# Report of the Auditor-General

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## 1 DT M T

he CJMM and group financial statements as set out on pages to 12, for the year ended 3 June 2 have been audited in terms of section 1 of the Constitution of the Republic of South Africa, 1 (Act No. 1 of 1 ), read with sections and 2 of the Public Audit Act, 2 (Act No. 2 of 2 ), section 12 (3) of the ocal Government: Municipal Finance Management Act, 2 3 (Act No. of 2 3) (MFMA) and section 3 of the Companies Act, 1 3 (Act No. 1 of 1 3), where applicable. hese financial statements are the responsibility of the accounting officer. My responsibility is to express an opinion on these financial statements, based on the audit.

### 2 CO

he audit was conducted in accordance with the International Standards on Auditing read with General Notice 1 12 of 2 , issued in Government Gazette No. 2 32 of 2 October 2 . hose standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements

assessing the accounting principles used and significant estimates made by management

evaluating the overall financial statement presentation.

I believe that the audit provides a reasonable basis for my opinion.

## 3 OF CCO T

he municipality is required to prepare financial statements on the basis of accounting determined by the National reasury, as described in the addendum to this report.

#### 4 FCTO 41DRTRFROMRCCTD CCOTRCTC

Due to the late clarification on the applicable accounting framework, the CJMM was not in a position to process all the adjustments required to comply with SA GAAP. he following areas of non-compliance were identified:

Operating lease expenditure was not recognised on a straight line method as required by IAS 1 , eases and SAICA Circular of 2 . Furthermore, certain office equipment leased met the criteria to be accounted for as finance leases, whilst the office equipment was not accounted for as a finance lease.

he impact of the error could not be quantified.

#### 4 2 R DD TOR

In prior financial years, the audit opinions of Johannesburg ater (Pty) td were disclaimed mainly due to the fair presentation of revenue generated by the billing system administered by CJMM. In the financial year under review and mainly as a result of the ongoing data clean-up process, numerous adjustments, relating to previous financial years, were effected to revenue and debtors' accounts as a result of the incorrect billing in the past. herefore, until the data clean-up process is completed, I cannot conclude on the accuracy and completeness of revenue and debtors of Johannesburg ater (Pty) td. Management anticipates completing the project in the 2 financial year.

## 43 RO RT T D M T

4 3 1 he fixed asset register of City Power (Pty) td for movable and immovable assets held by the company was incomplete and was inadequately detailed to allow identification of the physical assets. Asset policies and procedures not approved at the time of the audit, untimely asset transfer capturing, inadequate fixed asset descriptions and changes to asset master file records not approved contributed to an inadequate fixed asset register.



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 2 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 . . his is contrary to GAMAP 1 , Property, Plant and Equipment, which requires that depreciation be provided over the useful lives of the assets. he 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. he cumulative misstatement of depreciation and property, plant and equipment resulting from the inadequate accounting policy could not be quantified.

# FD DTO O

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 3 June 2 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 reasury of South Africa, as described in the accounting policy note 1 to the financial statements, and in the manner required by the ocal Government: Municipal Finance Management Act, 2 3 (Act No. 1 of 1 3), where applicable.

#### 6 M OF M TT R

ithout further qualifying the audit opinion expressed above, attention is drawn to the following matters:

#### 61 D F RR D T

As disclosed in note to the annual financial statements, an amount of R 1 (2 : R 2 ) related to Pikitup (Pty) td. Pikitup (Pty) td 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) td 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.

he effectiveness of management's plan will be evaluated during the 2 -2 financial year.

#### 62 D TD TOR WRT OFF

he controls around the registration and write-off of indigent debtors were not implemented effectively. his resulted in an amount of R33 3 written-off which could not be supported by the appropriate documentation. Our audit enquiry resulted in the write-off of R33 3 being reversed. hereafter the doubtful debtors provision was increased by R33 3 .

#### 63 O COM C WT W D R TO

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:

631 on comp iance ith the MFM

(a) Section (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 1 of the MFMA, internal audit functions at the Johannesburg Social Housing Company, Metropolitan rading Company (Pty) td, Johannesburg ourism Company, Johannesburg Roads Agency (Pty) td and Johannesburg Fresh Produce Market (Pty) td 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 , and 1 (d) of the MFMA, Pikitup (Pty) td did not develop and implement controls to ensure the completeness of bin rental revenue administered by the CJMM.



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(d) he board of Johannesburg Metropolitan Bus Services (Pty) td did not promptly report irregular, fruitless and wasteful expenditure incurred by Johannesburg Metrobus Services (Pty) td to the mayor and municipal manager of the parent municipality as required by section 1 2 of the MFMA.

6 3 2 on comp iance ith the Municipa ystems ct 2003 ct o 44 of 2003

Section 3 of the Municipal Systems Act, 2 3 (Act No. of 2 3), prohibits a municipal entity from the establishment of and acquisition of interests in corporate bodies. Contrary to this, the Johannesburg Development Agency (Pty) td and Pikitup (Pty) td 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) td 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 2, Consolidated Financial Statements depending on the nature of the investment.

he deed of suretyship entered into by Pikitup (Pty) td with this company in 2 1 was not disclosed. he commitments or contingent liabilities in this regard were therefore not accounted for.

6 3 3 on comp iance ith Municipa upp y Chain Management Regu ations R 868 of 30 May 200 Regu ations

(a) Contrary to paragraph 1 (a) of the regulations, certain goods and services at City Power (Pty) td 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 , million were not signed by both parties.

(b) he accounting officer of Johannesburg Fresh Produce Market (Pty) td approved a contract dated 23 May 2 amounting to R3 without evidence that the Procurement and Executive Committees had approved the contract after evaluating the tender proposal.

 (c) Contrary to regulations, Pikitup (Pty) td awarded a tender to the value of R 12 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) td disposed of bulk containers to the value of R3 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 must be procured through a competitive bidding process. Based on the sample tested, the CJMM procured security and filing system services each exceeding R2 without following the competitive bidding or tender process. hese 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 enera y ccepte ccounting ractice

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



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 rant 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.

## 67 n no n ban ca account

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

# 6 8 Registration of freeho an an bui ings

Freehold land and buildings sold by the CJMM to the municipal owned entities in terms of the sale of business agreement dated 3 May 2 3 were not yet transferred into the name of the entities. he delay was due to unresolved technicalities relating to the transfer.

### 7 R C T O

he 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 2

