



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

**Auditor's report of the Auditor-General to
the Gauteng Provincial Legislature on the
Pikitup Johannesburg SOC Ltd for the year
ended 30 June 2012**



A U D I T O R - G E N E R A L
S O U T H A F R I C A

Auditing to build public confidence

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-GENERAL
SOUTH AFRICA

Ms. Amanda Nair
Accounting Officer
Pikitup Johannesburg SOC Ltd
Private Bag x74
Braamfontein
2017

Date 30 November 2012

Reference: TS 9819611

Dear Ms Nair

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Pikitup Johannesburg Soc Ltd for the year ended 30 June 2012

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(4) of the MFMA you are required to include the audit report in the Pikitup Johannesburg'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 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.
 - 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.

6. Please notify the undersigned Deputy Business Executive well in advance of the date on which the annual report containing this audit report will be tabled.
7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

Signed



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Deputy Business Executive: Gauteng

Enquiries: Nokokhanya Vilakazi
Telephone: (011) 703 7814
Fax: (011) 703 7690

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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Pikitup 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) 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 Pikitup Johannesburg 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

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

Significant uncertainties

8. With reference to note 32 to the financial statements, the entity is the defendant in various court cases. 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

9. As disclosed in note 35 to the financial statements, the corresponding figures for 30 June 2011 have been restated as a result of errors discovered during 30 June 2012 in the financial statements of Pikitup Johannesburg SOC Limited at, and for the year ended 30 June 2011.

Material impairments

10. As disclosed in note 6 to the financial statements, receivables totalling R207 177 521 (2011: R176 222 162) have a provision for debt impairment of R158 398 624 (2011: R150 416 807), this represents 76% (2011: 85%) of the balance. The contribution to the provision for debt impairment during the year under review was R41 827 476 (2011: R40 362 050).

Going concern

11. As disclosed in note 3 of the directors' report, the entity had an accumulated deficit of R336 482 963 (2011: R357 275 333) and total liabilities exceeded its total assets by R323 707 471 (2011: R341 237 780). These conditions along with other matters as set forth in note 38 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.

Additional matters

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

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 these schedules 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 Audit Committee's Report 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

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).

The material findings are as follows:

Usefulness of information

18. The reported performance information was deficient in respect of the following criteria:
 - Consistency: The reported targets and indicators are consistent with the approved business plan.
 - Measurability: Indicators are well-defined and verifiable, and targets are specific
19. The following audit findings relate to the above criteria:

Reported targets not consistent with planned targets

20. The Municipal Systems Act, section 41(c) requires that the business plan should form the basis for the annual report, therefore requiring the consistency of objectives, indicators and targets between planning and reporting documents. A total of 23% of the reported targets are not consistent with the targets as per the approved business plan. This was due to change of circumstances during the year.

Performance targets not measurable

21. The *National Treasury Framework for managing programme performance information (FMPP)* requires that performance targets be measurable. The required performance could not be measured for a total of 36% of the targets relevant to:
 - Develop and implement comprehensive demand side management (DSM) programmes
 - Implement programmes that will ensure a clean city which is litter free and free of illegal dumping
 - Ensure all formal and informal areas are provided with adequate and reliable waste collection services
 - SLA imperativesThis was due to the manner in which the targets were determined.

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.

Expenditure management

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

Procurement and contract management

24. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids as per the requirements of SCM regulation 19(a) and 36(1).

Internal control

25. I considered internal control relevant to my audit of the financial statements, annual 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 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

26. The accounting officer did not exercise reasonable oversight to ensure compliance with all laws and regulations, and more specifically with regards to compliance with the MFMA and supply chain management prescripts determined by the National Treasury.
27. The municipal entity did not comply with the National Treasury *Framework for managing programme performance information (FMPPI)* to ensure the proper implementation of the overall process for planning and reporting on achievements against the predetermined objectives.

OTHER REPORTS

Investigations

28. The entity's interim board appointed a service provider to conduct an investigation into alleged irregular procurement processes and systems to suppliers. The investigation revealed that some contracts may have been awarded in contravention of the prescribed legislation and supply chain management policies and procedures.

Auditor General

Johannesburg

30 November 2012



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