

# **Report of the auditor-general to the Gauteng Provincial Legislature and the council on the Ekurhuleni Metropolitan Municipality**

## **Report on the consolidated and separate financial statements**

### **Introduction**

1. I have audited the consolidated and separate financial statements of the Ekurhuleni Metropolitan Municipality and its subsidiaries set out on pages ... to ..., which comprise the consolidated and separate statement of financial position as at 30 June 2014, consolidated and separate statement of financial performance, the statement of changes in net assets, cash flow statement and the appropriation statement of comparison of budget information with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting officer's responsibility for the consolidated and separate financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these consolidated and separate financial statements 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); the Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (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.

### **Auditor-general's responsibility**

3. My responsibility is to express an opinion on these consolidated and separate financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated and separate financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of

accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and separate financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **Opinion**

6. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the Ekurhuleni Metropolitan Municipality and its subsidiaries as at 30 June 2014 and their financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP, the requirements of the MFMA and DORA.

## **Emphasis of matters**

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

## **Significant uncertainties**

8. With reference to note 51 to the consolidated financial statements, the municipality is the defendant in various court cases and disputes. The ultimate outcome of these matters cannot presently be determined or, and reliably measured; therefore no provision for any liability that may result has been made in the financial statements.

## **Material losses**

9. As disclosed in note 62 of the consolidated financial statements, material losses amounting to R669 059 908 (2013: R557 052 228) were incurred as a result of water distribution losses, which represent 33,9% (2013: 31,8%) of total water purchased. The total technical losses of water amounts to 17,3% (2013: 16,3%) and non-technical losses to 16,6% (2013: 15,5%).
10. As disclosed in note 62 of the consolidated financial statements, material losses amounting to R790 180 771 (2013: R 696 441 219) were incurred as a result of electricity distribution losses, which represent 11,34% (2013: 10,59%) of total electricity purchased. The total technical losses of electricity amounts to 5,9% (2013: 5,9%) and non-technical losses to 5,44% (2013: 4,69%).

## **Material impairment**

11. As disclosed in note 16 to the consolidated financial statements, trade and other receivables were significantly impaired as the recoverability of these amounts are doubtful. The impairment of receivables amounts to R8 371 490 355 (2013: R7 042 113 876), which represents 65,2% (2013: 66,5%) of consumer debtors.

## Additional matter

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

## Unaudited disclosure notes

13. In terms of section 125(2)(e) of the MFMA the municipality 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 thereon.

## Report on other legal and regulatory requirements

14. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

## Predetermined objectives

15. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2014:

- |   |           |
|---|-----------|
| • Development priority - Waste Management     | pp. x – x |
| • Development priority - Energy               | pp. x - x |
| • Development priority - Human Settlements    | pp. x – x |
| • Development priority - Roads and Stormwater | pp. x – x |
| • Development priority - Water and Sanitation | pp. x - x |

16. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

17. I evaluated the usefulness of the reported performance information to determine whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).

18. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

19. I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected development priorities.

## **Additional matters**

20. Although I raised no material findings on the usefulness and reliability of the reported performance information for the selected development priorities, I draw attention to the following matters:

## **Achievement of planned targets**

21. Refer to the annual performance report on pages x to x; for information on the achievement of planned targets for the year.

## **Adjustment of material misstatements**

22. I identified material misstatements in the annual performance report submitted for auditing of the reported performance information for the following development priorities. As management subsequently corrected the misstatements, I did not raise material findings on the reliability and usefulness of the reported performance information:

- Development priority - Waste management
- Development priority - Human settlements
- Development priority - Roads and stormwater
- Development priority - Water and sanitation

## **Compliance with legislation**

23. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters.
24. I did not identify any instances of material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA.

## **Internal control**

25. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. I did not identify any significant deficiencies in internal control.

## **Other reports**

## **Investigations**

26. During the financial year 78 investigations were being conducted of which 53 were being carried forward from the previous financial year by the internal audit division of the municipality. Of these, 47 investigations were finalised and 31 of the investigations were at the field work stage. Circumstances that resulted in investigations pertained mainly to non-compliance with the SCM regulations, fraud and financial misconduct.

## Audit-related services and special audits

27. At the request of the municipality, an agreed upon procedures engagement was performed during the year under review concerning the fifth issue of R785 000 000 notes under the Domestic Medium Term Note Programme. The report covered the period 1 July 2013 to 28 February 2014 and the bonds were issued on 14 April 2014 and on 14 May 2014.

*Auditor-General*

Johannesburg

31 December 2014



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*