

REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG PROVINCIAL LEGISLATURE AND 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 financial statements of City Power Johannesburg SOC Ltd set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and 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) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Companies Act of South Africa, 2008 (Act No. 71 of 2008), 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 Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and 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 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.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis for qualified opinion

Service charges revenue

6. Included in revenue from sale of electricity of R12 035 409 000 (2011: R9 791 009 000) is an amount of R542 679 236 that was estimated for an extended period of time. Differences were identified between the billing data and the source data relating to meter readings without complete audit evidence to support the differences. The municipal entity could not provide sufficient appropriate audit evidence to confirm the bases to disregard actual meter reading and use estimates. Consequently, I was unable to confirm the accuracy and occurrence of the estimated service charges revenue.

Consumer debtors

7. As per paragraph 6 above, there were material deficiencies 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, I am unable to obtain sufficient appropriate audit evidence to satisfy myself as to the valuation, allocation and rights pertaining to debtors of R5 924 893 000 (2011: R4 753 471 000) as disclosed in note 7 to the financial statements.

Qualified opinion

8. In my opinion, except for the effect of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of Johannesburg City Power SOC Ltd as at 30 June 2012, 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.

Emphasis of matters

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

Material losses

10. As disclosed in note 31 to the financial statements, material losses to the amount of R1 372 899 000 (2011: R1 247 360 000) were incurred as a result of electricity distribution losses. The total technical losses of electricity incurred amounted to R709 461 000 (2011: R597 927 000).

Material impairment

11. As disclosed in note 7 to the financial statements, material impairments to the amount of R2 836 918 000 (48%) were incurred on consumer debtors, as the recoverability of these amounts are doubtful.

Additional Matters

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

Unaudited supplementary schedules

13. 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 this schedule and, accordingly, I do not express an opinion thereon.

Other reports required by the Companies Act

14. As part of my audit of the financial statements for the year ended 30 June 2012, I have read the Directors' Report, the Certificate by Company Secretary and the Report of the Audit Committee for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports I have not identified material inconsistencies between the reports and the audited financial statements. I have not audited the reports and accordingly do not express an opinion on them.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

15. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

16. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages xx to xx of the annual report.
17. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*.

The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

18. There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

Compliance with laws and regulations

19. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters.
20. I performed procedures to obtain evidence that the entity has complied with applicable

laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

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. Material misstatements of capital assets identified by the auditors were subsequently corrected.

Expenditure management

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

Procurement and contract management

23. Awards were made to providers who are persons in service of other state institutions or whose directors are persons in service of other state institutions in contravention of the requirements of SCM regulations 44. Furthermore some service providers failed to declare that they are in the service of the state as required by SCM regulation 13(c).

Revenue management

24. Revenue received was not always reconciled on a weekly basis, as required by section 64(2)(h) of the MFMA.
25. An adequate management, accounting and information system was not in place 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.

Internal control

27. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations.

Leadership

26. The accounting officer did not exercise oversight responsibility regarding financial reporting and compliance with MFMA and SCM regulations.
27. Monitoring controls to ensure adherence to the internal policies and procedures for the correct recording of revenue and consumer debtors were not sufficient.

Financial and performance management

28. Monthly reconciliations between the various billing reports generated from the billing system were not adequately reviewed to identify potential errors in the billings to consumers.
29. The municipal entity does not have reliable information systems for recording and reporting on revenue and consumer debtors. The impact of this lack of systems is that

we have been unable to obtain sufficient appropriate audit evidence on which to base our audit opinion on these disclosures.

30. The financial statements contained misstatements that were corrected. This was mainly due to incorrect interpretation of the reporting framework.
31. Management did not review and monitor compliance with applicable laws and regulations specifically the MFMA and SCM regulations.

Johannesburg

30 November 2012



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence