Report of the auditor-general to Gauteng Provincial legislature and the council of the City of Johannesburg Metropolitan Municipality on Johannesburg Roads Agency SOC Limited

Report on the financial statements

Introduction

1. I have audited the financial statements of the Johannesburg Roads Agency SOC Ltd 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 the 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 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)(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 the Johannesburg Roads Agency SOC Ltd 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.

Emphasis of matters

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

Significant uncertainties

7. As disclosed in note 14 to the financial statements, the municipal entity is the defendant in various lawsuit claims. The ultimate outcome of these matters cannot presently be determined and a provision for a liability that may result has been made in the financial statements.

8. The municipal entity is a defendant in various legal claims. A contingent liability has been disclosed in note 29 to the annual financial statements as the outcome of these claims cannot be presently determined.

Restatement of corresponding figures

9. As disclosed in note 32 to the financial statements, the corresponding figures for 30 June 2015 sheet date have been restated as a result of an error discovered during 30 June 2016 in the financial statements of the Johannesburg Roads Agency SOC Ltd at, and for the year ended, 30 June 2015.

Additional matters

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

Other reports required by the Companies Act

10. As part of my audit of the financial statements for the year ended 30 June 2016, I have read the Directors' Report, the Audit and Risk 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.

Unaudited disclosure notes

11. In terms of section 125(2)(e) of the MFMA, the municipal entity is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly we do not express an opinion thereon.

Report on other legal and regulatory requirements

12. 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

13. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following selected programmes presented in the annual performance report of the municipal entity for the year ended 30 June 2016:

    - Programme 2: Roads management on pages x to x
    - Programme 3: Bridge management on pages x to x

14. I evaluated the usefulness of the reported performance information to determine whether it was presented 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* (FMPPI).

15. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

16. I did not identify any material findings on the usefulness and reliability of the reported performance information for the following programmes:

    - Programme 2: Roads management
    - Programme 3: Bridge management

Additional matters

17. 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

18. Refer to the annual performance report on page(s) x to x; x to x for information on the achievement of the planned targets for the year.

Unaudited supplementary schedules

19. The supplementary information set out on pages x to x does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report on them.

Compliance with legislation

20. 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 on 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

21. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements in the comparative figures of commitments and omission of prior period error disclosure pertaining to related parties and retirement benefit obligation identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

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

Internal control

23. 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.

Financial and performance management

24. Senior management did not prepare reliable and complete financial reports which resulted in material amendments to the financial statements.

25. Senior management did not adequately monitor and review compliance with the MFMA regulations over procurement and contract management.

Other reports

26. I draw attention to the following engagements that could potentially impact on the municipal entity's financial, performance and compliance related matters. My opinion is not modified in respect of these engagements that are either in progress or have been completed.

Investigations

27. Twenty-two cases of alleged irregularities relating to fraudulent acts, theft and improper conduct were investigated during the financial year. The majority of these cases were investigated internally by the municipal entity's ethics committee and four cases were transferred to the City of Johannesburg Metropolitan Municipality's investigation unit. Of these, ten cases have been completed and eight have passed the preliminary investigation stage and the process of appointing external investigators have commenced.

Auditor - General

Johannesburg

30 November 2016

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence