

ANNEXURE C

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

Report on the audit of the consolidated and separate financial statements

Opinion

1. I have audited the consolidated and separate financial statements of the City of Ekurhuleni Metropolitan Municipality and its subsidiaries (the group) set out on pages ... to ..., which comprise the consolidated and separate statement of financial position as at 30 June 2019, the consolidated and separate statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts (appropriation statement) for the year then ended, as well as the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.
2. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the group as at 30 June 2019, and their financial performance and cash flows for the year then ended in accordance with the 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, 2018 (Act No. 1 of 2018) (Dora).

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 consolidated and separate financial statements section of this auditor's report.
4. I am independent of the group in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' Code of ethics for professional accountants and, parts 1 and 3 of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA codes) as well as 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 codes.
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 consolidated and separate financial statements of the current period. These matters were addressed in the context of my audit of the consolidated and separate financial statements as a whole and in forming my opinion, 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 three 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 had an adverse impact on 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.</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 that was not provided. The impact on the financial statements was also assessed and reported accordingly. • Delays in receipt of information for audit purposes were timeously escalated to the accounting officer and those charged with governance throughout the audit. • Progress reports were submitted to the accounting officer on a regular basis. <p>I am satisfied that all material outstanding information had 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 these matters.

Restatement of corresponding figures

8. As disclosed in note 50 to the consolidated and separate financial statements, the corresponding figures for 30 June 2018 were restated as a result of errors in the consolidated and separate financial statements of the group at, and for the year ended, 30 June 2019.

Material uncertainties

9. With reference to note 42 to the consolidated and separate financial statements, the group is the defendant in various lawsuits. The ultimate outcome of these matters cannot presently be determined and/or reliably measured and no provision for any liabilities that may result was made in the consolidated and separate financial statements.

Material impairments

10. As disclosed in note 13 to the consolidated and separate financial statements, the consumer debtors balance has been impaired. The allowance for impairment of consumer debtors amounts to R9 114 377 582 (2017-18: R11 347 187 333), which represents 65% (2017-18: 67%) of total consumer debtors. The contribution to the allowance for impairment was R4 062 101 226 (2017-18: R1 490 000 078).

Material losses

11. As disclosed in note 56 to the consolidated and separate financial statements, material electricity losses of R1 184 000 058 (2017-2018: R1 076 496 700) was incurred which represent 12% (2017-18: 12%) of total electricity purchased. Technical losses amounted to R584 569 066 (2017-18: R543 313 133) and non-technical losses amounted to R599 430 992 (2017-18: R533 183 567).
12. As disclosed in note 56 to the consolidated and separate financial statements, material water losses of R1 002 005 635 (2017-18: R833 362 612) was incurred which represents 30% (2017-18: 28%) of the total water purchased. Technical losses amounted to R502 114 060 (2017-18: R439 382 748) and non-technical losses amounted to R499 891 575 (2017-18: R393 979 864).

Other matter

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

Unaudited disclosure notes

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

Responsibilities of the accounting officer for the consolidated and separate financial statements

15. The accounting officer is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and Dora, and for such internal control as the accounting officer determines is necessary to enable the preparation of the consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.
16. In preparing the consolidated and separate financial statements, the accounting officer is responsible for assessing the group'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 the appropriate governance structure either intends to liquidate the group or to cease operations, or has no realistic alternative but to do so.

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

17. My objectives are to obtain reasonable assurance about whether the consolidated and separate 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 the 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.
18. A further description of my responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

19. 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 strategic objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
20. 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.
21. 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 strategic objectives presented in the annual performance report of the municipality for the year ended 30 June 2019:

Strategic objectives	Pages in the annual performance report
Strategic objective 1: To promote integrated human settlements through massive infrastructure and services roll out	x – x
Strategic objective 5: To create an enabling environment for inclusive growth and job creation	x – x

22. I performed procedures to determine whether the reported performance information was properly presented and whether performance 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.

23. The material finding in respect of the reliability of the selected strategic objectives is as follows:

Strategic objective 1: To promote integrated human settlements through massive infrastructure and services roll out

Average number of days taken to process building applications

24. I was unable to obtain sufficient appropriate audit evidence on the accuracy and completeness for the reported achievement of the average number of days taken to process building plan applications. This was due to the incorrect recording and processing of information for the building plan applications on the database provided by management. I was unable to confirm the accuracy and completeness of the reported achievement by alternative means. Consequently, I was unable to determine the extent of the adjustments required to the reported achievement of average number of days taken to process building plan applications.

25. I did not raise any material findings on the usefulness and reliability of the reported performance information for this strategic objective:

- Strategic objective 5: To create an enabling environment for inclusive growth and job creation

Other matters

26. I draw attention to the matters below.

Achievement of planned targets

27. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for year. This information should be considered in the context of the material findings on the reliability of the reported information in paragraph x of this report.

Adjustment of material misstatements

28. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of strategic objective 1: To promote integrated human settlements through massive infrastructure and services roll out. As management subsequently corrected only some of the misstatements, I raised a material finding on the reliability of the reported performance information. Those that were not corrected are reported above.

Report on the audit of compliance with legislation

Introduction and scope

29. 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.

Expenditure management

30. Reasonable steps were not taken to prevent irregular expenditure, as disclosed in note 52 to the financial statements, as required by section 62(1)(d) of the MFMA. The value of R413 006 296 as disclosed in note 52, may not be complete as management was still in the process of investigating and quantifying the full extent of the irregular expenditure. The majority of the irregular expenditure was caused by non-compliance with the Preferential Procurement Regulations.

Procurement and contract management

31. Some contracts were awarded to bidders based on functionality criteria that were not stipulated, or differed from those stipulated, in the original invitation for bidding, in contravention of the Preferential Procurement Regulations. Similar non-compliance was also reported in the prior year.
32. Some of the contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43.

Other information

33. 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 consolidated and separate financial statements, the auditor's report and those selected strategic objectives presented in the annual performance report that have been specifically reported on in this auditor's report.
34. My opinion on the consolidated and separate 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 consolidated and separate financial statements and the selected strategic objectives 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, I conclude that there is a material misstatement in 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 consolidated and separate financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.
38. The accounting officer did not exercise adequate oversight responsibility over performance reporting and compliance with laws and regulations while senior management did not ensure that systems of internal control were adequately implemented and monitored. The preparation and review processes were ineffective which resulted in the identification of material errors on the annual performance report and material non-compliance matters.
39. Non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored on a regular basis.

Other reports

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

Investigations

41. A total of thirty-nine investigations were ongoing at year-end into allegations relating to financial misconduct, fraud or improper conduct in SCM. The majority of these cases were investigated by the city's internal audit department. All these investigations relate to irregularities identified prior to the 2018-19 financial year. Some of these investigations have been ongoing for a long time.

Auditor-General

31 December 2019

Johannesburg



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 consolidated and separate financial statements, and the procedures performed on reported performance information for selected strategic objectives 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 consolidated and separate financial statements as described in this auditor’s report, I also:
 - identify and assess the risks of material misstatement of the consolidated and separate 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 consolidated and separate 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 City of Ekurhuleni’s and its subsidiaries 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 consolidated and separate 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 this auditor’s report. However, future events or conditions may cause a municipality to cease continuing as a going concern
 - evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
 - obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

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, where applicable, related safeguards.
5. From the matters communicated to those charged with governance, I determine those matters that were of the most significance in the audit of the consolidated and separate financial statements of the current period and are therefore key audit matters. I describe these matters in this auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in this auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest of such communication.