

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

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of the City of Johannesburg Metropolitan Municipality set out on pages xx to xx, which comprise the appropriation statement, statement of financial position as at 30 June 2024, 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 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 Johannesburg Metropolitan Municipality as at 30 June 2024 and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Municipal Finance Management Act, 56 of 2003 (MFMA) and the Division of Revenue Act, 5 of 2023 (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 responsibilities of the auditor-general 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' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other 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. As the municipality has listed debt, the auditing standards require me to provide information in the auditor's report on matters that were of most significance in the audit of the financial statements. The following key audit matter was identified:

Key audit matter	How matter was addressed in audit
<p>The accounting officer agreed to provide requested documents within three (3) working days as per the signed audit engagement letter.</p> <p>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.</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"> <li>• Regular audit steering committee meetings were held to assess information not provided. The impact on the financial statements was assessed and reported accordingly.</li> <li>• Escalation of delays to the accounting officer throughout the audit.</li> <li>• Submitting progress reports to the accounting officer on a regular basis.</li> </ul> <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 these matters.

### Contingencies – litigations/claims

8. With reference to note 45 to the financial statements, the municipality is a defendant in various claims and lawsuits. The ultimate outcome of these matters could not be determined and no provision for any liability that may result was made in the financial statements.

### Material impairments - debtors

9. As disclosed in note 10 of the financial statements, material losses of R14 709 285 000 (2022-23: R11 805 603 000) were incurred as a result of doubtful consumer debtors.

10. As disclosed in note 59 of the financial statements, material losses of R2 639 025 000 were incurred as a result of doubtful traffic fines debtors.

### Restatement of corresponding figures

11. As disclosed in note 46 to the financial statements, the corresponding figures for 30 June 2023 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2024.

## **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 particulars of non-compliance with the MFMA should be disclosed in the financial statements. These disclosure requirements did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on them.

## **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 the 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 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 municipality'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 municipality or to cease operations, or has no realistic alternative but to do so.

## **Responsibilities of the auditor-general 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 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 financial statements.

17. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report. This description, which is located at page xx to xx, forms part of our auditor's report.

## **Report on the audit of the annual performance report**

18. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for the selected strategic priority presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

19. I selected the following strategic priority presented in the annual performance report for the year ended 30 June 2024 for auditing. I selected a strategic priority that measures the municipality's performance on its primary mandated functions and that is of significant national, community or public interest.

Strategic priority:	Page numbers	Purpose
<p><b>Energy mix</b></p> <p><b>Sustainable service delivery</b></p> <p><b>Infrastructure development and refurbishment</b></p>	<p>XX</p>	<p><b>Energy mix:</b></p> <p>To address energy security and load shedding, the City of Johannesburg must diversify its energy mix, promote renewable energy sources, and invest in energy-efficient technologies. The following priority actions can be implemented to achieve this:</p> <ol style="list-style-type: none"> <li><b>1. Renewable energy generation:</b> The City of Johannesburg should prioritize the generation of renewable energy, such as solar, wind, and biomass, to reduce dependence on non-renewable energy sources. The installation of rooftop solar panels and wind turbines in public buildings and spaces, such as schools, hospitals, and parks, can contribute to this goal.</li> <li><b>2. Energy storage:</b> The City of Johannesburg should invest in energy storage technologies to store excess renewable energy and reduce the reliance on non-renewable sources during peak demand periods. This can involve the installation of battery storage systems and the integration of smart grids to manage energy distribution and demand.</li> <li><b>3. Energy efficiency:</b> The City of Johannesburg should prioritize energy efficiency measures in all public buildings and spaces, as well as in private households and businesses. The implementation of energy-efficient technologies, such as LED lighting, smart meters, and efficient heating and cooling systems, can help reduce energy consumption and save costs.</li> <li><b>4. Education and awareness:</b> The City of Johannesburg should invest in educating its citizens on the importance of energy conservation and the benefits of renewable energy sources. This can involve the provision of energy audits, workshops, and training on energy-efficient practices.</li> </ol> <p><b>Sustainable service delivery:</b></p> <p>Joburg 2040 prioritizes sustainable service delivery to ensure that it can deliver on its developmental mandate. With the highest population growth in Johannesburg compared to the national population growth, there needs to be a focus on infrastructure development to accommodate the growing numbers. This development will stimulate the economy and improve accessibility of basic services to the citizens. The initiatives and programs are guided</p>

Strategic priority:	Page numbers	Purpose
		<p>by the "sustainable service delivery" priority, which aims to accelerate visible service delivery and re-introduce co-production in the delivery of basic services.</p> <p><b>Infrastructure development and refurbishment:</b></p> <p>Through infrastructure development and refurbishment, the City of Johannesburg is committed to providing essential services, promoting eco-mobility, and creating sustainable human settlements that promote spatial balance and integration, thereby paving the way for a brighter and more prosperous future for all citizens.</p>

20. I evaluated the reported performance information for the selected strategic priority against the criteria developed from the performance management and reporting framework, as defined in the general notice. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users on the municipality's planning and delivery on its mandate and objectives.

21. I performed procedures to test whether:

- the indicators used for planning and reporting on performance can be linked directly to the municipality's mandate and the achievement of its planned objectives
- all the indicators relevant for measuring the municipality's performance against its primary mandated and prioritised functions and planned objectives are included
- the indicators are well defined to ensure that they are easy to understand and can be applied consistently, as well as verifiable so that I we can confirm the methods and processes to be used for measuring achievements
- the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated
- the indicators and targets reported on in the annual performance report are the same as those committed to in the approved initial or revised planning documents
- the reported performance information is presented in the annual performance report in the prescribed manner and is comparable and understandable
- there is adequate supporting evidence for the achievements reported and for the measures taken to improve performance

22. I performed the procedures for the purpose of reporting material findings only; and not to express an assurance opinion or conclusion.

23. The material findings on the usefulness and reliability of the performance information of the selected strategic priority are as follows:

**Strategic priority: Energy mix, sustainable service delivery and infrastructure development and refurbishment**

**Indicator: Number of informal settlement households provided with electricity**

24. An achievement of 1 520 was reported against a target of 1 370. However, the audit evidence did not support this achievement. I could not determine the actual achievement, but I estimated it to be materially less than reported. Consequently, it is likely that the target was not achieved.

**Number of indigent households benefitting from ESP (free basic services)**

25. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of 87 181 against a target of 140 000. This was due to the lack of accurate and complete records. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements in the annual performance report.

**Indicator: Average number of Metrobus passenger trips per working day**

26. An achievement of 22 425 was reported against a target of 20 000. I could not determine if the reported achievement was correct, as adequate supporting evidence was not provided for auditing. Consequently, the achievement might be more or less than reported and was not reliable for determining if the target had been achieved or not.

**Other matters**

27. I draw attention to the matters below.

**Achievement of planned targets**

28. The annual performance report includes information on reported achievements against planned targets and provides measures taken to improve performance. This information should be considered in the context of the material findings on the reported performance information.

29. The table that follows provides information on the achievement of planned targets and lists the key service delivery indicators that were not achieved as reported in the annual performance report. The measures taken to improve performance are included in the annual performance report on pages xx to xx.

**Strategic priority: Energy mix, sustainable service delivery and infrastructure development and refurbishment**

Targets achieved: 64%		
Budget spent: 92%		
Key service delivery indicator not achieved	Planned target	Reported achievement
Total water losses	133 569ML	226 968ML
Percentage total electricity losses (EE4.4)	23.00%	31.90%
Number of kilometres of gravel roads upgraded to surfaced roads	13.00KM	7.76 KM
Number of kilometres of open storm water drains converted to underground systems	2.50KM	1.91KM
Number of additional households provided access to basic sanitation at minimum LoS 1 in informal settlements	200	0
Number of indigent households benefitting from ESP (free basic services)	140 000	87 181
Percentage waste diverted from landfill	19.00%	18.70%
Average number of Rea Vaya passenger trips per working day	35 000	28 752

**Material misstatements**

30. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of strategic priority: energy mix, sustainable service delivery and infrastructure development and refurbishment. Management did not correct all of the misstatements, and I reported material findings in this regard.

**Report on compliance with legislation**

31. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting officer is responsible for the municipality's compliance with legislation.

32. I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.

33. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the municipality, clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.
34. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

#### **Annual financial statements**

35. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of property, plant and equipment, property rates, depreciation, amortisation and impairment were subsequently corrected resulting in the financial statements receiving an unqualified audit opinion.

#### **Expenditure management**

36. Reasonable steps were not taken to prevent irregular expenditure amounting to R1 982 206 000 as disclosed in note 48 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by the non-compliance with Regulation 36.
37. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R2 755 031 000, as disclosed in note 49 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending on key votes.
38. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

#### **Asset management**

39. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
40. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.

#### **Procurement and contract management**

41. Some of the quotations were accepted from the bidders whose tax matters had not been declared by the South African Revenue Service (SARS) to be in order, in contravention of supply chain management (SCM) regulation 43.
42. Some of the goods and services within the prescribed transaction value for competitive bids 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.

43. Contracts were awarded to the bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM Regulation 13(c).
44. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year.
45. Awards were made to providers who were in the service of other state institutions or whose directors / principal shareholders were in the service of other state institutions, in contravention of MFMA 112(1)(j) and SCM Regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM Regulation 38(1).
46. Persons in service of the municipality whose close family members had a private or business interest in the contracts awarded by the municipality failed to disclose such interest, in contravention of SCM regulation 46(2)(e).

#### **Consequence management**

47. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
48. Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.
49. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

#### **Other information in the annual report**

50. The accounting officer is responsible for the other information included in the annual report. The other information referred to does not include the financial statements, the auditor's report and those selected strategic priority presented in the annual performance report that have been specifically reported in this auditor's report.
51. My opinion on the financial statements, the report on the audit of the annual performance report and the report on compliance with legislation do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.
52. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the financial statements and the selected strategic priority presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

53. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, and I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected, this will not be necessary.

### **Internal control deficiencies**

54. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.

55. The matters reported below are limited to the significant internal control deficiencies that resulted in the material findings on the annual performance report and the material findings on compliance with legislation included in this report.

56. The accounting officer did not adequately exercise oversight responsibility, by holding senior management accountable for implementation of preventative controls relating to the financial and performance management as well as the compliance with laws and regulations.

57. Senior management did not adequately implement action plans designed to prevent the recurring instances of non-compliance. Consequence management relating to deviating from policies and procedures relating to compliance with laws and regulations was not implemented adequately, consistently and effectively.

### **Material irregularities**

58. In accordance with the PAA and the material irregularity (MI) regulations, I have a responsibility to report on material irregularities identified during the audit and on the status of material irregularities as previously reported in the auditor's report.

#### **Status of previously reported material irregularities**

59. The material irregularities identified are as follows:

#### **Payments made for airtime and data loaded on sim cards but not utilised**

60. Resources of the municipality were not utilised economically as airtime and data loaded on sim cards were not utilised between April 2019 and August 2019, as required by section 62(1)(a) of the MFMA.

61. The municipality is likely to suffer a material financial loss if the amount paid for airtime and data loaded on sim cards is not recovered. The financial loss is disclosed in note 43 of the financial statements for the period ended 30 June 2021.

62. The accounting officer was notified of the material irregularity on 5 August 2022.

63. The accounting officer has taken the following actions to address the material irregularity:

- Instituted an investigation in September 2022 to determine officials responsible, which was expected to be finalised in December 2022. However, due to the discovery of new information, the investigation was finalised in July 2023. The investigation concluded that the municipality suffered financial loss amounting to R3 467 163 and further recommended that any acts of financial misconduct are reported to council where applicable.
- In April 2024, the municipal public accounts committee recommended to council that the financial loss amounting to R3 467 163 should be recovered from the service provider.
- In assessing the possibility of the recovery of the financial loss, the accounting officer obtained a legal opinion in June 2024 which confirmed that the municipality enjoys reasonable prospects of success in pursuing a contractual claim against the service provider.
- In July 2024, council approved the resolution to recover the financial loss suffered from the service provider.
- An independent service provider was appointed in August 2024 to perform an investigation to determine if there were any elements of financial misconduct.
- The outcome of the preliminary investigation finalised in November 2024, indicates that there are elements of financial misconduct and recommends that a full investigation be conducted in order to determine the appropriate consequence management to be taken.
- A letter of demand was issued to the service provider in October 2024 and the service provider responded in November 2024 indicating that they do not accept responsibility for the financial loss suffered.
- Summons were issued to the service provider in November 2024 and the process is still on-going.
- In accordance with the regulations on financial misconduct, the outcome and recommendation of the preliminary investigation will be reported to council for a resolution authorising the disciplinary board to conduct a full investigation into the conduct of other responsible members of senior management.
- To prevent a re-occurrence, the accounting officer established a contract management committee in January 2022 to monitor all contracts to ensure that all goods and services received are utilised. In addition, a monthly checklist for contract management has been implemented with effect from August 2022.

64. I will follow up on the implementation of the planned actions during my next audit.

#### **Construction of a fire station at Protea Glen Extension 13 without prior authorisation**

65. The municipality commenced with the construction of a fire station at Protea extension 13 in the 2012-13 financial year without obtaining authorisation from the Gauteng Department of Agriculture and Rural Development, in contravention of section 24(F) (1) of the National Environmental Management Act 107 of 1998.

66. The failure to obtain authorisation resulted in a penalty of R2 500 000 charged by the Gauteng Department of Agriculture and Rural Development, which, if not recovered, is likely to result in a material financial loss. The financial loss is disclosed in note 43 of the financial statements for the period ended 30 June 2021.

67. The accounting officer was notified of the material irregularity on 15 December 2021.

68. The actions taken by the accounting officer to resolve the material irregularity were as follows:

- Instituted a disciplinary process against the implicated official which commenced in May 2022 and, based on the outcome of the disciplinary process performed, the official was dismissed in July 2022.
- Appointed a law firm in December 2022 to review the service level agreement between the municipality and the service provider who was responsible for the construction of the fire station to determine if the service provider can be held accountable for failing to carry out their responsibilities and to perform a cost-benefit analysis to establish if it is viable to recover the financial loss suffered.
- After finalisation of the review of the service level agreement by the appointed law firm, a letter of demand was issued to the service provider in June 2023 to pay the R2 500 000 within 5 business working days. The service provider did not respond to the letter of demand and summons were issued in September 2023.
- The service provider issued intention to defend, however, the service provider did not submit a plea within the required time frames and the accounting officer issued a notice of bar in November 2023. The legal process is still on going.
- To prevent a re-occurrence, the accounting officer capacitated the emergency management service department with two more employees during the 2021-22 financial year.

69. The material irregularity is resolved.

#### **Procurement of software licenses not utilised**

70. Resources of the municipality were not utilised economically as the municipality paid for maintenance and support costs on software licenses procured between July 2019 and February 2023 but not used, as required by section 62(1)(a) of the MFMA.

71. The non-compliance is likely to result in a material financial loss for the municipality, if not recovered.

72. The accounting officer was notified of the material irregularity on 30 November 2022.

73. The actions taken by the accounting officer to resolve the material irregularity were as follows:

- Through engagements with the service provider, the municipality was given credits on money spent on unused software licences amounting to R53 109 786,36. In addition, the AO recovered R228 360 306,26 in July 2024.
- No official at the municipality could be held accountable for payments made on unused software licences as the assessment performed by the accounting officer concluded that the agreement entered into with the service provider was based on the detailed assessment performed at the time of concluding the contract.
- A new contract was finalised in September 2023 with the service provider wherein the municipality will only be paying for maintenance and support on existing software licences in use. This will result in an estimated saving of R1 77 437 478 over the next three years.

- To prevent a re-occurrence, the accounting officer and the service provider agreed that maintenance and support will only be paid for software licences in use. In addition, through negotiations with the service provider, the municipality will receive credits on software licences not used.

74. The material irregularity is resolved.

#### **Payment for specialised fire and rescue vehicles including equipment for emergency management services that were not delivered**

75. Payments were made for specialised fire and rescue vehicles, including equipment, for emergency management services that were not delivered in November 2019 as an official of the municipality did not take all reasonable steps within his area of responsibility to ensure that the system of financial management and internal control established is carried out diligently, as required by section 78(1) (a) of the MFMA.

76. The failure by an official of the municipality to take all reasonable steps within his area of responsibility to ensure that the system of financial management and internal control is carried out diligently, resulted in a payment amounting to R62 468 779,94 for goods not received, which, if not recovered, is likely to result in a material financial loss. The financial loss is disclosed in note 49 of the consolidated and separate financial statements for the period ended 30 June 2022.

77. The accounting officer was notified of the material irregularity on 18 April 2023.

78. The actions taken by the accounting officer to resolve the material irregularity were as follows:

- The implicated official was suspended in November 2019 with full pay while the investigation was ongoing. An investigation was finalised in September 2020, thereafter the disciplinary process was initiated.
- In May 2021, the following sanctions were imposed against the implicated official:
  - A final written warning was issued, which remained valid for 12 months from date of the sanction.
  - Employee reverted to Deputy-Director: Fleet and Compliance Management position.
  - Employee forfeited 10 days of his salary from June 2021 until August 2021.
  - Prohibited from acting in a higher position until the expiry of 12 months of the final written warning.
- Lodged a claim with the liquidators of the service provider in July 2023 to recover the remaining value of the eight vehicles that were not delivered noting that 12 of the 20 vehicles were subsequently delivered by the service provider.
- The first meeting of all creditors affected by the liquidation process of the service provider took place in March 2024 wherein the municipality was admitted following consideration of the claim and oral submissions. The liquidation process is still on-going.

- To prevent a re-occurrence, the accounting officer established an inspection team that will inspect and confirm delivery of vehicles procured before payments are made. The inspection team consists of employees from various departments within the municipality.

79. The material irregularity is resolved.

#### **Investment with a prohibited branch of a foreign bank**

80. Funds were invested in a branch of a foreign bank in the 2018-19 financial year, in contravention of municipal investment regulation 6.

81. The non-compliance is likely to result in a material financial loss of R1 803 000 for the municipality, if the amount invested is not withdrawn.

82. The accounting officer was notified of the material irregularity on 23 May 2023.

83. The actions taken by the accounting officer to resolve the material irregularity were as follows:

- Two officials have been delegated the responsibility of handling the group treasury compliance submissions with effect from June 2023.
- The accounting officer withdrew the full investment of R2 114 535,92 inclusive of interest earned, in July 2024.
- The updated group treasury, financial strategy and planning policy, that will only allow investments with banks registered in terms of the Banks Act, will be tabled at council for approval before end of February 2025.

84. The material irregularity is resolved.

#### **Prohibited investment with a branch of a foreign bank**

85. Funds were invested in a branch of a foreign bank in the 2018-19 financial year, in contravention of municipal investment regulation 6.

86. The non-compliance is likely to result in a material financial loss of R1 077 494,54 for the municipality, if the amount invested are not withdrawn.

87. The accounting officer was notified of the material irregularity on 23 May 2023.

88. The actions taken by the accounting officer to resolve the material irregularity were as follows:

- Two officials have been delegated the responsibility of handling the group treasury compliance submissions with effect from June 2023.
- The accounting officer withdrew the full investment of R1 194 189,37 inclusive of interest earned, in December 2023.
- The updated group treasury, financial strategy and planning policy, that will only allow investments with banks registered in terms of the Banks Act, will be tabled at council for approval before end of February 2025.

89. The material irregularity is resolved.

### Other reports

90. In addition to the investigations relating to material irregularities, I draw attention to the following engagements conducted by various parties. 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.

91. A total of one thousand ninety-four (1094) cases of alleged irregularities relating to financial misconduct, fraudulent acts, theft and non-compliance were investigated during the financial year. The majority of the cases were investigated internally by the Metropolitan Municipality's forensic department. Eight hundred and thirty-one (831) of these cases were finalised during the 2023-24 financial year, two hundred sixty-three (263) were still in progress at year end.

AUDITOR - GENERAL

Johannesburg

30 November 2024



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

## **Annexure to the auditor's report**

The annexure includes the following:

- The auditor-general's responsibility for the audit
- The selected legislative requirements for compliance testing

### **Auditor-general's responsibility for the audit**

#### **Professional judgement and professional scepticism**

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 strategic priority and on the municipality's compliance with selected requirements in key legislation.

#### **Financial statements**

In addition to my responsibility for the audit of the financial statements as described in this 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
- conclude on the appropriateness of the 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 relating to events or conditions that may cast significant doubt on the ability of the municipality 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 my 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 operating as a going concern
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

## Communication with those charged with governance

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.

I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

## Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
MFMA	<p>Section 1 - Paragraph (a), (b) &amp; (d) of the definition: irregular expenditure</p> <p>Section 1 - Definition: service delivery and budget implementation plan</p> <p>Sections 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 29(1),</p> <p>Sections 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b), 32(6)(a),</p> <p>Sections 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 62(1)(f)(i), 62(1)(f)(ii),</p> <p>Sections 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b), 64(2)(c),</p> <p>Sections 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), 72(1)(a)(ii),</p> <p>Sections 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), 122(2), 126(1)(a),</p> <p>Sections 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), 129(1), 129(3),</p> <p>Sections 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, 171(4)(a), 171(4)(b)</p>
SCM Regulations	<p>Regulations 5, 12(1)(c), 12(3), 13(b), 13(c), 13(c)(i), 16(a), 17(1)(a),,</p> <p>Regulations 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a),</p> <p>Regulations 27(2)(e), 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a), 29(1)(b), 29(5)(a)(ii),</p> <p>Regulations 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1) (c), 38(1)(d)(ii), 38(1)(e),</p> <p>Regulations 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43, 44, 46(2)(e), 46(2)(f)</p>
Municipal budget and reporting regulation	Regulations: 71(1)(a), 71(1)(a)(b), 71(2)(a), 71(2)(b), 71(2)(d), 72(a), 72(b), 72(c)
Municipal investment regulation	3(1)(a), 3(3), 6, 7, 12(2), 12(3)
DoRA	Sections 16(1), 11(6)(b), 12(5), 16(3)
NEMWA	Section 20(b)
Environmental Conservation Act (ECA)	Section 20(1)
National Water Act (NWA)	Section 22(1)(b)

Legislation	Sections or regulations
MSA	<p>Sections 56(a), 57(6)(a), 66(1)(a), 67(1)(d), 57(2)(a), 74(1), 96(b), 29(1)(b)(ii), 26(h), MSA 42, MSA 25(1), 25(1), 26(a), 26(c), 26(i), 41(1)(a), 43(2), 41(1)(b), 93B(a), 93B(b), 34(a) and 41(1)(c)(ii), 34(b), 38(a), 3(4)(b) and 15(1)(a)(ii), 3(5)(a), 3(6)(a), 3(3)</p> <p>MSA schedule 1: Code of conduct for councillors section 5(2), 7(1) &amp; (2).</p> <p>MSA schedule 2: Code of conduct for municipal staff members section 5(1) and 5A(1) &amp; (2).</p> <p>SCM reg. 46(2)(e).</p> <p>MSA schedule 1: Code of conduct for councillors section 5(2), 7(1) &amp; (2).</p> <p>MSA schedule 2: Code of conduct for municipal staff members section 5(1) and 5A(1) &amp; (2).</p>
Municipal performance regulations for municipal managers and managers directly accountable to municipal managers	Regulations 2(3)(a), 4(4)(b), 8(3)
Regulations on appointment and conditions of employment of senior managers	Regulations 17(2), 36(1)(a), 2(1)(e), 2(3)(a)
Municipal Property Rates Act	Section 3(1)
Municipal planning and performance management regulations	Regulations 15(1)(a)(i), 9(1)(a), 10(a), 12(1), 8, 7(1)
Financial misconduct regulations	Regulations 5(2), 5(3), 5(4), 6(8)(b), 10(1), 5(6), 8(4)
PRECCA	Section 34(1)
Disciplinary regulations for senior managers	Regulations 8(4) 5(6), 5(2), 5(3), 5(4)
PPR 2017	Regulations 8(5), 8(2), 9(1), 5(6), 5(7), 5(1) & 5(3), 6(8), 7(8), 10(1)&(2) & 11(1), 6(1) and 7(1)
PPR 2022	Regulations 4(1) and 5(1), 4(4) & 5(4)
PPPFA	Sections 2(1)(a), 2(1)(a), 2(1)(f)