

**REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG PROVINCIAL LEGISLATURE
AND COUNCIL OF 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 the City Power SOC Ltd set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets, the cash flow statement, the statement of comparison of budget and actual amounts 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 the 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.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of City Power Johannesburg SOC Ltd as at 30 June 2013, 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

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 36 to the financial statements, the entity has various significant uncertainties resulting in possible liabilities. The ultimate outcome of the 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 40 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of errors discovered during 30 June 2013.

Material losses

10. As disclosed in note 33 to the financial statements material losses to the amount of were incurred as a result of electricity distribution losses. The total technical losses of electricity incurred amounted to R754 332 000 (2012: R709 461 000). The total non-technical losses of electricity amounted to R1 390 439 000 (2012: R844 899 000).

Material impairment

11. As disclosed in note 7 to the financial statements, material impairments to the amount of R3 395 709 000 (2012: R3 234 086 000) representing 62% (2012: 59%) of consumer receivables were incurred, as the recoverability of these amounts are doubtful.

Additional matter

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

Other reports required by the Companies Act

13. As part of our audit of the financial statements for the year ended 30 June 2013, 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 in respect of which I have expressed a unqualified opinion. I have not audited the reports and accordingly do not express an opinion on them.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

PUBLIC AUDIT ACT REQUIREMENTS

14. 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

15. 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.
16. 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's 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).

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

Additional matters

18. Although no material findings concerning the usefulness and reliability of performance information were identified in the annual performance report, I draw attention to the matters below.

Achievement of planned targets

19. Of the total number of 56 targets planned for the year, 23 of targets were not achieved during the year under review. This represents 41% of total planned targets that were not achieved during the year under review. This was a result of the entity not considering the evidential requirements during the annual strategic process.

Material adjustments to the annual performance report

20. Material audit adjustments in the annual performance report were identified during the audit of which 100% were corrected by management.

Compliance with laws and regulations

21. 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

22. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act. Material misstatements of property, plant and equipment, share capital, trade and other receivables, consumer receivables, inventory, trade and other payables, provisions, employee benefit obligations, VAT payable, deferred taxation, revenue, employee cost, expenditure, taxation, leases, commitments, related parties, changes in accounting estimates, prior period errors and budget information identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

23. The performance of contractors was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.

Revenue management

24. An adequate management, accounting and information system was not fully in place which recognised revenue when it was earned, as required by section 64(2) (e) of the MFMA.

Liability management

25. Long-term debt was incurred without a resolution of the board of directors approving the debt agreement, in contravention of sections 108(1)(b) and 108(2) of the MFMA.

Internal control

26. 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 findings on compliance with laws and regulations included in this report.

Leadership

27. The accounting officer did not exercise oversight responsibility regarding financial reporting and compliance with the MFMA. This resulted in numerous material misstatements that were corrected through the audit process.
28. There was ineffective human resources management as key positions have been vacant for a significant period of time.

Financial and performance management

29. Financial management did not fully understand the requirements of the financial reporting process and framework. Controls over the daily and monthly processing of transactions, the reconciling of significant balances and the preparation of disclosure notes were not maintained throughout the financial year. These deficiencies resulted in numerous material misstatements that were corrected through the audit process.
30. Management did not adequately review and monitor compliance with the applicable laws and regulations specifically to the MFMA.

Governance

31. Due to capacity constraints internal audit did not review the reliability of the financial reports prior to submission to the external auditors.

OTHER REPORTS

Investigations

32. An investigation will be conducted to probe the manner in which the contract for the supply and installation of low pressure solar water heaters have been awarded. The investigation aims to establish whether the supply chain management processes were adhered to in accordance with MFMA and SCM regulations. The Public Protector South Africa is also investigating certain aspects of non-compliance with regards to the contract.

Auditor-General
Johannesburg

30 November 2013



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence