

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 consolidated and separate financial statements

Opinion

1. I have audited the consolidated and separate financial statements of the City of Johannesburg Metropolitan Municipality and its subsidiaries set out on pages xx to xx, which comprise the appropriation statement, consolidated and separate statement of financial position as at 30 June 2020, 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 (appropriation statement) 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 municipality as at 30 June 2020, 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, 2019 (Act No. 19 of 2019) (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 municipality in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other 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 consolidated and separate financial statements for 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, 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>In the engagement letter signed with the accounting officer it was agreed that requested information would be provided within three working days. In some cases, the municipality was unable to provide the requested documents within the agreed time. These significant difficulties had an adverse impact on 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 the documents, I have a tracking mechanism used during the audit to track all the requested information and the period the information is overdue by. When the information was not received in the agreed upon time the issue was escalated using the following platforms:</p> <ul style="list-style-type: none"> • Regular audit steering committee meetings were held weekly where the tracker was presented and outstanding information communicated to the Group CFO • The matter was communicated to the accounting officer via a letter stating all the information not yet received <p>After the escalation process I managed to obtain all the audit evidence needed for me to be able to conclude on the audit.</p>
Revenue recognition	
<p>Revenue from service charges for water and electricity, as disclosed in note 30 to the annual financial statements, was recognised based on actual meter readings or estimates of consumption.</p> <p>Revenue recognition from service charges for water and electricity has been identified as a key audit matter due to significant judgement applied in calculating the estimations of the consumption used and the significant volume of transactions processed and interfaced through a complex information system.</p>	<p>My procedures included the following:</p> <ul style="list-style-type: none"> • Understanding and evaluating the flow of information, the information technology (IT) system and the controls relating to the meter-reading process, the billing process and the systems interface process, which included involving my IT audit specialists • Identifying the significant risks associated with service billing and designing specific procedures to address the risks identified • Performing substantive testing of detail using computer-assisted audit techniques by IT audit specialists on the water consumption billed to identify estimations used • Performing substantive testing of detail on a sample basis on the reasonability of the estimation and meter-reading process • Performing procedures on the appropriateness of assumptions made by management in

Key audit matter	How the matter was addressed in the audit
	<p>calculating the estimate to determine whether it is reasonable</p> <ul style="list-style-type: none"> Physical inspection of a sample of meter readings to validate the meter readings captured <p>I found that manual and IT controls were designed; however, these controls were not adequately implemented. I found that the significant judgements made by management in calculating the estimate were not reasonable. There were significant issues noted on the reasonableness of revenue.</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 45 to the consolidated and separate financial statements, the corresponding figures for 30 June 2019 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2020.

Material uncertainties

9. With reference to note 44 to the consolidated and separate 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 was made in the financial statements.

Material impairments

10. As disclosed in note 10 to the consolidated and separate financial statements, the consumer debtors balance has been impaired. The allowance for impairment of consumer debtors amounts to R27 981 402 000 (2018-19: R20 437 196 000), which represents 80,4% (2018-19: 77,1%) of the total consumer debtors.

Material electricity losses

11. As disclosed in note 38 to the consolidated and separate financial statements, material electricity losses of R3 438 559 000 (2018-19: R2 893 632 000) was incurred, which represents 29.9% (2018-19: 27%) of total electricity purchased. Technical losses of R1 088 851 000 (2018-19: R1 029 319 000) was due to energy losses. Non-technical losses of R2 349 708 000 (2018-19: R1 864 313 000) was due to theft, bypassing meters, damaged meters and faulty voltage.

Additional disclosure – COVID 19

12. I draw attention to note 67 in the consolidated and financial statements, which deals with the impact of COVID-19 on the effects of the current and future implications of COVID-19 on the municipality's performance.

Other matters

13. I draw attention to the matters below.

Unaudited disclosures

14. 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 consolidated and separate financial statements. This disclosure requirement did not form part of the audit of the 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 consolidated and separate financial statements in accordance with the SA Standards of GRAP, 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 consolidated and separate financial statements, the accounting officer is responsible for assessing the municipality'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 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 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 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected outcome presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
20. My procedures address the usefulness and reliability of the reported performance information, which must be based on the municipality's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the municipality enabled service delivery. My procedures also do 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 outcome presented in the municipality's annual performance report for the year ended 30 June 2020:

Outcome	Pages in the annual performance report	Opinion	Movement
Outcome 2: Provide a resilient, liveable, sustainable urban environment – underpinned by smart infrastructure supportive of a low carbon economy	x – x	Unqualified	▲

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 identify any material findings on the usefulness and reliability of the reported performance information for the following outcome:
- Outcome 2: Provide a resilient, liveable, sustainable urban environment – underpinned by smart infrastructure supportive of a low carbon economy

Other matters

24. I draw attention to the matters below.

Achievement of planned targets

25. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year. This information should be considered in the context of the opinion expressed on the usefulness and reliability of the reported performance information in paragraph 21 of this report.

Adjustment of material misstatements

26. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of Outcome 2: Provide a resilient, liveable, sustainable urban environment – underpinned by smart infrastructure supportive of a low carbon economy. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Implementation of new rationalised set of indicators as per MFMA Circular 88 of 2017

27. MFMA Circular 88 of 2017, issued on 30 November 2017, on the rationalisation of planning and reporting requirements for the 2018-19 medium-term revenue and expenditure framework, aims to support the alignment of planning and reporting instruments for a prescribed set of performance indicators for metropolitan municipalities from the 2019-20 financial year onwards. The municipality did not include the common set of indicators in the integrated development plan and 'top-layer' service delivery and budget implementation plan for the 2019-20 planning and reporting cycle due to concerns raised with National Treasury on alignment of these indicators to the municipality's environment and in order to entrench the indicators in the municipality's standard monitoring tools.

Report on the audit of compliance with legislation

Introduction and scope

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

Annual financial statements

30. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 (1) on the MFMA. Material misstatements for receivables from exchange transactions and non-exchange transactions identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

42. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R682 146 000 as disclosed in note 48 to the annual financial statements, as required by section 62(1)(d) of the MFMA.

Consequences management

43. Some of the 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.

Revenue management

44. An adequate management, accounting and information system which accounts for revenue was not in place, as required by section 97(h) of the MFMA.

Asset management

45. An effective system of internal control for assets was not in place, as required by section 96(2)(b) of the MFMA.

Other information

46. 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 that selected outcome presented in the annual performance report that have been specifically reported in this auditor's report.
47. 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 on it.
48. 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 outcome presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
49. 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

50. I considered internal control relevant to my audit of the consolidated and financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. 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.

51. The accounting officer did not adequately exercise oversight responsibility, by holding senior management accountable for the implementation of preventative controls relating to financial management and compliance with legislation.
52. Senior management did not adequately implement action plans designed to prevent recurring non-compliance. Furthermore, consequence management for deviating from policies and procedures relating to compliance with laws and regulations were not implemented adequately.

Material irregularity

53. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit.

Material irregularity in progress

54. I identified a material irregularity during the audit and notified the accounting officer of this, as required by material irregularity regulation 3(2). By the date of this auditor's report, I had not yet completed the process of evaluating the response from the accounting officer. This material irregularity will be included in the next year's auditor's report.

Other reports

55. I draw attention to the following engagements conducted by various parties which 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.
56. A total of nine hundred and ninety-four (994) cases of alleged irregularities relating to financial misconduct, fraudulent acts, theft and non-compliance were investigated during the financial year. The majority of the cases were investigated internally by the municipality's forensic department. All these investigations relate to irregularities identified prior to 2019-20 financial year. Some of the irregularities incurred in the prior year have not being investigated.

Auditor-General

Johannesburg

30 April 2021



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the consolidated and separate financial statements and the procedures performed on reported performance information for selected outcome and on the municipality's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the consolidated and separate financial statements as described in this auditor's report, I also:
 - identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
 - obtain an understanding of internal control relevant to the audit 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
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
 - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the consolidated and separate financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the City of Johannesburg Metropolitan Municipality's and its subsidiaries to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the consolidated and separate financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease operating as a going concern
 - evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and determine whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, the actions taken to eliminate threats or the safeguards applied.

5. From the matters communicated to those charged with governance, I determine those matters that were of most significance in the audit of the consolidated and separate financial statements for the current period and are therefore key audit matters. I describe these matters in this auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in this auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest of such communication.