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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of Pikitup Johannesburg SOC Limited, 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, 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), the requirements of the Municipal Finance Management Act, 2003 (Act No.56 of 2003) (MFMA), and the Companies Act, 2008 (Act No.71 of 2008) (Companies Act), and for such internal control as management determines necessary to enable the preparation of the 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, 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 audit opinion.

Opinion

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of Pikitup Johannesburg SOC Limited as at 30 June 2011, and its financial performance and cash flows for the year then ended in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the MFMA and the Companies Act.

Emphasis of matters

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

Restatement of corresponding figures

9. As disclosed in note 38 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of errors discovered during 30 June 2011 in the financial statements of Pikitup Johannesburg SOC Limited at, and for the year ended, 30 June 2010.

Material impairments

10. As disclosed in note 7 to the financial statements, material impairments to the amount of R40 362 050 were incurred as the recoverability of these amounts is doubtful.

Going concern

11. As disclosed in note 3 of the directors' report, the municipal entity had an accumulated deficit of R363 443 155 and total liabilities exceeded its total assets by R353 041 153.These conditions along with other matters as set forth in note 41 to the financial statements, indicate the existence of a material uncertainty that may cast significant doubt on the entity's ability to operate as a going concern.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

12. 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

Usefulness of information

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

    - Consistency: The reported targets and indicators are not consistent with the approved business plan.

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

Changes to planned targets are not approved

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

Reported indicators are not complete when compared with the planned indicators

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

Compliance with laws and regulations

Expenditure management

17. In certain instances, the accounting officer did not take reasonable steps to prevent irregular expenditure as required by section 95(d) of the MFMA.

INTERNAL CONTROL

18. 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 findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

19. In certain instances, the accounting officer did not exercise adequate oversight to ensure compliance with all laws and regulations, and more specifically with regards to compliance with supply chain management prescripts determined by the National Treasury.
20. The municipal entity did not have sufficient monitoring controls to ensure the proper implementation of the overall process for planning and reporting on achievements against the predetermined objectives.

OTHER REPORTS

Investigations

21. Investigations were conducted into various instances of supply chain management and procurement deviations involving former and current employees. Disciplinary action was taken in certain cases.

Auditor - General

Johannesburg

29 November 2011

AUDITOR-GENERAL
SOUTH AFRICA

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