

**EKURHULENI METROPOLITAN MUNICIPALITY  
COUNCIL MEETING  
2016-01-28**

**ITEM A-F (01-2016)**

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**SUBMISSION OF AUDITED ANNUAL REPORT, INCLUSIVE OF ANNUAL FINANCIAL STATEMENTS AND REPORT OF THE AUDITOR-GENERAL, FOR THE 2014/2015 FINANCIAL YEAR**

**PURPOSE**

To submit the Annual Report, inclusive of the Annual Financial Statements and the Report of the Auditor-General, for the 2014/2015 financial year to Council.

**STRATEGIC OBJECTIVE**

Promoting good governance

**WARDS AFFECTED**

All wards

**IDP LINKAGE**

Clean Audit

**EXECUTIVE SUMMARY**

The Annual Financial Statements for the 2014/2015 financial year has been prepared in accordance with Section 126 of the Municipal Finance Management Act and the Annual Report for the 2014/2015 financial year in terms of Section 127 of the Municipal Finance Management Act.

Section 127 requires that the annual report must be submitted to Council within seven months after the end of the financial year (January of each year).

The EMM has completed both the financial statements as well as the annual report within the legislative deadlines. The municipal entities have also complied with all various legislative deadlines.

The external audit has been completed and the required amendments were made to the financial statements. The Auditor General has issued his reports on the various sets of financial statements during November 2015 (EMM and Entities) and December 2015 (Consolidated).

The audit outcomes were as follows:

EMM Core	<b>Clean Audit Opinion</b>
EMM Consolidated	<b>Clean Audit Opinion</b>
ERWAT	<b>Unqualified audit opinion (not clean)</b>
BBC	<b>Clean Audit Opinion</b>
EDC Group	<b>Clean Audit Opinion</b>

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The final annual report with the annual financial statements and report of the Auditor General must now be approved by Council. The report should then be referred to the Municipal Public Accounts Committee (MPAC) to perform the oversight function and their report must be submitted to Council before the end of March 2016 as required by section 129 of the MFMA. This report must include a statement whether the council –

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

The annual financial statements disclosed irregular, fruitless and wasteful expenditure that incurred during the 2014/2015 financial year and as such section 32 of the MFMA must be followed. The council committee referred to in section 32 of the MFMA that will investigate the irregular, fruitless and wasteful expenditure is the MPAC committee. The committee must in their report back to Council in March 2016, include recommendations regarding whether the expenditure must be –

- Recovered from the employees / service providers where it is found that the irregular, fruitless and wasteful expenditure was incurred deliberately and negligently
- Authorized in an adjustments budget (not applicable in the reported expenditure as there were no un-authorized expenditure resulting from budget overspending)
- Certified as irrecoverable and written off by Council

This item is giving an overview of the financial results of the financial year, the organizational performance results and explains the report of the Auditor General. The discussion in the report deals with the results of the municipality only and the reports of the municipal entities are attached as annexures to this report.

This submission also include, a request to Council of ratification of Final Year End Transactions on the Compilation of the 2014/2015 Financial Statements as required by the Generally Recognised Accounting Practices (GRAP).

The following Annexures are attached to this submission:

- A Audited Annual Report**
- B Audited Financial Statements (Consolidated)**
- C Auditor General's Report on the Consolidated Financial Statements (i.e. EMM and the Entities combined)**

Separate reports have been submitted dealing with the municipal entities. These reports are contained in the same Council agenda.

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**DISCUSSION**

**SECTION A: ORGANISATIONAL PERFORMANCE AS CONTAINED IN THE AUDITED ANNUAL REPORT**

The full analysis of EMM's performance against Service Delivery Budget Implementation Plan for the 2014/15 financial year is contained in the Annual Report submitted or attached (Annexure A).

During the year under review, EMM committed to a total of 104 targets, of which 71 were achieved and 33 were not achieved. Of the 33 targets not achieved, 10 targets recorded no performance at all for the period under review and 23 targets recorded partial performance. Of the 23 targets that recorded partial performance, 10 (43%) targets scored in the 80<sup>th</sup> percentile and above. The confidence level of the reported performance improved during the year under review due to improvement in the quality, usefulness and reliability of performance information. This was achieved through a focused and continuous efforts to improve the implementation the stringent evidenced based reporting approach with very tight quality control mechanisms. The continuous strengthening of the internal audit procedures made a significant contribution in mitigating the challenges that threaten the achievement of the desired performance results. Given that not all targeted commitments were expressed as planned, this means that the municipality still has serous task of addressing all other impediments to improve the current status more and more.

The reported performance against the objectives is in support of a Delivering City trajectory of the Growth and Development Strategy 2055 (GDS). In line with the said trajectory, the follow represent the performance of the municipality:

**1. RE-INDUSTRIALISE**

While the municipality experienced a myriad of challenges that threatened the achievement of the commitments made for the year under review, significant strides were made. EMM implemented a number of programmes that contributed significantly in steering the economy of the region. Some of the results include:

- EMM hosted 9 mega events which increased the number of tourists entering the city;
- A total of 73,508 business tourists visited Ekurhuleni in the period under review
  
- A total of 30,572 job opportunities were created in the period under review;
- Facilitated a total of R7.6 billion on investments
- EMM implemented programmes to intensify the participation of enterprises in its business incubation programme. In this regard, a total of 257 enterprises participated in the business incubation programme.
- The Thokoza Traders Hub operated within the Thokoza Khumalo Street Node
- The Food Bank Programme was introduced in September 2014 and has benefitted an average of 1 570 individuals per month

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- A total of 120 industrial companies undertook the productivity improvement programme
- A total of 1 434 unemployed youth were placed with various companies through the Work Readiness Experiential Learning Programme

## **2. RE-URBANISE**

In its efforts to re-urbanise the city, EMM focused on improvising service delivery across all areas of service delivery. The resultant effects of these efforts included:

- A total of 16,679 unmetered stands were equipped with water meters.
- A total of 1,844 additional households were provided with water connections
- The City maintained the Blue Drop status above 95% for three consecutive years. This is indicative of EMM's positive efforts in promoting the quality of drinking water within the region.
- A total of 1,844 additional households were provided with sanitation connections

The efforts geared towards promoting access to energy and also making a contribution in the reduction of crime perpetuated by prevalence of darkness yielded the following results:

- A total of 5,656 subsidized households were electrified
- The installation of 7,243 PV solar lighting units across several informal settlements
- The installation of 82 high mast lights
- The installation of 1,508 street lights

In pursuit of providing an efficient transport system, EMM invested in the development of transport infrastructure and championed the establishment of new bus routes. In this regard, 3.85 kms of the phase 1 IRPTN BRT routes were constructed, 11.9 kms of pedestrian walkways were constructed and 12 additional lay-bys for loading and off-loading passengers were constructed. A total of six new bus routes were established connecting Ekurhuleni with other Metros in Gauteng.

With regards to human settlements, the City has made some progress amid the difficulties experienced. Despite the challenges experienced with the failure by the Gauteng Department of Human Settlements to transfer the grant for housing development, a total of 348 subsidised housing units were built. Essential services such as water, sanitation, refuse removal, and lighting were provided to the 119 informal settlements. In addition, three urban redevelopment plans were approved and 19.53 hectares of well-located land for housing development was identified.

In its quest to improve the road infrastructure and to promote the ease of transportation within the City, EMM focused on the construction, upgrade and maintenance of the road and storm water infrastructure network. This included, upgrading of gravel residential roads to paved roads focusing on previously disadvantaged townships, maintenance of tarred and gravel roads including those that are in the informal settlements, rehabilitation and resurfacing of paved roads to prevent deterioration of existing infrastructure and construction of major roads to reduce congestion and facilitate economic development. In this regard, 23.15kms of

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roads were paved/surfaced and 1583.3km of the road network was maintained. In addition, a total of 18 storm water systems were added to the existing storm water network, with total length of 6.35km and 6234 systems were maintained.

### **3. RE-MOBILISE**

The Re-mobilise thematic area aims at promoting a healthy, active and engaged citizenry. Citizens across the city participated actively in a variety of programmes. In its efforts to promote a healthy, active and engaged citizenry, the results achieved included the following:

- A total of 6 806 older persons participated in the healthy lifestyle programmes such as Vuka Move for Health Campaign and Golden Games
- The Learn to Swim and Water Safety resulted in the establishment of three swimming clubs Thokoza, Daveyton and Reiger Park Swimming Clubs where swimmers from these clubs participated in regional and provincial swimming galas.
- Through the EMM Flagship project on the Beautification of Lakes and Dams aimed at maximising the City's use of lakes and dams, especially hosting water sports events, a number of water sporting activities were implemented. These included rowing, canoe racing, sailing, regattas and interschool regattas.
- In promoting a healthy lifestyle, EMM organised the Annual Spirit Games with persons with physical disabilities in Ekurhuleni as the participants.

In its quest to build a socially cohesive, healthy, active and engaged citizenry capable of working in partnership to develop the intergenerational capacity, EMM embarked on a number of initiatives that yielded concrete outputs. Operationalisation of two libraries provided information services to the communities of Langaville and Olifantsfontein, bringing the total number of libraries across Ekurhuleni to 45. Training of ECD practitioners, a total of 302 ECD practitioners were trained on a SETA accredited NQF Level 4 ECD training through the Mathew Goniwe School of Leadership and Governance. An additional 1408 ECD practitioners were trained on a variety of non- accredited ECD courses.

Despite some challenges experienced, the municipality recorded commendable strides in the provision of health care services. Some of the notable achievements included: the reduction of HIV infection in the general population to a level below 23%; reduction of HIV transmission from Mother-To-Child to a level below 2.15%; and decreased the burden of Tuberculosis (TB) through improving TB Case Holding and TB treatment outcomes. The implementing of the defaulter management systems aimed at keeping the defaulter rate to a level below the national target of 5% was the main focus.

Safety and security across the City continues to be a high priority. The municipality focused reducing accidents, fatalities and injuries and restore confidence and respect for road traffic management through heightened awareness of road traffic safety issues thereby inculcating good road user behaviour and voluntary compliance to by-laws and traffic laws. Despite these efforts, road traffic accidents during the year under review exceeded the 2013/14 performance indicating that the situation on the

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roads deteriorated with 75 more road accidents taking place in the year under review compared to the previous year.

EMM provided emergency response services from 28 fire stations. Approximately 600 community members from various informal settlements were deployed as CERT (Community Emergency Response Team members) to intervene immediately in cases of a fire or similar incident occurring. A total of 3000 by-law enforcement inspections were conducted, of which 1500 focused on compliance inspections at premises and the other 1500 focused on inspecting dangerous goods and vehicle permit. There was an 8.2% decrease in call outs during the 2014/2015 financial year in comparison to the previous financial year.

Response times for all safety and security services rendered improved substantially during the year under review. A compliance rate of 67% for reaching patients within 15 minutes was achieved. The improved response time was supported by the procurement of 48 ambulances and nine (9) primary medical response vehicles which were complemented by an appointment of additional 170 fulltime staff and 400 reservists.

#### **4. RE-GENERATE**

The mainstreaming of biodiversity and the ecosystem for sustainability accounted for some of the key interventions implemented by the municipality in the year under review. The focus was on ensuring a clean healthy environment for the residents of the city. An emphasis was placed on environmental protection aimed at with improving amongst other things the air and water quality driving the strategic intent of complying with the national air quality standards. In this regard, ambient air quality and the reduction of Green House Gas (GHG) emissions were the critical interventions instituted. The following deliverables account for the achievements recorded: a total of 128 atmospheric emissions licences for industries with listed activities were processed and air quality monitoring data was received from 10 stations.

Ekurhuleni is renowned for the number of man-made and natural water bodies and systems within its vast region. The pans, rivers, dams, wetlands and lakes within the city are landmarks of the geographic location and must be maintained as a functioning ecosystem as much of the biodiversity is interconnected to these areas. During the 2014/15 financial year, portions of the Natalspruit, Rietfontein and Tsongweni wetlands were rehabilitated. The widespread erosion was curbed so that the wetlands were able to function naturally thereby providing goods and services to the nearby communities. The biodiversity, natural water quality cleansing and flood control were enhanced in this way.

In its efforts to promote a clean city, a total of 652,498 formal households received once a week waste collection. Some of the informal households were serviced through Expanded Public Works programme with the purpose of forming local co-operatives. The implementation of local cleaning co-operatives has created and maintained 173 jobs, while improving the cleanliness and hygiene of the areas. Illegal dumping remains a challenge for EMM with more than 100 spots cleared during the year under review through 300 Expanded Public Works Programme.

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In addition to the above mentioned service delivery commitments Landfill Airspace was procured in Olifantsfontein. The result of this was that the vehicles servicing Tembisa, Kempton Park and the surrounding areas reduced their travelling distances to the landfill sites thus increasing efficiencies in the waste removal services as well as minimizing gas emissions from the vehicles servicing the area.

## **5. RE-GOVERN**

In its efforts to continuously improve accountability, responsiveness and transparency, the key tenets of good governance, EMM received and maintained a clean audit. This is indicative of a true commitment to a clean administration. This is further indicative of commendable leadership abilities to deal with institutional challenges decisively and within the confines of the law. This further proves that management practices instituted by the metro were yielding good management results. Amongst other notable strides that supports the ongoing acclaim on good governance is the approval and implementation of the Institutional Review. The effects of the process of implementing the Institutional Review are to be felt in the oncoming financial years. These will include strengthening the capacity of the municipality and effective and well adapted institutional arrangements to promote operational efficiency. Other interventions include the strengthening of governance support functions like internal audit, the improvement in the internal monitoring and evaluation system and the oversight processes in implementing a system of rigorous controls and improved financial governance. The notable results included improvements in the financial viability of the metro with 92, 37% of all billed amounts collected.

A notable improvement in the stability of the ICT systems accounts for some of the commendable results achieved over the year under review. In addition, 104 Wi-Fi Hotspots across the metro were fully operational and manual processes were automated, thus reducing the amount of time required to execute each process. The metro commenced the planning and development of an ERP system. When completed the ERP system will assist the City in the subsequent years to ensure that resources within EMM are effectively managed and information to respond to public queries and service request is readily available as and when needed.

Commendable strides were made on governance related services. Legislative compliance improved significantly. Some of the notable improvements recorded included the following:

- 91.30% of the scheduled audits were completed
- Implementation of performance monitoring and reporting mechanisms that led to the improvement of performance data which contributed significantly in the achievement of a Clean Audit Opinion.
- Strengthening of the call centre creating a platform for customer queries and responding adequately to the queries
- The Framework for Establishment of the Municipal Ombudsman was approved
- Four Municipal Courts were piloted.

The overall organisational performance for the 2014/2015 financial year improved against the previous year, the accuracy, completeness of reporting and integrity of

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reported data improved substantially and this contributed to EMM achieving a clean audit.

**SECTION B: FINANCIAL PERFORMANCE AS CONTAINED IN THE ANNUAL FINANCIAL STATEMENTS OF THE EKURHULENI METROPOLITAN MUNICIPALITY (CORE)**

***Note:** The figures explained in this section relate to the EMM Core financial statements and not consolidated. In the attached consolidated financial statements, two columns are provided, one for the economic entity and one for the controlling entity. The economic entity refers to the entire EMM group, i.e. the EMM plus the entities, whilst the controlling entity refers to the EMM only.*

The Financial Performance of the municipality is explained for the 3 main financial statements, being the Statement of Financial Performance, the Statement of Financial Position and the Cash Flow Statement.

**Statement of Financial Performance**

***Explanatory notes on what the Statement of Financial Performance entails***

*The purpose of the Statement of Financial Performance is to give an account of the results of the municipality's operations for the year. These transactions result from the operating budget of Council. The result is expressed as being either a surplus or a deficit (being the difference between Revenue and Expenditure). A surplus is indicative of Revenue being more than Expenditure and a deficit is when Expenditure being more than Revenue.*

*It is important to note that the financial statements are prepared on the accrual basis and not the cash basis meaning that the transactions as recorded (both revenue and expenditure) when services are rendered or received, does not relate to amounts received or paid, but to the Metro being entitled to the revenue or being liable for the expenditure. In addition, non-cash items (both revenue and expenditure) are included in the Statement of Financial Performance. Resultantly, neither the surplus nor the deficit refers to cash. To see what the cash balance is, one must refer to the Cash Flow Statement.*

*As examples, the following is provided:*

*Revenue for assessment rates and user charges for services – revenue contained in the Statement of Financial Performance is BILLED revenue and not revenue collected.*

*Gain on sales of assets – this amount is the “profit” made on the sale of assets being the difference between the carrying value of the asset and the selling price (or insurance recovery) received.*

*Depreciation – depreciation is the systematic expensing of the value of an asset as it is used up and does not relate to any cash payment made (nor is the money owed to anyone for that matter). A road can last for 40 years and*

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*every year 1/40<sup>th</sup> of the road is “used up” and that must be shown as an expenditure item called depreciation. The intention is to set these funds aside so that there is cash available at the end of the useful life of the asset to replace the asset.*

*Loss of sale of assets – the same as in gain on sale of assets, but here the selling price (or insurance recovery) is less than the carrying value of the asset.*

The Ekurhuleni Metropolitan Municipality generated a surplus of R2 057 821 569 and for the 2013/14 period was R1 856 414 266. The full set of GRAP accounting standards, inclusive of GRAP 17 dealing with assets and depreciation charges, were implemented in 2009. This led to a significant increase in the value of assets and accordingly the depreciation charge.

<b>Statement of Financial Performance</b>				
	<b>June 15</b>	<b>June 14</b>	<b>Value variance</b>	<b>% Variance</b>
<b>REVENUE</b>				
Property rates	3,693,387,443	3,427,709,390	265,678,053	7.2%
Property rates - penalties imposed	88,405,293	106,611,391	(18,206,098)	-20.6%
Service charges	16,304,459,304	14,861,038,367	1,443,420,937	8.9%
Rental of facilities and equipment	62,454,731	55,704,908	6,749,823	10.8%
Interest earned - external investments	519,167,378	362,065,026	157,102,352	30.3%
Interest earned - outstanding debtors	292,739,718	370,295,275	(77,555,557)	-26.5%
Fines	224,949,291	167,705,348	57,243,943	25.4%
Licences and permits	53,622,189	41,011,475	12,610,714	23.5%
Income from agency services	257,982,770	235,640,655	22,342,115	8.7%
Government grants and subsidies	5,760,182,991	5,339,960,744	420,222,247	7.3%
Other income	101,349,468	94,233,931	7,115,537	7.0%
Public contributions and donations	92,196,676	2,786,886	89,409,790	97.0%
<b>Total Revenue</b>	<b>27,450,897,252</b>	<b>25,064,763,396</b>	<b>2,386,133,856</b>	<b>8.7%</b>

Total revenue for the year amounted to R27 450 897 252, which is 8.7% increase from the revenue of the 2013/2014 year which was R25 064 763 396. The increased revenue is mainly resulting from the implementation of the annual inflation rate, as well as moderate growth and the increased in services rendered to residents and increased government grant and subsidies allocation.

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*A comparison of the actual revenue against the budget shows a 4.2% deviation.*

<b>Statement of Financial Performance</b>				
	<b>Budget</b>	<b>Actual</b>	<b>Value variance</b>	<b>% Variance</b>
<b>REVENUE</b>				
Property rates	4,022,063,514	3,693,387,443	328,676,071	8.2%
Property rates - penalties imposed	108,988,648	88,405,293	20,583,355	18.9%
Service charges	17,005,259,009	16,304,459,304	700,799,705	4.1%
Rental of facilities and equipment	65,945,354	62,454,731	3,490,623	5.3%
Interest earned - external investments	281,998,177	519,167,378	(237,169,201)	-84.1%
Interest earned - outstanding debtors	219,921,038	292,739,718	(72,818,680)	-33.1%
Fines	253,115,615	224,949,291	28,166,324	11.1%
Licences and permits	45,416,893	53,622,189	(8,205,296)	-18.1%
Income from agency services	258,556,762	257,982,770	573,992	0.2%
Government grants and subsidies	6,332,949,200	5,760,182,991	572,766,209	9.0%
Other income	71,580,611	101,349,468	(29,768,857)	-41.6%
Public contributions and donations	-	92,196,676	(92,196,676)	100.0%
<b>Total Revenue</b>	<b>28,665,794,821</b>	<b>27,450,897,252</b>	<b>1,214,897,569</b>	<b>4.2%</b>

The total expenditure for the year amounted to R25 385 237 510 which is 8.6% increase from the expenditure of the 2013/2014 year which was R23 207 628354.

<b>Statement of Financial Performance</b>				
	<b>June 15</b>	<b>June 14</b>	<b>Value variance</b>	<b>% Variance</b>
<b>EXPENDITURE</b>				
Employee related costs	5,587,350,485	5,432,135,742	155,214,743	2.8%
Remuneration of councillors	99,977,319	94,141,267	5,836,052	5.8%
Debt impairment	2,211,425,099	1,343,750,067	867,675,032	39.2%
Collection cost	148,107,160	153,335,126	(5,227,966)	-3.5%
Depreciation	1,879,297,210	1,923,847,289	(44,550,079)	-2.4%
Impairment of assets	178,083,343	55,075,316	123,008,027	69.1%
Repairs and maintenance	1,328,381,213	1,336,282,933	(7,901,720)	-0.6%
Finance costs	571,556,210	572,960,412	(1,404,202)	-0.2%
Bulk purchases	10,218,507,648	9,485,710,668	732,796,980	7.2%
Contracted Services	714,568,087	685,924,857	28,643,230	4.0%
Grants and subsidies paid	1,167,558,759	1,060,444,401	107,114,358	9.2%
General expenses	1,280,424,977	1,064,020,276	216,404,701	16.9%
<b>Total Expenditure</b>	<b>25,385,237,510</b>	<b>23,207,628,354</b>	<b>2,177,609,156</b>	<b>8.6%</b>

Significant cost increases relates to higher than expected provision for bad debts in accordance with GRAP standards 39.2%, as well as impairment of capital asset not meeting capitalisation requirements costs 69.1% and increase in bulk purchases is (7.2%), and the general expense was 16.9%.

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***A comparison of the actual expenditure against the budget shows a 6.3% deviation.***

<b>Statement of Financial Performance</b>				
<b>EXPENDITURE</b>	<b>Budget</b>	<b>Actual</b>	<b>Value variance</b>	<b>% Variance</b>
Employee related costs	6,072,978,547	5,587,350,485	485,628,062	8.0%
Remuneration of councillors	101,918,572	99,977,319	1,941,253	1.9%
Debt impairment	1,230,204,146	2,211,425,099	(981,220,953)	-79.8%
Collection cost	188,150,514	148,107,160	40,043,354	21.3%
Depreciation	2,051,462,707	1,879,297,210	172,165,497	8.4%
Impairment of assets	-	178,083,343	(178,083,343)	100.0%
Repairs and maintenance	1,747,139,684	1,328,381,213	418,758,471	24.0%
Finance costs	669,271,989	571,556,210	97,715,779	14.6%
Bulk purchases	10,377,002,297	10,218,507,648	158,494,649	1.5%
Contracted Services	874,481,198	714,568,087	159,913,111	18.3%
Grants and subsidies paid	1,555,786,529	1,167,558,759	388,227,770	25.0%
General expenses	1,649,572,920	1,280,424,977	369,147,943	22.4%
Internal Charges	582,821,663	-	582,821,663	100.0%
<b>Total Expenditure</b>	<b>27,100,790,766</b>	<b>25,385,237,510</b>	<b>1,715,553,256</b>	<b>6.3%</b>

Operating expenditure below budget mainly less spending on Repairs and Maintenance at 24.0%, and saving on finance costs 14.6% and contract services 18.3%. Grants and Subsidies paid at 25.0% less and cost cutting measure for general expenses resulted in savings of 22.4%.

The financial performance for the year reflects as a positive performance. The minimal variance between the budget and actual indicates an improved level of planning being performed by departments and realisation of budgeted revenue projections, and keeping expenditure within the approved budget.

### **Statement of Financial Position**

***Explanatory notes on what the Statement of Financial Position entails***

*The purpose of the Statement of Financial Position is to give an account of the assets and liabilities of the municipality at the end of the financial year.*

*Net assets are shown which the difference between the assets and the liabilities is. If the municipality has a net deficit, it is indicative that the municipality has more liabilities than assets, which could be interpreted as being insolvent.*

When comparing the Statement of Financial Position with that of 2014, the following variances are evident:

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<b><u>Statement of Financial Position</u></b>				
<b>ASSETS</b>	<b>June 15</b>	<b>June 13</b>	<b>Value variance</b>	<b>% Variance</b>
<b>CURRENT ASSETS</b>	<b>13,291,583,225</b>	<b>11,258,185,892</b>	<b>(2,033,397,333)</b>	<b>-15.3%</b>
<b>NON-CURRENT ASSETS</b>	<b>46,113,799,915</b>	<b>44,790,496,379</b>	<b>(1,323,303,536)</b>	<b>2.9%</b>
<b>TOTAL ASSETS</b>	<b>59,405,383,140</b>	<b>56,048,682,271</b>	<b>3,356,700,869</b>	<b>5.7%</b>
<b>CURRENT LIABILITIES</b>	<b>7,353,457,269</b>	<b>6,536,462,859</b>	<b>816,994,410</b>	<b>11.1%</b>
<b>NON CURRENT LIABILITIES</b>	<b>8,311,131,623</b>	<b>7,851,057,486</b>	<b>460,074,137</b>	<b>5.5%</b>
<b>TOTAL LIABILITIES</b>	<b>15,664,588,892</b>	<b>14,387,520,345</b>	<b>1,277,068,547</b>	<b>8.2%</b>
<b>NET ASSETS (NET POSITION)</b>	<b>43,740,794,248</b>	<b>41,661,161,926</b>	<b>2,079,632,322</b>	<b>4.8%</b>

Net assets increased by 4.8% from year to year.

### **Cash Flow Statement**

#### ***Explanatory notes on what the Cash Flow Statement entails***

*The cash flow statement shows a positive net cash inflow (money received). Here accruals are not applicable as the focus is on cash movements. Technically the statement starts with the accounting surplus as per the Statement of Financial Performance which gets adjusted for all non-cash transactions. All other cash transactions not resulting from the Statement of Financial Performance are recorded. These items can be referenced back to both the capital budget as well as the items reported as part of the quarterly Section 11 withdrawals reports submitted to Council.*

*There are three main categories:*

*Net cash resulting from operating activities – this section shows the result of the operations of Council in cash terms. It includes the rendering of municipal services, purchasing of inventory kept in stores, debtors and creditors transactions and interest paid and received.*

*Net cash resulting from investing activities – this section shows the result from amounts invested (either in assets through the capital budget or as cash investments) as well as investments made and/or withdrawn.*

*Net cash resulting from financing activities – this section shows the result from financing activities, being mainly external loans taken up or redeemed.*

*A healthy financial situation is one where the municipality has a net cash surplus resulting from operations as main source of revenue rather than from financing activities. A second important measure is to look for a correlation between cash*

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*generated from financing activities and investing activities which shows that funds borrowed were invested in capital infrastructure and not used for operations.*

*A very dangerous situation would be where there is a net cash deficit from operations, no or limited cash invested but cash received from financing activities. That would be indicative of a municipality utilising borrowings to fund operations instead of infrastructure assets.*

Cash resources increased as follows:

<b>Cash flow Statement</b>				
	<b>June 15</b>	<b>June 14</b>	<b>Value variance</b>	<b>% Variance</b>
<b>Net Cash inflow from Operating activities</b>	4,529,589,382	3,910,406,400	(619,182,982)	-13.7%
<b>Net Cash outflow from Investing activities</b>	(3,284,828,885)	(2,568,553,600)	716,275,285	21.8%
<b>Net Cash inflow from Financing activities</b>	562,075,120	178,310,676	383,764,444	68.3%
<b>Net Increase in Cash and Cash equivalents</b>	<b>1,806,835,617</b>	<b>1,520,163,476</b>	<b>286,672,141</b>	<b>15.9%</b>
<b>Cash and Cash equivalents at Beginning of the year</b>	5,894,540,499	4,374,377,023	1,520,163,476	25.8%
<b>Cash and Cash equivalents at End of the year</b>	<b>7,701,376,116</b>	<b>5,894,540,499</b>	<b>1,806,835,617</b>	<b>2346.1%</b>

The EMM generated cash of R1.8b during the 2014/2015 financial year and last year was R1.5b. The year started with a cash balance of R5.9b and ended with cash of R7.7b. The cash were generated as follows:

- From operations – R4.5 billion cash increase - Simply stated this means that the difference between amounts received from our customers for services rendered and grants received were R4.5b more than the amounts that we paid out as operating expenditure to our suppliers and employee costs.
- From investing activities – R3.3 billion cash outflow – this means that we invested R3.3b of our cash. Of this, R3.1 billion was spent on acquiring capital projects, and R217m invested in sinking funds for the repayment of long term borrowings.
- From financing activities – R562 million cash increase – This relates to additional borrowing of R750m and repayment of R260m worth of loans. In addition, we received R70m of consumer deposits.

The fact that the cash generated from operations are over R4.5b more than the cash generated from financing activities shows that the Metro is able to generate funds from its own operation and does not borrowing beyond prudent levels. This will minimize the borrowings for the financing of the capital expenditure programme in future and repayment of amount borrowed.

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The loan redemption profile of the existing loans is as follows:

Period	Opening Balance	New Loans	Redemption	Closing Balance	Inv Maturing	Net Redemption	Annuity Payments	Bullet Payments
2013/14	5,198,340,315	785,000,000	184,289,481	5,799,050,834		184,289,481	215,730,852	400,020,333
2014/15	5,799,050,834	750,000,000	284,180,372	6,264,870,463	32,620,000	251,560,372	251,423,872	32,756,500
2015/16	6,264,870,463		342,666,436	5,922,204,027		342,666,436	342,666,436	
2016/17	5,922,204,027		361,074,769	5,561,129,258		361,074,769	361,074,769	
2017/18	5,561,129,258		381,507,419	5,179,621,839		381,507,419	381,507,419	
2018/19	5,179,621,839		316,839,434	4,862,782,406		316,839,434	316,839,434	
2019/20	4,862,782,406		240,032,404	4,622,750,001		240,032,404	240,032,404	
2020/21	4,622,750,001		1,862,577,255	2,760,172,746	1,615,000,000	247,577,255	247,577,255	1,615,000,000
2021/22	2,760,172,746		255,517,250	2,504,655,496		255,517,250	255,517,250	
2022/23	2,504,655,496		264,486,590	2,240,168,906		264,486,590	264,486,590	
2023/24	2,240,168,906		1,074,554,204	1,165,614,702	800,000,000	274,554,204	274,554,204	800,000,000
2024/25	1,165,614,702		286,007,579	879,607,123		286,007,579	286,007,579	
2025/26	879,607,123		105,666,667	773,940,456		105,666,667	105,666,667	
2026/27	773,940,456		105,666,667	668,273,790		105,666,667	105,666,667	
2027/28	668,273,790		105,666,667	562,607,123		105,666,667	105,666,667	
2028/29	562,607,123							

These loans will be redeemed from a sinking fund that is in place and funds are transferred annually to the reserves. The redemption of the loans will therefore not have a negative impact on the cash available for operations.

External loans increased as follows in the past three financial years:

Financial Institution	Closing Balance 30 June 2013	Closing Balance 30 June 2014	Closing Balance 30 June 2015	Closing Balance 30 June 2016	Closing Balance 30 June 2017
DBSA	45,131,251				
RMB	32,620,000	32,620,000	-	-	-
ABSA	1,129,170,335	699,131,456	665,295,677	627,439,953	585,048,606
Nedbank	711,276,191	610,358,923	498,300,997	374,156,951	236,140,196
Municipal Bonds	3,215,000,000	3,946,666,667	4,591,000,000	4,410,333,333	4,429,666,667
<b>Total Liabilities</b>	<b>5,088,066,526</b>	<b>5,288,777,045</b>	<b>5,754,596,673</b>	<b>5,411,930,237</b>	<b>5,250,855,469</b>

The Metro has an accumulated surplus of R43.7b –meaning that the net assets exceeds the municipality liabilities by this amount. The accumulated surplus is stated in accrual terms and is not a cash surplus.

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**Capital Budget Implementation**

The final departmental performance insofar as the capital budget is concerned is reflected below:

Department	Sum of Adjusted Budget	Expenditure for the Year	Percentage Spent
Chief Operating Officer	130,000	106,029	81.56%
City Manager	270,000	154,517	57.23%
City Planning	4,150,000	2,577,522	62.11%
Communication and Brand Management	290,000	263,411	90.83%
Corporate Legal Services	4,932,600	3,707,791	75.17%
Customer Relations Management	64,821,616	38,527,922	59.44%
Disaster & Emergency Management Services	105,119,920	90,875,284	86.45%
Economic Development	57,500,000	57,962,388	100.80%
EMPD	144,946,066	132,260,756	91.25%
Energy	544,650,000	524,288,331	96.26%
Environmental Resources Management	9,495,000	8,350,113	87.94%
EPMO	3,180,000	171,409	5.39%
Executive Office	2,663,000	1,871,747	70.29%
Finance	20,351,000	19,215,578	94.42%
Fleet Management	20,031,856	16,015,664	79.95%
Health & Social Development	96,600,000	91,990,278	95.23%
Human Resources Management & Development	850,000	701,770	82.56%
Human Settlements	328,748,780	178,604,494	54.33%
ICT	220,438,000	236,783,891	107.42%
Internal Audit	606,400	573,705	94.61%
Legislature	4,300,000	2,897,890	67.39%
Real Estate	259,296,314	169,813,002	65.49%
Risk Management	290,000	271,352	93.57%
Roads and Stormwater	608,100,000	367,727,985	60.47%
SRAC	118,226,084	90,312,433	76.39%
Strategy & Corporate Planning	310,000	99,581	32.12%
Transport	617,231,221	523,290,537	84.78%
Waste Management	101,295,308	75,719,063	74.75%
Water & Sanitation	472,126,457	434,029,831	91.93%
<b>Grand Total</b>	<b>3,810,949,622</b>	<b>3,069,164,272</b>	<b>80.54%</b>

Capital spending increased from R2 612 301 079 (in 2013/2014) to R3 069 164 272 (80.5% in 2014/2015). The actual spending on capital amount increased by R457 from previous financial year but performance against budget was below of the previous financial period from 87.4% down to 80.5% in the current year.

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**SECTION C: REPORT OF THE AUDITOR GENERAL**

The Auditor General (AG) report contained in the annexures to this report is the signed report. The page numbers (which refer to the pages in the annual report) will be included in the published version (glossy) of the annual report.

The MFMA, Section 126 (3) require The Auditor-General must—

- a) audit those financial statements; and
- b) submit an audit report on those statements to the accounting officer of the municipality or entity within three months of receipt of the statements.

The report of the Auditor General will include audit work performed on the following activities of the municipality:

- a) Financial Statements, whether the financial statement fairly present in all material aspect the financial results and financial position of the municipality and it cash flow
- b) Predetermined objectives, whether the information reported by the municipality on service delivery targets is usefulness and reliable as reported in the municipality's annual report
- c) Compliance with Laws and Regulations, whether the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters.
- d) Any other audit work performed on behalf of the municipality (other audit services)

**The report of the Auditor General is summarized as follows:**

Par 2: Accounting Officer's responsibility – compilation of Annual Financial Statements (AFS), in other words, the City Manager is responsible for the compilation of the annual financial statements as well as the disclosure notes. This includes the notes on irregular, fruitless and wasteful expenditure.

Par 3 to 4: Auditor General's responsibility – auditing of AFS and expressing an opinion as to whether the AFS gives a true reflection of the municipality financial performance and its financial position for the year ended and the audit procedures performed in reaching the audit opinion.

Par 5: Indicate that sufficient audit evidence was obtained to express the audit opinion.

Par 6: Audit opinion – **CLEAN AUDIT OPINION**

***Additional clarity / definitions:***

***What types of audit opinions are there?***

*DISCLAIMER - When the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive (i.e. very serious / chaos).*

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*ADVERSE* - The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements i.e the statements are inaccurate.

*QUALIFIED* - The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements – also called “except for” financial statements accurate except for certain matters

*UNQUALIFIED* - The opinion expressed by the auditor when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. This means there are no material errors in the financial statements.

**What a financial audit opinion says – in other words, what does it mean to have an unqualified audit opinion?**

*Opinion as to whether the financial statements are a true reflection (in all material aspects) of the financial results of the municipality.*

**What a financial audit opinion does not say – in other words, even if you are unqualified, it does not mean that:**

- *There are no fraud*
- *The municipality has enough cash / is financially in a good position*

**What is Materiality?**

- *Amount determined by AG that is deemed to be big enough to cause a misstatement - +-R100m for EMM*
- *Opinion based on findings that are material in value, i.e. errors > R100m impacts on opinion*

**What is Significant matters?**

*Regardless of the materiality amount, certain items are deemed to be material due to the nature of the item, such as disclosure requirements.*

**Why does the report not say that it is “Clean” or not?**

*In private sector, an unqualified audit is the norm. There is no concept of “clean” in private sector and the term is also not contained in audit standards.*

*However, in public Sector a higher level of accountability is required. The goal is to achieve clean audit as we are dealing with public funds.*

**Then what is a “Clean Audit”?**

**A clean audit is an audit opinion that is:**

- **Financially unqualified**
- **Has no findings on Pre-Determined Objectives**

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- ***Has no findings on Compliance Matters***



Par 7: Indicates that Emphasis of Matter is intended to draw attention to the matters but it does not change the audit opinion, in other words, the audit opinion remains unqualified and these matters also do not impact on the clean audit principle.

**Par 8: Significant uncertainties**

With reference to note 46 to the annual financial statements, the municipality is the defendant in various court cases and disputes. The ultimate outcome of these matters cannot presently be determined or reliably measured; therefore no provision for any liability that may result has been made in the financial statements.

**Par 9 & 10: Material losses**

As disclosed in note 57 to the annual financial statements, material losses amounting to R748 033 030 (2014: R790 180 771) were incurred as a result of electricity distribution losses, which represent 10.06% (2014: 11.34%) of total electricity purchased. The total technical losses of electricity amounts to 5.9% (2014: 5.9%) and non-technical losses to 4.16% (2014: 5.44%).

As disclosed in note 57 of the annual financial statements, material losses amounting to R707 966 059 (2014: R669 059 908) were incurred as a result of water distribution losses, which represent 32.11% (2014: 33.90%) of total water purchased. The total technical losses of water amounts to 17.29% (2014: 17.3%) and non-technical losses to 17.11% (2014: 16.60%).

**Par 11: Material impairment**

As disclosed in note 15 to the annual financial statements, trade and other receivables were significantly impaired as the recoverability of these amounts are doubtful. The impairment of receivables amounts to R9 144 328 715 (2014: R8 371 490 355), which represents 67.58% (2014: 65.2%) of consumer debtors.

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**UNAUDITED DISCLOSURE NOTES**

Par 13: In terms of section 125(2) (e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statement and accordingly I do not express an opinion thereon.

**REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

Par 14: In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

**Predetermined objectives**

Para 15: I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2015:

- Development priority - Waste Management
- Development priority - Energy
- Development priority - Human Settlements
- Development priority - Roads and Stormwater
- Development priority - Water and Sanitation
- Development priority - Transport and Licensing

**Predetermined objectives**

Par 20: There were no material findings on the usefulness and reliability of the reported performance information for the selected development priorities.

**Adjustments of material misstatements**

Par 22: I identified material misstatements in the annual performance report submitted for auditing of the reported performance information for the following development priorities:

- Development priority - Waste management
- Development priority - Roads and stormwater

Par 23: As management subsequently corrected the misstatements, I did not raise

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material findings on the reliability and usefulness of the reported performance information.

**Compliance with laws and regulations**

Par 24: I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. I did not identify any instances of material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA.

**Internal control**

Par 25: I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. I did not identify any significant deficiencies in internal control.

**OTHER REPORTS**

**Investigations**

Par 26: During the financial year 73 investigations were being conducted of which 27 were being carried forward from the previous financial year by the internal audit division of the municipality. Of these, 51 investigations were finalised and 22 of the investigations were at the field work stage. Circumstances that resulted in investigations pertained mainly to non-compliance with SCM regulations, fraud and financial misconduct.

**Audit related and special audits**

Par 27: As requested by the municipality, an agreed upon procedure engagement was conducted during the year under review concerning the sixth issue of R750 million notes under the Domestic Medium Term Note Programme. The report covered the period 1 July 2014 to December 2014 and the bonds were issued on 18 June 2015.

**SECTION D: APPROVAL OF FINAL YEAR END TRANSACTIONS FOR THE  
COMPILATION OF THE 2014/2015 FINANCIAL STATEMENTS**

As part of the compilation of the financial statements process, and to comply with the requirements of Generally Recognized Accounting Practices (GRAP), the following transactions were processed that requires ratification from or notification to Council:

**Council approval required:**

- Other Assets to be written off: assets with a book value of R7 838 173 being derecognised by the relevant departments, as assets that are no longer in use or have reached the end of their useful lives,

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- An amount of R178 083 343 had to be impaired as these Capital Expenditure did not meet capitalization requirements as per applicable accounting standards, which have to be derecognised.
- The criteria for redundant stock are where no or little movement for the past three years occurs on the item. Stock with no movement for the last three years were identified and circulated to departments to indicate any need for the items as from January 2014. Where no comments were received, it is presumed that there is no need for the stock - Redundant Stock to be written off – R16 421.58
- The annual stock taking for the year ended 30 June 2014 was conducted throughout the Council from 5 May 2015 until 31 May 2015, in a staggered manner to avoid the hampering of the Council's Operations. Damaged found on stock amounted to R473 029.76
- During the annual stock take differences were found on stock items - Surplus Stock to be brought into the General Ledger – R673 651.94 Stock Shortages to be written off – R784 135.15
- Debtors written off in terms of the CFO's delegated powers – these are reported to Council in terms of the various council resolutions taken regarding the delegations.
- Virements were done between the following from Votes 1:4:5:10 and 15 to Votes 2 and 9 in accordance with Circular 68 of the MFMA and the Accounting Policy for Material budget variances. These virements did not result in an outflow of cash from the municipality but were made to defray the increased amount for the provision for bad debts as calculated in accordance with the EMM policy for provision for bad debts and the applicable accounting standards.

**ORGANISATIONAL AND HUMAN RESOURCE IMPLICATIONS**

None

**FINANCIAL IMPLICATIONS**

None

**LEGAL IMPLICATIONS**

None

**COMMUNICATION IMPLICATION**

None

**OTHER DEPARTMENTS/ BODIES CONSULTED**

The Finance Management team was consulted, and these results were reviewed by the audit committee and the recommendations were noted in preparing these reports. HOD's commented on matters raised by the Auditor General in respect of matters under their area of responsibility, and corrective action will be monitored by the OPCA, internal audit and audit committee in the 2015/16 financial year.

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**RECOMMENDATION**

1. **That** the Annual Report, inclusive of the Annual Financial Statements and the Report of the Auditor-General for the 2014/2015 financial year, **BE NOTED**.
2. **That** the report, inclusive of the reports of the Municipal Entities, **BE REFERRED** to the Municipal Public Accounts Committee (MPAC) for the oversight process as contemplated in section 129 of the Municipal Finance Management Act.
3. **That** all instances of Irregular, Fruitless and Wasteful Expenditure as reported in the Annual Financial Statements, inclusive of the reports of the Municipal Entities, **BE REFERRED** to the Municipal Public Accounts Committee (MPAC) for investigation as contemplated in section 32 of the Municipal Finance Management Act.
4. **That** the Municipal Public Accounts Committee **REPORT BACK** to Council by no later than end March 2014 as required by sections 32 and 129 of the Municipal Finance Management Act.
5. **That** the final year end transactions for the compilation of the financial statements as described in the report, **BE APPROVED**.
6. **That** the municipality and municipalities entities Annual Reports, inclusive of the Annual Financial Statements and the Report of the Auditor-General for the 2014/2015 financial year, **BE APPROVED**.
7. **That** the Annual Report, inclusive of the Annual Financial Statements and the Report of the Auditor-General for the 2014/2015 financial year, **BE REFERRED** to Municipal Public Accounts Committee and all Section 79 Oversight Committees.