

# 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 consolidated and separate financial statements

### Opinion

1. I have audited the consolidated and separate financial statements of the City of Ekurhuleni Metropolitan Municipality and its subsidiaries (the group) set out on pages xx to xx, which comprise the consolidated and separate statement of financial position as at 30 June 2018, the consolidated and separate 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 consolidated and separate financial statements, including a summary of significant accounting policies.
2. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the group as at 30 June 2018, and their 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 consolidated and separate financial statements section of this auditor's report.
4. I am independent of the group 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 matter

6. Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of my audit of the consolidated and separate 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 group 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 consolidated and separate 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 consolidated and separate financial statements, the corresponding figures for 30 June 2017 have been restated as a result of errors in the consolidated and separate financial statements of the group for the year ended 30 June 2018.

## Material uncertainties

9. With reference to note 41 to the consolidated and separate financial statements, the group 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 consolidated and separate financial statements.

## **Material impairments**

10. As disclosed in the note 13 to the consolidated and separate 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 consolidated and separate 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. Technical losses amounted to R543 313 133 (2016-17: R540 511 857). Non-technical losses amounted to R533 183 567 (2016-17: R594 563 043).
12. As disclosed in note 52 to the consolidated and separate 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. Technical losses amounted to R439 382 748 (2016-17: R386 542 693). Non-technical losses amounted to R393 979 864 (2016-17: R401 231 316).

## **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 the consolidated and separate financial statements and, accordingly, I do not express an opinion on it.

## **Responsibilities of the accounting officer for the consolidated and separate financial statements**

15. The accounting officer is responsible for the preparation and fair presentation of the consolidated and separate 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 consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.
16. In preparing the consolidated and separate financial statements, the accounting officer is responsible for assessing the group'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 group or to cease operations, or has no realistic alternative but to do so.

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

17. My objectives are to obtain reasonable assurance about whether the consolidated and separate 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 consolidated and separate financial statements.
18. A further description of my responsibilities for the audit of the consolidated and separate 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 group. 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 group 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 reported performance 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 irregular expenditure identified was caused by contravening the Supply Chain Management regulations (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 effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) 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 consolidated and separate financial statements, the auditor's report and those selected strategic objectives presented in the annual performance report that have been specifically reported in this auditor's report.
39. My opinion on the consolidated and separate 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 consolidated and separate 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. 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

41. I considered internal control relevant to my audit of the consolidated and separate 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.
42. 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.
43. 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.
44. 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.

## Other reports

45. I draw attention to the following engagements conducted by various parties that have or could potentially have an impact on the group's consolidated and separate financial statements, reported performance information and compliance with applicable legislation and other related matters. The reports noted do not form part of the opinion on the consolidated and separate financial statements or findings on the reported performance information or compliance with legislation.

## Investigations

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

*Auditor - General*

Johannesburg

31 December 2018



AUDITOR - GENERAL  
SOUTH AFRICA

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