

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 Rand West City Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2024, 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 Rand West City Local Municipality as at 30 June 2024 and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 5 of 2023 (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 56 of the financial statements, which highlights that as of 30 June 2024, the municipality had a net deficit of R454 839 138, and its current liabilities of R1 950 906 952 exceeded current assets of R454 839 138 by R1 496 067 814. The municipality faces significant financial challenges, including cash flow constraints, which have affected its ability to meet financial obligations and provide sustainable services. As a result, interest charges on overdue accounts were incurred. The municipality has developed a

revenue enhancement strategy which seeks to address the issues that have contributed to the current situation. There is a material uncertainty regarding the municipality's ability to realise its assets and settle liabilities in the normal course of service delivery, which may impact its going concern status.

Emphasis of matters

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

Material losses – Electricity

9. As disclosed in note 61 to the financial statements, material electricity losses of R371 975 456 (2022-23: R270 351 385) is incurred, which represents 39% (2022-23: 35%) of total electricity purchased.

Material losses – Water

10. As disclosed in note 61 to the financial statements, material water losses of R206 090 159 (2022-23: R175 450 100) is incurred, which represents 54% (2022-23: 54%) of total water purchased. Technical losses amounted to R22 898 907 (2022-23: R19 494 456). Non-technical losses amounted to R183 191 252 (2022-23: R155 955 644) and were due to theft, faulty pipes and spillage.

Material impairments – Receivable from exchange transactions

11. As disclosed on note 4 to the financial statements, material impairment of R1 405 655 398 was incurred as a result of poor collection practices.

Material impairments – Receivable from non-exchange transactions

12. As disclosed on note 4 to the financial statements, material impairment of R37 945 782 was incurred as a result of poor collection practices.

Restatement of corresponding figures

13. As disclosed in note 53 to the financial statements, the corresponding figures for 30 June 2023 were restated as a result of an errors in the financial statements of the municipality at, and for the year ended, 30 June 2024.

Material underspending on conditional grants and receipts

14. As disclosed in note 18 for unspent conditional grants, the municipality materially underspent the budget by R186 684 048 on conditional grants and receipts.

Events after the reporting date

15. As disclosed on Note 57, on 5 September 2024 the municipality received approval to write off one third of the Eskom debt owed at 31 March 2023 as per the conditions of the municipal debt relief programme.

Other matters

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

Unaudited disclosure notes

17. 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. These disclosure requirements did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on them.

Responsibilities of the accounting officer for the financial statements

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

19. 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 statement

20. 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.

21. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report. This description, which is located at page XXX forms part of our auditor's report.

Report on the audit of the annual performance report

22. 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 goal presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

23. I selected the following strategic goal presented in the annual performance report for the year ended 30 June 2024 for auditing. I selected a strategic goal that measures the Municipality's performance on its primary mandated functions and that is 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.	X-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.

24. I evaluated the reported performance information for the selected strategic goal 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.

25. 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
- all the indicators relevant for measuring the municipality's performance against its primary mandated and prioritised functions and planned objectives are included
- 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 and is comparable and understandable.
- there is adequate supporting evidence for the achievements reported and for measures taken to improve performance.

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

27. The material findings on the reported performance information for the selected strategic goal are as follows:

MSG - To ensure the provision of basic services to build sustainable and safe communities.

28. Various indicators

Various indicators and their targets were not clearly defined during the planning process. Consequently, the indicators and their targets are not useful for measuring and reporting on progress against the municipality's planned objectives and I could not test for reliability.

Indicator	Target	Detail
Construction of 132kV Sub Station at Dan Thloome (Phase two) by 30 June 2024	100%	Construction of the 132KV Substation at Dan Thloome The second phase seek to supply the new housing development at Dan Thloome.
Percentage (100) of the refurbishment of the Hannes Van Niekerk Wastewater Treatment Works	100%	The refurbishment of the Hannes Van Niekerk WWTW to produce final effluent that is compliant to Department of Water and Sanitation standards

29. Adequate supporting evidence to clarify the methods and processes for measuring achievement of these indicators and their targets were not provided. Consequently, the municipality would have found it difficult to determine the correct achievement to be reported against the planned targets. Furthermore, the achievements that have been reported might not have taken place at all or were less or more than what was actually achieved, as the audited evidence did not agree to the reported achievements for the targets.

Other matters

30. I draw attention to the matter below.

Achievement of planned targets

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

32. 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 reasons for any underachievement of targets and measures taken to improve performance are included in the annual performance report on pages X to XX.

MSG - To ensure the provision of basic services to build sustainable and safe communities

<i>Targets achieved: 75%</i>		
<i>Budget spent: 72.54%</i>		
Key service delivery indicator not achieved	Planned target	Reported achievement
Percentage (100) of planned outputs on basic service delivery implemented by 30 June 2024	100	78

Reduction of non-technical water distribution losses from 28% to 26% by 30 June 2024	26	48
Reduction of non-technical electricity losses from 23% to 21% by 30 June 2024	21	31
Installation 630ND Pipes (1,5km) in Hillshaven (Phase 2) by 30 June 2024	1.5km	1.359km
Installation of (500m) pipeline in Droogheuwel by 30 June 2024 (Phase 2)	500m	108m

Material misstatements

33. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for MSG - to ensure the provision of basic services to build sustainable and safe communities. Management did not correct all of the misstatements and I reported material findings in this regard.

Report on compliance with legislation

34. 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.
35. 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.
36. 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.
37. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statements, annual performance report and annual report

38. The financial statements submitted for auditing were not fully prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, non-current liabilities, current liabilities and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Strategic planning and performance

39. The performance management system and related controls were inadequate as it did not describe how the performance measurement processes should be conducted, as required by municipal planning and performance management regulation 7(1).

Expenditure management

40. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
41. Reasonable steps were not taken to prevent irregular expenditure amounting to R210 816 642 as disclosed in note 60 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by cases related to non-compliance with procurement process requirements.
42. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R71 055 488, as disclosed in note 59 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 on overdue payments relating to Eskom and Rand Water.
43. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R465 174 015, as disclosed in note 58 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by budget overspending by municipal departments.

Revenue management

44. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

Procurement and contract management

45. The contract performance and monitoring measures were not in place to ensure effective contract management, as required by section 116(2)(c)(ii) of the MFMA.

Consequence management

46. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
47. Prior year irregular expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.
48. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Other information in the annual report

49. The accounting officer is responsible for the other information included in the annual report. The other information referred to 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 on in this auditor's report.
50. 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.
51. 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 goal in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
52. 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

53. 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.
54. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion and, the material findings on the annual performance report and the material findings on compliance with legislation included in this report.
55. The senior management did not perform adequate review processes on the annual financial statements that were submitted for audit purposes, as a result, the quality of the submitted annual financial statements regressed, resulting in material adjustments being required.
56. Council committees did not discharge their mandate adequately as the instances of unauthorised, irregular, fruitless and wasteful expenditure were not fully investigated.
57. The accounting officer did not put adequate measures in place to ensure that all revenue due to the municipality was calculated on and collected on a monthly basis.

Material irregularities

58. 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.

Material irregularity in progress

59. I identified a material irregularity during the audit and notified the accounting officer, as required by material irregularity regulation 3(2). By the date of this auditor's report, the response of the accounting officer was not yet due. This material irregularity will be included in next year's auditor's report.

Status of previously reported material irregularity

Pollution of water resource not prevented at Randfontein wastewater treatment works

60. The municipality did not take reasonable measures at the Randfontein wastewater treatment Works 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 wastewater treatment works has not been functional since 2013 due to neglected maintenance that has resulted in the discharge of inadequately treated effluent into the Elandsvlei Spruit.
61. 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 as well ground water pollution of the surrounding environment, 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).
62. The accounting officer was notified of the material irregularity on 18 April 2023.
63. The accounting officer has taken the following actions to address the material irregularity:
- Appointed Rand Water and East Rand Water Company in August 2022 for a period of 36 months for the operation, maintenance and conducting quarterly audits at the wastewater treatment works respectively.
 - In responding to the skills shortages within the municipality that has 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.

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

Auditor-General

5 December 2024



**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 the selected strategic goal 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	<p>Section 1 - Paragraph (a), (b) & (d) of the definition: irregular expenditure,</p> <p>Section 1 - Definition: service delivery and budget implementation plan,</p> <p>Sections 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 29(1),</p> <p>Sections 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b),</p> <p>Sections 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 62(1)(f)(i),</p> <p>Sections 62(1)(f)(ii), 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b),</p> <p>Sections 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e),</p> <p>Sections 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1),</p> <p>Sections 122(2), 126(1)(a), 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii),</p> <p>Sections 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170,</p> <p>Sections 171(4)(a), 171(4)(b)</p>
Municipal Supply Chain Management Regulations	<p>Regulations 5, 12(1)(c), 12(3), 13(b), 13(c), 13(c)(i), 16(a), 17(1)(a),</p> <p>Regulations 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a),</p> <p>Regulations 27(2)(e), 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a), 29(1)(b),</p> <p>Regulations 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c),</p> <p>Regulations 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43,</p> <p>Regulations 44, 46(2)(e), 46(2)(f)</p>
Municipal Budget and Reporting Regulation	Regulations 71(1), 71(2), 72
Annual Division of Revenue Act	Construction Industry Development Board Regulations
Municipal Investment Regulation	Regulations 3(1)(a), 3(3), 6, 7, 12(2), 12(3)
Construction Industry Development Board Act 38 of 2000	Section 18(1)

Legislation	Sections or regulations
Construction Industry Development Board Regulations	Construction Industry Development Board Regulations
Municipal Property Rates Act 6 of 2004	Section 3(1)
Municipal Systems Act	<p>Regulations 5, 12(1)(c), 12(3), 13(b), 13(c), 13(c)(i), 16(a), 17(1)(a),</p> <p>Regulations 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a),</p> <p>Regulations 27(2)(e), 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a), 29(1)(b),</p> <p>Regulations 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c),</p> <p>Regulations 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43,</p> <p>Regulations 44, 46(2)(e), 46(2)(f)</p>
PPPFA	Sections 2(1)(a), 2(1)(f)
PPR 2017	<p>Regulations 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8),</p> <p>Regulations 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5) 9(1), 10(1), 10(2),</p> <p>Regulations 11(1), 11(2)</p>
PPR 2022	Regulations 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4)
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section 34(1)