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The reputation promise of the Auditor-General

"The Auditor-General has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence."

The mission statement informs the content of the Public Audit Manual (PAM) by recognising that the audits conducted by the SAI of South Africa are unique due to its mandate. This mandate includes responsibilities in terms of laws or regulations that go beyond generally accepted practice of the auditor's responsibilities in the audit of the financial statements.

These responsibilities include: consideration of issues such as public interest; accountability; probity; effective legislative oversight, in particular as concerns compliance with law, regulation or other authority; performance against pre-determined objectives; and economic, efficient, and effective procurement of resources.

The ultimate goal of the audits is to strengthen the South African democracy.

Auditor's report of the Auditor-General to the Gauteng Provincial Legislature on the City of Johannesburg Metropolitan Municipality for the year ended 30 June 2011

AUDITOR-GENERAL
SOUTH AFRICA

Mr T Fowler
Accounting Officer
City of Johannesburg Metropolitan Municipality
Private Bag X1049
Johannesburg
2000

15 December 2011

Reference: TS98 19611

Dear Mr Fowler

Report of the Auditor-General on the consolidated financial statements and other legal and regulatory requirements of City of Johannesburg Metropolitan Municipality for the year ended 30 June 2011

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Municipal Finance Management Act of South Africa (MFMA).
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA; you are required to include the audit report in the municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA, the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
    - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the consolidated financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.

Auditor-General of South Africa
PO Box 91081 Auckland Park 2006 Gauteng • Docex 392 • Tel: +27 (0)11 703 7600 • Fax: +27 (0)11 703 7690 • www.agsa.co.za

- The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format if needed.

6. Please notify the undersigned Corporate Executive well in advance of the date on which the annual report containing this audit report will be tabled.
7. Please submit 5 copies of the annual report to the AGSA (Attention Ockie Ludick) at 61 Central Street, Houghton.
8. The tabled report must be submitted to MPAC.
9. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

Signed

.....
Corporate Executive: Gauteng

Enquiries: Ockie Ludick
Telephone: (011) 703 7638
Fax: (011) 703 7690

REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG PROVINCIAL LEGISLATURE AND COUNCIL ON THE CITY OF JOHANNESBURG METROPOLITAN MUNICIPALITY

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying consolidated and separate financial statements of the City of Johannesburg Metropolitan Municipality (municipality), which comprise the consolidated and separate statement of financial position as at 30 June 2011, and the consolidated and separate statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages XX to XX.

Accounting officer's responsibility for the consolidated financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with 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 for such internal control as management determines necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996, section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these consolidated and separate financial statements based on my audit.

4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010.* Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.

5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated and separate 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 consolidated and separate financial statements.

6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Property rates revenue

7. Included in revenue of R28 916 590 000 (2010: R26 092 141 000), is an amount of R4 892 594 000 (2010: R4 050 071 000), relating to property rates. Material differences were identified between the billing data and the source data relating to property categories and market values without complete audit evidence. The municipality's records did not permit the application of alternative audit procedures regarding the differences identified in property rates revenue. Consequently, I was unable to verify the accuracy, cut-off, completeness and occurrence of the differences included in the amount of R4 892 594 000 (2010: R4 050 071 000) relating to property rates revenue, as per note 29 to the financial statements.

Service charges revenue

8. Included in revenue of R28 916 590 000 (2010: R26 092 141 000), is an amount of R15 216 312 000 (2010: R12 477 685 000) relating to revenue for the supply of electricity and water by City Power Johannesburg SOC Ltd (City Power) and Johannesburg Water SOC Ltd (Johannesburg Water) respectively. Material differences were identified between the billing data and the source data relating to meter readings and property categories, without complete audit evidence. The entitys' records did not permit the application of alternative audit procedures regarding the differences identified in service charges revenue. Consequently, I was unable to verify the accuracy, cut-off, completeness and occurrence of the differences included in the amount of R15 216 312 000 (2010: R12 477 685 000) relating to revenue for the supply of electricity and water, as per note 30 to the financial statements.

Consumer debtors

9. As per paragraphs 7 and 8 above, there were material shortcomings that were identified during the audit of the revenue billing and management system which raised uncertainties regarding the accuracy, cut-off, completeness and occurrence of revenue and consumer debtors' financial data. Due to the significance of the matters described in the preceding paragraphs, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the existence, completeness, valuation, allocation of and rights pertaining to debtors of R4 423 238 000 (2010: R2 911 471 000), as per note 8 to the financial statements, with respect to the municipality and the entities mentioned in the preceding paragraphs.

Leave accrual

10. Included in trade and other payables of R7 133 946 000 (2010: R6 172 975 000) is an amount of R230 081 000 relating to leave pay accrual. The municipality could not provide sufficient appropriate audit evidence to support the accuracy of the leave days balance at year-end. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that all leave was properly recorded. Consequently I did not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness, valuation and obligations pertaining to the liability as per note 21 to the financial statements.

Qualified opinion

11. In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraphs, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the City of Johannesburg Metropolitan Municipality (municipality) and its entities as at 30 June 2011, and their financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA.

Emphasis of matters

12. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Significant uncertainties

13. With reference to note 45 to the financial statements, the municipality is the defendant in various lawsuits. The municipality is opposing the claims, as it believes the claims to be baseless. 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

14. As disclosed in note 46 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of errors discovered during the year ended 30 June 2011.

Unauthorised expenditure

15. As disclosed in note 49 to the financial statements, the municipality incurred unauthorised expenditure of R48 498 000 as a result of exceeding the total budgeted amounts in expenditure.

Irregular expenditure

16. As disclosed in note 50 to the financial statements, the municipality and its entities incurred irregular expenditure of R397 656 000 as a result of non-compliance with supply chain management (SCM) regulations.

Material losses

17. As disclosed in note 8 to the financial statements, material losses to the amount of R1 217 000 000 were incurred as a result of electricity distribution losses. The total technical losses of electricity incurred amounted to R568 000 000. Non-technical losses amount to R649 000 000 and are due to electricity theft, tampering and faulty meters.

18. As disclosed in note 8 to the financial statements, material losses to the amount of R827 000 000 were incurred as a result of unaccounted for water.

19. As disclosed in note 55 to the financial statements, material losses to the amount of R6 165 000 were incurred as a result of cash losses due to banking shortages.

Going concern

20. The consolidated statement of financial position shows that the total assets exceed total liabilities, fairly valued. However, a municipal entity, Pikitup Johannesburg SOC Ltd (Pikitup) has prepared its financial statements on a going concern basis even though the entity had an accumulated deficit of R363 443 155 and the total liabilities exceed total assets by R353 041 153. These conditions indicated the existence of a material uncertainty that may cast significant doubt on the entity's ability to operate as a going concern.

Additional matter

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

Unaudited supplementary schedules

22. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

23. In accordance with the PAA and in terms of *General Notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010,* I include below my findings on the annual performance report as set out on pages ... to ... and material non-compliance with laws and regulations applicable to the municipality and its entities.

Predetermined objectives

Usefulness of information

24. The reported performance information was deficient in respect of the following criteria:

- Consistency: The reported indicators or targets are not consistent with the approved integrated development plan or business plan.
- Measurability: The indicators are not well defined, and targets are not specific, measurable and time bound.

25. The following audit findings relate to the above criteria:

Reported indicators are not consistent when compared with the planned indicators

- The actual achievements with regard to 29% of all planned indicators specified in the integrated development plan for the municipality for the year under review were not included in the report on predetermined objectives submitted for audit purposes.
- The actual achievements with regard to 30% of all planned indicators specified in the business plan for Pikitup for the year under review were not included in the report on predetermined objectives submitted for audit purposes.

Changes to planned targets are not approved

- Different targets were reported on as opposed to the approved business plan at Pikitup. These different targets were not approved subsequent to the strategic planning process.

Planned and reported indicators are not well defined

- For the selected objectives at Roodepoort City Theatre SOC Ltd (RCT), 27% of the planned and reported indicators were not clear, as unambiguous data definitions were not available to allow for data to be collected consistently.
- For the selected objectives at Johannesburg Fresh Produce Market SOC Ltd (JFPM), 21% of the planned and reported indicators were not clear, as unambiguous data definitions were not available to allow for data to be collected consistently.
- For the selected objectives at Johannesburg City Parks (JCP), none of the planned and reported indicators were clear, as unambiguous data definitions were not available to allow for data to be collected consistently.

Planned and reported targets are not specific, measurable and time bound

- For the selected objectives at Metropolitan Trading Company SOC Ltd (MTC), 26% of the planned and reported targets were not:
    - specific in clearly identifying the nature and the required level of performance;
    - measurable in identifying the required performance;
    - time bound in specifying the time period or deadline for delivery.
- For the selected objectives at JFPM, 31% of the planned and reported targets were not specific in clearly identifying the nature and the required level of performance.

Reliability of information

26. The reported performance information was deficient in respect of the following criteria:

- Validity: The reported performance did not occur and does not pertain to the entity.
- Accuracy: The amounts, numbers and other data relating to reported actual performance have not been recorded and reported appropriately.
- Completeness: All actual results and events that should have been recorded have not been included in the reported performance information.

27. The following audit findings relate to the above criteria:

The validity, accuracy and completeness of reported performance against targets could not be confirmed as inadequate supporting source information was provided

- For the selected objectives at RCT, the validity and accuracy of 33% of the reported targets could not be established as sufficient appropriate audit evidence could not be provided.
- For the selected objective at JCP (Extended Public Works Program (EPWP)) that is material by nature and amount, the validity, accuracy and completeness of the reported target could not be established as sufficient appropriate audit evidence could not be provided.
- For the selected objectives at Johannesburg Property Company SOC Ltd, the validity and accuracy of 25% of the reported targets could not be established as sufficient appropriate audit evidence could not be provided.

Compliance with laws and regulations

Annual financial statements, performance and annual reports

28. The financial statements submitted by the municipality, City Power Johannesburg and Johannesburg Water for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of revenue, consumer debtors, property, plant and equipment and various disclosure items identified by the auditors were subsequently corrected.

Procurement and contract management

29. Awards were made by the municipality to providers who are persons in service of the municipality in contravention of SCM regulation 44. Furthermore, the providers failed to declare that they are in the service of the municipality as required by SCM regulation 13(c).

30. Awards were made by the municipality and MTC to providers who are persons in service of other state institutions in contravention of the requirements of SCM regulation 44.

Furthermore, the providers failed to declare that they are in the service of the state as required by SCM regulation 13(c).

31. Goods and services of a transaction value above R200 000 were procured by the municipality and RCT without inviting competitive bids as per the requirements of SCM regulations 19(a) and 36(1).

Expenditure management

32. Money owing by the municipality and MTC was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) and section 99(2)(b) of the MFMA respectively.

33. The accounting officer of the municipality did not take reasonable steps in certain instances to prevent unauthorised and irregular expenditure, as required by section 62(1)(d) of the MFMA.

34. The accounting officers of the municipal entities did not take reasonable steps in certain instances to prevent irregular expenditure, as required by section 95(d) of the MFMA.

Revenue management

35. Revenue per billing reports generated by the municipality was not always reconciled to the accounting records at least on a weekly basis, as required by section 64(2)(h) of the MFMA.

36. Contrary to the requirements of the water by-laws of the municipality, water consumption was billed on estimates for more than six months.

37. The accounting officer did not take all reasonable steps to address deficiencies relating to access controls and user account management in the billing system. In addition, processes to advise municipal entities of deleted meter readings as well as validation parameters were inadequate. Consequently, the municipality did not have an adequate system which recognised revenue when it was earned, accounted for debtors and accounted for receipts of revenue, as required by section 64(2)(e) of the MFMA.

38. Revenue billed was not reconciled to the source data relating to the meter readings on a monthly basis. In addition revenue per billing reports and other adjustments are not reconciled to the accounting records of Johannesburg Water and City Power resulting in non- compliance with section 98(a) of the MFMA.

39. The accounting officers of Johannesburg Water and City Power did not take all reasonable steps to ensure that meter readings are reviewed for credibility, exception reports are followed up and cleared on a timeous basis and that discipline is enforced to regularly read meters. Therefore, an adequate management and accounting system was not properly maintained as required by section 97(h) of the MFMA.

INTERNAL CONTROL

In accordance with the PAA and in terms of *General Notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010,* I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

40. Monitoring controls to ensure adherence to the internal policies and procedures for the correct recording of revenue and consumer debtors were not sufficient.

41. The IT governance framework that supports and enables the business, delivers value and improves performance has not been finalised.

42. In certain instances, the accounting officers of the municipality and its entities did not exercise oversight responsibility regarding financial and performance reporting and compliance with MFMA and SCM regulations.

Financial and performance management

43. As mentioned in paragraph 35 above, reconciliations between the various billing reports generated from the billing system were not adequately reviewed to identify potential errors in the billings to consumers.

44. The information system for recording revenue and debtors does not ensure that source data and billing data are aligned.

45. The financial statements of the municipality and its entities contained misstatements that were corrected. This was mainly due to inadequate review of the financial statements by senior management, prior to submission for auditing.

46. As mentioned in paragraph 38 above, management at Johannesburg Water and City Power did not ensure that revenue reconciliation between meter readings, billing reports and the municipal entities' accounting records were performed on a regular basis.

47. As mentioned in paragraph 39 above, management at Johannesburg Water and City Power did not ensure that meter readings are credible, exception reports are followed up and cleared and meters are regularly read. In addition, remedial action as provided for in service level agreements is not taken against service providers who supply incorrect meter readings.

48. Management at Johannesburg Water and City Power did not ensure that adequate reasons for overriding or amending meter readings by the billing department are received and resolved timeously.

49. Management at the municipality and its entities did not review and monitor compliance with applicable laws and regulations, specifically the MFMA and SCM regulations.

50. Management at the municipality and its entities did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting. Regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information were not prepared.

OTHER REPORTS

Investigations

51. Seventy four cases of alleged irregularities were being investigated. Four of these were conducted by external investigators and the remainder were investigated by the forensic section of the municipality's internal audit division during the 2010-11 financial year. Of these, sixty six have been finalised. The nature of the cases covered a wide spectrum of activities namely, bribery, theft, financial corruption, tender irregularities and various other issues. These fraudulent activities covered various departments of the municipality including some of the entities and eight cases were still pending as investigations were still in progress.

Agreed upon procedures engagements

52. As requested by the municipality, an agreed upon procedure engagement was conducted during the year under review concerning the issue of R850 million notes on Domestic Medium Term Note Programme and Issue of Notes. The report covered the period 1 July 2010 to 31 January 2011 and was issued on 22 March 2011.

Auditor - General

Johannesburg

15 December 2011

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