OVERSIGHT REPORT OF THE CITY OF JOHANNESBURG
GROUP AUDIT COMMITTEE ON THE MONITORING OF THE 30
JUNE 2014 STATUTORY YEAR END AUDIT, THE EVALUATION
OF THE FINAL AUDITED ANNUAL FINANCIAL STATEMENTS,
THE AUDITOR GENERAL MANAGEMENT REPORT AND FINAL
AUDIT OPINION FOR THE YEAR ENDED 30 JUNE 2014

1. STRATEGIC THRUST(S)
   Good Governance: Responsive, accountable, efficient and productive metropolitan
government.
   Good Governance: Financial and administratively sustainable & resilient City.

2. OBJECTIVE
   The purpose of this report is to communicate to Council, the Group Audit Committee’s
   (GAC) progress to date in carrying out its oversight responsibilities in terms of the
   Municipal Finance Management Act (MFMA), section 166, including oversight over the
   statutory audit process for the financial year ended 30 June 2014, as mandated in terms
   of section 166 (2)(b) of the MFMA. The report also summarises the recommendations of
   the Group Audit Committee in accordance with section 121 (3)(j) of the MFMA that have
   been made and discussed with the administration.

3. SUMMARY

3.1 BACKGROUND
   The mandate of the Group Audit Committee is legislated in terms of section 166 of the
   Municipal Finance Management Act, which requires the Audit Committee to advise the
   Accounting Officer and Council on matters relating to internal financial control and internal
   audits; risk management; accounting policies; adequacy, reliability and accuracy of
   financial reporting and information; performance management and performance
   evaluation; effective governance; compliance with the Municipal Finance Management
   Act (MFMA), the Annual Division of Revenue Act, and any other applicable legislation;
   and any other issues referred to it by the municipality.

   The MFMA also requires the Audit Committee to review the annual financial statements,
   respond to Council on matters raised by the Auditor General, and carry out investigations
   into the financial affairs of the municipality. The responsibilities of the GAC include
   oversight of the Municipal Entities of the City of Johannesburg from a group perspective,
   although each of the Municipal Owned Entities (“MOE’s”) of the City has its own Audit
   Committee which reports to the Board of Directors.

3.2 DISCUSSION
   The GAC reports that it has complied with its responsibilities arising from section 166 (2) (b) of
   the Municipal Finance Management Act (“MFMA”), and the Council approved Terms of
   Reference which require the Group Audit Committee of the City to review the annual financial
   statements.
3.2.1 Group Audit Committee (GAC) Attendance of meetings

During the financial year ending 30 June 2014, the GAC held seven (7) meetings comprising of scheduled ordinary (4) meetings and special meetings (3).

<table>
<thead>
<tr>
<th>Names of Members</th>
<th>Period of Membership</th>
<th>Total Number of meetings</th>
<th>Number of Meetings attended</th>
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</thead>
<tbody>
<tr>
<td>1) Ms Jocelyn Armstrong (CA) SA MBA H DipTax (Chairperson)</td>
<td>Appointed April 2012 (Interim member previously)</td>
<td>7</td>
<td>6</td>
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<tr>
<td>2) Mr Mdu Zakwe (CA) SA</td>
<td>Appointed April 2012 Resigned (November 2013)</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>3) Ms Thandi Sihlaba ACCA CIA</td>
<td>Appointed April 2012 (Resigned April 2014)</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>4) Mr Langa Dlomo-Ntuli</td>
<td>Appointed April 2012</td>
<td>7</td>
<td>7</td>
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<tr>
<td>5) Mr Griffiths Zabala</td>
<td>Member deployed from Group Performance Audit Committee (GPAC) (April 2013)</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>6) Brian Smith</td>
<td>Appointed April 2014</td>
<td>2</td>
<td>2</td>
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<td>7) Dr. Len Konar</td>
<td>Appointed April 2014</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>8) Priscilla Nkwinika</td>
<td>Appointed April 2014</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>9) Nades Kandan</td>
<td>Appointed April 2014</td>
<td>2</td>
<td>1</td>
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| TABLE 1: GAC ATTENDANCE OF MEETINGS |

3.2.2 Group Audit Committee Responsibilities in terms of the MFMA Section 166

a) Independent oversight committees and integrated approach

The Committee reports that in carrying out its oversight responsibilities, there are significant areas where the Group Audit Committee places reliance on the oversight carried out by the other two independent group oversight committees of the City, namely the Group Risk Governance Committee (GRGC) and the Group Performance Audit Committee (GPAC) who have oversight over risk governance oversight and compliance; and organizational performance management and evaluation respectively.

These three independent group oversight committees, namely, GRGC, GPAC, and GAC, collectively provide the required assurances to the administration, the Mayoral Committee and Council on the matters covered by the MFM; the Municipal Systems Act and the King III code on good corporate governance.

The City has developed and adopted an integrated assurance framework and combined assurance model which will enable integrated approach to assurance on attainment of strategic and operational objectives; and therefore integrated oversight. .
3.2.3 Evaluation of the Annual Financial Statements for the year ended 30th June 2014

a) The GAC reports that it has reviewed and discussed with the management of the City:

- the unaudited annual financial statements of the City of Johannesburg Core Administration and the unaudited consolidated annual financial statements of the City of Johannesburg for the financial year ending 30 June 2014, prior to the submission hereof to the Auditor General (SA) for year-end audit purposes;
- the accounting policies and practices;
- the year-end accruals for revenue, related journals and potential impact on prior year figures;
- material or significant adjustments resulting from the audit;
- the prior year adjustments and reasons therefore;
- contingent liabilities;
- fruitless, wasteful and irregular expenditure as reported in the annual financial statements; including deviations from normal supply chain management processes granted in terms of section 36 of the MFMA SCM Regulations;
- the going concern basis for the preparation of the annual financial statements of the core administration and the municipal entities; and the consolidated group annual financial statements;
- the draft and final AGSA management reports on the interim regularity audit 2013/14 and management's response thereto;
- the final audited annual financial statements of the City of Johannesburg Core Administration and the unaudited consolidated annual financial statements of the City of Johannesburg for the financial year ending 30 June 2014; and
- the final AGSA management report and final audit report on the consolidated group annual financial statements for the year ended 30th June 2014.

b) Submission of draft unaudited annual financial statements

- The City of Johannesburg Core Administration and its Municipal Entities met the mandatory deadlines in terms of the MFMA for the submission of unaudited annual financial statements and the consolidated annual financial statements.
- The annual financial statements were prepared on the going concern basis; and the Committee recommended the submission of the unaudited AFS to the AGSA subject to the Group Chief Financial Officer effecting the adjustments that were highlighted and agreed to at the meeting

c) Resolution of previous audit findings

The Committee sought management representations and assurance relating to:

- The Plan of Action report submitted by the Chief Operations Officer and Acting Group Chief Financial Officer which details management action plans to resolve previous audit findings, and progress achieved.

- Progress in the resolution of prior year AGSA audit findings that resulted in the qualified audit opinion, as well as other significant matters.

- The AGSA findings from the interim audit 2013/14 and management actions taken to address timeously; and therefore ensure mitigation of repeat audit findings.
• The consideration of the annual organizational performance report for the 2013/14 financial by the Group Performance Audit Committee; and submission to the AGSA.

• Progress in the resolution of both internal and external audit findings taking into account the need to ensure a reliable risk, control and compliance environment.

d) **Municipal Entities**
The GAC has conducted the following oversight responsibilities in relation to the Municipal Entities of the City:

• Obtained assurance from the Municipal Entities’ Audit Committees on the timely submission of the unaudited annual financial statements in accordance with the MFMA provisions.

• Appraisal on the financial status and performance of the municipal entities for the year ended 30 June 2014.

• The Committee sought assurance on the Joburg Metrobus Turnaround Strategy.

3.2.4 **Overall Group Audit Committee Observations and Recommendations**

a) **The Adequacy, Reliability and Accuracy of Financial Reporting and Information**

GAC noted the appointment of the new Group Chief Financial Officer (CFO) and during the year, engaged the Group CFO on issues around financial skills, financial reporting and revenue management.

b) **Effectiveness of Internal Audit Unit**
The Internal Audit unit carried out its activities in accordance with the risk based internal audit plan for the year ending 30 June 2014; and submitted its quarterly reports to the Group Audit Committee for the purposes of oversight.

Internal audit has reported some internal control weaknesses identified during the performance of audits; conducted follow-up audits and highlighted management’s progress in the resolution of both internal and external audits.

The Committee appreciated that the City has sought to address the concerns previously raised around the capacity challenges within the Internal Audit Unit. The Head of the Internal Audit Unit was also appointed during the year.

c) **Internal and Financial Control Systems**
The system of internal controls is designed to provide cost effective assurance that assets are safeguarded; liabilities and working capital are efficiently managed; and there is compliance with applicable legislation. Internal audit provided risk assurance on the high risks identified during risk assessments by prioritizing these areas in the risk based internal audit plans.

Weaknesses identified in internal controls were reported to management and follow-up of
management actions was undertaken by Group Internal Audit Unit.

The Committee considered the quarterly financial management reports from Group Finance, and therefore expenditure patterns. The implementation of adequate financial controls is an area requiring management focus.

The Committee continued its focus on the City’s Information and Communication Technology (ICT) environment which included the review of the ICT Governance framework and Strategy. This covered ICT support standards, data governance, ICT governance structure, the budget spend versus return to the City, and ICT risk management and ICT security.

The GAC highlighted the vacancy of the Head: ICT and Information Management and associated risks. The recommendation was made that management strengthens ICT Governance, ICT strategy and delivery.

d) Fraud and Irregular Activities
GAC considered quarterly reports from the Group Forensics Investigations Unit on the investigations conducted, nature of the incidents, and outcomes of the investigations.

The anonymous fraud hotline introduced during prior year has enhanced incident reporting and detection, and enabled the reporting of incidents by communities and external parties. As a result of the introduction of the centralized fraud hotline, there has been a significant increase in the number of reported incidents. Assurance has been obtained from the Department that capacity to respond hereto is being addressed.

The Unit has also put particular emphasis on fruitless and wasteful expenditure, irregular expenditure and supply chain deviations. The investigations also included instances of non-compliance with SCM Regulations, including Regulation 44 which prohibits officials of the state from doing business with the municipality.

One significant area that requires improvement is for management to effectively implement appropriate recourse and mitigations actions informed by the outcomes of the investigations.

e) Performance Management and Performance Evaluation
The Group Audit Committee places reliance on the oversight carried out by the Group Performance Audit Committee which monitors the performance management system and evaluation of organizational performance. Internal Audit reports to both the GAC and the GPAC on the outcomes of the audits of performance information.

The GPAC reported shortcomings on the system of performance management and organizational performance. The report of the Auditor General was also noted, and recommendations made to improve this environment.

f) Enterprise Risk Governance and Risk Management
The responsibility for risk oversight resides with the Group Risk Governance Committee (GRGC) and the GAC therefore places reliance on the Committee. The Group Risk Governance Committee monitors the City-wide top strategic risks and key operational
risks at the level of Departments and Municipal Entities; and appraises the GAC accordingly. Continuous risk assessments are conducted and residual risk profiles updated.

The two Committees have highlighted the ICT risk, amongst others, as an area that requires urgent management attention.

g) **Compliance Management**
The Group Compliance Unit monitors incidents of unauthorized, irregular, fruitless and wasteful expenditure using compliance registers; and reports hereon to the Group Risk Governance Committee and Mayoral Committee.

h) **Combined and Integrated Assurance:**
The City commenced with the implementation of the combined assurance model in line with King III recommendations. The Group Integrated Assurance Framework and combined assurance model was adopted during the current financial year.

Taking into considerations inefficiencies reported in the prior year, the GAC continued to monitor the implementation of the combined assurance to ensure that the perceived benefits of the model translate into actual benefits; and therefore the improved and accountability of GAC to Mayoral Committee and Council.

i) **Going Concern statement for the year ended 30 June 2014**
The GAC is satisfied, based on the audited annual financial statements and cash flow statement that the City of Johannesburg is a going concern.

The GAC notes the significant improvement in the audit outcome and concurs and accepts that the consolidated annual financial statements present fairly, in all material respects, the financial position of the City of Johannesburg Metropolitan Municipality as at 30 June 2014 and its financial performance and cash flows for the year then ended.

The GAC is therefore of the opinion that the audited annual financial statements be accepted and be read together with the Report of the Auditor-General.

4. **POLICY IMPLICATIONS**
Group Audit Committee Charter and Terms of Reference

5. **LEGAL AND CONSTITUTIONAL IMPLICATIONS**
Municipal Finance Management Act.
Municipal Systems Act

6. **FINANCIAL IMPLICATIONS**
None.

7. **COMMUNICATION IMPLICATIONS**
Group Risk Management Committee, and Audit Committees of Municipal Entities.

8. **CONSULTATION WITH OTHER STAKEHOLDERS**
   - Accounting Officer / City Manager
9. RECOMMENDATIONS

IT IS RECOMMENDED THAT:

1. The contents of this report and the oversight responsibilities carried out by the Group Audit Committee as provided in terms of section 166 of the Municipal Finance Management Act, be noted.

2. The audited group annual financial statements, the Auditor General audit report and unqualified audit opinion, be accepted.

3. The Management of the City should implement the approved Group Internal Control Framework and the risk and control self-assessments, to ensure an improvements in the control environment and therefore management of significant risk exposures that are identified.

4. The management of the City continues to focus on improving the City’s Supply Chain Management in order to reduce incidents of fraud and minimize requirements for deviations.

5. The management of the City should strengthen Information Communication and Technology (ICT) Governance, ICT strategy and delivery ensures appointment of the Head: ICT and Information Management and associated risks.

6. The management of the City engages pro-actively with the GPAC to holistically and comprehensively address the weaknesses identified in the City’s performance management systems and processes.

7. The management of the City continues to monitor the implementation of programmes and action plans aimed at the attainment of clean audit outcomes for the new financial year, and the sustainability thereof. This must include the resolution of reported audit findings relating to financial reporting misstatements, compliance and pre-determined objectives.

J. ARMSTRONG (MS)
(CHAIRPERSON: GROUP AUDIT COMMITTEE)
(City of Johannesburg Metropolitan Municipality)

29 January 2015

Vusi Ndlovu
Unit Head: Group Internal Audit Services