

CITY MANAGER
CORPORATE PLANNING UNIT

**ADOPTION OF THE OVERSIGHT REPORT
REGARDING THE 2004/05 CONSOLIDATED
ANNUAL REPORT OF THE CITY OF
JOHANNESBURG AND THE MUNICIPAL ENTITIES**

1 STRATEGIC THRUST

Good Governance.

2 OBJECTIVE

To submit to Council, in terms of Section 129 of the MFMA, the consolidated Oversight Report on the Annual Report, covering the City of Johannesburg and all its municipal entities.

3 BACKGROUND

3.1 Annual Report

The 2004/05 Consolidated Annual Report of the CoJ, and the Annual Reports of the Municipal Entities were tabled to Council on 03 April 2006. Annual Reports provide the City of Johannesburg with the opportunity to report on the performance of the City and all its entities. The 2004/05 Annual Report departs fundamentally from the Annual Reports of the past financial years in that it is a consolidated report. It comprises of reports of all the City's Core Departments as well as all the City's owned municipal entities.

The 2004/05 Annual Report was prepared in terms of the provisions of the Municipal Finance Management Act. The Act aims to modernize budget and financial management while simultaneously promoting transparency and accountability. It gives further impetus to Annual Reporting (more stringent than MSA requirements) in terms of which municipalities are required to report against commitments in the IDP, business plans and other supporting planning documents. The municipality was a pilot site for the implementation of Generally Accepted Municipal Accounting Practice (GAMAP) for the year ended 30 June 2004, and consequently implemented Generally Recognised Accounting Practice (GRAP). For those matters not covered by GAMAP or GRAP, the applicable South African Statements of Generally Accepted Accounting Practice (GAAP) were applied.

As stated earlier in this report, the 2004/05 Annual Report was tabled to Council on 3 April 2006. In terms of section 133 of the MFMA, the Executive Mayor must submit the Annual Report within 7 months after the end of the financial year, which means that the report should be submitted by the end of January 2006. The Council of the City of Johannesburg is required to engage with, and finalise the annual report within 9 months after the end of the financial year, which is before 31 March 2005. The 2004/05 Annual Report was not submitted to Council in January 2006 owing to delays in the finalisation of the Consolidated Annual Financial Statements' Audit opinions. The Annual Report could only have been submitted with the Audit Opinions in terms of the Municipal Finance Management Act. For the reasons set out above, it was not possible for the Executive Mayor to submit the Annual Report to Council by 31 January 2006.

CITY MANAGER
CORPORATE PLANNING UNIT

Section 133 of the MFMA prescribes that in the event that Annual Report is not submitted on time, the Executive Mayor should in writing explain the reasons for the delay to the Council. The "Non-Submission of the Annual Report of the City of Johannesburg for the Financial Year ended 30 June 2005" was submitted to Council on 26 January 2006, and was duly approved.

The process for the finalisation and approval of the 2004/05 Annual Report is set out in the table below:

Activity Description	Provision	Target
Preparation of annual financial statements of the municipality, and submit to the Auditor-General	Section 122 (1) (2)	01/09/05
Preparation of consolidated performance reports for all Core Departments and Municipal-owned entities	Section 127 (1)	01/09/05
Finalisation of audit questionnaire regarding the City's performance management system	Section 45(b) Municipal Systems Act	01/09/05
Receipt of final audit report from Auditor-General (AG)	MFMA Section 126(3)(b)	31 Dec 2005 (Delay in receipt of AG's report)
Corrective actions to AG's opinion formulated	MFMA Section 121(3)(g)	10 March 2006
Discussion of Annual Report to Audit Committee	MFMA Section 121(3)(j)	13 & 14 March 2005
Approval of draft Annual Report by Mayoral Committee	MFMA Section 127(2)	16 March 2006
Tabling of Annual Report to Council by Executive Mayor	MFMA Section 127(2)	03 April 2006
Allow for comment for 21 days by: <ul style="list-style-type: none"> • Community • Department of Finance & Economic Affairs • MEC: Local Government • Auditor-General 	MFMA Section 127(5)(a & b)	04 April 2006 to 02 May 2006
Consideration and adoption of Annual Report and Oversight Report	MFMA Section 129(1)	31 May 2006
Submission of Annual Report and Oversight Report to AG, Provincial Treasury and MEC: Local Government	MFMA Section 129(2)(b)	07 June 2006
Communication of final Annual Report (website, hard copies and other mediums)	MFMA Section 129(3)	07 June 2006

CITY MANAGER
CORPORATE PLANNING UNIT

3.2 Oversight report

The adoption of the Oversight Report is the concluding step in the annual reporting moment of a municipality. The Oversight Report is a requirement in terms of Section 129 of the MFMA, which requires the Council to adopt an Oversight Report, no later than 2 months after the tabling of the annual report. The Oversight Report must include a statement whether the council:

- has approved the annual report, with or without reservation;
- has rejected the annual report; or
- has referred the annual report back for revision of those components that can be revised.

National Treasury issued circular 32 on 15 March 2006 on the preparation of oversight reports and provides guidelines on the processes to be followed in the adoption of the Oversight Report, to which this report conforms.

The Oversight Report is a separate product from the Annual report. The Annual Report is submitted to the Council by the Accounting Officer and the Executive Mayor and is part of the process for discharging accountability by the executive and administration for their performance in achieving objectives and goals set by the municipality in the relevant financial year. The Oversight Report follows consideration and consultation on the Annual Report and is considered to be a report of the municipal council.

After the tabling of the 2004/05 Annual Report on 3 April 2006, in line with Section 129 (1) of the MFMA, the City of Johannesburg allowed for two months of public comments regarding the 2004/05 Annual Report. The commenting period was between 04 April 2006 and 02 May 2006.

The 2004/05 Consolidated Annual Report of the City, as well as the Annual Reports of the municipal entities, were made available on the City's website, as well as the regional offices. In addition, the Annual Reports were made available to the following Offices:

- The Office of the Auditor-General
- The Department of Finance and Economic Affairs
- The MEC for Local Government

The accounting officer (City Manager) of the City of Johannesburg attended all Council and Council Committee meetings where the Annual Report was discussed. The accounting officer attended the Audit Committee meetings on 13, 14 and 20 March 2006, as well as the Council of 3 April 2006. The meeting of the Audit Committee discussed the findings of the AG – presented by his office as well as the response by CoJ management under the leadership of the accounting officer. Furthermore, the accounting officer led management when the 2004/05 Annual Report was discussed by the City's Mayoral Committee, on 23 March 2006, and was present when the report was tabled to Council. The chairperson of the City's Audit Committee addressed the Mayoral Committee meeting; and addressed the Council meeting on 3 April 2006, to inform Council on the Committee's key findings and recommendations.

CITY MANAGER
CORPORATE PLANNING UNIT

The minutes of all meetings where the City of Johannesburg's Annual Report was discussed, are attached to the Oversight Report:

- (i) Council Meeting of 03 April 2006
- (ii) Mayoral Committee meeting on 23 March 2006
- (iii) CoJ Audit Committee meetings on 13, 14 & 20 March 2006
- (iv) Municipal Entities' Audit Committee meetings.

No comments were received from the community, the Department of Finance and Economic Affairs and the MEC for Local Government. Opinions were, however, obtained from the Office of the Auditor-General in the original management letter, together with the CoJ's management's responses, are discussed in section 4 of this report.

3.3 Oversight / Public Accounts Committee

The Circular (National Treasury issued circular 32 on 15 March 2006) expresses appreciation of the difficulties that could be experienced in trying to discuss the Annual Report within full council meetings. It thus recommends that Councils consider the constitution of an Oversight Committee (Public Accounts Committee) as provided for in terms of section 129(4), to discuss the Annual Report leading to the adoption of the Oversight Report.

The Council considered reports on the high-level executive and legislative restructuring and new governance model on 3 April and 26 April 2006 respectively. In line with the circular, a section 79 Public Accounts Committee was established on 26 April 2006, with the functions as envisaged for the Oversight / Public Accounts Committee as intended in Circular 32 of the MFMA.

4. KEY COMMENTS AND RESPONSES

Annexure A of Circular 32 of the MFMA recommends that the summary of key issues raised by the community, Auditor-General and other spheres in government, be detailed in the Oversight Report. In addition the Circular proposes that responses to questions raised in written representations be captured in the Oversight Report. This section summarises the key questions and comments from the Auditor-General, the City's Audit Committee, the Audit Committees of the Municipal Entities, the Council, as well as the responses by the CoJ's Executive Management (**in bold**).

4.1 The Auditor-General Management Letter and Response by Management

4.1.1 *Internal monitoring of performance measurement:* Reporting to Council was only done once a year as opposed to the requirement of Regulation 13 of the Local Government: Municipal Planning and Performance Management Regulations, 2001 to report at least twice a year. **The City's has initiated a process to submit at least two-performance report to Council.**

4.1.2 *Internal control of performance management system:* No assurance could be obtained to indicate that the Audit Committee received the required information so as to enable it to review the municipality's performance management system, focus

CITY MANAGER
CORPORATE PLANNING UNIT

on the economy, efficiency, effectiveness and impact in so far as the KPI's and performance targets set by the municipality were concerned; and provide the municipality with recommendations regarding the review done by the committee of the performance management. **In redefining the institutional arrangements for performance management, the City will also provide the Audit Committee the quarterly performance report submitted to the Remuneration and Performance Management Panel.**

- 4.1.3 *Unreconciled accounting records (Inventory)- Metro Bus.* The Physical count of inventories at 30 June 2005 at Metropolitan Bus Services (Pty) Ltd was not attended by this Office, but roll back procedures performed by management during the audit, indicated that deficiencies occurred in the physical count. The completeness and existence of inventory amounting to R7.7 million at 30 June 2005 could therefore not be confirmed. **The reconciliation of the physical to the theoretical stock is being undertaken, and shall be completed by April 2006**

Latest Management Update: The reconciliation of the physical to the theoretical stock is being undertaken, and shall be completed by 12 May 2006.

- 4.1.4 *Poor financial controls at Johannesburg Fresh Produce Market (Pty) Ltd.* A breakdown of the system of internal and financial controls resulted in unreconciled differences in the deposit and business bank accounts, the guaranteed buyers subsidiary ledger and the debtors ledger led to incorrect disclosures in the financial statements. A forensic investigation and other interventions were instituted. Furthermore, poor controls on guarantees were detected. **All bank reconciliations are being automated using specialised software. Such reconciliations are now being done from July 2005, and will be finalised by April 2006**

All debtor guarantees are being reviewed and updated. Credit facilities for debtors whose guarantees are not in order are being suspended. Cheques are only accepted from debtors whose guarantees are in place and who have no record of RD cheques.

Latest Management Update: All bank reconciliations have been prepared from July 2005 until March 2006. Currently bank reconciliations for the period ending 30 April 2006 are being finalised.

- 4.1.4 *Poor internal controls at City Housing Company (Pty) Ltd.* A serious breakdown of the system of internal controls occurred and an improper accounting system was used. Consequently, I was unable to verify assertions in respect of property, plan and equipment, grant income and accruals. **The City has resolved that CHC will be liquidated through voluntary members liquidation by March 2006**

Latest Management Update: Due diligence is currently being undertaken in respect of City Housing Company (Pty) Ltd. Once due diligence is completed, the liquidation process will commence.

- 4.1.6 *City Housing Company's questionable financial statements.* The unsigned financial statements of this company were prepared on a going concern basis

CITY MANAGER
CORPORATE PLANNING UNIT

notwithstanding the municipality's shareholder unit decision on 15 November 2005 to liquidate the company. Consequently, the financial statements included in the group financial statements were prepared on the incorrect basis. **The City will formally pass a special resolution in terms of the companies Act to appoint the liquidator and to register the process with the office of Master of the High Court. The target is May 2006. The City is currently completing the financials and due diligence. The financial statement will be produced on a liquidation basis to be given to the Master of the High Court. All these activities would have been finalised by April 2006**

Latest Management Update: On completion of the due diligence, the liquidator will be appointed and the process to register with the office of Master of the High Court will commence.

4.1.7 *Control weaknesses at Johannesburg Social Housing Company (Pty) Ltd.* Due to significant control weaknesses, and the lack of information, and appropriate explanations, the completeness, existence and valuation of property, plan and equipment could not be verified. In addition, the City of Johannesburg did not provide the appropriate guarantee for the inter-company debt and the recoverability of this debtor was therefore doubtful. The company's taxation appeared to be incorrectly calculated for the financial period. Various significant weaknesses existed in the control over accounts payable and general expenditure and as such could not be verified. Concern was raised as to the impact of the above errors on the solvency of the company. **Senior management has been appointed and areas of control weakness have been addressed**

4.1.7 *Impairment of assets (Utility companies), City Power, Johannesburg Water and Pikitup.* The impairment exercise required in terms of International Accounting Standard 36 (IAS 36) was not undertaken for the three utility companies. **This requirement would appear to be irrelevant under the circumstances, given the nature of the product and the absolute need for service delivery. A reconciliation will however, be prepared and an assessment of the carrying value made. The completion date is end February 2006.**

Latest Management Update: The accounting treatment of assets in terms of Impairment Statement (International Accounting Standard 36) is an encouraged Standard, not mandatory as required by Generally Recognised Accounting Practice. The accounting policy for the treatment of asset impairment will be finalised by end of May 2006.

4.1.9 *Problems with rehabilitation costs at Pikitup.* No provision was made for the rehabilitation costs of various closed landfill sites at Pikitup Johannesburg (Pty) Ltd. The following interventions will be undertaken before May 2006:

- **Write policy that will outline the process of the impairment aspect of assets.**
- **Obtain approval from the Board – normal process of approval to be followed.**
- **Engage expert to perform valuation of the sites.**
- **Perform the calculation of the impairment and process transaction.**

CITY MANAGER
CORPORATE PLANNING UNIT

Latest Management Update: The process is currently underway for the raising of provision in respect of the rehabilitation cost of various closed landfill sites at Pikitup Johannesburg (Pty) Ltd. The calculations will be completed by the end of May 2006. The budget has been requested to spent.

- 4.1.10 *Completeness of Revenue – Water and sewerage income:* In the absence of a suitable reconciliation between the water consumption points and the billing system, I was unable to assess whether all properties within the boundaries of the municipality were included or validly excluded from the billing systems of Johannesburg Water (Pty) Ltd. The impact of this on the revenue base of the municipality could not be determined. **The CoJ will perform a reconciliation of the GIS with the billing system. Furthermore, the City will identify alternate controls that may achieve the same result. The draft reconciliation is scheduled for completion by the end of April based on information to March 2008. Internal Audit will assist with the execution of initiatives process. The project should be finalised by April 2006.**

Latest Management Update: Project will be finalised 30 June 06 except for the category of properties less than R20 000. The last category deadline completion date still to be finalised. However these properties are all exempt from the charging of assessment rates and thus have no financial impact on the financial statements

- 4.1.11 *Consumer debtors and opening balances:* The audit opinion on electricity and water consumer revenue and consumer debtors was disclaimed in the preceding financial year due to significant weaknesses in respect of the completeness of the customer database. Neither of the two affected UAC's, nor the core municipality was able to provide detailed supporting schedules and other documentation to substantiate the opening balances. The financial effect on the current year financial statements could not be quantified. **A special project team has been set up by the COJ to migrate the debtors and the billing system to SAP ISU. The target date is June 2007.**

- 4.1.12 *Provision for leave pay:* A breakdown of accounting controls over the recording of leave at Pikitup Johannesburg (Pty) Ltd occurred and I was unable to perform alternative procedures to confirm the completeness and validity of leave balances amounting to R28.2 million. This amount shall be impacted by the Bargaining Council agreement which provides for forfeiture of accumulated leave under certain conditions. **The following steps will be taken and completed by March 2006: Process all outstanding leave forms, obtain confirmation of the balance from staff member – sign off; ensure that all forms are filed; run January leave balance report to ensure that there is no excess leave to policy; reconfigure the SAP system to ensure that there are exception reports etc to enable management of leave on a monthly basis; reconciliation and confirmation of leave balances on a monthly basis; and calculation of the new value of the leave provision in terms of the new implemented policy.**

Latest Management Update: The reconciliation will be completed by end of June 2006.

CITY MANAGER
CORPORATE PLANNING UNIT

- 4.1.13 *Unaccounted for water:* The percentage of unaccounted for water was estimated at 33 percent (2004: 36 per cent). Calculated at the average cost of water purchased, the loss amounted to approximately R417,6 million (2004: R423,4 million). On going **Project Gcin'amanzi is expected to address the issue of a reduction in the level of unaccounted.**
- 4.1.14 *Non-compliance with the Municipal Systems Act:* Section 93K of the Municipal Systems Amendment Act, 2003 (Act No. 44 of 2003), prohibits a municipal entity from the establishment of an acquisition of interest incorporate bodies. Contrary to this, the Johannesburg Development Agency (Pty) Ltd (JDA), held interests in Greater Newtown Development Company (Pty) Ltd and Constitution Hill Development Company (Pty) Ltd. **A resolution will be passed by the JDA board transferring the minority shareholding in the companies to the COJ. The current stakes are: Newtown 23%; and Constitution Hill 13.3%.**
- 4.1.15 *Non-compliance with the Municipal Finance Management Act (MFMA):* The fixed asset register for moveable and immovable assets held by City Power Johannesburg (Pty) Ltd, Pikitup Johannesburg (Pty) Ltd, Johannesburg Social Housing company (Pty) Ltd and City Housing Company (Pty) Ltd were incomplete and assets were not adequately detailed to allow identification of the physical assets. Furthermore, fruitless and wasteful expenditure was not disclosed in the notes to the group annual financial statements. A system did not exist to identify, record and disclose all incidences of fruitless and wasteful expenditure at the core municipality and its UAC's. Such incidences were also identified through forensic investigations. **A system to identify records and disclose incidents wasteful and fruitless expenditure has been implemented. The date of completion is June 2006.**
- 4.1.16 *Consumer debtors with credit balances:* Debtors whose accounts reflected credit balances amounting to R496.4 million (2004: R 464.5 million) were included in the debtors age listing at year end. An analysis of these accounts by management indicated that R162.7 million of the account balances were valid credit balances relating to the clearance certificate process. A plan to address the remaining R298.7 million was implemented subsequent to year-end. **The City will implement Pro active refunds unit to prevent unnecessary accumulation of credit balances in operations; absorption into operations as a preventative measure; and resolve remainder of credit balances through refunds query team, pro active unit, special project team to address initiative collectively. The target date for the completion of project is June 2006.**
- 4.1.17 *Retirement benefits funding:* It was not possible to obtain the actuarial valuations for By April 2006 the CoJ will have pursued the funds through Financial Services Board to secure actuarial valuations the various open retirement funds to which some of the staff of the municipality and its utilities, agencies and corporations, contributed. The closed retirement fund information for funds covering the majority of employees were obtained and were accounted for in the group annual financial statements accordingly. Consequently, the extent of any deficit or surplus relating to these funds could not be ascertained. **By April 2006 the CoJ will have pursued the funds through Financial Services Board to secure actuarial valuations.**

CITY MANAGER
CORPORATE PLANNING UNIT

Latest Management Update: A letter has been sent to the Financial Service Board (FSB), to pursue the funds in order to secure actuarial valuation. Awaiting response from the Financial Service Board.

4.1.18 *Operating lease commitments:* Operating lease commitment amounts were not recognised on a straight line basis over the lease term as required by GAAP. Furthermore the amounts disclosed under operating lease commitments were not calculated in line with terms of the lease agreements, e.g. amounts payable in four years included leases that expire in 2005. Lease rental income was not disclosed in annual financial statements as required by GAAP, statement IAS 17 (AC 105) – leases. Furthermore, operating lease income amounts were not recognised on a straight line basis over a lease term as required by the same statement. **Operating lease commitments to be recognised in accordance with the requirements of the statement. Disclose lease rental income as required by the relevant statement.**

4.1.19 *Limitation of scope on the amounts written off as part of the indigent debtor's policy:* The municipality and its UACs implemented an indigent debtor's write-off project with effect from 4 May 2005, the details of which are fully explained in note 30 to the annual financial statements. At the time of the audit, the supporting documentation for these indigent debtor's write-offs were collected from the regions and the various core and people centres where the physical applications were processed and sent for micro filming. Other applications were with teams carrying out home visits and teams carrying out extended audit procedures on the applications.

Consequently, I was unable to test the write-offs against the council approved policy. I am therefore unable to express an opinion on the indigent debtor's write-offs exclusive of Value Added Tax amounting to R636.0 million. **The write-off of indigent applicants will cease and all application forms to the end of January will be collected, sorted and filed. To ensure that the system is not abused, each form is checked manually and the Venus system updated with any discrepancies or error. To deal with reversals and litigation, information is gathered through several sources. Reversals are performed where relevant, accounts handed over for civil action, cut-offs affected and prosecution will commence.**

4.2 Key comments of the Audit Committee

In compliance with section 166 of the Local Government Municipal Finance Management Act of 2003 the Audit Committee was established and an Audit Committee Charter was approved.

The committee serves as a link between the Council, departmental heads, internal and external auditors and municipal entities. The committee reviews the financial reporting by the external auditors as well as the activities of internal audit. The Chairperson of the Audit Committee reports regularly to the Mayoral Committee and annually to the Council.

CITY MANAGER
CORPORATE PLANNING UNIT

In respect of the financial year ended 30 June 2005 the breakdown of internal controls in a number of the entities as identified in the Auditor Generals report is a concern to the Audit Committee. However despite the deterioration above there was an overall improvement in the internal control of the City.

In the light of the Auditor-General issuing a disclaimer of an audit opinion, the Audit Committee has recommended that the following be implemented –

- Continued reinforcement of the culture of accountability;
- strengthening of the internal audit capacity of the entities;
- alignment of Audit Committee charters to the City of Johannesburg Audit Committee charter;
- Continued engagement with the Auditor-General.

Operation Clean Audit Report (OPCAR) has revealed improved results and should be continued.

4.3 Key comments by Council

It was proposed to Council that meetings be held with the CoJ's Finance Committee to analyse the weaknesses in Operation Clean Audit Report (OPCAR), and determine the manner in which to improve the achievements in that regard. The Chairperson of the City's Audit Committee, Mr Hawksworth had addressed the Council and expressed the view that OPCAR had made key successful interventions since its establishment.

4.4 Key comments by the Auditor-General: Municipal Entities and responses

Below is the summary of findings by the Auditor-General and the responses in bold by the Boards of Directors and the Executive Management of the municipal entities on the corrective actions put in place to rectify the adverse findings of the Auditor- General.

Entity	AG's Findings and Board and Management Comments
1.Johannesburg Water	<ul style="list-style-type: none"> • Qualification <ul style="list-style-type: none"> ○ Opening Balances: The previous auditors disclaimed an opinion on the FS of the previous year due to the fair presentation of revenue generated by the parent municipality as a result of its inability of the billing system to quantify prior year adjustments. – This issue has been identified that the exercise will be performed manually for the period July 2005 to date. Going forward it will be attempted to manage the exercise programmatically. ○ Statement on changes in equity: In the absence of detailed prior year accounting records on the inter-company transactions it was not possible to confirm the accuracy of R58, 0m collections by the parent municipality. – This matter has been resolved ○ Inventory: JW did not conduct a physical count of all inventories as at 30 June 2005 and therefore the completeness

CITY MANAGER
CORPORATE PLANNING UNIT

	<p>and existence of inventory – Stock count took place for all stores with exception of Randburg, as it was not fully loaded onto SAP. A final count for the financial year to be scheduled for the end of June 2006.</p> <ul style="list-style-type: none"> ○ Completeness of Revenue: Opinion on the completeness and accuracy of water and sewerage income could not be expressed- Most of the records discrepancies checked had no financial impact as only the tariff code description was found to be wrong. This was corrected. The remainder of the records have been corrected and adjusted accordingly. Internal Audit to run a computer programme audit before end of March to establish if there were any discrepancies in the database. An interface between Venus and GIS has been developed to avoid illegal new service connections to the extent that no new water services are installed unless the stand has formally been created by GIS after section 38 or 82 certification has been issued in terms of Town Planning Act. An interface between Venus and Hansen has been developed through which new meter installations are automatically uploaded into the billing system with full audit trail to ensure that no record is lost. The next step is to determine the multiple records in the billing system to be matched to a single record in GIS. ○ Indigent debtors write offs: Documentation to support the validity and accuracy of the classification indigents not determined – the City initiated this project. The management and control of the relevant documentation is with the City. ○ Ageing of debtors: Numerous unexplained differences in the ageing of debtors was identified-The entity has requested detailed information on the discrepancies referred to from PWC. The relevant people at the CoJ and BCX have in the meantime been informed of the urgency of the matter. ○ Impairment of assets: The continued non-payment by consumer debtors in certain areas and the low payment level in others could adversely impact on the ability of the company to provide services in the future- Subsequent to February 2006, an approach to allocating assets has been identified and computation for the carrying value of assets has been completed. The income stream has to be calculated and matched to the asset base. <ul style="list-style-type: none"> • EMPHASIS OF MATTER <ul style="list-style-type: none"> ○ Going Concern: It is estimated that the debt to equity ration of 60:40 will be achieved by 2014. At this stage the subordination agreement will be continued. ○ Post-retirement benefits: The City is a participating employer in these funds and therefore it is finding it difficult to source the valuation reports from the
--	---

CITY MANAGER
CORPORATE PLANNING UNIT

	<p>relevant retirement funds, which in certain instances is not a majority contributor. In order to rectify the matter and obtain the requisite valuations, the City has sought the intervention and assistance of the Financial Services Board, a legislative regulatory body of financial services providers in the country.</p> <ul style="list-style-type: none"> ○ <i>Property, plant and equipment:</i> A verification process is planned for completion by April 2006. In February 2006 it was decided that the verification exercise be managed internally. The verification of five depots has been completed to date. ○ <i>Registration of freehold land and buildings:</i> The provisions of section 14 of the MFMA prohibits a municipality from transferring capital assets unless the process prescribed in the section has been complied with. The section provides that the City may transfer to a municipal entity provided that National Treasury has provided a framework in respect of categories of assets to be so transferred. National Treasury has not determined the requisite framework and the City has consulted with them to obtain clarity in respect of the transfer in terms of the sale of business agreements with its municipal entities and have agreed that the City must develop a proposal on the assets sought to be transferred. The City is currently determining an acceptable register of assets to be transferred and communicated to National Treasury. Secondly, the City is to initiate the process with SARS for the determination of the going concern basis of the transfer of the land and buildings to the municipal entities which, when the transactions have been determined as going concern will be subject to VAT and transfer duty not payable. It is envisaged that this process will not take less than a period of six months to complete. ○ <i>Amounts due from the CJMM:</i> This matter will be addressed at a senior level at the City and a meeting has been arranged with the Shareholder Unit to discuss the matter. ○ <i>Inter-company consumer debtors:</i> JW UFW has been requested to conduct water isolation tests especially in cases where multiple customers are supplied by a single connection. Should this not be of assistance to establish the actual consumer, termination of services will commence which will force each consumer to apply for new service connection. The Customer Service Executive will be scheduling meetings between JW MD and the respective sister companies as an attempt to resolve this matter. The CFO has also been requested to pursue this matter with CFO's of other UAC's.
--	--

CITY MANAGER
CORPORATE PLANNING UNIT

	<ul style="list-style-type: none"> ○ <i>Debtors:</i> JW is still not responsible for credit control on customers that are managed by the CoJ, as the Credit Control function was not migrated with the rest of the core-functions. ○ <i>Unaccounted for water:</i> Project Gcin'amanzi is expected to address the issue of a reduction in the level of unaccounted for water. ○ <i>Non-compliance with the MFMA:</i> A proposal has been put on the Mayoral Committee on the determination of the upper limits of salaries as requested by Section 89 of the MFMA and would be discussed during May 2006. ○ <i>Non-compliance with Companies Act:</i> A formal register of directors is kept and will be made available to the external auditors. ○ <i>Post-retirement benefits:</i> The City has officially undertaken to carry the liability. No action is required.
<p>2.Johannesburg City Power</p>	<ul style="list-style-type: none"> • QUALIFICATION <ul style="list-style-type: none"> ○ <i>Completeness of Revenue and Debtors:</i> This item relates to the prior year disqualification relating to the customers managed by the CoJ.No qualification relates to the current years transactions. ○ <i>Intangible Assets:</i> The board is of the view that goodwill was correctly raised as an asset when the business of City Power was acquired from the CoJ. A revaluation exercise on the assets is in the process of completion and the treatment of the goodwill will be addressed at the same time that the revaluation is accounted for in the financial statements of the company. ○ <i>Property, plant and equipment:</i> The fixed asset register will be properly populated during the current year following the detailed valuation exercise recently completed. The board is of the opinion that it was not necessary to perform an impairment exercise on the individual items of property, plant and equipment, as it is not possible to attribute cash flows to specific assets. An impairment exercise for the business as a whole was performed and as the company is expected to generate positive cash flows from operations in the future the Board was of the opinion that no impairment loss need be taken to account. ○ <i>Consumer debtors written off:</i> This report item relates to consumer debtors written off by the CoJ. The entity will request detailed schedules of all write offs initiated by the CoJ in the future. ○ EMPHASIS OF MATTER <ul style="list-style-type: none"> ○ <i>Registration of freehold land and buildings:</i> The

CITY MANAGER
CORPORATE PLANNING UNIT

	<p>provisions of section 14 of the MFMA prohibits a municipality from transferring capital assets unless the process prescribed in the section has been complied with. The section provides that the City may transfer to a municipal entity provided that National Treasury has provided a framework in respect of categories of assets to be so transferred. National Treasury has not determined the requisite framework and the City has consulted with them to obtain clarity in respect of the transfer in terms of the sale of business agreements with its municipal entities and have agreed that the City must develop a proposal on the assets sought to be transferred. The City is currently determining an acceptable register of assets to be transferred and communicated to National Treasury. Secondly, the City is to initiate the process with SARS for the determination of the going concern basis of the transfer of the land and buildings to the municipal entities which, when the transactions have been determined as going concern will be subject to VAT and transfer duty not payable. It is envisaged that this process will not take less than a period of six months to complete.</p> <ul style="list-style-type: none">○ <i>Electricity distribution loss:</i> Losses have reduced over the years and are the focus of continued management attention. Management's current focus is on the reduction of billing losses. The ongoing capital program will address the technical losses to a certain extent over time.○ <i>Intra- company confirmations:</i> Management is comfortable that the correct balances have been recorded in the financial statements. Processes have been put in place to ensure that intra-company balances are resolved on a more regular basis.➤ <i>Accruals:</i> Management has made every effort to obtain invoices from the Ekurhuleni Metropolitan Council for a considerable period of time. The accruals are based on previous invoices. A meeting will be set up with the supplier to resolve the issues➤ <i>Property, plant and equipment:</i> The methodology of the detailed valuation exercise recently performed took into account the condition of specific assets and reduced the values accordingly.➤ <i>Service delivery agreement:</i> The CoJ has been requested to provide a signed copy of the agreement➤ <i>Remuneration packages:</i> A proposal has been put on the Mayoral Committee on the determination of the upper limits of salaries as requested by Section 89 of the MFMA and would be discussed during May 2006.
--	---

CITY MANAGER
CORPORATE PLANNING UNIT

	<ul style="list-style-type: none"> ➤ Value Added Tax: There is no material underpayment to the Receiver of Revenue. A project is underway to reconfigure the SAP application system and should be completed by June 2006. ○ Weaknesses in internal control ○ Internal Audit: The internal audit department suffered from a high staff turnover during the year and was unable to complete all the projects planned for the year. The department is being appropriately staffed and specialist partners have been appointed to assist with the volume of work. ○ Segregation of duties: This weakness has been corrected. ○ Business continuity plan: A blueprint has now been completed and departments are currently in the process of implementing the agreed process. ○ Long outstanding credit balances: Accounts with credit balances are monitored closely by the credit department. Due to the large volume of customers accounts are corrected as and when customers request refunds or query accounts balances. ○ Weaknesses in the computer information environment: This weakness will be corrected and monitored on an ongoing basis by the internal audit. ○ Post-retirement benefits: - The City is a participating employer in these funds and therefore it is finding it difficult to source the valuation reports from the relevant retirement funds, which in certain instances is not a majority contributor. In order to rectify the matter and obtain the requisite valuations, the City has sought the intervention and assistance of the Financial Services Board, a legislative regulatory body of financial services providers in the country. ○ Regional Electricity Distributor: A consultant has been contracted by the Board to model the impacts of a number of scenarios. However until clarity is obtained on the likely structure of the RED together with the compensation framework it is not possible to quantify the impact of the process on the company. ○ Loans and subordination: The interest rate referred to is a fixed rate, which was agreed at inception date by the Board and the Shareholder. ○ Debtors recover rate: The provision for doubtful debts is considered adequate
3.Piktiup Johannesburg	<ul style="list-style-type: none"> • QUALIFICATION ○ Provision for landfill sites: Entity still awaiting legal opinion

CITY MANAGER
CORPORATE PLANNING UNIT

	<p>on the matter. In the meantime a policy is currently being updated regarding open landfill sites.</p> <ul style="list-style-type: none"> ○ <i>Leases: Assets: Currently being recalculated from start in terms of the type of lease-will be completed and processed in March 2006</i> ○ Provision for leave pay: Leave forms from various depots has been captured, validated and filed. Awaiting correct report from HR with leave balances signed off by staff. ○ <i>Provision for doubtful debts, credit notes and unallocated receipts:</i> <ul style="list-style-type: none"> ➤ <i>Provision for doubtful debts and credits notes disclosed in note4 of the AFS might be understated by approximately R 24 million based on collections after year-end. – Currently investigating bad payers and taking all the necessary actions. Collection has been intensified; as the value of the debt outstanding does not have provision to cover write off.</i> ➤ <i>Amount of R 4 million unallocated deposit could not be presented for audit and therefore constituted a limitation of the audit scope-This has been analysed and will be transferred to provision in March 2006.</i> ➤ <i>Included in payables was an amount of R 9.5 million relating to receipts received in advance that could not be supported with documentation-. Pikitup is busy with Bus Connexion to find solution.</i> ○ Value Added Tax <ul style="list-style-type: none"> ➤ <i>Weaknesses were identified regarding system controls relating to VAT accounting. The accuracy of the VAT liability of R 7.4 million disclosed in note 12 to the AFS, could not be verified as some of these weaknesses related to take on balances or receivables which included incorrect VAT transactions-. The Venus system has been reconfigured and tested to ensure that VAT is correctly allocated. This is now in place going forward.</i> ➤ <i>When amounts were journalised from the unallocated deposit account to the relevant debtor account, it was not identified in the system as payment and therefore output VAT was not calculated- Entity will be meeting the City to assist in the resolution of the take on VAT</i> ○ <i>Revenue:</i> <ul style="list-style-type: none"> ➤ <i>The service fee payable by the CJMM accrued by the entity was not calculated by PIU in accordance with the service delivery agreement signed by both parties in 2001- This is being resolved via an</i>
--	--

CITY MANAGER
CORPORATE PLANNING UNIT

	<p>amendment to the current SDA</p> <ul style="list-style-type: none"> ➤ <i>A prior year adjustment of R 13 million was passed against bin rentals received on instruction by the CJMM and support for this adjustment could not be presented-. The entire bin rental process is being investigated</i> <p>• EMPHASIS OF MATTER</p> <ul style="list-style-type: none"> ○ <i>Non-compliance with laws and regulations</i> <ul style="list-style-type: none"> ➤ Approved documented policies and procedures for all financial cycles did not exist in terms of section 95(c) and (e) of the MFMA-. All MFMA requirements in terms of policies and procedures for the financial cycles have been identified. Each staff member to record/document how she/he performs the task ➤ Section 89(1) of the MFMA provides for the CJMM to determine the upper limits of remuneration for the CEO and senior managers of the entity that were not determined-. A proposal has been put on the Mayoral Committee on the determination of the upper limits of salaries as requested by Section 89 of the MFMA and would be discussed during May 2006. ○ Registration of freehold land and buildings: The provisions of section 14 of the MFMA prohibits a municipality from transferring capital assets unless the process prescribed in the section has been complied with. The section provides that the City may transfer to a municipal entity provided that National Treasury has provided a framework in respect of categories of assets to be so transferred. National Treasury has not determined the requisite framework and the City has consulted with them to obtain clarity in respect of the transfer in terms of the sale of business agreements with its municipal entities and have agreed that the City must develop a proposal on the assets sought to be transferred. The City is currently determining an acceptable register of assets to be transferred and communicated to National Treasury. Secondly, the City is to initiate the process with SARS for the determination of the going concern basis of the transfer of the land and buildings to the municipal entities which, when the transactions have been determined as going concern will be subject to VAT and transfer duty not payable. It is envisaged that this process will not take less than a period of six months to complete. ○ Cashbook: The entity has attended to this matter and there is no evidence of fraud. BCX has trained and
--	--

CITY MANAGER
CORPORATE PLANNING UNIT

	<p>documented the process, systems is up and running.</p> <ul style="list-style-type: none"> ○ <i>Asset Management: Currently being updated</i> ○ <i>Tender Procedure: Draft framework submitted in March.</i> ○ <i>Weaknesses in the computer information technology (IT) environment- Entity met with BCX will be sorted out by end of February. Quotes have been obtained and an IT steering committee has been formed.</i>
<p>4. Johannesburg Roads Agency</p>	<ul style="list-style-type: none"> • UNQUALIFIED AUDIT OPINION • EMPHASIS OF MATTER: <ul style="list-style-type: none"> ○ <i>Weakness in the computer (IT) environment: The new disaster recovery plan to be implemented by the 30 April 2006.</i> ○ <i>Going Concern: The entity is materially dependent on the City of Johannesburg for future funding. To date the City of Johannesburg has complied with all the budgeted funding requirements and there is no reason to believe that there will be any changes in the status for the current year</i> ○ <i>Registration of freehold land and buildings: The provisions of section 14 of the MFMA prohibits a municipality from transferring capital assets unless the process prescribed in the section has been complied with. The section provides that the City may transfer to a municipal entity provided that National Treasury has provided a framework in respect of categories of assets to be so transferred. National Treasury has not determined the requisite framework and the City has consulted with them to obtain clarity in respect of the transfer in terms of the sale of business agreements with its municipal entities and have agreed that the City must develop a proposal on the assets sought to be transferred. The City is currently determining an acceptable register of assets to be transferred and communicated to National Treasury. Secondly, the City is to initiate the process with SARS for the determination of the going concern basis of the transfer of the land and buildings to the municipal entities which, when the transactions have been determined as going concern will be subject to VAT and transfer duty not payable. It is envisaged that this process will not take less than a period of six months to complete.</i> ○ <i>Post-Retirement benefits: The City is a participating employer in these funds and therefore it is finding it difficult to source the valuation reports from the relevant retirement funds, which in certain instances is not a majority contributor. In order to rectify the matter and obtain the requisite valuations, the City has sought the intervention and assistance of the Financial</i>

CITY MANAGER
CORPORATE PLANNING UNIT

	<p>Services Board, a legislative regulatory body of financial services providers in the country.</p> <ul style="list-style-type: none"> ○ <i>Remuneration package:</i> A proposal has been put on the Mayoral Committee on the determination of the upper limits of salaries as requested by Section 89 of the MFMA and would be discussed during May 2006.
<p>5. Johannesburg City Parks</p>	<ul style="list-style-type: none"> ● UNQUALIFIED AUDIT OPINION ● EMPHASIS OF MATTER: <ul style="list-style-type: none"> ○ <i>Expenditure misstatement:</i> This problem has persisted for a number of years and has been brought to the attention of the relevant senior personnel. Ultimately the problem will persist until such time that the CJMM rectifies their billing situation. The company has undertaken various initiatives to assist in managing the expense, such as approaching Joburg Water regarding the installation of pre-paid meters. ○ <i>Property, plant and equipment:</i> There is an ongoing investigation. ○ <i>Post-retirement benefits:</i> The City is a participating employer in these funds and therefore it is finding it difficult to source the valuation reports from the relevant retirement funds, which in certain instances is not a majority contributor. In order to rectify the matter and obtain the requisite valuations, the City has sought the intervention and assistance of the Financial Services Board, a legislative regulatory body of financial services providers in the country. ○ <i>Remuneration packages:</i> A proposal has been put on the Mayoral Committee on the determination of the upper limits of salaries as requested by Section 89 of the MFMA and would be discussed during May 2006. ○ <i>Going Concern:</i> The entity is materially dependent on future funding from the City of Johannesburg. To-date, the City have complied with all budgeted funding and there is no reason to believe that there will be any changes in the status for the current year. ○ <i>Weakness in the computer information technology (IT) environment:</i> A draft documented disaster recovery plan has been completed and is operational.
<p>6. Roodepoort City Theatre</p>	<ul style="list-style-type: none"> ● UNQUALIFIED OPINION ● EMPHASIS OF MATTER: <ul style="list-style-type: none"> ○ <i>Going Concern:</i> The Theatre takes note of the finding and would give the assurance that all possible efforts were made to obtain additional funding from the private sector. The Theatre will expand its search for potential funders to ensure a more sustainable future. ○ <i>Internal control:</i> The Theatre cannot employ additional personnel to fulfil additional functions due to budget

CITY MANAGER
CORPORATE PLANNING UNIT

	<p>constraints. Management suggested an interim solution to the Board of Directors with reference to the segregation of duties by dividing some of the functional duties with specific reference to the Internet payments, the writing-up of the cashbook and the bank reconciliation. The entity will draft a fraud prevention plan and will develop a risk management strategy.</p> <ul style="list-style-type: none"> ○ <i>Section 95 of the MFMA:</i> The entity will draft a fraud prevention plan and will develop a risk management strategy. It will also investigate the possibility of an internal audit function. ○ <i>Personnel files:</i> The entity responded that the engagement letters with reference to employee files to be updated on a regular basis. ○ <i>Income tax exemption:</i> The entity is to register as soon as possible as a public benefit organisation and re-apply for exemption for income tax. ○ <i>Remuneration packages:</i> A proposal has been put on the Mayoral Committee on the determination of the upper limits of salaries as requested by Section 89 of the MFMA and would be discussed during May 2006 ○ <i>Non-Compliance with the MFMA:</i> The entity take note of the audit finding on fruitless and wasteful expenditure for the amount of R 999 which was regrettably not reported as per section 102 of the MFMA.
<p>7. Johannesburg Development Agency</p>	<ul style="list-style-type: none"> ● UNQUALIFIED OPINION ● EMPHASIS OF MATTER: <ul style="list-style-type: none"> ○ <i>Non-compliance with the Municipal Systems Act (MSA):</i> The Board of Directors of the JDA has agreed to transfer the JDA shares and shareholder loans in the Development Companies, namely, the Newtown Development and the Constitution Hill Development Companies, to the City of Johannesburg through an assignment without consideration. Consent has been obtained from the Boards of Directors of both the development companies and the Blue IQ. The assignment will correct the non-compliance of the JDA with the MSA. ○ <i>Non-compliance with the MFMA:</i> <ul style="list-style-type: none"> ➢ Internal Audit: - The company has outsourced the internal audit function in terms of Section 166 of the MFMA. ➢ Section 89(a) of the MFMA: A proposal has been put on the Mayoral Committee on the determination of the upper limits of salaries as requested by Section 89 of the MFMA and would be discussed during May 2006. ➢ Going Concern: The entity is materially dependent on the City of Johannesburg for future funding.

CITY MANAGER
CORPORATE PLANNING UNIT

	<p>To date the City of Johannesburg has complied with all the budgeted funding requirements and there is no reason to believe that there will be any changes in the status for the current year.</p>
<p>8. Johannesburg Tourism Company</p>	<ul style="list-style-type: none"> • UNQUALIFIED OPINION • EMPHASIS OF MATTER: <ul style="list-style-type: none"> ○ <i>Non-Compliance with the MFMA:</i> JRAS will provide an internal audit function to the company. A meeting is scheduled for 30 March 2006 to discuss risk management and internal audit matters. A proposal has been put on the Mayoral Committee on the determination of the upper limits of salaries as requested by Section 89 of the MFMA and would be discussed during May 2006. ○ <i>Going Concern:</i> A subordination agreement was approved by the Mayoral Committee on the 10 November 2005. The impact of the subordination agreement on the company financials needs to be assessed.
<p>9. Metropolitan Trading Company</p>	<ul style="list-style-type: none"> • QUALIFIED AUDIT OPINION • EMPHASIS OF MATTER: <ul style="list-style-type: none"> ○ <i>Going Concern:</i> The entity is materially dependent on the City of Johannesburg for future funding. To date the City of Johannesburg has complied with all the budgeted funding requirements and there is no reason to believe that there will be any changes in the status for the current year. A subordination Agreement was also approved by the Mayoral Committee for the last financial year. ○ <i>Submission of annual financial statements:</i> MTC will install a filing system which will assist the process of locating documentation of any form even during the audit process ○ <i>Non-Compliance with the MFMA:</i> MTC has invited the help of CoJ in the internal audit function. Further, a proposal has been put on the Mayoral Committee on the determination of the upper limits of salaries as requested by Section 89 of the MFMA and would be discussed during May 2006. ○ <i>Non-compliance with the Companies Act:</i> All of these issues were addressed post the audit period.
<p>10. Johannesburg Fresh Produce Market</p>	<ul style="list-style-type: none"> • QUALIFICATION <ul style="list-style-type: none"> ○ <i>Guaranteed buyers (debtors):</i> Finance Dept is renewing all guarantees and about 40% have been renewed. By the end of June 2006, all guarantees will be renewed. Banks/guarantors are called to settle outstanding amounts. Guaranteed buyers whose cheques are dishonoured are disqualified.

CITY MANAGER
CORPORATE PLANNING UNIT

	<ul style="list-style-type: none"> ○ <i>Business account:</i> New Software automating the bank reconciliation has been implemented. The process will be finalised in April 2006. In the meantime the reconciliations are done manually on a weekly basis ○ <i>Financial management capacity:</i> Finance management is busy with interviews. The vacancies will be filled on 1 April 2006. In the meantime temporary personnel are being used. ○ <i>Receivables:</i> A revised payment policy has been issued to all buyers. It states that the company does not accept cheques, except by prior arrangement with management and only bank guaranteed cheques are accepted. A buyer's history is assessed before a cheque is accepted. Unpaid cheques are followed up on a daily basis. Gobodo has been tasked to collect all the unpaid. He has reduced the balance to R2m. <p>• DISCLAIMER OF AUDIT OPINION</p> <p>EMPHASIS OF MATTER</p> <ul style="list-style-type: none"> ○ <i>Non-compliance with laws and regulations:</i> Ernest and Young was appointed as interim internal auditors and a new person has been appointed on a permanent basis as an internal auditor ○ <i>Registration of freehold land and buildings:</i> The provisions of section 14 of the MFMA prohibits a municipality from transferring capital assets unless the process prescribed in the section has been complied with. The section provides that the City may transfer to a municipal entity provided that National Treasury has provided a framework in respect of categories of assets to be so transferred. National Treasury has not determined the requisite framework and the City has consulted with them to obtain clarity in respect of the transfer in terms of the sale of business agreements with its municipal entities and have agreed that the City must develop a proposal on the assets sought to be transferred. The City is currently determining an acceptable register of assets to be transferred and communicated to National Treasury. Secondly, the City is to initiate the process with SARS for the determination of the going concern basis of the transfer of the land and buildings to the municipal entities which, when the transactions have been determined as going concern will be subject to VAT and transfer duty not payable. It is envisaged that this process will not take less than a period of six months to complete.
--	---

CITY MANAGER
CORPORATE PLANNING UNIT

	<ul style="list-style-type: none"> ○ <i>Non-compliance with the MFMA:</i> A proposal has been put on the Mayoral Committee on the determination of the upper limits of salaries as requested by Section 89 of the MFMA and would be discussed during May 2006.
<p>11. Johannesburg Property Company</p>	<ul style="list-style-type: none"> ● UNQUALIFIED AUDIT OPINION ● EMPHASIS OF MATTER: <ul style="list-style-type: none"> ○ <i>Post-retirement benefits:</i> The City is a participating employer in these funds and therefore it is finding it difficult to source the valuation reports from the relevant retirement funds, which in certain instances is not a majority contributor. In order to rectify the matter and obtain the requisite valuations, the City has sought the intervention and assistance of the Financial Services Board, a legislative regulatory body of financial services providers in the country. ○ <i>Remuneration packages:</i> A proposal has been put on the Mayoral Committee on the determination of the upper limits of salaries as requested by Section 89 of the MFMA and would be discussed during May 2006.
<p>12. Johannesburg Metropolitan Bus Services</p>	<ul style="list-style-type: none"> ● QUALIFIED AUDIT OPINION ● EMPHASIS OF MATTER: <ul style="list-style-type: none"> ○ <i>Property, plant and equipment:</i> The capturing is still in progress. It finally could not be completed as expected at the end of December 2005. Its completion is foreseen for the end of April 2006, including all queries sorted out. The resource has also been fully trained and training documentation was compiled accordingly ○ <i>Cash management system:</i> Full bank reconciliation was performed and areas of training identified and corrected. ○ <i>Expenditure journal entries:</i> The new structure for the organization is being re-visited and will be approved shortly. This will ensure, specifically for the Finance function, proper segregation of duties. Also, authorization limits and procedures will be put in place before the end of the current financial year. ○ <i>Non-Compliance with MFMA:</i> A proposal has been put on the Mayoral Committee on the determination of the upper limits of salaries as requested by Section 89 of the MFMA and would be discussed during May 2006. ○ <i>Registration of freehold land and buildings:</i> The provisions of section 14 of the MFMA prohibits a municipality from transferring capital assets unless the process prescribed in the section has been complied with. The section provides that the City may transfer to a municipal entity provided that National Treasury has

CITY MANAGER
CORPORATE PLANNING UNIT

	<p>provided a framework in respect of categories of assets to be so transferred. National Treasury has not determined the requisite framework and the City has consulted with them to obtain clarity in respect of the transfer in terms of the sale of business agreements with its municipal entities and have agreed that the City must develop a proposal on the assets sought to be transferred. The City is currently determining an acceptable register of assets to be transferred and communicated to National Treasury. Secondly, the City is to initiate the process with SARS for the determination of the going concern basis of the transfer of the land and buildings to the municipal entities which, when the transactions have been determined as going concern will be subject to VAT and transfer duty not payable. It is envisaged that this process will not take less than a period of six months to complete.</p>
13. Johannesburg Civic Theatre	<ul style="list-style-type: none"> • UNQUALIFIED AUDIT OPINION • EMPHASIS OF MATTER: <ul style="list-style-type: none"> ○ <i>Non-Compliance with laws and regulations (MFMA):</i> The entity to ensure compliance in the future with the MFMA and will disclose all contingent liabilities in future in the AFS. A proposal has been put on the Mayoral Committee on the determination of the upper limits of salaries as requested by Section 89 of the MFMA and would be discussed during May 2006.
14. Johannesburg Zoo	<ul style="list-style-type: none"> • UNQUALIFIED AUDIT OPINION • EMPHASIS OF MATTER: <ul style="list-style-type: none"> ○ <i>Going Concern:</i> The Zoo is trying to increase visitor number so as to reduce its retained loss. ○ <i>Computation of leave days:</i> Human Resource policy does not allow staff to accumulate more than 8 days per annum. ○ <i>Internal Control Weakness:</i> Zoo is in the process of uniquely numbering their assets. In respect of accounts payable the practice was to stop as per the comments on the management letters. ○ <i>Value Added tax (VAT) exemption:</i> -The CFO is in the process of the registration for VAT by the Zoo. ○ <i>Remuneration packages:</i> A proposal has been put on the Mayoral Committee on the determination of the upper limits of salaries as requested by Section 89 of the MFMA and would be discussed during May 2006. ○ <i>Weaknesses in the computer information technology (IT) environment:</i> Zoo has hired a person to look into this and disaster recovery and business continuity plans are being developed.

CITY MANAGER
CORPORATE PLANNING UNIT

15.
Johannesburg
Social Housing
Company

• **QUALIFICATION**

- *Property, plant and equipment:* - **The fixed asset register to be regularly updated and maintained.**
- *Accounts receivable-recoverability:* **A draft agreement in this regard has been prepared.**
- *Taxation computation:* **The entity is still to apply for exemption from SARS.**
- *VAT receivables:* **The entity made contact with SARS and is awaiting a response in regard to computation of VAT liability.**
- *Accounts payable and expenditure:* **This matter was corrected.**

• **DISCLAIMER OF AUDIT OPINION**

○ **Salaries and wages:**

- *Monthly tax form for PAYE, EMP 201 for the period July 2004 to February 2005 only completed and signed on 29 April 2005. This form should have been completed on a monthly basis and submitted to SARS. Management has attended to this matter and will in future comply with the relevant legislations.*
- *Proofs of reference checks performed were not on certain employee files. Management has attended to this matter*
- *New and existing appointments could not be traced to approve salary scales. Management has attended to implementation of an adequate salary scale for the posts within the company.*
- *Head of Corporate Services had no password or access to the SAP-.This matter was corrected*
- *Some employment contracts not signed with employees-. This matter was attended to by management*
- *Performance agreements not in place with senior management-The entity attended to this matter.*

○ **Internal Control weaknesses:**

- *Evidence of bank reconciliations did not exist. Management has ensured that bank reconciliations are performed and reviewed and authorised independently*
- *Inadequate physical protection existed in case of destruction of fire and water-. Procurement to be done for fire proof door and a meeting has been arranged with the landlords*
- *Policy did not exist for the provision of bad debts-.*

CITY MANAGER
CORPORATE PLANNING UNIT

	<p style="text-align: center;">Management has established a bad debt policy.</p> <ul style="list-style-type: none"> ○ <i>General Expenditure:</i> <ul style="list-style-type: none"> ➤ <i>Audit trail did not exist on journal processed-The journals are now filed together with supporting documents.</i> ➤ <i>Supporting documentation for an entertainment expense could not be provided. Management to ensure that supporting documents should always be available.</i> ➤ <i>VAT was incorrectly deducted-This matter was corrected</i> ○ <i>Service Delivery: -Measures to be implemented to adhere to SDA or the necessary budget revision be done timeously</i> ○ <i>Internal audit and risk assessment:: JRAS has been appointed as internal auditors for the current financial year.</i> ○ <i>Audit committee: The Board has constituted an audit committee. More 'independent members' of the audit committee are still to be appointed by the parent municipality.</i> ○ <i>Expenses-incomplete documentation: The filing system has been upgraded and invoices are available within an hour.</i> ○ <i>Remuneration packages: A proposal has been put on the Mayoral Committee on the determination of the upper limits of salaries as requested by Section 89 of the MFMA and would be discussed during May 2006.</i>
--	---

7.5.1 Key Comments by the Accounting Officer of the COJ on Municipal Entities

- All the AFS of the municipal entities were submitted to the AG within the prescribed time period. The AFS of all the municipal entities were prepared in accordance with the Generally Accepted Accounting Practice and on a going concern basis.
- All the AFS of the municipal entities were consolidated into the City's Consolidated AFS in accordance with the MFMA Circular 18 and its annexure issued by the National Treasury on 23 June 2005.
- The City of Johannesburg exercises oversight on all its municipal entities through the Office of the City Manager in accordance with, *inter alia*, a MFMA, MSA, the Articles of Association, Service Delivery Agreements (SDA) and the Corporate Governance Protocol for Municipal Entities.
- The Municipal Entities prepared and submitted monthly "flash reports" in accordance to the requirements of the National Treasury during the year under review. Four Quarterly Reports were prepared and submitted to the parent municipality in terms of the provisions of the SDA and four quarterly meetings were held for each of the municipal entities except for the Roodepoort City Theatre, which held two quarterly meetings. All the quarterly reports were submitted, reviewed and discussed by the relevant Section 80 Committees and

CITY MANAGER
CORPORATE PLANNING UNIT

Council. The thrust of these meetings and reports focused on the monitoring by the Council the service delivery performance as it took place. In instances where there were problems and a lag in service delivery, the committees would introduce the corrective action measures where it was found that there are problems with service delivery by these entities.

5 POLICY IMPLICATIONS

There are no direct policy implications.

6 LEGAL AND CONSTITUTIONAL IMPLICATIONS

The 2004/05 Annual Report and Oversight Report have been prepared in compliance with the provisions of the Municipal Systems Act and the Municipal Finance Management Act, and conform to the guidelines in Circular 32 issued by National Treasury.

7 FINANCIAL IMPLICATIONS

The Annual Report and Oversight Reports will entail certain costs relating to distribution to stakeholders, community and Councillors for reference, which have been budgeted for in the 2005/06 Budget.

8 COMMUNICATIONS IMPLICATIONS

The full text of the 2004/05 Annual Report and Oversight Report will be distributed to the MEC: Local Government, National Treasury, the Auditor-General, and Provincial Legislature. The full text will also be published on the City of Johannesburg's website.

9 OTHER DEPARTMENTS CONSULTED

The 2004/05 Annual Report, and Oversight Report were coordinated by the Office of the City Manager (Corporate Planning Unit), but had the involvement of a wide range of departments, directly or indirectly, including Finance and Economic Development with respect to the financial statements, Joburg Risk Assurance Services with respect to the audit elements, Special Programmes in terms of performance reports (mainly core) and Shareholder Unit with respect to the Municipal Entities. The Legal Compliance and Mayoral Committee Support unit was involved in ensuring that the Annual Report and Oversight report were compliant with the Municipal Systems Act and the Municipal Finance Management Act.

CITY MANAGER
CORPORATE PLANNING UNIT

IT IS RECOMMENDED

1. That the Council, having considered the Consolidated 2004/05 Annual Report of the City of Johannesburg and the 2004/05 Annual reports of the COJ Municipal Entities, as tabled on 3 April 2006, adopts the Oversight Report, in terms of section 129 of the Municipal Finance Management Act.
2. That the Consolidated 2004/05 Annual Reports of the City of Johannesburg and the Municipal Entities, be approved without reservations, in terms of Section 129 of the Municipal Finance Management Act.
3. That the minutes of the meetings where the Annual Report was discussed, in the presence of the accounting officer (City Manager), be submitted to the Auditor-General, Gauteng Department of Finance and Economic Affairs, and the Gauteng Department of Local Government, as attached to the report, in terms of section 129(2) of the MFMA.
4. That the corrective measures spelt out in Paragraph 4 of this report, be implemented.
5. That the 2004/05 Oversight Report of the City of Johannesburg and its Municipal Entities be made public in terms of Section 129(3) of the MFMA; and be submitted to the Gauteng Legislature in terms of Section 132(2) of the MFMA.

AUTHOR: L KHOZA
CORPORATE PLANNING UNIT
TEL: 407 7261

Mavela Dlamini
City Manager