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 2021, 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 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 2021, 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, 4 of 2020 (Dora).

Basis for qualified opinion

Property, plant and equipment

3. The municipality's practice is to recognise the land that is privately owned where they construct infrastructure and community assets that belongs to the municipality by only using the criteria found in iGRAP 18, *Recognition and derecognition of land,* which is to demonstrate that the municipality has the right to direct access to land, and to restrict or deny the access of others to land. However, the municipality did not apply the other requirements of assessing if they received the rights to use the land for unlimited period of time. This resulted in land included in property, plant and equipment as disclosed in note 12 to the financial statements being overstated by R33 304 094 and the accumulated surplus being overstated by the same amount.

Commitments

4. The municipality did not correctly prepare and disclose the commitments as required by GRAP 17, *Property, plant and equipment.* This was due the inclusion of expired contracts and projects that were completed and capitalised in the commitment register. This resulted in commitments disclosed in note 47 to the financial statements being overstated by R90 129 193.

Context for the opinion

5. 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.

6. 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.

7. 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

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

9. I draw attention to note 54 to the financial statements, which indicates that the municipality incurred a net deficit of R136 207 018 during the year ended 30 June 2021 and, as of that date the municipality's current liabilities exceeds its current assets by R1 086 285 446. As stated in note 54, these events or conditions along with other matters as set forth in note 54, 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

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

Restatement of corresponding figures

11. As disclosed in note 51 to the financial statements, the corresponding figures for 30 June 2020 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2021.

Material uncertainties

12. With reference to note 48 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

13. As disclosed in note 59 to the financial statements, material electricity losses of R193 898 420 (2019-20: R147 015 179) were incurred, which represents 21% (2019-20: 25%) of total electricity purchased. The non-technical losses are caused by theft and faults.

14. As disclosed in note 59 to the financial statements, material water distribution losses of R41 360 658 (2019-20: R45 152 482) were incurred, which represents 16% (2019-20: 17%) of total water purchased. These losses are mainly due to theft, faulty pipes and spillages.

Material Impairment

15. As disclosed in note 4 and note 39 to the financial statements, the receivables from exchange transactions balance was significantly impaired as a result of not implementing the approved revenue enhancement strategy due to the impact of COVID-19. The allowance for impairment of receivables from exchange transactions amounts to R716 164 825 (2020: R553 260 282) of the total receivables from exchange transactions. The contribution to the provision for debt impairment was R162 904 546 (2020: R126 533 886).

16. As disclosed in note 5 and note 39 to the financial statements, the receivables from non-exchange transactions balance was significantly impaired as a result of not implementing the approved revenue enhancement strategy due to the impact of COVID-19. The allowance for impairment of receivables from non-exchange transactions – property rates amounts to R116 311 131 (2020: R89 203 515). The allowance for impairment of receivables from non-exchange transactions – traffic fines amounts to R13 006 869 (2020: R16 428 968). The contribution to the provision for debt impairment was R23 869 043 (2020: -R13 459 319).

Other matter

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

Unaudited disclosures notes

18. 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

19. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA standard 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.

20. 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

21. 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.

22. 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

23. 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 goal presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

24. 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.

25. 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 municipality's annual performance report for the year ended 30 June 2021:

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

26. 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.

27. The material findings on the usefulness and reliability of the performance information of the selected strategic goal are as follows:

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 source information and method of collection or that related systems and processes were established to enable consistent measurement and reliable reporting of the actual achievement of the indicators listed below. This was due to a lack of measurement definitions and processes. I was unable to confirm that the indicator is well-defined and verifiable by alternative means. As a result, I was unable to audit the reliability of the achievements reported in the annual performance report of the listed indicators.

Indicator description	Planned target	Reported achievement
Construction of 20 Mega Liter Droogeheuwel reservoir completed	20 000 000	20 000 0000
Reduction of Water distribution losses by 2% (from 18% to 16%)	16%	18%
Percentage (20) of the Construction of Upgrading of outfall sewer in Hillshaven	20%	20%
Percentage (20) of the Construction of alternate supply pipeline in Glenharvie	20%	20%

29. The achievements below were reported in the annual performance report for the listed indicators. However, some supporting evidence provided materially differed from the reported achievement, while in other instances I was unable to obtain sufficient appropriate audit evidence. This was due to the lack of accurate and complete records. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any further adjustments were required to these reported achievements.

Indicator description	Planned target	Reported achievement
Number (6 000) of registered Indigent Households receiving Free Basic Services	6 000	9 508
Number (1 286) of water meters installed	1 286	1 286

Percentage (100) of water projects completed by the end of the Financial Year

30. The achievement of 100% was reported against target 100% in the annual performance report. However, some supporting evidence provided materially differed from the reported achievement, while in other instances I was unable to obtain sufficient appropriate audit evidence. This was due to the lack of accurate and complete records. I was unable to further confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievement.

Percentage (100) of implementation of Indigent Programme

31. The achievement of 100% was reported against target 100% in the annual performance report. However, the supporting evidence provided did not agree to the reported achievement and materially differed from the reported achievement.

Other matter

32. I draw attention to the matter below.

Achievement of planned targets

33. Refer to the annual performance report on pages 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 31 of this report.

Report on the audit of compliance with legislation

Introduction and scope

34. 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. .

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

Annual financial statements

36. 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. Some of the 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.

Strategic planning and performance management

37. 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

38. Some of the invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM Regulation 22(1) and 22(2).

39. Some of the quotations were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act and 2017 Preferential Procurement Regulations 11. Similar non-compliance was also reported in the prior year.

Expenditure management

40. Reasonable steps were not taken to prevent irregular expenditure of R95 406 524, as disclosed in note 58 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the disclosed irregular expenditure was caused by non-compliance with SCM processes.

41. Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R59 726 643, 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 fruitless and wasteful expenditure was caused by interest and penalties that were incurred due to cash flow challenges.

42. Reasonable steps were not taken to prevent unauthorised expenditure of R202 072 243, as disclosed in note 56 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.

Asset management

43. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.

Consequence management

44. 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.

45. 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.

46. 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

47. 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 goal presented in the annual performance report that have been specifically reported in this auditor's report.

48. 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.

49. 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.

50. 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

51. 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.

52. 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.

53. Senior management did not adequately review the processes of preparing financial statements, compliance with legislation and performance reporting. 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

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

55. An independent consultant was investigating an allegation of possible maladministration, fraud, corruption and malpractice at the request of the Member of the Executive Council: 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

31 January 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 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 relating 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 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

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.