

Report of the Auditor-General to the Gauteng Provincial Legislature and the council on the City of Johannesburg Metropolitan Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the City of Johannesburg Metropolitan Municipality (CJMM) 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 City of Johannesburg Metropolitan Municipality 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, 2016 (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 matter

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, and I do not provide a separate opinion or conclusion on these matters.

Key audit matter	How the matter was addressed in the audit
Significant difficulties encountered in obtaining information requested for audit purpose	
<p>The engagement letter signed with the accounting officer agreed to provide requested documents within three working days. The municipality was unable to provide, in some cases, the requested documents within the agreed time. These significant difficulties adversely impacted the allocated time for audit execution and the evaluation of audit evidence. Accordingly, the significant difficulties in providing requested information and the impact thereof, is 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 escalated to leadership at various platforms as follows:</p> <p>Regular audit steering committee meetings were held to assess the significant difficulties encountered in obtaining information not provided. The impact on the financial statements was assessed and reported accordingly.</p> <p>Escalation of significant difficulties encountered in obtaining information to the accounting officer; and</p> <p>Submitting progress reports to the accounting officer on a regular basis.</p> <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 matter below. My opinion is not modified in respect of these matters

Restatement of corresponding figures

8. As disclosed in note 42 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 a 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 note 9 to the financial statements, the consumer debtors' balance has been significantly impaired. The allowance for impairment of consumer debtors amounts to R5 752 210 000 (2016-17: R5 163 952 000) which represents 86,4% (2016-17: 87,4%) of total consumer debtors. The contribution to the provision for debt impairment was R588 258 000 (2016-17: R773 219 000).

Other matter

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

Unaudited disclosure notes

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

Responsibilities of the accounting officer for the financial statements

13. 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.
14. In preparing the separate financial statements, the accounting officer is responsible for assessing the CJMM'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

15. 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.
16. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Introduction and scope

17. 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 programmes presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
18. 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.
19. 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 programmes presented in the annual performance report of the municipality for the year ended 30 June 2018:

Programmes	Pages in the annual performance report
Programme 1: Sustainable services cluster	x – x
Programme 2: Economic growth cluster	x – x
Programme 4: Good governance cluster	x – x

20. 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.
21. The material findings in respect of the usefulness and reliability of the selected programmes are as follows:

Programme 1: Sustainable service cluster

Number of hours to restore loss of electricity supply to traffic signals within 24 hours

22. The achievement for the target of 24 hours to restore loss of electricity supply to traffic signals within 24 hours reported in the annual performance report was 10.2 hours. However, the supporting evidence provided did not agree to the reported achievement and indicated an achievement of 5.9 hours.

Programme 2: Economic growth cluster

Percentage of reported potholes repaired within one week

23. The achievement for target 80% of reported potholes repaired in one week reported in the annual performance report was 45% of reported potholes repaired within one week. However, the supporting evidence provided did not agree to the reported achievement as it was not complete and the actual achievement could not be determined.

Programme 4: Good governance cluster

Percentage of clearance of rates certificates issued within 30 days of application being received

24. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the target 100% of clearance of rates certificates issued within 30 days of application being received. This was due to limitations on the scope of my work. Management could not provide all the supporting evidence for audit. I was unable to obtain sufficient appropriate evidence for the reported actual evidence. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of 84%.

Percentage of investigative matters resolved

25. The achievement for target 50% of investigated matters resolved reported in the annual performance report was 28% of investigated matters resolved. However, the supporting evidence provided did not agree to the reported achievement and the actual achievement could not be determined.

Other matters

26. I draw attention to the matters below.

Achievement of planned targets

27. Refer to the annual performance report on page(s) x to x for information on the achievement of 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 in paragraph(s) 22 to 23 of this report.

Adjustment of material misstatements

28. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of the following programmes:

- Programme 1: Sustainable services cluster
- Programme 2: Economic growth
- Programme 4: Good governance cluster

29. As management subsequently corrected only some of the misstatements, I raised material findings on the reliability of the reported performance information. Those that were not corrected are reported above.

Introduction and scope

30. 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.
31. The material findings on compliance with specific matters in key legislations are as follows:

Annual financial statements

32. 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 current receivables, current liabilities, and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

33. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
34. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The value of R868 305 733 as disclosed in note 45 of the financial statements is still being assessed to quantify the full extent of the irregular expenditure. The majority of the disclosed irregular expenditure was caused by non-compliance with the Municipal Supply Chain Management Regulations (SCM regulation) on the fleet contract.
35. Reasonable steps were not taken to prevent unauthorised expenditure of R304 504 671, as disclosed in note 46 of the financial statements, in contravention of section 62(1)(d) of the MFMA.

Consequence management

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

Assets management

37. Investments were made in Citi Bank, Deutsche Bank, Land and Agricultural Development Bank of South Africa, Trans-Caledon Tunnel Authority and STANLIB; in contravention of municipal investment regulation 6.

Procurement and contract management

38. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM regulation 17(a) and (c). Similar non-compliance was also reported in the prior year.

39. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by 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). Similar non-compliance was also reported in the prior year. The majority of this non-compliance was identified in the procurement processes for IT services.
40. Some of the contracts and quotations were awarded to bidders based on preference points that were not allocated and/or calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) and its regulations. Similar non-compliance was also reported in the prior year.
41. Some of the competitive bids were adjudicated by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2).
42. The performance of some of the contractors or service providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
43. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, in contravention of section 116(2)(c) of the MFMA. Similar non-compliance was also reported in the prior year.
44. 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, in contravention of SCM regulation 46(2)(e) and the code of conduct for staff members issued in terms of the MSA. Similar non-compliance was also reported in the prior year.

Other information

45. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the accounting officer report and the audit committee's report. The other information does not include the financial statements, the auditor's report and those selected presented in the annual performance report that have been specifically reported on in the auditor's report.
46. 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.
47. 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 the financial statements and the selected programmes presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
48. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate, however, if it is corrected this will not be necessary.

Internal control deficiencies

49. 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 the annual performance report and the findings on compliance with legislation included in this report.
50. The accounting officer did not adequately exercise oversight responsibility regarding financial and performance reporting and compliance with legislation. The municipality did not have sufficient monitoring and reviewing controls to ensure that financial and performance reports submitted for audit were accurate and complete and that action plans developed were adequately and timeously implemented.
51. Senior management lacked the necessary control disciplines over financial and performance reporting and compliance with key legislation. As a result, there were inadequate year-end reconciliations, a lack of review of reports and a lack of monitoring over proper control implementation. Furthermore, there was a lack of a proper records management system that could support the information reported in the financial statements and the annual performance report and as a result material errors and omissions were identified during the audit process.
52. Internal audit processes did not always identify internal control deficiencies and recommend appropriate corrective action effectively and timeously. This resulted in significant and recurring control deficiencies relating to the preparation of the annual financial and performance reports and compliance with legislation.

Other reports

53. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

54. Eight hundred and sixty-nine cases of alleged irregularities relating to financial misconduct, fraudulent acts, theft and non-compliance were investigated during the financial year. The majority of these cases were investigated internally by the municipality's forensic department. All these investigations relate to irregularities identified prior to 2016/17 financial year. None of the irregularities incurred in the prior year have been investigated.

Auditor - General

Johannesburg

30 November 2018



AUDITOR - GENERAL
SOUTH AFRICA

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