

Corrective Actions in compliance with MFMA Section 121 (G) on the Group Adult

Department/MOE	Item	Topic	Description	Action Plan	Completion
Pikitup	6.1	Investment in a subsidiary	Pikitup holds a 50% interest in a company which holds the right to own the current building leased by Pikitup. An amount of R25 000 was recognised in the books of Pikitup as an investment and the corresponding liability. Pikitup has not determined the nature of investment and the current recognition at cost is contrary to IAS 28, investments in associates or IAS 27 consolidated financial statements depending on the nature of the investment. Furthermore, the deed of suretyship entered into with this company in 2001 was not disclosed. Therefore the commitments or contingent liabilities in this regard were not accounted for. Due to the complexity of the transactions and associated agreements, the investment was not appropriately accounted for.	<ul style="list-style-type: none"> a) Obtain legal opinion from SHU - governance section b) Explore possibility of transferring this investment to City c) If this arrangement is not possible - <ul style="list-style-type: none"> 1. Appoint directors to Subsidiary 2. Obtain latest audited AFS and consolidate with Pikitup AFS 3. Review management accounts monthly 	31-Mar-07
Pikitup	6.2	Deferred tax	A deferred tax asset amounting to R75 187 067 (2005: R68 258 797) was disclosed in the statement of financial position of Pikitup at 30 June 2006. Pikitup incurred accounting losses for the last two years and is not expected to be in a profit position in the next financial year. Therefore there was no evidence to support the probability that taxable profit will be available against which the deductible temporary differences can be utilised. Pikitup tabled a plan to generate additional revenue streams in order to sustain the operations of Pikitup.	<p>An assessment of the future taxable income will be made at year-end to determine the profitability of Pikitup.</p> <p>In the event that the projected / targeted profitable income is not reached, deferred tax will be derecognised in the balance sheet.</p>	30-Jun-07
Pikitup	6.4.1 c	Non-compliance with MFMA	Pikitup did not develop and implement controls to ensure the completeness of bin rental revenue administered by the CJMM. This was contrary to sections 97, 98 and 105(d) of the MFMA.	<ul style="list-style-type: none"> a) Ensure that the amended SDA will be adequate for this financial year b) If not, obtain signed agreement on the agreed budgeted fee for 2006/07. This must be signed by the City & Pikitup 	28-Feb-07
Pikitup	6.4.3 a	Non-compliance with SCM regulations	Pikitup disposed of Bulk containers to the value of R354 786 without following the tender procedures as required by the company policy and the supply chain management regulations.	<ul style="list-style-type: none"> a) Ensure that the actual expenditure does not exceed budget or obtain more funding to prevent this. b) Manage fruitless and wasteful expenditure c) Implement the SCM d) Obtain approval for the fraud prevention plan and implement e) Ensure all suppliers are paid 30 days from date of statement f) Report non compliance in terms of S104(2) to the CJMM Council 	30-Apr-07
Pikitup	6.4.3 b	Non-compliance with SCM regulations	Contrary to section 116(1) of the MFMA, Pikitup awarded a tender to the value of R776 126 without the parties formalising the terms and conditions of the contract in writing. Furthermore certain tenders were awarded without entering into a service level agreement to enforce contractual performance	<ul style="list-style-type: none"> a) Ensure that the actual expenditure does not exceed budget or obtain more funding to prevent this. b) Manage fruitless and wasteful expenditure c) Implement the SCM d) Obtain approval for the fraud prevention plan and implement e) Ensure all suppliers are paid 30 days from date of statement f) Report non compliance in terms of S104(2) to the CJMM Council 	30-Apr-07

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Pikitup	6.5	Departure from SA GAAP and GAMAP	<p>Metrobus, City Power, Pikitup and JFPM departed from SA GAAP and hence qualified audit opinions were issued on the financial statements of the company. The following key areas of non-compliance were identified:</p> <ul style="list-style-type: none"> Property, Plant and Equipment were not assessed for impairment as required by GAMAP 17. Furthermore the useful lives and residual values were not reviewed as required by GAMAP 17, Property, Plant and Equipment. 	The useful lives of assets were reviewed at year end and adjustments made accordingly in the books of pikitup as at 30 June 2006	1-Apr-07
			<ul style="list-style-type: none"> IAS 39 (Financial instruments: Recognition and measurement), which states that loans and receivables should be disclosed at amortised cost thus discounting it, using the effective interest rate method was not complied with. 	Loans and receivables at year end were discounted to present values as per requirements of IAS 39 (Financial instruments: Recognition and Measurement)	30-Jun-07
			<ul style="list-style-type: none"> IAS 18 (Financial instruments: Recognition and measurement) read with South African Institute of Chartered Accountants Circular 9 of 2006 was not adhered to regarding revenue and expenditure received/incurred by the entity, which should have been recognised at amortised cost thus discounting it using the effective interest rate method. 	Revenue and expenditure at year end were discounted to present values as per requirements of IAS 39 (Financial instruments: Recognition and Measurement)	30-Jun-07
Revenue	6.3	Indigent debtors write-off	<p>A lack of internal and monitoring controls has been identified in respect of the classification and write-off of indigent debtors in the 2005 and 2006 financial years. Debtors classified as indigents totalling R334 993 669 were approved for write-off but the documentation to support the validity and accuracy of the classification of these debtors as indigents could not be made available for audit purposes. All debtor accounts that were written-off were reversed and fully provided for. City of Johannesburg Metropolitan Municipality management did not have adequate physical controls in place to guard against the loss of documentation. Furthermore, there was no adequate monitoring or supervisory controls to ensure that only qualifying debtors were written-off.</p>	The indigent debtors identification process will be decentralised to avoid loss of supporting documentation. Develop a monitoring and evaluation process to ensure proper approval of indigent debtors.	30-Jun-07

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Group Finance	4.1	Departure from SA GAAP and GAMAP	Due to late clarification on the applicable accounting framework, the City of Johannesburg Metropolitan Municipality was not in a position to process all the adjustments required to comply with SA GAAP. The following areas of non-compliance were identified:	The departure from SA GAAP arose due to the late communication on the applicable accounting framework, from National Treasury. The requirement for the City to comply with SA GAAP was communicated via a circular on 4 October 2006 applicable as at 30 June 2006. Due to the size and complexity of the City, this left the City with insufficient time to calculate and account for adjustments needed to comply with the relevant accounting statements.	1-May-07
	4.1a		In terms of IAS 39, financial instruments, loans and receivables are required to be initially measured at fair value and subsequently measured at amortised cost using the effective interest method. The City of Johannesburg Metropolitan Municipality did not comply with IAS39 in respect of the measurement of payables and the related expenditure. The effect of these adjustments could not be quantified; however estimations indicated that adjustments could be material.		
	4.1 b		Operating lease income and expenditure were not recognised on a straight line method as required by IAS 17, Leases and SAICA Circular 7 of 2005. Furthermore, certain office equipment leased met the criteria to be accounted for as a finance lease; however the office equipment was not accounted for as a finance lease. The effect of these adjustments could not be quantified; however estimations indicated that adjustments could be material. This would require City of Johannesburg Metropolitan Municipality to adjust errors retrospectively from the inception of the leases.		
Group Finance	4.3	Fixed Assets	City of Johannesburg Metropolitan Municipality has a policy to capitalise and fully depreciate Property Plant and Equipment in one year if it is below a certain threshold. During the financial year under review, the threshold was R10 000. For the financial year under review, the assets that were fully depreciated at cost amounted to R XXX million. In terms of GAMAP 17. Property Plant and Equipment are tangible assets that are held by an entity for use in the production or supply of goods and services, for rental to others, or for administration purposes, and are expected to be used in more than one reporting period.	On conversion to Grap and GAMAP on 1 July 2003 this threshold was implemented. A process will be implemented to review all values as at 30 June 2007.	1-Jun-07

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Group Finance	6.4.3 c	Non-compliance with SCM regulations	Supply Chain Management Regulation 45 requires that all particulars of any award of state in the previous twelve months must be disclosed on the financial statements. The City of Johannesburg Metropolitan Municipality did not have a system in place to identify such related party transactions and as a result did not disclose these particulars.	Declarations of interests will be required to be completed by all service providers requiring to do business with the City. All declarations would be vetted by the SCM unit and this would be duly reported on a monthly basis. Declaration forms will form part of all requests for bids and quotations. This will be disclosed in the Financial Statements in the year that it occurs.	Stating 1 March 2007
Group Finance	6.4.3 d	Non-compliance SCM regulations	Supply Chain Management Regulation xxx states that the goods or services exceeding the amount of R200 000 must be procured through a competitive bidding process. Based on the sample tested, the City of Johannesburg Metropolitan Municipality procured security, cleaning and filing system services with a total value of xxxxx each exceeding R200 000 without following the competitive bidding or tender process. These transactions were classified as emergency; hence the CJMM did not follow the competitive bidding process using the exemptions as highlighted in xxxxx. The exemptions is however conditional and specifies that in circumstances where the competitive bidding process is not followed, the reasons for such deviations must be properly documented and reported to the relevant governance structure. The CJMM did not document these reasons nor did it report them to the relevant governance structure.	The reporting of all SCM deviations are currently submitted to Council for noting on a quarterly basis.	Done Quarterly
Metrobus	6.5	Departure from SA GAAP and GAMAP	Metrobus, City Power, Pikitup and JFPM departed from SA GAAP and hence qualified audit opinions were issued on the financial statements of the company. The following key areas of non-compliance were identified:	Service provider has been appointed to assist in obtaining an opinion on usefull life and residual values relating to buses.	1-Mar-07
			<ul style="list-style-type: none"> Property, Plant and Equipment were not assessed for impairment as required by GAMAP 17. Furthermore the useful lives and residual values were not reviewed as required by GAMAP 17, Property, Plant and Equipment. 	Physical asset counts have been taken of the actual busses as at end of January 2006. Differences are being followed up. This is to establish an accurate fixed asset register as required by IAS 16	
			<ul style="list-style-type: none"> IAS 39 (Financial instruments: Recognition and measurement), which states that loans and receivables should be disclosed at amortised cost thus discounting it, using the effective interest rate method was not complied with. 	IAS 39 is being implemented as required by the accounting standards	1-Mar-07
			<ul style="list-style-type: none"> IAS 18 (Financial instruments: Recognition and measurement) read with South African Institute of Chartered Accountants Circular 9 of 2006 was not adhered to regarding revenue and expenditure received/incurred by the entity, which should have been recognised at amortised cost thus discounting it using the effective interest rate method. 	IAS 18 is being implemented as required by the accounting standards	1-Mar-07

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City Power	4.3	Fixed Assets	<p>The fixed asset register of City Power for movable and immovable assets held by the company was incomplete and was inadequately detailed to allow identification of the physical assets. Consequently, I was unable to verify the completeness, existence and accuracy of property plant and equipment. Management embarked on an asset identification project aimed at identifying all assets owned by the company and determining the fair value of assets held. This project will be completed in the 2007 financial year.</p> <p>Unapproved asset policies and procedures, untimely asset transfer capturing, inadequate fixed asset descriptions and unapproved changes to asset master file records contributed to an inadequate fixed asset register.</p>	<p>Update of Asset register. Obtain AG approval of methodology. Implement approved processes.</p> <p>The asset register will be updated with the information as per the project. Policies and procedures will be in place to ensure there are controlled changes to the asset master files.</p> <p>Asset register will be updated by May 07. AG approval will be addressed in March 07 in interim audit. Appropriate processes will be implemented immediately</p>	1-Apr-07
City Power	6.5	Departure from SA GAAP and GAMAP	<p>Metrobus, City Power, Pikitup and JFPM departed from SA GAAP and hence qualified audit opinions were issued on the financial statements of the company. The following key areas of non-compliance were identified:</p> <ul style="list-style-type: none"> Property, Plant and Equipment were not assessed for impairment as required by GAMAP 17. Furthermore the useful lives and residual values were not reviewed as required by GAMAP 17, Property, Plant and Equipment. 	<p>Ensure compliance with IAS 36 and IAS 16.</p> <p>Overall impairment exercise of City Power assets to be performed. Review of residual lives to be performed.</p> <p>Impairment exercise to be performed at year end. Review of residual lives to be performed by June 07 once asset register is updated.</p>	1-Apr-07
Water	4.2	Revenue	<p>In the 2004 financial year, an audit opinion of Johannesburg Water was disclaimed mainly due to the fair presentation of revenue generated by the billing system administered by the City of Johannesburg Metropolitan Municipality. In the current financial year and mainly as a result of the ongoing data clean-up process, numerous adjustments, relating to previous financial years, were effected to revenue and debtor's accounts as a result of incorrect billing in the past. Therefore, until the data clean-up process is completed, I cannot conclude on the reasonability of the rest of the operations for the year under review.</p>	<ol style="list-style-type: none"> Quantify the impact of the Prior Year Adjustment (PYA) on revenue. Discuss with AG & arrive at a possible acceptable disclosure for such PYA . 	1-Apr-07

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JFPM	6.5	Departure from SA GAAP and GAMAP	<p>Metrobus, City Power, Pikitup and JFPM departed from SA GAAP and hence qualified audit opinions were issued on the financial statements of the company. The following key areas of non-compliance were identified:</p> <ul style="list-style-type: none"> Property, Plant and Equipment were not assessed for impairment as required by GAMAP 17. Furthermore the useful lives and residual values were not reviewed as required by GAMAP 17, Property, Plant and Equipment. 	Review useful life of assets and make necessary adjustments.	7-Feb-07
			<ul style="list-style-type: none"> IAS 39 (Financial instruments: Recognition and measurement), which states that loans and receivables should be disclosed at amortised cost thus discounting it, using the effective interest rate method was not complied with. 	Loans and receivables at year end will be discounted to present values as per requirements of IAS 39 (Financial instruments: Recognition and Measurement)	1-Apr-07
			<ul style="list-style-type: none"> IAS 18 (Financial instruments: Recognition and measurement) read with South African Institute of Chartered Accountants Circular 9 of 2006 was not adhered to regarding revenue and expenditure received/incurred by the entity, which should have been recognised at amortised cost thus discounting it using the effective interest rate method. 	Revenue and expenditure at year end will be discounted to present values as per requirements of IAS 39 (Financial instruments: Recognition and Measurement)	1-Apr-07
Shareholder Unit	6.4.1 a	Non-compliance with MFMA	<p>Section 89(a) of the MFMA provides for the core municipality to determine the upper limits of the remuneration of the chief executive officers and senior management of the UACs. Such upper limits were not determined for the year under review.</p>	<p>The Mayoral Committee determined upper Limits of Salaries for CEOs and senior management of MEs on 8 June 2006.</p> <p>There is compliance with Section 89 for the 2006/07 financial year</p>	1-Apr-07
Shareholder Unit	6.4.2	Non-compliance with the MSA	<p>Section 93K of the Municipal Systems Amendment Act, 2003 (Act No. 44 of 2003), prohibits a municipal entity from the establishment of and acquisition of interests in corporate bodies. Contrary to this, the Johannesburg Development Agency (Pty) Ltd (JDA) and Pikitup in corporate bodies.</p>	<p>1) The JDA Board of Directors has approved the disposal of the shares in the development companies by transferring them to the City. A report was presented and approved by Mayoral Committee in terms of which the City will take transfer of the shares.</p> <p>2) a joint team consisting of officials from SHU, Finance, Pikitup and JPC will be set up to investigate options for the regularisation of the Pikitup relationship with the private partners.</p> <p>Milestone:</p> <p>1) SHU needs to assess and finalise the tax implications (Capital Gains or other taxes) to the JDA and/or the City as a result of the transfer.</p> <p>2) A joint team consisting of officials from SHU, Finance, Pikitup and JPC will be set up to investigate options for the regularisation of the Pikitup relationship with the private partners.</p>	1-Apr-07

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Shareholder Unit	6.6	Grant finance	Due to lack of supporting documentation, all assertions in respect of grant finance amounting to R24 511 464 recognised in the books of City Housing Company could not be verified.	<p>Investigations need to be undertaken to determine whether the R24, 5 million grant from GPG was provided direct to Zonki'zizwe (CHC) and therefore initially accounted for in their books or was transferred to EMLC or GJTMC and accounted for in their books.</p> <p>Detailed analysis of CHC books will have to be undertaken to obtain a clearer picture – Challenge is that due to the breakdown of financial control processes at CHC this might prove to be a difficult task. Necessary transactions will be made if required.</p>	1-Apr-07
JPC	6.7	Registration of freehold land and buildings	Freehold land and buildings sold by the City of Johannesburg Metropolitan Municipality to the municipal owned entities in terms of the sale of business agreement dated 30 May 2003 have not yet been transferred into the name of the entities. The delay was due to unresolved technicalities relating to the transfer	Follow up consultations to take place with the Auditors, SHU and Receiver of Revenue on the Tax and VAT implications for the City and the MOE's Report to Mayoral Committee	1-Apr-07