

# **Report of the auditor-general to the Gauteng Provincial Legislature and the council of the City of Johannesburg Metropolitan Municipality on Johannesburg Metropolitan Bus Services (SOC) Limited**

## **Report on the financial statements**

### **Introduction**

1. I have audited the financial statements of Johannesburg Metropolitan Bus Services (SOC) Limited set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting authority's responsibility for the financial statements**

2. The board of directors, which constitute the accounting authority, 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) (Companies Act), 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 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 municipal 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 municipal 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 Johannesburg Metropolitan Bus Services (SOC) Limited as at 30 June 2016 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.

## **Additional matters**

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

## **Other reports required by the Companies Act**

8. As part of our audit of the financial statements for the year ended 30 June 2016, I have read the directors' report and the company secretary's certificate to determine 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, I do not express an opinion thereon.

## Report on other legal and regulatory requirements

9. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives of selected programmes presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

### **Predetermined objectives**

10. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for all the programmes presented in the annual performance report of the municipal entity for the year ended 30 June 2016:
- Programme 1: Customer service, stakeholder engagement and communication on pages x to x
  - Programme 2: Innovation and the green economy on pages x to x
  - Programme 3: Enterprise development and job creation on pages x to x
  - Programme 4: Financial management, viability and sustainability on pages x to x
  - Programme 5: Operational excellence on pages x to x
  - Programme 6: Technology and business enablement on pages x to x
  - Programme 7: Institutional planning, transformation and organisational development on pages x to x
11. I evaluated the usefulness of the reported performance information to determine whether it was consistent with the planned programmes. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPPI).
12. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
13. I did not identify any material findings relating to the usefulness and reliability of the reported performance information for the selected programmes.

### **Additional matters**

14. Although I identified no material findings on the usefulness and reliability of the reported performance information for the selected programmes, I draw attention to the following matters:

### Achievement of planned targets

15. Refer to the annual performance report on pages x to x for information on the achievement of the planned targets for the year.

## Adjustment of material misstatements

16. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Programme 1: Customer service, stakeholder engagement and communication, Programme 2: Innovation and green economy and Programme 4: Financial management, viability and sustainability. As management subsequently corrected the misstatements, I did not identify any material findings on the usefulness and reliability of the reported performance information

## **Compliance with legislation**

17. I performed procedures to obtain evidence that the municipal entity had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

### Annual financial statements

18. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA, as material misstatements of expenditure and disclosure items were identified during the audit. The material misstatements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

### Expenditure management

19. Money owed by the municipal entity was not always paid within 30 days, as required by section 99(2)(b) of the MFMA.
20. Reasonable steps were not taken to prevent irregular expenditure, as required by section 95(d) of the MFMA.

### Procurement and contract management

21. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by Supply Chain Management (SCM) regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM Regulation 36(1).

## **Internal control**

22. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

## Leadership

23. In certain instances, the accounting officer did not exercise adequate oversight regarding financial reporting, compliance with laws and regulations and related internal controls which resulted in instances of non-compliance with the MFMA.

## Financial and performance management

24. The financial statements resulting from the audit were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA, as material misstatements were identified during the audit.
25. Management did not adequately review and monitor compliance with applicable laws and regulations.

*Auditor General*

Johannesburg

30 November 2016



**AUDITOR - GENERAL  
SOUTH AFRICA**

*Auditing to build public confidence*