Report of the auditor-general to the Gauteng Provincial Legislature and the council of 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 xx to xx, which comprise the statement of financial position as at 30 June 2023, 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, the financial statements present fairly, in all material respects, the financial position of the Rand West City Local Municipality as at 30 June 2023 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 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 responsibilities of the auditor-general for the audit of the 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.

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. I draw attention to note 55 to the financial statements, which indicates that the municipality incurred a net deficit of R178 212 522 during the year ended 30 June 2023 and, as of that date the municipality's current liabilities exceeds its current assets by R1 744 995 912. As stated in note 55, these events or conditions, along with other matters as set forth in note 55, 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 impairment - trade debtors

9. As disclosed in note 39 to the annual financial statements, material impairment of R300 063 886 was incurred as a result of poor collection practices.

Material uncertainties

10. As disclosed in note 49 of the annual financial statements, the municipality has pending lawsuits and is the defendant to the multiple lawsuits. The outcome of these lawsuits as at year end cannot be determined and/or reliably measured; therefore, no provision for any liabilities that may result has been made in the annual financial statements.

Restatement of corresponding figures

11. As disclosed in note 52 to the financial statements, the corresponding figures for 30 June 2022 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2023.

Material losses - electricity

12. As disclosed in note 60 to the financial statements, the municipality incurred material electricity losses of R204 160 814 (2021-22: R196 154 953), which represents 25% (2021-22: 25%) of total electricity purchased. Technical losses amounted to R16 332 865 (2021-22: R15 692 396) due to losses inherent in the network. Non-technical losses amounted to R187 827 949 (2021-22: R180 462 557) due to theft and fault.

Material losses - water

13. As disclosed in note 60 to the financial statements, the municipality incurred material water distribution losses of R88 157 018 (2021-22: R47 030 971), which represents 27% (2021-22: 18%) of total water purchased. Technical losses amounted to R5 289 421 (2021-22: R2 821 858). Non-technical losses amounted to R 82 867 597 (2021-22: R 44 209 113) due to theft, spillage, and faulty pipes.

Other matter

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

Unaudited disclosure notes

15. 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

16. 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.

17. 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.

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

18. 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.

19. 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

20. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for the selected strategic goals presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

21. I selected the following strategic goals presented in the annual performance report for the year ended 30 June 2023 for auditing. I selected the strategic goals that measures the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.

Strategic goal	Page numbers	Purpose
To ensure the provision of basic services to build sustainable and safe communities	XX	To improve access to sustainable basic services through proactive maintenance of infrastructure, and to ensure that basic services are progressively expanded in all communities through proper planning.

Strategic goal	Page numbers	Purpose
To promote and accelerate an inclusive growing green economy	XX	To promote and accelerate an inclusive growing green economy

22. I evaluated the reported performance information for the selected strategic goals 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 municipality's planning and delivery on its mandate and objectives.

23. I performed procedures to test whether:

- the indicators used for planning and reporting on performance can be linked directly to the 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 measures taken to improve performance.

24. I performed the procedures for the purpose of reporting material findings only; and not to express an assurance opinion or conclusion.

25. I did not identify any material findings on the reported performance information for the selected strategic goals.

Other matter

26. I draw attention to the matter below.

Achievement of planned targets

27. 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.

28. The municipality plays a key role in delivering services to South Africans. The table that follows provides information on the achievement of planned targets and lists the key service delivery indicators that were not achieved as reported in the annual performance report. The measures taken to improve performance are included in the annual performance report on pages xx to xx.

MSG2: To ensure the provision of basic services to build sustainable and safe communities

Targets achieved: 63% *Budget spent: 99%*		
Key service delivery indicator not achieved	**Planned target**	**Reported achievement**
Construction of 4.5km 132kV HT line (phase 1) to Dan Thloome by 30 June 2023	4,5km	0km
Installation of three (3) pumps in Glenharvie by 30 June 2023	3	2
Installation of (500m) pipeline in Droogeheuwel by June 2023	500m	0m
Number (2400m) fully surfaced road to Westonaria Cemetery constructed by 30 June 2023	2400m	0m
Number (4500m) of roadbed to be constructed in Zuurbekom (phase 5) by 30 June 2023	4500m	0m
Number (3336m) of roadbed to be constructed in Mohlakeng Ext 11 by 30 June 2023	3336m	1446,87m
Number (1km) of planned kilometres for resurfacing of roads in Joshua Nkomo Street, Randfontein by 30 June 2023	1km	0km

Material misstatements

29. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for MSG2: to ensure the provision of basic services to build sustainable and safe communities and MSG3: to promote and accelerate an inclusive growing green economy. Management subsequently corrected all the misstatements and I did not include any material findings in this report.

Report on compliance with legislation

30. 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 municipality's compliance with legislation.

31. 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.

32. 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 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.

33. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statements

34. 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 misstatements of non-current assets, liabilities, revenue, expenditure, disclosure item and cash flow statement identified by the auditors in the submitted financial statement were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

35. Reasonable steps were not taken to prevent irregular expenditure amounting to R64 511 557 as disclosed in note 59 to the financial statements, in contravention of section 62(1) (d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with supply chain management regulation 28.

36. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R117 492 803, as disclosed in note 58 to the 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 on overdue payments relating to Eskom.

37. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R229 713 786 as disclosed in note 57 to the financial statements, in contravention of section 62(1) (d) of the MFMA. The majority of the unauthorised expenditure was caused by finance cost relating to interest on overdue payments.

38. Money owed by the municipality was not always paid within 30 days, as required by section 65(2) (e) of the MFMA.

Consequence management

39. Some of the 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 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.

41. 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.

Other information in the annual report

42. 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 strategic goals presented in the annual performance report that have been specifically reported in the auditor's report.

43. My opinion on the financial statements and findings on 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.

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

45. 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

46. 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.

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

48. The accounting officer did not adequately perform the oversight responsibility for financial and compliance with applicable legislation. This resulted in material adjustments being required to the financial statements, and material findings on the audit of compliance with applicable legislation.

49. Audit action plans were developed but were not regularly monitored to ensure adequate implementation, taking into account the recommendations by the internal audit unit, the external auditors and the audit committee.

50. Senior management did not adequately review the processes of preparing financial statements and compliance with legislation. This resulted in material adjustments to the financial statements and non-compliance with applicable legislation.

Material irregularities

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

Material irregularity identified during the audit

52. The material irregularity identified is as follows:

Pollution of water resource not prevented at Randfontein Wastewater Treatment Works

53. The municipality did not take reasonable measures at the Randfontein Wastewater Treatment Works (WWTW) to prevent pollution or degradation of the environment and water resources from occurring, continuing or recurring as required by section 28(1) of the National Environmental Management Act 107 of 1998 and section 19(1) of the National Water Act 36 of 1998. The Randfontein WWTW has not been functional since 2013 due to neglected maintenance that has resulted in the discharge of inadequately treated effluent into the Elandsvlei Spruit River.

54. This has resulted in the continued and long ongoing discharge of inadequately treated effluent, exceeding the discharge limits, into main water resources such as the Elandsvlei Spruit River as well ground water pollution of the surrounding environment, which has a devastating effect on the water, its eco-systems and the people who use the water. These contaminated water resources provide water for consumption and recreational services for the surrounding communities, as well as water to neighbouring farmers for consumption by livestock and irrigation of crops (boreholes and irrigation ponds).

55. The accounting officer was notified of the material irregularity on 18 April 2023 and invited to make a written submission on the actions taken and that will be taken to address the matter.

56. The accounting officer has taken the following actions to address the material irregularity:

- In August 2022, for a period of 36 months, appointed Rand Water to operate and maintain the WWTW and East Rand Water Company to conduct quarterly audits at the WWTW.
- In responding to the skills shortages within the municipality that have been identified as the root cause that resulted in the material irregularity, the accounting officer appointed the following personnel with effect from May 2023 and June 2023:
  - Four process controllers
  - Two millwright technicians
  - Two industrial effluent officers
- The accounting officer ring-fenced R3 million annually for the repairs and maintenance of the wastewater treatment works for the period 2023-24 until 2025-26 financial year in June 2023.

- Obtained classification certificate of the wastewater treatment works issued by the Department of Water and Sanitation in April 2023 and the wastewater treatment works has been classified as class C.

57. I will follow up on the progress on the implementation of these actions during my next audit.

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 strategic goals and on the 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 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 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

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	Section 11(1) Section 13(2) Section 14(1) Section 15 Section 29(1) Section 29(2)(b) Section 32(2)(a) Section 32(2)(b) Section 32(6)(a) Section 32(7) Section 71(1) Section 71(2) Section 73(2) Section 87(6)(c) Section 87(8) Section 62(1)(d) Section 63(2)(a) & (c) Section 65(2)(e) Section 90(1) Section 95(d) Section 96(2)(a) & (b) Section 99(2)(b) & (g) Section 102 Section 170 Section 171(4)(a) Section 171(4)(a) Section 171(4)(b
Municipal Supply Chain Management Regulations	Regulations 12(1)(c), 16(a), 17(a)& (c); 17(a) & 17(b); 13(c); 43; 19(a) &(b); 36(1)(a); 12(3); 27(2)(a)&(e); 22(1)(b) & 22(2); 28(1)(a)(i); 21(b); 29(1) (a) & (b), 29(5)(a)(ii) & (b)(i); 38(1)(d)(ii) & (g)(iii); 38(1)(e.); 38(1)(g)(i); 38(1)(g)(ii); 32; 5; 44; 46(2)(f)
Municipal budget and reporting regulation	Regulations 73(1); 73(2); 75(1); 75(2);
Municipal investment regulation	Regulations 3(2); 3(3); 6; 7; 12(2); 12(3); 90(1); 90(2)(a); 90(2)(b)

Legislation	Sections or regulations
Financial Misconduct Regulations	Regulations 5(4); 6(8)(b); 10(1)
Prevention and Combating of Corrupt Activities Act 12 of 2004 (PRECCA)	Section 34(1)
Municipal Systems Act 32 of 2000	93B(a); 5(2), 7(1) & (2); 5(1) and 5A(1) & (2)
Preferential Procurement Policy Framework Act 5 of 2000 (PPPFA)	Section 2(1)(a); 2(1)(f)
Preferential Procurement Regulations, 2017	Regulations 6(1) and 7(1); 6(8), 7(8), 10(1)&(2) & 11(1); 5(1) & 5(3); 5(6); 5(7); 9(1); 8(5)
Preferential Procurement Regulations,2022	Regulations 4(1) and 5(1); 4(4) & 5(4)
Construction Industry Development Board Act 38 of 2000	Sections 18(1); 17; 25(7A)