

REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG PROVINCIAL LEGISLATURE AND THE COUNCIL ON EKURHULENI METROPOLITAN MUNICIPALITY

Report on the financial statements

Introduction

1. I have audited the financial statements of the Ekurhuleni Metropolitan Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, 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 financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these 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) and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (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 financial statements based on my audit. I conducted my audit in accordance with 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 financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the 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 municipality'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 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 financial statements present fairly, in all material respects, the financial position of the Ekurhuleni Metropolitan Municipality as at 30 June 2015 and its 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 43 to the annual 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 54 to the annual financial statements, material losses amounting to R748 033 030 (2014: R790 180 771) were incurred as a result of electricity distribution losses, which represent 10.06% (2014: 11.34%) of total electricity purchased. The total technical losses of electricity amounts to 5.90% (2014: 5.90%) and non-technical losses to 4.16% (2014: 5.44%).
10. As disclosed in note 54 of the annual financial statements, material losses amounting to R707 966 059 (2014: R669 059 908) were incurred as a result of water distribution losses, which represent 32.11% (2014: 33.90%) of total water purchased. The total technical losses of water amounts to 17.29% (2014: 17.30%) and non-technical losses to 17.11% (2014: 16.60%).

Material impairment

11. As disclosed in note 14 to the financial statements, trade and other receivables were significantly impaired as the recoverability of these amounts are doubtful. The impairment of receivables amounts to R8 976 386 250 (2014: R8 371 490 355), which represents 66% (2014: 65.2%) of consumer debtors. The contribution to provision for debt impairment was R1 992 396 974 (2014: R1 343 750 067).

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 2015:
 - 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
 - Development priority - Transport and Licensing 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.
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 - Roads and stormwater

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. 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

24. 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

25. During the financial year 73 investigations were being conducted of which 27 were being carried forward from the previous financial year by the internal audit division of the municipality. Of these, 51 investigations were finalised and 22 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

26. As requested by the municipality, an agreed upon procedure engagement was conducted during the year under review concerning the sixth issue of R750 million notes under the Domestic Medium Term Note Programme. The report covered the period 1 July 2014 to December 2014 and the bonds were issued on 18 June 2015. The issue by means of public auction was oversubscribed.

Auditor-General

Johannesburg

30 November 2015



AUDITOR - GENERAL
SOUTH AFRICA

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