

# 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 (the group) set out on pages xx to xx, which comprise the appropriation statement, consolidated and separate statement of financial position as at 30 June 2021, 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 financial position of the group as at 30 June 2021, 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 56 of 2003 (MFMA) and the Division of Revenue Act 4 of 2020 (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 my report.
4. I am independent of the group 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 matter 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 on these matters.

Key audit matter	How the matter was addressed in the audit
<b>Revenue Recognition</b>	
<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 estimation 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 to address the key audit matter:</p> <ul style="list-style-type: none"> <li>• 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</li> <li>• Identifying the significant risks associated with service billing and designing specific procedures to address the risks identified</li> <li>• Performing a substantive test of detail using computer assisted audit techniques by IT audit specialists on the electricity and water consumption billed to identify estimations used.</li> <li>• Performing procedures on the appropriateness of assumptions made by management in calculating the estimate to determine whether it is reasonable.</li> <li>• Physical inspection of a sample of meter readings to validate the meter readings captured.</li> </ul> <p>I found that manual and IT controls were designed and these controls were adequately implemented for electricity but not adequately implemented for water. Overall, I found that the significant judgements made by management in calculating the estimate were reasonable. Even though there was a concern regarding estimates for water, which were beyond twelve months, no significant issues were 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.

### Material impairments

8. 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 R32 715 319 000 (2019-20: R27 981 402 000) which represents 81% (2019-20: 82,03%) of total consumer debtors.

### Material losses

9. As disclosed in note 40 to the financial statements, material electricity losses of R3 671 613 000 (2019-2020: R3 438 559 000) were incurred, which represents 30% (2019-2020: 30%) of total electricity purchased. Technical losses amounted to R1 143 642 000 (2019-2020: R1 088 851 000) due to energy losses. Non-technical losses amounted to R2 527 971 000 (2019-2020: R2 349 708 000) due to theft and bypass of meters, illegal decalibration of meters, damaged meters and faulty voltage and current transformers, billing errors and customers without meters.

### Material contingencies

10. With reference to note 46 to the consolidated and separate financial statements, the group is the defendant in various legal claims. The outcomes of these matters could not presently be determined and/or reliably measured; therefore, no provision for any liability that may result was made in the financial statements.

### Restatement of corresponding figures

11. As disclosed in note 45 to the consolidated and separate financial statements, the corresponding figures for 30 June 2020 were restated as a result of errors in the consolidated and separate financial statements of the group at, and for the year ended, 30 June 2021.

### Other matter

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

### Unaudited disclosure notes

13. In terms of section 125(2)(e) of the MFMA, the group 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 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

14. 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.

15. 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**

16. 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.
17. 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**

18. 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 strategic priority presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
19. My procedures address the usefulness and reliability of the reported performance information, which must be based on the group'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 group enabled service delivery. My procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or 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.
20. 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 priority presented in the group's annual performance report for the year ended 30 June 2021:

Strategic priority	Pages in the annual performance report
Strategic priority 6: Integrated Human Settlements	x – x

21. 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.
22. The material findings on the usefulness and reliability of the performance information of the selected strategic priority are as follows:

### Strategic priority 6: Integrated Human Settlements

#### Various indicators

23. The achievements reported in the annual performance report materially differed from the supporting evidence provided for the indicators listed below:

Indicator description	Reported achievement
Number of indigent households benefitting from ESP (free basic services)	137 125
Number of new households provided access to basic water at minimum LoS1 in informal settlements	6 413

#### Number of service sites developed

24. The measures taken to improve performance against target 800 were not reported in the annual performance report.

#### Other matters

25. I draw attention to the matters below.

#### Achievement of planned targets

26. Refer to the annual performance report on pages ... to ... 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 usefulness and reliability of the reported performance information in paragraphs 23 to 24 of this report.

## Implementation of new rationalised set of indicators as per MFMA Circular 88 of 2019

27. MFMA Circular 88 issued 30 November 2017 with further refinements communicated by National Treasury on 30 November 2019 informs the rationalisation of planning and reporting requirements for the 2018-19 MTREF onwards and aims to support the alignment of planning and reporting instruments for a prescribed set of performance indicators for metropolitan municipalities. The City of Johannesburg did not include various common set of indicators in the IDP and "top-layer" SDBIP for the 2020-21 planning and reporting cycle due to concerns raised on alignment of these indicators to the group's environment and in order to entrench the indicators in the group'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 group'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) of the MFMA. Material misstatements of receivables from non-exchange transactions, receivables from exchange transactions, loans to municipal entities, cash receipts from customers and cash paid to suppliers and employees, identified by the auditors in the submitted financial statement were subsequently corrected resulting in the financial statements receiving an unqualified audit opinion.

### Revenue management

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

### 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 Supply Chain Management 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).
33. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year.

34. The contract performance and monitoring measures were not in place to ensure effective contract management, as required by section 116(2)(c)(ii) of the MFMA. Similar non-compliance was also reported in the prior year.

#### Expenditure management

35. Reasonable steps were not taken to prevent irregular expenditure amounting to R2 633 507 000 as disclosed in note 51 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by the non-compliance with SCM regulation 36.
36. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R184 421 000 as disclosed in note 47 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by payment to a service provider for unused sim cards.
37. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R1 199 590 000, as disclosed in note 48 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending on key votes.

#### Consequence management

38. Irregular expenditure incurred by the group was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

#### Other information

39. 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 the selected strategic priority presented in the annual performance report that has been specifically reported on in this auditor's report.
40. 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.
41. 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 consolidated and separate financial statements and the selected strategic priority presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

42. 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**

43. 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 on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
44. The accounting officer did not adequately exercise oversight responsibility, by holding senior management accountable for the implementation of preventative controls relating to financial and performance management as well as compliance with legislation.
45. Senior management did not adequately implement action plans designed to prevent recurring non-compliance with laws and regulation and findings on reported performance information. Furthermore, consequence management for deviating from policies and procedures relating to compliance with laws and regulations were not implemented adequately.

### **Material irregularities**

46. 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 identified during the audit**

47. The material irregularity identified is as follows:

#### **Failure to correctly deduct and withhold employee tax on gratuity payments**

48. The South African Revenue Service (SARS) conducted a payroll taxes audit for the City of Johannesburg core department during 2018/19. Findings emanating from the SARS audit referenced an underpayment of employee's tax for final gratuities, leave and bonus payments on terminations to the value of R9 183 080 for the periods 2014 to 2017 due to the municipality incorrectly treating it as severance benefit payments. The municipality was found to have contravened section 2(1) of the fourth schedule to the Income Tax Act no. 58 of 1962 (Income Tax Act) and the underpayment resulted in SARS penalties and interest charged amounting to R6 303 048.

49. The accounting officer following the MI notification issued on 18 March 2021 has taken the following action:

- Instituted an internal investigation to determine the responsible official(s) who caused the loss. The report was issued on 30 September 2021 with detailed recommendations to be implemented by the accounting officer.
- A legal consultant was appointed on 25 October 2021 to confirm the prospects of success on the recoverability of the funds with a legal opinion issued on 29 November 2021. Recovery of monies overpaid to current employees is expected to be finalised by 31 January 2022. Recovery of monies overpaid to former employees is expected to be finalised by April 2022.
- Referred the employees who committed the loss to the disciplinary board and the process is expected to be finalised by April 2022.
- Requested formal training from SARS regarding the employee tax matters on 07 October 2021.

50. I will follow up on the implementation of the planned actions during my next audit.

### **Material irregularity in progress**

51. 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, the response of the accounting officer was not yet due. This material irregularity will be included in the next year's auditor's report.

### **Other reports**

52. In addition to the investigations relating to material irregularities, I draw attention to the following engagements conducted by various parties which had, or could have, an impact on the matters reported in the group'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.

53. A total of two hundred and sixty-three (263) cases of alleged irregularities relating to financial misconduct, fraudulent acts, theft and non-compliance were investigated by the municipality during the financial year. The majority of the cases were investigated internally by the group's forensic department. All these investigations relate to irregularities identified prior to 2020-21 financial year. Some of the irregularities incurred in the prior year have not being investigated.

*Auditor - General.*

Johannesburg

25 January 2022



## **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 strategic priority and on the group’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 group’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 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 group 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 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 the group to cease operating as a going concern
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
  - obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

### **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 provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or 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 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.