

Report of the auditor-general to Gauteng Provincial Legislature and Council on City of Ekurhuleni Metropolitan Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the City of Ekurhuleni Metropolitan Municipality (COE) set out on pages ... to ..., which comprise the appropriation statement, the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the City of Ekurhuleni Metropolitan Municipality as at 30 June 2017, and its financial performance and cash flows for the year then ended 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 Division of Revenue Act of South Africa, 2016.

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) together with the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

6. Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the current period. These matters were addressed in the context of my audit of the financial statements as a whole and in forming an opinion thereon and I do not provide a separate opinion or conclusion on these matters.

Key audit matter	How the matter was addressed in the audit.
Delays in receipt of information requested for audit purposes	
<p>The accounting officer agreed to provide requested documents within five working days as per the signed audit engagement letter. In some cases, the municipality did not provide the requested documents within the agreed time. These delays adversely impacted the allocated time for audit execution and the evaluation of audit evidence. Accordingly, the delays in providing requested information and the impact thereof, is considered a key audit matter. Accordingly, the delays and the impact thereof, are considered a key audit matter.</p>	<p>To monitor the submission of documents in response to the request for information, a tracking mechanism was set up between the municipality and senior members of the audit team. Where information was not provided timeously, concerns were frequently escalated to leadership at various platforms as follows:</p> <ul style="list-style-type: none"> • Regular audit steering committee meetings were held to assess information not provided. The impact on the financial statements was assessed and reported accordingly. • Escalation of delays to the accounting officer and those charged with governance during status of records review; and • Submitting progress reports to the accounting officer on a regular basis. <p>I am satisfied that all material outstanding information has been provided and sufficient time was available to assess and report where applicable.</p>

Emphasis of matters

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

Material uncertainties

8. With reference to note 42 to the financial statements, the municipality is the defendant in various lawsuits. The outcome of these matters cannot presently be determined and/or reliably measured; therefore, no provision for any liabilities that may result has been made in the annual financial statements.

Restatement of corresponding figures

9. As disclosed in note 45 to the financial statements, the corresponding figures for 30 June 2016 have been restated as a result of errors discovered in the financial statements of the COE for the year ended 30 June 2017.

Material impairments

1. As disclosed in the note 13 to the financial statements, the consumer debtors balance has been significantly impaired. The allowance for impairment of consumer debtors amounts to R10 456 750 395 (2015-2016: R7 966 251 084 which represents 69% (2016: 60%) of total consumer debtors. The contribution to the provision for debt impairment was R 3 148 640 270 (2015-16: R1 447 471 856).

Material losses

10. As disclosed in note 54 to the financial statements, material electricity losses amounting to R1 135 074 900 (2016: R1 327 872 680) were incurred which represent 12.39% (2015-16: 15.64%) of total electricity purchased. Technical losses amounted to R66 969 419 (2015-16: R78 344 488). Non-technical losses amounted to R73 666 361 (2015-16: R129 334 799).
11. As disclosed in note 54 to the financial statements, material water losses amounting to R787 774 009 (2015-16: R759 000 125) were incurred which represents 30,57% (2015-16: 30,6%) of the total water purchased. Technical losses amounted to R118 166 101 (2015-16: R113 850 019). Non-technical losses amounted to R122 656 413 (2015-16: R118 404 020).

Other matter

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

Unaudited disclosure notes

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

Responsibilities of the accounting officer for the financial statements

14. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with SA Standards of GRAP and the requirements of the MFMA 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.
15. In preparing the financial statements, the accounting officer is responsible for assessing the COE's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless there is an intention either to liquidate the municipality or to cease operations, or there is no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

16. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
17. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

Report on the audit of the annual performance report

Introduction and scope

18. 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 material findings on the reported performance information against predetermined objectives for selected intermediate outcome presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
19. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
20. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected intermediate outcomes presented in the annual performance report of the municipality for the year ended 30 June 2017:

Intermediate Outcome	Pages in the annual performance report
Intermediate outcome 1.1.2. – Regional Accessible Public Transport Network Development	x – x
Intermediate outcome 1.2.1 – Invest in on grid Long Term Infrastructure	x – x
Intermediate outcome 5.1.1 – Integrate Service Delivery and Citizen Responsibility	x – x
Intermediate outcome 5.4.1 – Strategic Acquisition and Management of Key Assets	x – x

21. I performed procedures to determine whether the reported performance information was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

22. I did not identify any material findings on the usefulness and reliability of the reported performance information for the following selected intermediate outcomes.

- Intermediate outcome 1.2.1: Invest in on grid Long Term Infrastructure
- Intermediate outcome 5.1.1: Integrate Service Delivery and Citizen Responsibility
- Intermediate outcome 5.4.1: Strategic Acquisition and Management of Key Assets
- Intermediate outcome 1.1.2. Regional Accessible Public Transport Network Development

Other matters

23. I draw attention to the matters below.

Achievement of planned targets

24. Refer to the annual performance report on page(s) x to x; x to x for information on the achievement of planned targets for the year and explanations provided for the under achievement of a number of targets.

Adjustment of material misstatements

25. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of the intermediate outcomes:

- Intermediate outcome 1.2.1 – Invest in on grid Long Term Infrastructure
- Intermediate outcome 5.1.1 – Integrate Service Delivery and Citizen Responsibility
- Intermediate outcome 5.4.1 – Strategic Acquisition and Management of Key Assets
- Intermediate outcome 1.1.2 – Regional Accessible Public Transport Network Development

26. As management subsequently corrected the misstatements, I raised no material findings on the usefulness and reliability of the reported performance information.

Introduction and scope

27. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
28. The material findings on compliance with specific matters in key legislations are as follows:

Annual financial statements

29. 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 of non-current assets, current assets and related disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

30. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
31. Effective steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The value of irregular expenditure of R591 286 033 (R367 451 787 identified in the current year and R223 834 246 was identified in the current year relating to the prior years) is as disclosed in note 50. The irregular expenditure identified was caused by contravening the Municipal Supply Chain Management (SCM) policy.

Procurement and contract management

32. Sufficient appropriate audit evidence could not be obtained that some contracts were awarded in accordance with the legislative requirements as not all contracts were submitted for auditing.
33. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by 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). Similar non-compliance was also reported in the prior year.

Other information

34. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report thereon and those selected intermediate outcomes presented in the annual performance report that have been specifically reported on in the auditor's report.

My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

35. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected intermediate outcome presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

36. If, based on the work I have performed on the other information obtained prior to date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Internal control deficiencies

37. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. 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

38. The leadership did not ensure adherence to the implementation of designed systems of internal control to ensure credible financial reporting and compliance with key legislation. Adherence to the designed controls to produce credible financial and performance reports were also not monitored adequately and thus as a result material errors or omissions were identified during the audit process.

Financial Management and performance management

39. Senior management did not implement adequate systems of internal controls over financial reporting and compliance with key legislation. In certain instances, the financial and performance reports did not always agree to the supporting evidence provided and compliance to key legislation was not always monitored.

40. There was a lack of a proper records management system that could support the information reported in the financial statements as a result material errors or omissions were identified during the audit process.

Other reports

41. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

Investigations

44. Thirty-six (36) cases of alleged irregularities relating to financial misconduct, fraudulent acts, theft and non-compliance were investigated during the financial year. Thirty-two (32) of these investigations relate to allegations reported in the current year, and four (4) cases were carried forward from the previous financial year. Of these, six (6) cases were finalised during the year and twenty-eight (28) of the investigations were in progress. All the cases were investigated internally by the municipality's forensic department.

Auditor - General

Auditor-General

Johannesburg

30 November 2017



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected intermediate outcomes and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in the auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - obtain an understanding of internal control relevant to the audit 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 municipality’s internal control.
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
 - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the COE’s’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor’s report. However, future events or conditions may cause a municipality to cease to continue as a going concern.
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

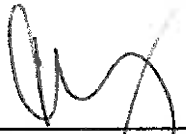
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and here applicable, related safeguards.

DATE: 30 November 2017

To whom it may concern

I, Dr Imogen Mashazi, in my capacity as the City Manager of the City of Ekurhuleni Metropolitan Municipality hereby agree to the factual content of the audit report and the management report of the City of Ekurhuleni Metropolitan Municipality for the year ended 30 June 2017.

Yours faithfully



DR M I MASHAZI
Accounting officer