditure Sections 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b), 32(6)(a), 32(7), 170, 171(4)(a), 171(4)(b) Sections 95(a), 112(l)(iii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117
LG: MFMA: Municipal Budget and Reporting Regulations, 2009	Regulations 71(1), 71(2), 72
LG: MFMA: Municipal Investment Regulations, 2005	Regulations 3(1)(a), 3(3), 6, 7, 12(2), 12(3)
LG: MFMA: Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014	Regulations 5(4), 6(8)(a), 6(8)(b), 10(1)
LG: MFMA: Municipal Supply Chain Management (SCM) Regulations, 2017	Regulations 5, 12(1)(b), 12(1)(c), 12(3), 13(b), 13(c), 13(c)(i), 16(a), 17(1)(a), 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), 27(2)(e), 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a) and (b, 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 38(1)(c), 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43, 44, 46(2)(e), 46(2)(f)
Municipal Systems Act 32 of 2000 (MSA)	Sections 29(1)(b)(ii), 27(1), 29(2)(a), 29(2)(c), 42, 25(1) , 26(a), 26(c) , 26(i) , 26(h), 41(1)(a), 43(2), 41(1)(b), 34(a) , 41(1)(c)(ii), 34(b), 38(a), 93B(a), 93B(b), 93C(a)(iv), 93C(a)(v) Sections 57(6)(a), 56(a) , 66(1)(b) , 66(1)(a), 67(1)(d), 57(2)(a), 57(4B)
LG: MSA: Municipal Planning and Performance Management Regulations, 2001	Regulations 15(1)(a)(i), 2(1)(e), 2(3)(a), 9(1)(a), 10(a), 12(1), 3(4)(b), 15(1)(a)(ii), 3(5)(a), 3(3), 8, 7(1)
LG: MSA: Municipal Performance Regulations for Municipal Managers and Managers Directly Accountable to Municipal Managers, 2006	Regulations 2(3)(a), 4(4)(b), 8(1), 8(2), 8(3)

Legislation	Sections or regulations
LG: MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations 36(1)(a), 17(2)
LG: MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2), 5(3), 5(6), 8(4)
Annual Division of Revenue Act (Dora)	Section 11(6)(b), 12(5), 16(1), 16(3)
Construction Industry Development Board (CIDB) Act 38 of 2000	Section 18(1)
CIDB Regulations	Regulations 17, 25(7A)
Municipal Property Rates Act 6 of 2004 (MPRA)	Section 3(1)
Preferential Procurement Policy Framework Act 5 of 2000 (PPPFA)	Section 2(1)(a), 2(1)(f)
Preferential Procurement Regulations (PPR), 2011	Regulations 4(1), 4(3), 4(4), 4(5), 5(1), 5(2), 5(3), 5(5), 6(1), 6(2), 6(3), 6(5), 6(4), 7(1), 10, 11(2), 11(4), 11(5), 11(8)
PPR, 2017	Regulations 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(5), 6(6), 6(8), 7(1), 7(2), 7(3), 7(5), 7(6), 7(8), 8(2), 8(5), 9(1), 10(1), 10(2), 11(1)
Prevention and Combating of Corrupt Activities Act 12 of 2004 (Precca)	Section 34(1)