

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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Johannesburg Metropolitan Bus Service 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 board of directors which constitutes the accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance Standards of Generally Recognised Accounting Practice (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 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.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Johannesburg Metropolitan Bus Services SOC Limited as at 30 June 2012, and its financial performance and cash flows for the year then ended in accordance with Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the MFMA.

Emphasis of matter

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

Restatement of corresponding figures

8. As disclosed in note 40 to the financial statements, the corresponding figures for June 2011 have been restated as a result of an error during 2012 in the financial statements of the Johannesburg Metropolitan Bus Services SOC Ltd for the year ended, 30 June 2011.

Additional matters

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

Unaudited supplementary schedule

10. 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

11. As part of our audit of the financial statements for the year ended 30 June 2012, I have read the Directors' Report, Audit committee and the Company Secretary's Certificate 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

PAA REQUIREMENTS

12. 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

13. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages ... to ... of the annual report.
14. 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 (FMPP)*.

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).

15. The material findings are as follows:

Usefulness of information

16. There were no material findings on the annual performance report concerning the usefulness of the information.

Reliability of information

Validity

17. The *FMPP* requires that processes and systems which produce the indicator should be verifiable. A total of 23% of the actual reported performance relevant to the selected objectives differed materially when compared to the source information and/or evidence provided. This was due to inadequate monitoring and review of actual achievements by senior management.

Accuracy

18. The *FMPP* requires that the indicator be accurate enough for its intended use and respond to changes in the level of performance. A total of 23% of the actual reported performance relevant to Financial; Customer Perspective and Business Growth; Safety and Security were not accurate when compared to source information. This was due to inadequate monitoring and review of actual achievements by senior management.

Completeness

19. The *FMPP* requires that documentation addressing the systems and processes for identifying, collecting, collating, verifying and storing information be properly maintained. Source information for 23% of the actual reported performance, for the selected objectives, was not completely recorded. This was due to a lack of document management system with regard to actual performance achievements.

20. In addition to the above material findings, I draw attention to the following matter:

Achievement of planned targets

21. Of the total number of 33 targets planned for the year, 14 of the targets were not achieved during the year under review. This represents 42% of total planned targets that were not achieved during the year under review.

Compliance with laws and regulations

22. 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

23. 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 relating to the recognition of the revaluation of specialised vehicles in incorrect accounting periods, identified by the auditors were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

24. The accounting officer did not take reasonable steps to prevent irregular expenditure as required by section 62(1)(d) of the MFMA.

Procurement and contract management

25. Goods and services with a transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers as per the requirements of SCM regulation 17(a) and (c).
26. Sufficient appropriate audit evidence could not be obtained that goods and services of a transaction value above R500 000 were procured by means of inviting competitive bids, as required by SCM regulation 19(a) and 36(1).
27. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded only to bidders who submitted a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).

Internal control

28. I considered internal control relevant to my audit of the financial statements, performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control 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

29. The accounting officer did not exercise oversight responsibility regarding financial reporting and compliance with applicable laws and regulations.

Financial and performance management

30. Management did not prepare accurate and complete financial reports as material misstatements were identified during the audit and corrected by management.
31. Management did not monitor compliance with applicable laws and regulations such as MFMA and Supply Chain Management Regulations.
32. Inadequate implementation of proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support performance reporting.

OTHER REPORTS

Investigations

33. An independent forensic investigation into alleged corrupt management practices was conducted and completed during the year under review, but it was found that there was no substance to the allegations.

Auditor General

Johannesburg

30 November 2012



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence