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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of City Power Johannesburg SOC Ltd, which comprise the statement of financial position as at 30 June 2011, and the 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, and the directors' report, as set out on pages xx to xx.

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) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No.56 of 2003) (MFMA) and the Companies Act of South Africa, 2008 (Act No. 71 of 2008) (Companies Act) and for such internal control as management determines 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. 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 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 financial statements are free from material misstatement.

5. 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 and fair presentation 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.

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

Service charges revenue

7. Included in revenue of R10 404 202 000 (2010: R8 086 578 000) is an amount of R9 786 301 000 (2010: R7 235 256 000) relating to revenue for the supply of electricity. Differences were identified between the billing data and the source data relating to meter readings and property categories, without complete audit evidence to support the differences. The entity's records did not permit the application of alternative audit procedures regarding the service charges revenue. Consequently, I was unable to perform alternative audit procedures to verify the accuracy, cut-off, completeness and occurrence of the amount of R9 786 301 000 (2010: R7 235 256 000) relating to revenue for the supply of electricity as per note 20 to the financial statements.

Consumer debtors

8. As per paragraph 7 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 receivables' financial data. Due to the significance of the matters described in the preceding paragraph, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the existence, completeness, valuation and allocation of and rights pertaining to debtors of R2 541 663 000 (2010: R1 252 141 000) as disclosed in note 7 to the financial statements.

Qualified opinion

9. In my opinion, except for the effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of City Power Johannesburg SOC Ltd as at 30 June 2011, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and the Companies Act.

Emphasis of matters

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

Restatement of corresponding figures

11. As disclosed in note 37 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.

Distribution losses

12. As disclosed in note 38 to the financial statements, material losses to the amount of R1 217 360 000 were incurred as a result of electricity distribution losses. The total technical losses of electricity incurred amounted to R567 927 000.

Additional matter

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

Unaudited supplementary schedules

14. The supplementary information set out on pages 64 to 68 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

15. 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 xx to xx and material non-compliance with laws and regulations applicable to the municipal entity.

Predetermined objectives

16. There were no material findings on the annual performance report.

Compliance with laws and regulations

Revenue management

17. Revenue billed is not reconciled to the source data relating to the meter readings on a weekly basis. In addition, revenue per billing reports and other adjustments are not reconciled to the municipal entity's accounting records resulting in non compliance with section 97(j) of the MFMA.

18. The accounting officer 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.

Procurement and contract management

19. There were instances where contracts with suppliers were extended without tabling the reasons for the proposed amendments in the council of the parent municipality as required by section 116(3) of the MFMA.

Expenditure management

20. The accounting officer did not take reasonable steps to prevent irregular expenditure as required by section 95(d) of the MFMA.

Annual financial statements, performance and annual reports

21. 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. The uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

INTERNAL CONTROL

22. In accordance with the PAA and in terms of *General Notice 111 of 2010,* issued in *Government Gazette 33872 of 15 December 2010,* I considered internal control relevant to my audit, but not for the purposes 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 and the findings on compliance with laws and regulations.

Leadership

23. In certain instances, the accounting officer did not exercise oversight responsibility regarding financial reporting and compliance with MFMA and supply chain management (SCM) regulations.

Financial and performance management

24. Management did not review and monitor compliance with applicable laws and regulations specifically the MFMA and SCM regulations.

25. As mentioned in paragraph 17 above, management did not ensure that revenue reconciliations between meter readings, billing reports and the municipal entity's accounting records were performed on a weekly basis.

26. As mentioned in paragraph 18 above, management 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 agreement is not taken on service providers who supply incorrect meter readings.

27. Management did not ensure that adequate reasons for overriding or amending meter readings by the Billing department are received and resolved timeously.

OTHER REPORTS

Investigations

28. The Internal audit unit is currently conducting investigations in the following areas:
    - Fraud involving City Power employees either colluding with external contractors or defrauding the public when installing meters
    - Theft of property such as cables and laptops

Auditor-General

Johannesburg

30 November 2011

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence