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OVERSIGHT REPORT OF THE CITY OF JOHANNESBURG  
GROUP AUDIT COMMITTEE ON THE MONITORING OF THE 30  
JUNE 2013 STATUTORY YEAR END AUDIT, THE EVALUATION  
OF THE FINAL AUDITED ANNUAL FINANCIAL STATEMENTS,  
THE AUDITOR GENERAL MANAGEMENT REPORT AND FINAL  
AUDIT OPINION FOR THE YEAR ENDED 30 JUNE 2013

1. STRATEGIC THRUST(S)

Good Governance: Responsive, accountable, efficient and productive metropolitan government.

Good Governance: Financial and administratively sustainable & resilient City.

2. OBJECTIVE

The purpose of this report is to communicate to the Mayoral committee and therefore Council, the Group Audit Committee's (GAC) progress to date in carrying out its oversight responsibilities in terms of the Municipal Finance Management Act (MFMA), section 166, including oversight over the statutory audit process for the financial year ended 30 June 2013, as mandated in terms of section 166 (2)(b) of the MFMA. The report also summarises the recommendations of the Group Audit Committee in accordance with section 121 (3)(j) of the MFMA that have been made and discussed with the administration.

3. SUMMARY

3.1 BACKGROUND

The mandate of the Group Audit Committee is legislated in terms of section 166 of the Municipal Finance Management Act, which requires the Audit Committee to advise the Accounting Officer and Council on matters relating to internal financial control and internal audits; risk management; accounting policies; adequacy, reliability and accuracy of financial reporting and information; performance management and performance evaluation; effective governance; compliance with the Municipal Finance Management Act (MFMA), the Annual Division of Revenue Act, and any other applicable legislation; and any other issues referred to it by the municipality.

The MFMA also requires the Audit Committee to review the annual financial statements, respond to Council on matters raised by the Auditor General, and carry out investigations into the financial affairs of the municipality. The responsibilities of the GAC include oversight of the Municipal Entities of the City of Johannesburg from a group perspective, although each of the Municipal Owned Entities ("MOE's") of the City has its own Audit Committee which reports to the Board of Directors.

### 3.2 DISCUSSION

The GAC reports that it has complied with its responsibilities arising from section 166 (2) (b) of the Municipal Finance Management Act ("MFMA"), and the Council approved Terms of Reference which require the Group Audit Committee of the City to review the annual financial statements.

#### 3.2.1 Group Audit Committee (GAC) Attendance of meetings

During the financial year ending 30 June 2013, the GAC held eleven (11) meetings comprising of scheduled ordinary (4) meetings and special meetings (2); and another five special meetings.

Names of Members	Period of Membership	Financial Year 2012/13	
		Total Number of meetings	Number of Meetings attended
1) Ms Jocelyn Armstrong (CA) SA MBA H DipTax (Chairperson)	Appointed (April 2012) (Interim member previously)	11	11
2) Mr Paul Samuels**	Appointed (April 2012) Resigned (Sept. 2012)	nil	n/a
3) Mr Mdu Zakwe (CA) SA	Appointed (April 2012) Resigned (November 2013 post-year end)	11	10
4) Ms Thandi Sihlaba ACCA CIA	Appointed (April 2012)	11	10
5) Mr Langa Dlomo-Ntuli	Appointed (April 2012)	11	11
6) Mr Griffiths Zabala	Member deployed from Group Performance Audit Committee (GPAC) (April 2013)	3	3
7) Mr Abel Dlamini CA (SA)	Alternate member	n/a	
8) Mr Piet Fourie CA(SA)	Alternate member	n/a	

TABLE 1: GAC ATTENDANCE OF MEETINGS

#### 3.2.2 Group Audit Committee Responsibilities in terms of the MFMA Section 166

##### a) Independent oversight committees and integrated approach

The Committee reports that in carrying out its oversight responsibilities, there are significant areas where the Group Audit Committee must place reliance on the oversight carried out by the other two independent group oversight committees of the City, namely the Group Risk Governance Committee (GRGC) and the Group Performance Audit Committee (GPAC) who have oversight over risk governance oversight, compliance and organizational performance management and evaluation respectively.

The City of Johannesburg has elected to use the three independent group oversight committees, namely, GRGC, GPAC, and GAC, to collectively provide the required

assurances to the administration, the Mayoral Committee and Council on the matters covered by the MFMA Section 166. This has taken into account the King III guidelines for good corporate governance, complexity of the City's operations and group organizational design; and therefore appropriate mechanisms to ensure effective governance oversight.

In order to ensure the optimal performance of the 3 committees and assist the achievement of a collaborative approach, comprehensive assurance in respect of their mandates, cross-memberships have been introduced, as well as formal reporting between the committees on their activities for the prior quarter. The terms of reference of the independent group oversight committees are currently being reviewed to ensure appropriate and complete coverage of the areas outlined in the MFMA Section 166 and streamlined advice and assurance is provided to the Accounting Officer, Mayoral Committee and Council together with its Committees, as appropriate.

The City approved an integrated assurance model and has implemented some structural changes to the administration to support this approach, including the introduction of a Group Governance unit, together with a restructuring of what was previously known as JRAS (Johannesburg Risk and Audit Services) into "GRAS" (Group Risk and Assurance Services), which now includes compliance. GRAS has been tasked with the roll-out of the combined assurance model as per King III guidelines for good corporate governance practices. As at year-end, the City had developed a draft integrated assurance framework and combined assurance model; and therefore implementation is expected to commence during the 2013/14 financial year.

### 3.2.3 Evaluation of the Annual Financial Statements for the year ended 30<sup>th</sup> June 2013

- a) The GAC reports that it has reviewed and discussed with the management of the City:
- the unaudited annual financial statements of the City of Johannesburg Core Administration and the unaudited consolidated annual financial statements of the City of Johannesburg for the financial year ending 30 June 2013, prior to the submission hereof to the Auditor General (SA) for year-end audit purposes;
  - the accounting policies and practices;
  - the year-end accruals for revenue, related journals and potential impact on prior year figures;
  - material or significant adjustments resulting from the audit;
  - the prior year adjustments and reasons therefore;
  - contingent liabilities;
  - fruitless, wasteful and irregular expenditure as reported in the annual financial statements; including deviations from normal supply chain management processes granted in terms of section 36 of the MFMA SCM Regulations;
  - the going concern basis for the preparation of the annual financial statements of the core administration and the municipal entities; and the consolidated group annual financial statements;
  - the draft and final AGSA management reports on the interim regularity audit 2012/13 and

management's response thereto;

- the final audited annual financial statements of the City of Johannesburg Core Administration and the unaudited consolidated annual financial statements of the City of Johannesburg for the financial year ending 30 June 2013; and
- the final AGSA management report and final audit report on the consolidated group annual financial statements for the year ended 30<sup>th</sup> June 2013.

**b) Submission of draft unaudited annual financial statements**

- The City of Johannesburg Core Administration and its Municipal Entities met the mandatory deadlines in terms of the MFMA for the submission of unaudited annual financial statements and the consolidated annual financial statements.
- The annual financial statements were prepared on the going concern basis; and the Committee recommended the submission of the unaudited AFS to the AGSA subject to the Group Chief Financial Officer effecting the adjustments that were highlighted and agreed to at the meeting

**c) Resolution of previous audit findings**

The Committee sought management representations and assurance relating to:

- The Plan of Action report submitted by the Chief Operations Officer and Acting Group Chief Financial Officer which details management action plans to resolve previous audit findings, and progress achieved.
- Progress in the resolution of prior year AGSA audit findings that resulted in the qualified audit opinion, as well as other significant matters.
- Management and Accounting procedures over Work in Progress and appropriate disclosures (assets under construction).
- The resolution of the accounting treatment of the lease of the Rea Vaya/ BRT buses which, in the prior financial year, the City did not classify as a finance lease agreement, in accordance with the Standards for the Generally Recognised Accounting Practice, GRAP 13: Leases, resulting in a qualified audit opinion in the 2012 financial year.
- The AGSA findings from the interim audit 2012/13 and actions being taken to address these to ensure that they were addressed by the year-end; and would therefore not be repeated in the final year-end audit.
- The consideration of the annual organizational performance report by the Group Performance Audit Committee; and submission to the AGSA.
- Progress in the resolution of internal audit findings taking into account the previous internal audit reports on delays by management to implement action plans.

d) **Municipal Entities**

The GAC has conducted the following oversight responsibilities in relation to the Municipal Entities of the City:

- Obtained assurance from the Chairperson of the Municipal Entities' Audit Committees on the timely submission of the unaudited annual financial statements in accordance with the MFMA provisions.
- Considered a report by the Group Governance Department on the status of the year-end audit in the Municipal Entities. The report focused on:
  - The financial performance and financial status of each MOE
  - The impact and/or implications of the re-organisation of the municipal entities on the year end audit process
  - The take-on balances, assets and the regulatory requirements in relation to those municipal entities that had either merged or where their operations had been re-absorbed into the City
  - Management actions to address the year-end reporting issues to ensure attainment of fair presentation
  - Assurance from the Chairpersons of the Audit Committees of the Municipal Entities, on the prior year qualification and other significant matters in particular: Pikitup; Joburg Water; and City Power.
- Appraisal on the financial status of the Joburg Roads Agency which has turned around its financial performance for the year ended 30 June 2013.

**3.2.4 Overall Group Audit Committee Observations and Recommendations**

**a) The Adequacy, Reliability and Accuracy of Financial Reporting and Information**

GAC noted with concern the number of prior period errors that had to be corrected in the annual financial statements. This indicates a lack of adequate skills, training and/or experience in the Finance Department. GAC has brought this concern to the attention of the City Manager and his team and through this report to the Mayoral Committee and Council. A Chief Financial Officer was appointed after year end and GAC will engage with him to ensure that adequate steps are timeously taken to ensure that gaps in the Finance Department in terms of both quality and quantity are appropriately addressed.

**b) Effectiveness of Internal Audit Unit**

The Internal Audit unit carried out its activities in accordance with the risk based internal audit plan for the year ending 30 June 2013; and submitted its quarterly reports to the Group Audit Committee for the purposes of oversight. The Unit reported that 77% of audits were completed during the year.

Internal audit has reported some internal control weaknesses identified during the performance of audits; conducted follow-up audits and highlighted management's progress in the resolution of both internal and external audits.

The Committee commends the City that the internal audit function has been re-positioned as a group internal audit unit with City-wide responsibility for leading the provisioning of audit assurance, but has yet to see the structural changes and planning required to achieve this group focus from GRAs and will engage pro-actively with the City Manager and ED: GRAS to ensure that this is implemented urgently in the current year.

The Committee remains extremely concerned around the adequacy of human resources within the Internal Audit Department, and will engage with the ED:GRAS and the Head of Internal Audit to ensure that the strategies being taken to augment capacity in the group assurance functions are successful.

The GAC also notes the, hopefully short term, weaknesses in its ability to exercise effective oversight of the designated Chief Audit Executive as is required in terms of the MFMA and King III, partially due to the restructuring arising from the combined assurance approach and partially due to inadequate involvement in the setting of and oversight over the performance management process. GAC will engage further with the City Manager in this regard in the current year.

**c) Internal and Financial Control Systems**

The system of internal controls is designed to provide cost effective assurance that assets are safeguarded; liabilities and working capital are efficiently managed; and there is compliance with applicable legislation. Internal audit provided risk assurance on the high risks identified during risk assessments by prioritizing these areas in the risk based internal audit plans. However, the timing of finalization of the internal audit plan for the 2013/14 financial year (requiring completion and approval prior to the end of the 2012/13 financial year) was delayed due to the resource problem raised in the previous section and the lack of timeous review of the risk matrix of the City, affecting the scope of the internal audit plan which is developed to address the key risk areas.

Weaknesses identified in internal controls were reported to management and follow-up of management actions was undertaken by Group Internal Audit Unit.

The Committee also focused on the City's information and communication technology (ICT) environment which included the review of the ICT Governance framework and Strategy. This covered, for example, assurance on the adoption of the King II recommendations on ICT risk management and ICT security, ICT governance structure, the ICT process maturity level, the budget spend versus return to the City, ICT support standards, data governance, disaster recovery and outsourcing; as well as project governance and project management. GAC continues to raise concerns regarding the adequacy of the above, but notes the progress made subsequent to the appointment of the CiO and will continue to keep this on the agenda until significant improvement and risk reduction is noted.

**d) Fraud and Irregular Activities**

GAC has brought to the attention of the administration and the Mayoral Committee its

concerns regarding the continued high levels of fruitless and wasteful expenditure, irregular expenditure and supply chain deviations, also highlighted in the Auditor-General's report and management report. GAC has requested focus of management on clearing of the amounts included in debtors from prior years and conclusion of investigations.

The responsibility for fraud detection and investigations locates with the Group Forensic Investigations Unit. An anonymous fraud hotline was introduced during the second quarter of the financial year; and it is independently managed by an external party. This has enhanced incident reporting and detection. Further, fraud risk assessments are conducted in collaboration with the City's Group Risk Advisory Unit.

The fraud hotline has been centralized to enable city-wide monitoring of the nature and number of alleged incidents. The Unit has reported on significant investigations conducted, and the results thereof. This included investigations into incidents of non-compliance with Supply Chain Management regulations in particular regulation 44. Investigations relating to deviations in terms of section 32 are also conducted.

It is recommended that management takes appropriate disciplinary actions, based on the outcomes of the investigations.

**e) Performance Management and Performance Evaluation**

The Group Audit Committee places reliance on the oversight carried out by the Group Performance Audit Committee which monitors the performance management system and evaluation of organizational performance. Internal Audit reports to both the GAC and the GPAC on the outcomes of the audits of performance information.

There have been significant improvements noted during the 2012/13 financial year. However, audit findings have been raised around the lack of achievement of a significant number of targets and key performance indicators that did not meet the SMART principles in accordance with the Performance Management Framework; as well as the reliability of performance information.

**f) Enterprise Risk Governance and Risk Management**

The City has a Group Risk Governance Framework, policy and a risk assessment methodology. The responsibility for risk oversight resides with the Group Risk Governance Committee (GRGC) and the GAC therefore places reliance on the Committee. The Group Risk Governance Committee monitors the City-wide top strategic risks and key operational risks at the level of Departments and Municipal Entities; and appraises the GAC accordingly. Continuous risk assessments are conducted and residual risk profiles updated.

**g) Compliance Management**

Compliance oversight has been included in the GRGC mandate. The GRGC has recommended the adoption of the draft Group Compliance Framework.

The Group Compliance Unit monitors incidents of unauthorized, irregular, fruitless and wasteful expenditure using compliance registers; and reports hereon to the Group Risk Governance Committee and Mayoral Committee.

GAC notes the lack of sufficient resources in the Compliance Unit and will monitor, through its reports from GRGC, the improvements in this area as compliance is one of the areas on which the Auditor-General expressed low levels of comfort.

**h) Combined and Integrated Assurance:**

The City is in the process of implementing a combined assurance model in line with King III recommendations, and the Group Assurance Department has been tasked with the leadership and roll-out of this model and approach. In the current year focus was on the development of the appropriate frameworks and guidelines.

In the short term, the move towards a combined assurance model has resulted in inefficiencies which have negatively impacted the ability of the oversight committees to function as effectively as required. This includes the failure of GRAS to deliver reports timeously to the GAC to enable it to report effectively to both Mayoral Committee and Council through the Municipal Public Accounts Committee. The GAC will monitor the improvements in this regard closely in the current year to ensure that the perceived benefits of the model translate into actual benefits and to improve the reporting of GAC to Mayoral Committee and Council.

The GAC is also in the process of ensuring that the creation of GRAS does not negatively impact the independence of the Chief Audit Executive or GAC's oversight of the Chief Audit Executive and that there is clear accountability of the various executives within GRAS.

**i) Going Concern statement for the year ended 30 June 2013**

The GAC is satisfied, based on the audited annual financial statements and cash flow statement that the City of Johannesburg is a going concern.

The GAC notes the significant improvement in the audit outcome and concurs and accepts that the consolidated annual financial statements present fairly, in all material respects, the financial position of the City of Johannesburg Metropolitan Municipality as at 30 June 2013 and its financial performance and cash flows for the year then ended.

The GAC is therefore of the opinion that the audited annual financial statements be accepted and be read together with the Report of the Auditor-General.

**4. POLICY IMPLICATIONS**

Group Audit Committee Charter and Terms of Reference

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5. LEGAL AND CONSTITUTIONAL IMPLICATIONS  
Municipal Finance Management Act.  
Municipal Systems Act
  6. FINANCIAL IMPLICATIONS  
None.
  7. COMMUNICATION IMPLICATIONS  
Group Risk Management Committee, and Audit Committees of Municipal Entities.
  8. CONSULTATION WITH OTHER STAKEHOLDERS.
    - o Accounting Officer / City Manager
    - o Chief Operations Officer
    - o Acting Group Chief Financial Officer
    - o Executive Director: Group Assurance Services
  9. RECOMMENDATIONS

IT IS RECOMMENDED THAT:

1. The Mayoral Committee notes the contents of this report and the oversight responsibilities carried out by the Group Audit Committee as provided in terms of section 166 of the Municipal Finance Management Act.
2. The Mayoral Committee accepts that audited group annual financial statements and the Auditor General audit report and unqualified audit opinion.
3. The Management of the City designs and implements adequate systems of internal controls to address internal control weaknesses, financial controls, instances of non-compliance with applicable legislation, and significant risk exposures that are identified.
4. The management of the City implements improvements to the financial reporting outcomes through augmentation of the Finance Department skills and resources.
5. The management of the City pro-actively takes steps to clear the balance in debtors attributable to fruitless and wasteful and irregular expenditure and to prevent further such incidents.
6. The management of the City continues to focus on improving the City's Supply Chain Management in order to reduce incidents of fraud and minimize requirements for deviations.