

Report of the auditor-general to the Gauteng Provincial Legislature and the council of the City of Tshwane Metropolitan Municipality on Sandspruit Works Association NPC trading as ODI Water Services

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Sandspruit Works Association NPC trading as ODI Water Services set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2017, statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as the 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 Sandspruit Works Association NPC trading as ODI Water Services as at 30 June 2017, and its financial performance and cash flows for the year then ended in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Companies Act of South Africa, 2008 (Act No. 71 of 2008) (Companies Act).

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 municipal entity in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) together with the 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.

Emphasis of matters

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

Restatement of corresponding figures

7. As disclosed in note 33 to the financial statements, the corresponding figures for 30 June 2016 have been restated as a result of an error in the financial statements of the municipal entity at, and for the year ended, 30 June 2017.

Material losses

8. As disclosed in note 42 to the financial statements, the entity suffered significant water losses of 6 967 206 kilolitres (2016: 6 038 167 with a net value of R58 454 858 (2016: R45 225 873)).

Material impairment

9. As disclosed in note 21 to the financial statements, receivables have been significantly impaired. The impairment of receivables amount to R146 246 538 (2016: R151 923 048).

Transfer of functions

10. As disclosed in note 35 to the financial statements, all business functions, assets, liabilities and personnel will be transferred to the City of Tshwane Metropolitan Municipality as of 01 July 2017 following council resolution to disestablish SWA.

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 municipal entity is required to disclose particulars of non-compliance with the MFMA. 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 SA standards of GRAP and the requirements of MFMA and the Companies Act, 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 Sandspruit Works Association NPC trading as ODI Water Services' ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless there is an intention either to liquidate the municipal entity or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities 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 the

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 the auditor's report.

Report on the audit of the annual performance report

Introduction and scope

17. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected strategic objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

18. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipal entity. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

19. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected strategic objectives presented in the annual performance report of the municipal entity for the year ended 30 June 2017:

Objectives	Pages in the annual performance report
Strategic objective 1 - Provide sustainable service infrastructure and human settlement management	x – x
Strategic objective 2 - Promote shared economic growth and job creation	x – x
Strategic objective 3 - Ensure sustainable, safer city and integrated social development	x – x

20. I performed procedures to determine whether the reported performance information was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

21. The material finding in respect of the reliability of the selected strategic objectives are as follows:

Strategic objective 3 – Ensure sustainable, safer city and integrated social development

Indicator: Reduce the number of registered indigents who consume more than the allocated basic water consumption (12 kl)

22. The systems and processes to enable reliable reporting of actual service delivery against the indicator reduce the number of registered indigents who consume more than the allocated basic water consumption (12 kl), were not adequately designed and implemented, as required by the FMPPI. Furthermore, we were unable to obtain sufficient appropriate audit evidence to support the reported achievement of 1366 target for the indicator reduce the number of registered indigents who consume more than the allocated basic water consumption (12 kl). This was due to limitations placed on the scope of our work as the entity could not provide sufficient audit evidence to support the achievement of the target. We were unable to confirm the reported achievements by alternative means. Consequently, we were unable to determine whether any adjustments were required to the reported achievements for this indicator.

23. I did not identify any material findings on the usefulness and reliability of the reported performance information for the following strategic objectives:

- Strategic objective 1 – Provide sustainable service infrastructure and human settlement management
- Strategic objective 2 – Promote shared economic growth and job creation

Other matter

24. I draw attention to the matter below.

Achievement of planned targets

25. Refer to the annual performance report on page(s) x to x; x to x for information on the achievement of planned targets for the year and explanations provided for the under achievement of a significant number of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraph x of this report.

Report on the audit of compliance with legislation

Introduction and scope

26. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipal entity with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

27. The material findings on compliance with specific matters in key legislations are as follows:

Annual financial statements

28. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of revenue, receivables, inventory 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.

Consequences management

29. Irregular expenditure incurred by the municipal entity were not investigated to determine if any person is liable for the expenditure, as required by Municipal budget and reporting regulations 75(1).

Revenue management

30. An effective system of internal control for debtors and revenue was not in place, as required by section 97(i) of the MFMA.

Expenditure management

31. Reasonable steps were not taken to prevent irregular expenditure disclosed in note 38 to the financial statements, as required by section 95(d) of the MFMA. The irregular expenditure was caused by contravention of SCM regulations 17(a) and (c).

Procurement and contract management

32. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulations 17(a) and (c). Similar non-compliance was also reported in the prior year.

Other information

33. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the director's report, the audit committee's report and the company secretary's certificate as required by the Companies Act. The other information does not include the financial statements, the auditor's report thereon and those selected objectives presented in the annual performance report that have been specifically reported on in the auditor's report.
34. 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 thereon.
35. 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 objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
36. If, based on the work I have performed, I conclude that there is a material misstatement of this other information; I am required to report that fact.

37. I have nothing to report in this regard.

Internal control deficiencies

38. 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 thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

39. The accounting officer did not exercise adequate oversight responsibility regarding compliance with laws and regulations and related controls, which resulted in instances of non-compliance with the MFMA and SCM regulations.

Financial and performance management

40. Senior management did not implement sufficient monitoring controls on compliance with legislation and to ensure that the financial statements were supported by credible information, which resulted in material adjustment to the annual financial statements and material non-compliance with key legislation.

41. Senior management did not have effective monitoring controls in place to ensure that the annual performance report was supported by valid, accurate and complete information.

Other reports

42. There were no engagements conducted by various parties that have or could potentially have an impact on the municipal entity's financial statements, reported performance information and compliance with applicable legislation and other related matters.

Johannesburg

30 November 2017



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 selected objectives and on the municipal entity’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 the 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 municipal entity’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 related to events or conditions that may cast significant doubt on the Sandspruit Works Association NPC trading as ODI Water Services ability 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 the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor’s report. However, future events or conditions may cause a municipal entity to cease to continue as a going concern.
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
 - obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

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 confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and here applicable, related safeguards.