

Report of the auditor-general to the Gauteng Provincial Legislature and the council on City of Johannesburg Metropolitan Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the City of Johannesburg Metropolitan Municipality set out on pages 06 to 140, 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 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 City of Johannesburg 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 and 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. As disclosed in note 44 to the financial statements, the municipality is the defendant in various lawsuits. The outcome of these matters cannot presently be determined and reliably measured; therefore, no provision for any liabilities that may result has been made in the annual financial statements.

Restatement of corresponding figures

9. As disclosed in note 45 to the financial statements, the corresponding figures for 30 June 2014 were restated as a result of various errors discovered during 30 June 2015 in the financial statements of the City of Johannesburg Metropolitan Municipality at, and for the year ended, 30 June 2015.

Material impairments

10. As disclosed in note 9 to the financial statements, the consumer debtors' balance has been significantly impaired. The impairment of consumer debtors amounts to R5 049 342 000 (2014: R5 032 507 000) which represents 88% (2014: 88%) of total consumer debtors. The contribution to the provision for debt impairment was R960 002 000 (2014: R846 777 000).

Additional Matters

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

Unaudited supplementary schedules

12. The supplementary schedules set on pages xx to xx do not form part of the financial statements and is presented as additional information. I have not audited those schedules and accordingly I do not express an opinion thereon.

Unaudited disclosure note

13. In terms of section 125(2)e of the MFMA the municipality is required to disclose particulars of non - compliance with the MFMA. The disclosure requirement did not form part of the audit of financial statements and accordingly I do not express an opinion thereon.

Report on other legal and regulatory requirements

14. 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 findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report, compliance with legislation and 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 City of Johannesburg Metropolitan Municipality for the year ended 30 June 2015:
- Development priority 1: Sustainable services cluster on pages 143 to 146
 - Development priority 2: Economic growth cluster on pages 140 to 142
 - Development priority 3: Good governance cluster on pages 132 to 149
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 was 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. The material findings in respect of the selected development priorities are as follows:

Development priority 1: Sustainable services cluster

20. I did not identify material findings on the usefulness and reliability of the reported performance information for development priority 1 – sustainable services cluster.

Development priority 2: Economic growth cluster

Reliability of reported performance information

21. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Significantly important targets were not reliable when compared to the source information or evidence provided. This was due to inadequate monitoring of the completeness of source documentation in

support of actual achievements and a lack of frequent review of the validity of reported achievements against source documentation.

Development priority 3: Good governance cluster

Reliability of reported performance information

22. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Significantly important targets were not reliable when compared to the source information or evidence provided. This was due to a lack of monitoring of the completeness of source documentation in support of actual achievements and a lack of frequent review of the validity of reported achievements against source documentation.

Additional matters

23. I draw attention to the following matters:

Achievement of planned targets

24. Refer to the annual performance report on pages 132 to 152 for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the reliability of the reported performance information for the selected development priorities reported in paragraphs 18 to 19 of this report.

Adjustment of material misstatements

25. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for the following selected development priorities:

- Development priority 1: Economic growth cluster
- Development priority 2: Sustainable services cluster
- Development priority 3: Good governance cluster

26. As management subsequently corrected only some of the misstatements, I identified material findings on the reliability of the reported performance information.

Unaudited supplementary schedules

27. The supplementary information set out on pages xx to xx does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report thereon.

Compliance with legislation

28. I performed procedures to obtain evidence that the City of Johannesburg Metropolitan Municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific

matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Annual financial statements

29. 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 liabilities, revenue 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.

Procurement and contract management

30. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by supply chain management (SCM) regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).
31. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, as required by the code of conduct for staff members issued in terms of the Municipal Systems Act, 2000 (Act No. 32 of 2000).
32. The municipality did not submit to the National Treasury, within three months of the date on which the transitional provisions took effect, a list of all other types of contracts of the municipality for a period beyond 1 January 2007 and with a value of more than one million rand in total or per annum as required by section 178 of the MFMA. As a result, a long term contract entered into by the municipality prior to the effective date of the MFMA and currently running for the foreseeable future was not reported.
33. Persons in the service of the municipality who had a private or business interest in contracts awarded by the municipality failed to disclose such interest, as required by the code of conduct for councillors issued in terms of the Municipal Systems Act and the code of conduct for staff members issued in terms of the Municipal Systems Act, 2000 (Act No. 32 of 2000).

Expenditure management

34. Reasonable steps were not taken to prevent unauthorised and irregular expenditure as required by section 62(1)(d) of the MFMA.

Consequences management

35. Unauthorised, Irregular and Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.

Internal control

36. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. 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

37. The accounting officer did not adequately exercise oversight responsibility regarding financial and performance reporting. The municipality did not have sufficient monitoring controls to ensure that financial and performance reports submitted for audit are accurate and complete.

Financial and performance management

38. There is lack of proper record management system that provides for the maintenance of information reported in the financial statements and performance reporting. Non-compliance with laws and regulations such as the MFMA, SCM regulations and MSA regulations could have been prevented had compliance been properly reviewed and monitored.

Other reports

Investigations

39. Fifty cases of alleged irregularities relating to financial misconduct, fraudulent acts and theft were investigated during the financial year. The majority of these cases were investigated internally by the municipality's forensic department. Of these, eleven have been completed, ten have been closed due lack of evidence and the remainder are at either the planning or execution phase

Auditor-General

Johannesburg

30 November 2015



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence