



Consequently, I was unable to verify the completeness, existence and valuations of property, plant and equipment. Management embarked on an asset identification project aimed at identifying all assets owned by the company and determining the fair value of assets held. Management anticipates completing the project in the 2012 financial year.

4.3.2 CJMM had a policy to capitalise and fully depreciate property, plant and equipment over twelve months if the cost is below R1 million. This is contrary to GAMAP 1, Property, Plant and Equipment, which requires that depreciation be provided over the useful lives of the assets. The non-compliance with GAMAP 1 resulted in a depreciation charge of assets worth R 3 million acquired during the year under review being recognised over twelve months rather than over the useful lives of the related assets. The cumulative misstatement of depreciation and property, plant and equipment resulting from the inadequate accounting policy could not be quantified.

#### FINANCIAL STATEMENTS

In my opinion, except for the effect on the financial statements of the matters referred to in the preceding paragraphs, the financial statements fairly present, in all material respects, the financial position of the CJMM at 30 June 2011 and the results of their operations and cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury of South Africa, as described in the accounting policy note 1 to the financial statements, and in the manner required by the local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) and the Companies Act, 1973 (Act No. 61 of 1973), where applicable.

#### 6. MATTERS OF MATERIAL RISK

Without further qualifying the audit opinion expressed above, attention is drawn to the following matters:

##### 6.1. DEFERRAL OF TAX

As disclosed in note 10 to the annual financial statements, an amount of R 1 million (2010: R 2 million) related to Pikitup (Pty) Ltd. Pikitup (Pty) Ltd incurred accounting losses for the last two years and is not

expected to be in a profit position in the next financial year. Although, Pikitup (Pty) Ltd tabled a plan, with clearly defined milestones, to generate additional revenue streams, the probability of the plan realising taxable profits in the near future could not be determined with certainty at the time of the audit.

The effectiveness of management's plan will be evaluated during the 2012-2013 financial year.

##### 6.2. DEBTORS TO BE WRITTEN OFF

The controls around the registration and write-off of indigent debtors were not implemented effectively. This resulted in an amount of R33 million written-off which could not be supported by the appropriate documentation. Our audit enquiry resulted in the write-off of R33 million being reversed. Hereafter the doubtful debtors provision was increased by R33 million.

##### 6.3. COMPLIANCE WITH LAWS AND REGULATIONS

Due to inadequate procedures to monitor and report on areas of non-compliance with laws and regulations, the following key areas of non-compliance with laws and regulations were noted:

###### 6.3.1. Non-compliance with the MFMA

(a) Section 100(a) of the MFMA provides for the core municipality to determine the upper limits of the remuneration of the chief executive officers and senior management of the Municipal Entities. Such upper limits were not determined for the year under review.

(b) Contrary to section 100 of the MFMA, internal audit functions at the Johannesburg Social Housing Company, Metropolitan Trading Company (Pty) Ltd, Johannesburg Tourism Company, Johannesburg Roads Agency (Pty) Ltd and Johannesburg Fresh Produce Market (Pty) Ltd did not operate effectively during the financial year in that internal audit only commenced during the latter part of the financial year or the internal audit division was not appropriately capacitated.

(c) Contrary to sections 100 and 101(d) of the MFMA, Pikitup (Pty) Ltd did not develop and implement controls to ensure the completeness of bin rental revenue administered by the CJMM.



# Report of the Auditor-General

(d) The board of Johannesburg Metropolitan Bus Services (Pty) Ltd did not promptly report irregular, fruitless and wasteful expenditure incurred by Johannesburg Metrobus Services (Pty) Ltd to the mayor and municipal manager of the parent municipality as required by section 12 of the MFMA.

6.3.2. Compliance with the Municipal Systems Act 2003 (Act No. 44 of 2003)

Section 3 of the Municipal Systems Act, 2003 (Act No. 44 of 2003), prohibits a municipal entity from the establishment of and acquisition of interests in corporate bodies. Contrary to this, the Johannesburg Development Agency (Pty) Ltd and Pikitup (Pty) Ltd acquired interests in corporate bodies.

From a governance point of view, the board should have regularised the transaction to ensure it is in line with the Municipal Systems Act and appropriately accounted for.

Pikitup (Pty) Ltd did not determine the nature of the investment in a company and the current recognition at cost was contrary to either IAS 2, Investments in Associates or IAS 28, Consolidated Financial Statements depending on the nature of the investment.

The deed of suretyship entered into by Pikitup (Pty) Ltd with this company in 2001 was not disclosed. The commitments or contingent liabilities in this regard were therefore not accounted for.

6.3.3. Compliance with Municipal Supply Chain Management Regulations (R 868 of 30 May 2005)

(a) Contrary to paragraph 1 (a) of the regulations, certain goods and services at City Power (Pty) Ltd were not procured through a competitive bid process by the entity. A contract of R3 million could not be submitted for audit purposes to verify compliance to supply chain management regulations. Furthermore, two contracts totalling R 10 million were not signed by both parties.

(b) The accounting officer of Johannesburg Fresh Produce Market (Pty) Ltd approved a contract dated 23 May 2005 amounting to R3 million without evidence that the Procurement and Executive

Committees had approved the contract after evaluating the tender proposal.

(c) Contrary to regulations, Pikitup (Pty) Ltd awarded a tender to the value of R 12 million without the parties formalising the terms and conditions of the contract in writing.

Furthermore certain tenders were awarded without entering into a service level agreement to enforce contractual performance.

(d) Pikitup (Pty) Ltd disposed of bulk containers to the value of R3 million without following the tender procedures as required by the company policy and the supply chain management regulations.

(e) Paragraph 12 of regulations states that goods or services exceeding the amount of R2 million must be procured through a competitive bidding process. Based on the sample tested, the CJMM procured security and filing system services each exceeding R2 million without following the competitive bidding or tender process. These transactions were classified as emergency hence the CJMM did not follow the competitive bidding process using the exemptions as highlighted in paragraph 3 of the regulations.

Although the exemption was applied in terms of paragraph 3 of the regulations, not all the conditions for the exemption were complied with as there was no evidence that the reasons for the deviation were tabled at council as required.

6.4. Departure from Generally Accepted Accounting Practice

Johannesburg Metropolitan Bus Service (Pty) Ltd, City Power (Pty) Ltd, Pikitup (Pty) Ltd and Johannesburg Fresh Produce Market (Pty) Ltd departed from SA GAAP, and hence qualified audit opinions were issued on the financial statements of these companies. The following key areas of non-compliance which resulted mainly from capacity constraints were identified:



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Property, plant and equipment were not assessed for impairment as required by IAS 1 . Furthermore, the useful lives and residual values were not reviewed as required by IAS 1 , Property, Plant and Equipment.

IAS 3 , Financial instruments: Recognition and measurement, which states that loans and receivables should be disclosed at amortised cost thus discounting it, using the effective interest rate method was not complied with.

IAS 1 , Revenue read with South African Institute of Chartered Accountants Circular of 2 was not adhered to regarding revenue and expenditure received incurred by the entities, which should have been recognised at amortised cost thus discounting it using the effective interest rate method.

#### 6.6 Grant finance

Due to the lack of supporting documentation the accuracy, validity, completeness and existence of grant finance amounting to R2 11 recognised in the books of City Housing Company could not be verified. Furthermore, the source as well as the accountability and governance structure for the original grant could not be determined.

#### 6.7 Non-bank account

A bank call account unknown to the management was opened in the name of Johannesburg Metropolitan Bus Services (Pty) Ltd. The bank call account was not included in the accounts of Johannesburg Metropolitan Bus Services (Pty) Ltd. Management requested a forensic investigation on this matter to investigate the validity of transactions in this account.

#### 6.8 Registration of freehold buildings

Freehold land and buildings sold by the CJMM to the municipal owned entities in terms of the sale of business agreement dated 3 May 2013 were not yet transferred into the name of the entities. The delay was due to unresolved technicalities relating to the transfer.

## 7. R C T O

The assistance rendered by the staff of the CJMM and its Municipal Entities during the audit is sincerely appreciated.



ERENCE NOMBEMBE

Auditor-General

Pretoria

1 February 2013

