

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

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of the City of Ekurhuleni Metropolitan Municipality (COE) set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the COE as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with the 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, 2017 (Act No. 3 of 2017) (Dora).

### Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Key audit matters

6. Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements as a whole and in forming my opinion thereon and do not provide a separate opinion or conclusion on these matters.

| Key audit matter  | How the matter was addressed in the audit.  |
|---|---|
| <b>Significant difficulties encountered in obtaining information requested for audit purpose</b>  |   |
| <p>The accounting officer agreed to provide requested documents within three working days as per the signed audit engagement letter. In some cases, the municipality did not provide the requested documents within the agreed time. These delays adversely impacted the allocated time for audit execution and the evaluation of audit evidence. Accordingly, the delays in providing requested information and the impact thereof, is considered a key audit matter. Accordingly, the delays and the impact thereof, are considered a key audit matter.</p> | <p>To monitor the submission of documents in response to the request for information, a tracking mechanism was set up between the municipality and senior members of the audit team. Where information was not provided timeously, concerns were frequently escalated to leadership at various platforms as follows:</p> <ul style="list-style-type: none"> <li>• Regular audit steering committee meetings were held to assess information not provided. The impact on the financial statements was assessed and reported accordingly.</li> <li>• Escalation of delays to the accounting officer and those charged with governance during status of records review; and</li> <li>• Submitting progress reports to the accounting officer on a regular basis.</li> </ul> <p>I am satisfied that all material outstanding information has been provided and sufficient time was available to assess and report where applicable.</p> |

### Emphasis of matters

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

### Restatement of corresponding figures

8. As disclosed in note 43 to the financial statements, the corresponding figures for 30 June 2017 have been restated as a result of errors discovered in the financial statements of the municipality for the year ended 30 June 2018.

### Material uncertainties

9. With reference to note 41 to the financial statements, the municipality is the defendant in various lawsuits. The outcome of these matters cannot presently be determined and/or reliably measured; therefore, no provision for any liabilities that may result has been made in the financial statements.

### Material impairments

10. As disclosed in the note 13 to the financial statements, the consumer debtors balance has been significantly impaired. The allowance for impairment of consumer debtors amounts to R11 347 187 333 (2016-17: R10 456 750 395) which represents 67% (2016-17: 69%) of total consumer debtors. The contribution to the provision for debt impairment was R1 464 826 053 (2016-17: R2 609 578 888).

## Material losses

11. As disclosed in note 52 to the financial statements, material electricity losses amounting to R1 076 496 700 (2016-17: R1 135 074 900) were incurred which represent 11.69% (2016-17: 12.39%) of total electricity purchased.
12. As disclosed in note 52 to the financial statements, material water losses amounting to R833 362 612 (2016-17: R787 774 009) were incurred which represents 28.45% (2016-17: 30.57%) of the total water purchased.

## Other matter

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

## Unaudited disclosure notes

14. 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 financial statements and accordingly I do not express an opinion on it.

## Responsibilities of the accounting officer for the financial statements

15. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and 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.
16. In preparing the financial statements, the accounting officer is responsible for assessing the COE's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

## Auditor-general's responsibilities for the audit of the financial statements

17. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
18. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

## Report on the audit of the annual performance report

### Introduction and scope

19. 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 material findings on the reported performance information against predetermined objectives for selected strategic objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

20. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

21. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected strategic objectives presented in the annual performance report of the municipality for the year ended 30 June 2018:

| Strategic objectives   | Pages in the annual performance report |
|--|--|
| Strategic objective 1: To promote integrated human settlements through massive infrastructure and services roll out. | x – x                                  |
| Strategic objective 5: To create an enabling environment for inclusive growth and job creation.                      | x – x                                  |

22. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

23. I did not raise any material findings on the usefulness and reliability of the information for the following strategic objectives:

- Strategic objective 1: To promote integrated human settlements through massive infrastructure and services roll out.
- Strategic objective 5: To create an enabling environment for inclusive growth and job creation.

**Other matter**

24. I draw attention to the matter below.

**Achievement of planned targets**

25. Refer to the annual performance report on page(s) x to x for information on the achievement of planned targets for the year.

## Report on the audit of compliance with legislation

### Introduction and scope

26. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
27. The material findings on compliance with specific matters in key legislations are as follows:

#### Annual financial statements

28. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, current liabilities, revenue, and the statement of comparison of budget and actual amounts identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

#### Expenditure management

29. Effective steps were not taken to prevent irregular expenditure of R274 582 270, as disclosed in note 48 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The disclosed irregular expenditure identified was caused by contravening the Supply Chain Management regulation (SCM regulation).
30. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) the MFMA.

#### Conditional grants

31. The Urban Settlement Development Grant was not spent for its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of the Dora.

#### Procurement and contract management

32. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by the SCM regulation 19(a). Similar non-compliance was also reported in the prior year.
33. Some of the contracts were awarded to bidders based on functionality criteria that were not stipulated in the original invitation for bidding, in contravention of Preferential Procurement Regulations.
34. 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, in contravention of SCM regulation 46(2)(e), the code of conduct for councillors issued in terms of the Municipal Systems Act, 2000 (Act No. 32 of 2000)(MSA) and the code of conduct for staff members issued in terms of the MSA.

## Consequence management

35. Some of the irregular and fruitless and wasteful expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

## Asset management

36. Funds were invested in the Land and Agricultural Development Bank of South Africa and Sanlam, in contravention of municipal investment regulation 6.
37. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.

## Other information

38. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected strategic objectives presented in the annual performance report that have been specifically reported in the auditor's report.
39. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
40. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with financial statements and the selected strategic objectives presented in the annual performance report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated.
41. If based on the work I have performed, I conclude that there is a material misstatement in this other information, I am required to report that fact. I have nothing to report in this regard.

## Internal control deficiencies

42. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.
43. The accounting officer did not ensure that systems of internal control were adequately implemented and monitored to ensure credible financial reporting and compliance with key legislation. This resulted in material errors and omissions being identified during the audit process.
44. Senior management did not implement adequate systems of internal controls over financial reporting and compliance with key legislation. In certain instances, the financial statements did not always agree to the supporting evidence provided and compliance to key legislation was not always monitored.
45. There was a lack of a proper records management system that could support the information reported in the financial statements and as a result material errors and omissions were identified during the audit process.

## Investigations

47. A total of twenty-three (23) investigations were ongoing at year-end on allegations relating to financial misconduct, fraud or improper conduct in SCM. The majority of these cases were investigated internally by the city's internal audit department. All these investigations relate to irregularities identified prior to 2016/17 financial year. Some of these investigations have been ongoing for a long time.

*Auditor - General*

Johannesburg

30 November 2018



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*