

# Report of the auditor-general to the Gauteng provincial legislature and the council of Emfuleni Local Municipality

## Report on the financial statements

### Introduction

1. I have audited the financial statements of the Emfuleni Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, the cash flow statement and the statement of comparison of budget and actual amounts 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), the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act 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 the 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 entity's preparation 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 entity'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 Emfuleni Local Municipality as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with the 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. With reference to note 35 to the financial statements, the municipality is the defendant in various court cases. The ultimate outcome of these matters cannot presently be determined, and no provision for any liability that may result has been made in the financial statements.

## Restatement of corresponding figures

9. As disclosed in note 30 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of errors discovered in the financial statements of the Emfuleni Local Municipality during the year ended 30 June 2015.

## Material losses

10. As disclosed in note 34 to the financial statements, the municipality incurred material losses amounting to R186 496 567 (2014: R175 255 483) as result of water distribution losses, which represent 32.9% (2014: 34.1%) of the total water purchased.
11. As disclosed in note 34 to the financial statements, the municipality suffered significant electricity distribution losses of 329 351 935 kilowatts with a value of R220 031 941 (2014: 456 559 002 kilowatts with a value of R278 500 991). This represents 15.5% (2014: 20.4%) of electricity distributed.

## Material impairments

12. As disclosed in note 3 to the financial statements, material impairments to the amount of R3 418 999 532 (2014: R2 680 921 630) were incurred on trade receivables of R3 601 152 338 (2014: R2 929 657 148) as these trade receivables (consumer debtors) were considered doubtful.

## Financial sustainability

13. Note 43 to the financial statements indicates that the Emfuleni Local Municipality incurred a deficit of R541 138 081 (2014: R178 775 030) during the year ended 30 June 2015 and, as of that date, the municipality's current liabilities exceeded its current assets by R474 450 476 (2014: R140 885 876). These conditions indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

## **Additional matter**

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

### Unaudited disclosure notes

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

## **Report on other legal and regulatory requirements**

16. 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 developmental priorities presented in the annual performance report, non-compliance with legislative 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**

17. 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 municipality for the year ended 30 June 2015:

- Development priority 6 : water on pages x to x
- Development priority 4 : sanitation on pages x to x
- Development priority 5 : waste management on pages x to x
- Development priority 3 : roads and storm water on pages x to x
- Development priority 1 : electricity on pages x to x

18. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

19. 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).

20. I 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 selected development priorities are as follows:

## **Development priority 6: Water**

Usefulness of reported performance information

Measurability of indicators and targets

22. Performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use, as required by the FMPPI. A significantly important indicator in relation to the overall mandate of the municipality was not well defined.
23. The processes and systems that produced the indicator should be verifiable, as required by the FMPPI. The significantly important indicator in relation to the overall mandate of the municipality was not verifiable.
24. This was due to a lack of proper systems and processes to ensure that data will be collected consistently, and be easy to understand and use.
25. Performance targets should be measurable as required by the FMPPI. I could not measure the required performance for a significantly important target in relation to the overall mandate of the municipality.

Reliability of reported performance information

26. 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. A significantly important target was not reliable when compared to the source information or evidence provided.
27. This was due to a lack of standard operating procedures or documented system descriptions for the accurate recording of actual achievements and technical indicator descriptions for the accurate measurement, recording and monitoring of performance.

## **Development priority 4: Sanitation**

Usefulness of reported performance information

Measurability of indicators and targets

28. Performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use, as required by the FMPPI. A significantly important indicator in relation to the overall mandate of the municipality was not well defined.
29. The processes and systems that produced the indicator should be verifiable, as required by the FMPPI. The significantly important indicator in relation to the overall mandate of the municipality was not verifiable.
30. This was due to a lack of proper systems and processes to ensure that data will be collected consistently, and be easy to understand and use.
31. Performance targets should be measurable as required by the FMPPI. I could not measure the required performance for a significantly important target in relation to the overall mandate of the municipality.

## Reliability of reported performance information

32. 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. A significantly important target was not reliable when compared to the source information or evidence provided.
33. This was due to a lack of standard operating procedures or documented system descriptions for the accurate recording of actual achievements and technical indicator descriptions for the accurate measurement, recording and monitoring of performance.
34. I did not identify material findings on the usefulness and reliability of the reported performance information for the following
- Development priority 4: waste management
  - Development priority 3: roads and storm water
  - Development priority 1: electricity

## Additional matters

35. I draw attention to the following matters:

### Achievement of planned targets

36. Refer to the annual performance report on page(s) x to x and x to x 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 usefulness and reliability of the reported performance information for the selected development priorities reported in paragraphs 22 to 32 of this report.

### Adjustment of material misstatements

37. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information of development priority 4: waste management and development priority 1: electricity. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

## Compliance with legislation

38. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

## Expenditure management

39. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

## **Internal control**

40. I considered internal control relevant to my audit of the financial statements, the 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 non-compliance with legislation.

## **Leadership**

41. The oversight exercised by the accounting officer on performance reporting and instances of non-compliance with certain laws and regulations was not effective.

42. The action plan developed to address the external and internal audit findings was not fully implemented on performance reporting.

## **Financial and performance management**

43. Certain cluster managers did not have effective monitoring controls in place to ensure that performance reports are supported by complete, relevant and accurate information.

## **Other reports**

## **Investigations**

44. Two investigations are being performed by independent consulting firms at the request of the municipality. These investigations cover the period 01 July 2014 to 30 June 2015 and are based on allegations of misappropriation of the municipality's funds and a lack of progress at certain capital projects.

Johannesburg

30 November 2015



**A U D I T O R - G E N E R A L**  
**S O U T H A F R I C A**

*Auditing to build public confidence*