

**CITY OF EKURHULENI METROPOLITAN MUNICIPALITY  
ORDINARY COUNCIL MEETING**

**2019.01.31**

**A-F (01-2019)**

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**CITY OF EKURHULENI (CoE) METROPOLITAN MUNICIPALITY: SUBMISSION OF ANNUAL REPORT, INCLUSIVE OF ANNUAL FINANCIAL STATEMENTS AND REPORT OF THE AUDITOR-GENERAL, FOR THE 2017/2018 FINANCIAL YEAR**

**PURPOSE**

To submit the Annual Report, inclusive of the Annual Financial Statements and the Report of the Auditor-General, for the 2017/2018 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 2017/2018 financial year has been prepared in accordance with Section 126 of the Municipal Finance Management Act and the Annual Report for the 2017/2018 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 COE has completed both the financial statement, Consolidated financial statements as well as the annual report within the legislative deadlines. The municipal entities have also complied will all various legislative deadlines.

The external audit process 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 2018 (COE and Entities) and December 2018 (Consolidated).

The audit outcomes were as follows:

COE Core	<b>Unqualified audit opinion</b>
COE Consolidated	<b>Unqualified audit opinion</b>
ERWAT	<b>Unqualified audit opinion</b>
BBC	<b>Unqualified audit opinion</b>
EHC	<b>Unqualified audit opinion</b>

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The final annual report with the annual financial statements and reports 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 2019 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 were incurred during the 2017/2018 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 2019, 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 which must be 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 city only and the reports of the municipal entities are attached as annexures to this report.

This submission also includes, a request to Council of ratification of Final Year End Transactions on the Compilation of the 2017/2018 Financial Statements as required by the Generally Recognised Accounting Practices (GRAP).

The following Annexures are attached to this submission:

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

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

## **DISCUSSION**

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

The full analysis of the city's performance against its commitments set in the Service Delivery Budget Implementation Plan (SDBIP) for the 2017/18 financial year is presented in the Annual Report submitted or attached (**Annexure A**).

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Over the year under review, the City committed to a total of eighty-two (82) targets in the 2017/2018 financial year. Against these commitments, 60 (73%) targets were achieved and 22 (27%) were not achieved. The committed targets were contributed by the twenty-seven (27) departments and entities for the metro-wide SDBIP, with the exclusion of two (2) departments that had no targets for the metro-wide SDBIP. The two departments are Strategy and Corporate Planning and Human Resources Management. Of the twenty-seven (27) departments and entities that committed to the targets, four (4) departments and one (1) entity achieved less than fifty per cent (50%) of their planned targets. The four (4) departments are Human Settlement, ICT, Transport Planning and Finance. The Brakpan Bus Company (BBC) achieved none (0%) of its planned targets. A total of thirteen (13) departments achieved hundred per cent (100%) of their planned targets and ERWAT is the only entity that achieved 100% of its planned targets.

There has been a notable improvement on the credibility of the reported performance information. This is evidenced by the achievement of favourable audit results on the audit of performance against predetermined objectives. During the audit process, the AGSA observed that there were adequate systems of internal controls implemented to ensure that credible, performance report is produced where there were no material misstatements. The improvement is attributed to a focused implementation of control measures which included the evidence based reporting approach meant to impact positively on the usefulness and reliability of reported information and other performance monitoring interventions instituted which included strong oversight mechanisms and other management practices.

The reported performance is in support of a Delivering City trajectory of the Growth and Development Strategy 2055 (GDS). The performance against the Thematic Areas of the Growth and Development Strategy (GDS) on targets that were planned to be delivered over the period under review and the performance is summarised as follows:

- The highest performance was recorded for the Environmental Wellbeing GDS Thematic Area in which a hundred per cent (100%) of the eight (8) targets that were planned for were achieved.
- The second highest performance was recorded for targets that were planned for the Job Creation Economic Growth GDS Thematic Area. Six (6) of the seven (7) targets that were planned were achieved and this translates to eighty-six per cent (86%) target achievement.
- The above figure indicates that a total of eight (8) targets were planned for the Social Empowerment GDS Thematic Area, of which 5 (63%) were achieved and 3 (37%) were not achieved.
- A total of twenty-one (21) targets were planned for the Effective Cooperative Governance GDS Thematic Area. Of the twenty-one (21) targets, 15 (71%) were achieved and 6 (29%) were not achieved.
- A total of thirty-four (34) targets were planned for the Sustainable Urban Integration GDS Thematic Area. Of the thirty-four (34) targets, 21 (62%) were achieved and 13 (38%) were not achieved.

Against the thematic areas of the GDS, some of the results achieved included:

## **1. RE-GOVERN**

The City made commendable strides in promoting a more effective, accountable, responsive, transparent and clean local government. In its efforts to improve good governance, the City placed a premium on legislative compliance, strengthening of management practices, broadening

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participation, financial governance and dedicated customer care as well as striving for effective service delivery.

Some of the results and critical milestones achieved which are indicative of the fact that good governance is prioritised in the city included the following:

- The city maintained an unqualified audit opinion in terms of the audit results issued by the Auditor General South Africa (AGSA) with regards to the financial statements, and favourable audit results were achieved regarding the audit of performance against predetermined objectives with no material misstatements. This is attributed to improvement in the management practices and compliance to government legislation regarding the management of performance information
- Strengthened the risk management and internal audit capabilities
- The City has performed well in Gauteng on the citizens' satisfaction rating based on the indicators explored in the 2018 Quality of Life Survey conducted by the Gauteng City Region Observatory (GCRO). The Quality of Life Survey showed that 86% of people have access to basic services, and this is slightly higher than the provincial average. In actual fact the City is doing very well in this area that according to the GCRO report as the city was ahead of national targets in the provision of clean water (94.5% vs 84.9%), refuse removal (88.2% vs 62%) and sanitation (85.9% vs 59.%).
- Strengthened the functionality of the Customer Care Centres and continued to improve the handling of customer queries using the capabilities of the Call Centre.
- The successful delivery of the My Ekurhuleni service APP was a highlight for the City in the year.
- The city progressed well with the implementation of an ERP system. When the ERP system is fully operational it will assist the City in the subsequent years to promote the effective management of COE resources and information to respond to public queries and service requests.

## **2. RE-INDUSTRIALISE**

In pursuit of achieving a job creating economic growth, the city implemented a series of programmes. The results achieved included:

- 133,923 business tourists visited Ekurhuleni
- 2,158 job opportunities were created
- R-value of investments committed – R4,059 billion;
- 205 enterprises participated in the COE's business incubation programme.

## **3. RE-URBANISE**

The strategic intent of the Re-urbanize theme during is to drive improvements across all areas of service delivery. In pursuit of this imperative, the following results were achieved:

- Equipping 10 828 unmetered stands with water meters.
- Providing 2 284 additional households with water and sanitation connections
- The City maintained the Blue Drop status above 95% for five consecutive years. This is indicative of COE's positive efforts in promoting the quality of drinking water within the region.

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- In its effort to contribute to the reduction of crime and increase access to energy, COE installed:
  - 12 810 PV solar lighting units were installed in several informal settlements
  - 12 Solar high mast lights were installed
  - 1 585 street lights were installed
  - 8 981 subsidized households were electrified.

In pursuit of providing an efficient transport system, COE invested in the development of transport infrastructure and focused its efforts on the construction of pedestrian walkways and cyclist paths which resulted in the completion of 4.72km of pedestrian and cyclist paths.

Regarding Human Settlements, the City made progress amid the difficulties experienced. In this regard, some of the notable results included:

- Built a total of 277 subsidized housing units and handed them over to beneficiaries
- A total of 6 informal settlements were upgraded to formal townships
- Critical services such as water, sanitation, refuse removal, primary health care and lighting were provided on an ongoing basis to the 119 informal settlements.

In its quest to improve the road infrastructure and to promote the ease of transportation within the City, COE focused on the construction, upgrade and maintenance of the road and storm water infrastructure network. This included, upgrading of gravel roads to paved roads focusing on previously disadvantaged areas, 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, a total of 41.12 km of roads was paved/surfaced and 3715.179 km of the road network was maintained. In addition, a total of 83 stormwater systems were added to the existing network and 12 180 stormwater systems were maintained.

#### **4. RE-MOBILISE**

The Re-mobilise theme is aimed at building a healthy, active and engaged citizenry that has the capability of working in partnerships to develop the inter-generational capacity. In order to express this ideal, the City ensured that citizens across the city participated actively in a variety of related programmes. A number of initiatives were implemented and yielded some notable results. Building and operating libraries, sports facilities and arts and culture facilities are amongst the programmes that the City embarked on. In the year under review, COE is in the process of construction of two libraries, one arts and culture facility. The city made commendable strides in its contribution to the development of children in the region. In its effort to increase access to social care facilities, the city constructed three (3) new ECD centers. Strengthening the ECD programme through facilitating training of ECD practitioners resulted in a total of 174 ECD practitioners who received trained on SETA accredited NQF Level 4 ECD training.

Another critical service delivery area of intervention which the City recorded commendable strides on is the area of health care services. During the reporting period, 9% of clients tested through HIV Counselling and Testing (HCT) programme in the City's health facilities and through HCT Campaigns, which are conducted in areas including the informal settlements, tested HIV positive. The achievement could be attributed to among others, robust implementation of HIV and AIDS interventions in terms of the awareness campaigns and HCT coverage. An HIV transmission rate of

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from Mother-To-Child of 0.95% was achieved against a national target of less than 2%. This achievement could also be attributed to among others, improved implementation of the Prevention on Mother-to-Child Transmission (PMTCT) of HIV Programme interventions. More patients (47,835 against a target of 35,000) were put on antiretroviral treatment which translate into more patients having a better prospect of living a healthy and long life.

Safety and security across the City continues to be a high priority. The City heightened its efforts aimed at reducing road accidents, road fatalities and injuries as well as restoring confidence and respect for the road traffic management. Awareness of road traffic safety issues were implemented thereby inculcating good road user behavior and voluntary compliance to by-laws and traffic laws. Amongst the commendable progress achieved, there was an increase in by-law enforcement operations to 119, including the increase in traffic citations by 10%. Despite these improvements in interventions implemented to reduce crime traffic related accidents remained in the increase.

COE provided emergency response services through its fire stations. Response times for all safety and security services rendered improved substantially during the year under review with a compliance level at 76.75% to the prescribed attendance times for a fire risks categories as per SANS 10090. The increased availability of Emergency Medical Vehicles resulted in 64.35% of Priority 1 emergency medical calls serviced within the required response time. Complying with the provincial norms and standards Ekurhuleni achieved 58% of the set norms and standards regarding number of ambulance operational availability compared to 57% the previous year.

## **5. RE-GENERATE**

The City implemented many projects to mainstream biodiversity and ecosystem for value derivation. Promoting a clean and healthy environment for the residents of the City took a center stage. Amongst others, the activities undertaken included the monitoring of the regulatory compliance by COE departments using a compliance index score customized in accordance with environmental legal compliance requirements. An improvement in the regulatory compliance was observed on all the six (6) targeted COE infrastructure projects when viewed against the compliance index score developed. The environmental compliance monitoring efforts were also extended to industries within Ekurhuleni wherein inspections were conducted to assess compliance with the conditions of the National Environmental Management Act (NEMA). Significant progress was made with respect to the environmental regulation industry with more 30 companies inspected for environmental compliance against Atmospheric Emissions' Licenses.

All formal households across the City and additional households (RDP) received weekly waste collection services. Some of the informal households are currently serviced through Expanded Public Works programme through local co-operatives. In addition to the above 77 228 240 bins were rolled –out across the City. To increase landfill space, the City actively engaged communities in the recycling of waste. Over the period under review, 15% of waste was diverted from landfills and recycled. COE made a concerted effort in pursuing the generation of energy from alternate sources. During 2017/2018, 1.8 Megawatt of alternative/renewable power was generated.

In general, although there have been notable achievements, the city continued to be confronted by numerous challenges which impeded the full attainment of the intended results committed to over the year under review.

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

***Note:** The figures explained in this section relate to the COE 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 COE group, i.e. the COE plus the entities, whilst the controlling entity refers to the COE only.*

The Financial Performance of the city 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 city'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 City 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 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.*

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The City of Ekurhuleni generated a surplus of R1 455 500 005 and for the 2016/17 period was R1 179 835 882. The full set of GRAP accounting standards, as approved by the Accounting Standards Board were fully complied with in the preparation of these annual financial statements.

*A comparison of the actual revenue against the revenue of previous year.*

<b>Statement of Financial Performance</b>				
	<b>June 18</b>	<b>June 17</b>	<b>Value variance</b>	<b>% Variance</b>
<b>REVENUE</b>				
Property rates	5,200,065,020	3,990,436,802	1,209,628,218	23.3%
Property rates - penalties imposed	57,700,398	51,859,928	5,840,470	10.1%
Service charges	18,930,199,029	18,746,400,361	183,798,668	1.0%
Rental of facilities and equipment	73,356,530	67,521,340	5,835,190	8.0%
Interest earned - outstanding debtors	279,018,363	304,694,051	(25,675,688)	-9.2%
Licences and permits	54,880,804	50,248,868	4,631,936	8.4%
Fines	293,198,719	282,218,826	10,979,893	3.7%
Income from agency services	334,253,645	282,428,172	51,825,473	15.5%
Government grants and subsidies	7,262,341,924	6,836,096,411	426,245,513	5.9%
Public contributions and donations	590,501,134	122,740,801	467,760,333	79.2%
Interest earned - external investments	613,811,427	637,392,535	(23,581,108)	-3.8%
Other income	331,051,726	158,947,731	172,103,995	52.0%
<b>Total Revenue</b>	<b>34,020,378,719</b>	<b>31,530,985,826</b>	<b>2,489,392,893</b>	<b>7.3%</b>

Total revenue for the year amounted to R34 020 378 719, which is 5.5% increase from the revenue of the 2016/2017 year which was R31 530 985 827. The increased revenue is mainly resulting from the implementation a new valuation roll and other annual inflation adjustments as approved by council, as well as moderate growth and the increased in services rendered to residents and increased government grant and subsidies allocation.

*A comparison of the actual revenue against the budget revenue shows a 1.8% deviation.*

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<b>Statement of Financial Performance</b>				
	<b>Budget</b>	<b>Actual</b>	<b>Value variance</b>	<b>% Variance</b>
<b>REVENUE</b>				
Property rates	5,208,244,640	5,200,065,020	8,179,620	0.2%
Property rates - penalties imposed	55,540,973	57,700,398	(2,159,425)	-3.9%
Service charges	19,816,659,643	18,930,199,029	886,460,614	4.5%
Rental of facilities and equipment	80,108,131	73,356,530	6,751,601	8.4%
Interest earned - outstanding debtors	468,786,326	279,018,363	189,767,963	40.5%
Licences and permits	75,048,588	54,880,804	20,167,784	26.9%
Fines	319,310,291	293,198,719	26,111,572	8.2%
Income from agency services	279,373,796	334,253,645	(54,879,849)	-19.6%
Government grants and subsidies	7,853,697,119	7,262,341,924	591,355,195	7.5%
Public contributions and donations	3,000	590,501,134	(590,498,134)	-19683271%
Interest earned - external investments	390,000,000	613,811,427	(223,811,427)	-57.4%
Other income	101,768,928	331,051,726	(229,282,798)	100.0%
<b>Total Revenue</b>	<b>34,648,541,435</b>	<b>34,020,378,719</b>	<b>628,162,716</b>	<b>1.8%</b>

*A comparison of the actual expenditure against the expenditure of previous year.*

The total expenditure for the year amounted to R32 561 355 591 which is 6.8% increase from the expenditure of the 2016/2017 year which was R30 359 101 425.

<b>Statement of Financial Performance</b>				
	<b>June 18</b>	<b>June 17</b>	<b>Value variance</b>	<b>% Variance</b>
<b>EXPENDITURE</b>				
Employee related costs	7,233,916,439	6,172,418,344	1,061,498,095	14.7%
Remuneration of councillors	132,699,899	119,944,483	12,755,416	9.6%
Depreciation	2,234,123,551	1,885,512,196	348,611,355	15.6%
Impairment of assets	171,692,345	229,772,516	(58,080,171)	-33.8%
Finance costs	921,399,008	901,847,024	19,551,984	2.1%
Debt impairment	1,464,826,053	2,609,578,888	(1,144,752,835)	-78.1%
Collection cost	197,291,621	141,193,723	56,097,898	28.4%
Bulk purchases	12,942,284,399	12,402,510,939	539,773,460	4.2%
Contracted Services	1,345,754,998	1,061,353,750	284,401,248	21.1%
Grants and subsidies paid	1,726,401,173	1,206,629,927	519,771,246	30.1%
General expenses	4,190,966,104	3,628,339,636	562,626,468	13.4%
<b>Total Expenditure</b>	<b>32,561,355,590</b>	<b>30,359,101,426</b>	<b>2,202,254,164</b>	<b>6.8%</b>

Significant cost increases relate to, the implementation of the revised salary scales approved in the last quarter of the previous year 2016/17; Depreciation increased as a result of the implementation of the new capex roll-out programme, collection costs increased by 28.4 which resulted in the achievement of the 94% collection rate; contracted services increased by 21.1% due to additional work performed by consultants and the Grants paid increased by 30.1% as a result of the City increasing its subsidies services. General expenses increased by 13.4% as a result of improved

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spending on repairs and maintenance. Debt impairment returned to its normal condition after realignment of the debtors' policy to GRAP standards and to reflect the adverse economic conditions in previous year, additional audit adjustment calculated in accordance with GRAP standards.

***A comparison of the actual expenditure against the budget expenditure shows a 1% 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	7,756,503,280	7,233,916,439	522,586,841	6.7%
Remuneration of councillors	132,021,987	132,699,899	(677,912)	-0.5%
Depreciation	2,156,709,775	2,234,123,551	(77,413,776)	-3.6%
Impairment of assets	-	171,692,345	(171,692,345)	#DIV/0!
Finance costs	609,510,921	921,399,008	(311,888,087)	-51.2%
Debt impairment	1,323,638,198	1,464,826,053	(141,187,855)	100.0%
Collection cost	208,322,420	197,291,621	11,030,799	5.3%
Bulk purchases	12,945,040,271	12,942,284,399	2,755,872	0.0%
Contracted Services	1,402,077,684	1,345,754,998	56,322,686	4.0%
Grants and subsidies paid	1,717,187,544	1,726,401,173	(9,213,629)	-0.5%
General expenses	4,347,121,021	4,190,966,104	156,154,917	3.6%
<b>Total Expenditure</b>	<b>32,598,133,101</b>	<b>32,561,355,590</b>	<b>36,777,511</b>	<b>0.1%</b>

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 city at the end of the financial year.*

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

When comparing the Statement of Financial Position with that of 2017, the following variances are evident:

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<b><u>Statement of Financial Position</u></b>				
	June 18	June 17	Value variance	% Variance
<b>ASSETS</b>				
<b>NON-CURRENT ASSETS</b>	<b>55,225,127,776</b>	<b>51,304,510,213</b>	<b>(3,920,617,563)</b>	<b>7.1%</b>
<b>CURRENT ASSETS</b>	<b>11,841,274,889</b>	<b>12,091,099,018</b>	<b>249,824,129</b>	<b>2.1%</b>
<b>TOTAL ASSETS</b>	<b>67,066,402,665</b>	<b>63,395,609,231</b>	<b>3,670,793,434</b>	<b>5.5%</b>
<b>NON CURRENT LIABILITIES</b>	<b>8,297,897,490</b>	<b>7,637,592,905</b>	<b>660,304,585</b>	<b>8.0%</b>
<b>CURRENT LIABILITIES</b>	<b>9,730,516,088</b>	<b>8,175,527,245</b>	<b>1,554,988,843</b>	<b>16.0%</b>
<b>TOTAL LIABILITIES</b>	<b>18,028,413,578</b>	<b>15,813,120,150</b>	<b>2,215,293,428</b>	<b>12.3%</b>
<b>NET ASSETS (NET POSITION)</b>	<b>49,037,989,087</b>	<b>47,582,489,081</b>	<b>1,455,500,006</b>	<b>3.0%</b>
<b>Accumulated Surplus/(Deficit)</b>	<b>49,037,989,087</b>	<b>47,582,489,081</b>	<b>(1,455,500,006)</b>	<b>3.0%</b>

Net assets increased by 3% 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.*

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*A healthy financial situation is one where the city 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 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 city utilising borrowings to fund operations instead of infrastructure assets.*

Cash resources increased as follows:

<b>Cash flow Statement</b>	<b>June 18</b>	<b>June 17</b>	<b>Value variance</b>	<b>% Variance</b>
<b>Net Cash inflow from Operating activities</b>	2,965,955,698	3,013,555,601	47,599,903	1.6%
<b>Net Cash outflow from Investing activities</b>	(6,235,703,658)	(4,868,498,939)	1,367,204,719	21.9%
<b>Net Cash inflow from Financing activities</b>	987,588,208	(307,426,381)	1,295,014,589	131.1%
<b>Net Increase in Cash and Cash equivalents</b>	<b>(2,282,159,752)</b>	<b>(2,162,369,719)</b>	<b>(119,790,033)</b>	5.2%
<b>Cash and Cash equivalents at Beginning of the year</b>	5,809,953,546	7,972,586,235	(2,162,632,689)	-37.2%
<b>Cash and Cash equivalents at End of the year</b>	<b>3,527,793,794</b>	<b>5,810,216,516</b>	<b>(2,282,422,722)</b>	-6469.8%

The COE generated from its operating activities a cash of R3 billion during the 2017/2018 financial year and last year was R3.013. The year started with a cash balance of R5.8b and ended with cash of R3.5b. The cash on hand decreased significantly due to the fact that in the current year the capital expenditure was funded from internal revenue and no long-term borrowing were obtained. The cash were generated as follows:

- From operations – R3 billion cash increase - Simply stated this means that the difference between amounts received from our customers for services rendered and grants received were R3b more than the amounts that we paid out as operating expenditure to our employee costs and suppliers in delivering services
- From investing activities – R6.2 billion cash outflow – this means that we invested R6.2b of our cash. Of this, R5.6 billion was spent on acquiring capital projects, and R601m invested in sinking funds for the repayment of long term borrowings.
- From financing activities – R987 million cash inflow – This relates to repayment of R371m worth of long term loans, and new long term borrowing received in the current year of R1.3b relating to the financing of the previous year (2016/17) capital expenditure, which was received in July 2017. In addition, we received R59m of consumer deposits.

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The fact that the cash generated from operations are over R3b more than the cash generated from financing activities shows that the City 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.

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
2014/15	5,799,050,834	750,000,000	284,180,372	6,264,870,463		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	1,300,000,000	433,174,085	6,427,955,173		433,174,085	433,174,085	
2018/19	6,427,955,173		420,172,767	6,007,782,406		420,172,767	420,172,767	
2019/20	6,007,782,406		343,365,738	5,664,416,668		343,365,738	343,365,738	
2020/21	5,664,416,668		1,965,910,589	3,698,506,079	1,615,000,000	350,910,589	350,910,589	1,615,000,000
2021/22	3,698,506,079		358,850,583	3,339,655,496		358,850,583	358,850,583	
2022/23	3,339,655,496		367,819,923	2,971,835,572		367,819,923	367,819,923	
2023/24	2,971,835,572		1,177,887,537	1,793,948,035	800,000,000	377,887,537	377,887,537	800,000,000
2024/25	1,793,948,035		389,340,912	1,404,607,123		389,340,912	389,340,912	
2025/26	1,404,607,123		209,000,000	1,195,607,123		209,000,000	209,000,000	
2026/27	1,195,607,123		209,000,000	986,607,123		209,000,000	209,000,000	
2027/28	986,607,123		184,000,000	802,607,123		184,000,000	184,000,000	

The bullets loans will be redeemed from a sinking funds that are 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 borrowing profiles for the last two and the next two financial years is as follows:

Closing Balance 30 June 2016	Closing Balance 30 June 2017	Closing Balance 30 June 2018	Closing Balance 30 June 2019	Closing Balance 30 June 2020
627,439,953	585,048,606	537,503,780	484,175,283	424,809,545
374,156,951	236,140,196	82,844,270	-	-
4,410,333,333	4,429,666,667	5,318,536,003	5,013,333,333	4,729,333,333
<b>5,411,930,237</b>	<b>5,250,855,469</b>	<b>5,938,884,053</b>	<b>5,497,508,616</b>	<b>5,154,142,878</b>

The city has an accumulated surplus of R49.3b –meaning that the city’s net assets balance exceeds the city’s total liabilities by this amount. The accumulated surplus is presented on accrual basis as per the accounting standards for reporting purposes and does not mean actual cash balance position.

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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	112,200,000	85,264,119	75.99%
City Manager	180,000	172,268	95.70%
City Planning	45,142,674	38,823,515	86.00%
Communication and Brand Management	750,000	722,569	96.34%
Corporate Legal Services	2,650,000	2,585,479	97.57%
Corporate Planning & Strategy	560,000	554,203	98.96%
Council General	513,727,773	482,353,516	93.89%
Customer Relations Management	32,000,000	27,683,587	86.51%
Disaster & Emergency Management Services	194,470,000	190,435,608	97.93%
Economic Development	145,100,000	142,631,431	98.30%
EMPD	162,300,000	146,067,794	90.00%
Energy	717,700,000	708,401,759	98.70%
Environmental Resources Management	180,200,000	179,562,255	99.65%
EPMO	530,000	524,345	98.93%
Executive Office	7,550,000	4,707,122	62.35%
Finance	2,087,400	2,084,184	99.85%
Fleet Management	13,428,013	13,102,411	97.58%
Health & Social Development	91,989,735	86,766,187	94.32%
Human Resources Management & Development	1,500,000	1,324,774	88.32%
Human Settlements	984,879,577	919,414,784	93.35%
ICT	609,548,848	449,953,817	73.82%
Internal Audit	440,000	356,050	80.92%
Legislature	6,444,500	4,791,577	74.35%
Real Estate	208,005,862	197,680,922	95.04%
Risk Management	310,000	301,881	97.38%
Roads and Stormwater	717,800,004	685,589,495	95.51%
SRAC	128,989,940	122,407,398	94.90%
Transport	715,918,000	412,170,457	57.57%
Waste Management	166,250,000	137,743,710	82.85%
Water & Sanitation	599,300,000	591,633,345	98.72%
<b>Grand Total</b>	<b>6,361,952,326</b>	<b>5,635,810,563</b>	<b>88.59%</b>

Capital spending increased from R4 702 034 704 (in 2016/2017) to R5 635 810 563 in 2017/2018, the actual spending on capital amount increased by R933 million. The expenditure performance against budget in the current year is 88.59% as compared to the previous year of 91.6%.

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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 city 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 city:

- a) Financial Statements, whether the financial statement fairly present in all material aspect the financial results and financial position of the city and it cash flow
- b) Predetermined objectives, whether the information reported by the city on service delivery targets is usefulness and reliable as reported in the city's annual report
- c) Compliance with Laws and Regulations, whether the city 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 city (other audit services)

***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).*

*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 city.*

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***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 city 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 COE*
- *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:***

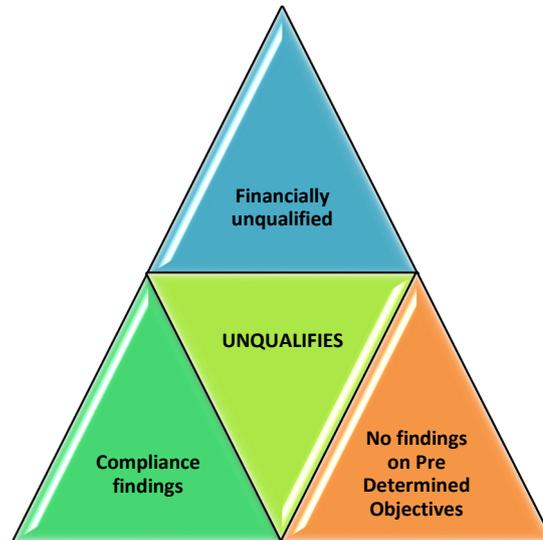
- ***Financially unqualified***
- ***Has no findings on Pre-Determined Objectives***
- ***Has no findings on Compliance Matters***

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**THE CITY OBTAINED UNQUALIFIED AUDIT OPINION, AND THE REPORT OF THE AUDITOR GENERAL IS SUMMARIZED AS FOLLOWS:**

Par 1-2: Audit opinion – **UNQUALIFIED AUDIT OPINION**, on the consolidated and separate financial statements of the City of Ekurhuleni.

Par 3 to 4: **Basis for opinion** – auditing of AFS and expressing an opinion as to whether the AFS gives a true reflection of the city 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: **Key Audit Matters** – Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the current period. These matters were addressed in the context of my audit of the consolidated and separate financial statements as a whole and in forming an opinion thereon and I do not provide a separate opinion or conclusion on these 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: Material uncertainties**

With reference to note 43 to the consolidated and separate financial statements, the group is the defendant in various lawsuits. The outcome of these matters cannot presently be determined and/or reliably measured; therefore, no provision for any liabilities that may result has been made in the consolidate and separate annual financial statements.

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**Par 9: Restatement of corresponding figures**

As disclosed in note 48 to the consolidated and separate financial statements, the corresponding figures for 30 June 2017 have been restated as a result of errors discovered in the financial statements of the group for the year ended 30 June 2018.

**Par 10: Material impairment**

As disclosed in the note 14 to the consolidated and separate financial statements, the consumer debtors balance has been significantly impaired. The allowance for impairment of consumer debtors amounts to R11 347 187 333 (2016-2017: 10 456 750) which represents 67% (2016-2017: 69%) of total consumer debtors. The contribution to the provision for debt impairment was R1 464 826 053 (2016-17: R2 609 578 888).

**Par 11 & 12: Material losses**

As disclosed in note 52 to the consolidated and separate financial statements, material electricity losses amounting to R1 076 496 700 (2016-17: R1 135 074 900) were incurred which represent 11.69% (2016-17: 12.39%) of total electricity purchased. Technical losses amounted to R533 313 133 (2016-17: R540 511 857). Non-technical losses amounted to R533 183 567 (2016-17: R594 563 043).

As disclosed in note 52 to the consolidated and separate financial statements, material water losses amounting to R833 362 612 (2016-17: R787 774 009) were incurred which represents 28,45% (2016-17: 30,6%) of the total water purchased. Technical losses amounted to R439 382 748 (2016-17: R386 542 693). Non-technical losses amounted to R393 979 864 (2016-17: R401 231 316).

**UNAUDITED DISCLOSURE NOTES**

Par 14 In terms of section 125(2)(e) of the MFMA, the group is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of consolidated and separate financial statements and accordingly I do not express an opinion thereon.

Par 15-16: Accounting Officer's responsibility – compilation of Group and Separate 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 17-18: Auditor-General's responsibilities for the audit of the consolidated and separate financial statements

**REPORT ON THE AUDIT OF THE ANNUAL PERFORMANCE REPORT**

Par 19: 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

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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 21: I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected intermediate outcomes presented in the annual performance report of the group for the year ended 30 June 2018:

#### **Strategic Objectives audited**

- Strategic objective 1: To promote integrated human settlements through massive infrastructure and services roll out.
- Strategic objective 5: To create an enabling environment for inclusive growth and job creation.

### **Predetermined objectives**

Par 23: There were no material findings on the usefulness and reliability of the reported performance information for the following strategic objectives.

- Strategic objective 1: To promote integrated human settlements through massive infrastructure and services roll out.
- Strategic objective 5: To create an enabling environment for inclusive growth and job creation.

### **REPORT ON THE AUDIT OF COMPLIANCE WITH LEGISLATION**

Par 26: In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the group with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance. The material findings on compliance with specific matters in key legislations are as follows:

#### **Annual financial statements**

30. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, current liabilities, revenue, and the statement of comparison of budget and actual amounts identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

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**Expenditure management**

29. Effective steps were not taken to prevent irregular expenditure of R274 582 270, as disclosed in note 48 to the annual financial statements, required by section 62(1)(d) of the MFMA. The irregular expenditure identified was caused by contravening the Supply Chain Management Regulations (SCM regulation).

30. Money owed by the city was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

**Conditional grants**

31. The Urban Settlement Development Grant was not spent for its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of the Dora.

**Procurement and contract management**

32. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1). Similar non-compliance was also reported in the prior year.

33. Some of the contracts were awarded to bidders based on functionality criteria that were not stipulated in the original invitation for bidding, in contravention of Preferential Procurement Regulations.

34. Persons in the service of the municipality who had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of SCM regulation 46(2)(e), the code of conduct for councillors issued in terms of the Municipal Systems Act, 2000 (Act No. 32 of 2000)(MSA) and the code of conduct for staff members issued in terms of the MSA.

**Consequence management**

35. Some of the irregular and fruitless and wasteful expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

**Asset management**

36. Funds were invested in the Land and Agricultural Development Bank of South Africa and Sanlam, in contravention of municipal investment regulation 6.

37. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.

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**Other information**

Par 38- 41: Other information

**Internal control**

Par 42: I considered internal control relevant to my audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

43. The accounting officer did not ensure that systems of internal control were adequately implemented and monitored to ensure credible financial reporting and compliance with key legislation. This resulted in material errors and omissions being identified during the audit process.

44. Senior management did not implement adequate systems of internal controls over financial reporting and compliance with key legislation. In certain instances, the financial statements did not always agree to the supporting evidence provided and compliance to key legislation was not always monitored.

45. There was a lack of a proper records management system that could support the information reported in the financial statements and as a result material errors and omissions were identified during the audit process.

**OTHER REPORTS**

**Investigations**

Par 47: A total of twenty-three (23) investigations were ongoing at year-end on allegations relating to financial misconduct, fraud or improper conduct in SCM. The majority of these cases were investigated internally by the city's internal audit department. All these investigations relate to irregularities identified prior to 2016/17 financial year. Some of these investigations have been ongoing for a long time.

**SECTION D: APPROVAL OF FINAL YEAR END TRANSACTIONS FOR THE COMPILATION OF THE 2017/2018 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 R3 523 123 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 R171 692 345 had to be impaired and derecognised as these Capital Expenditure did not meet the subsequent capitalization requirements as per the 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 2018. Where no comments were received, it is presumed that there is no need for the stock - Redundant Stock to be written off – R713 793.
- The annual stock taking for the year ended 30 June 2018 was conducted throughout the Council from 5 May 2018 until 31 May 2018, in a staggered manner to avoid the hampering of the Council's Operations. Damaged stock to the amount of R280 389 was found.
- During the annual stock take differences were found on stock items - Stock Shortages to be written off – R1 201 581
- 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.

**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 their 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 2018/19 financial year.

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**RECOMMENDATION**

1. **That** the Annual Report of the City of Ekurhuleni Metropolitan Municipality, inclusive of the Annual Financial Statements and the Report of the Auditor-General for the 2017/2018 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 2019 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 Annual Reports of the City and its Entities, inclusive of the Annual Financial Statements and the Report of the Auditor-General for the 2017/2018 financial year, **BE APPROVED**.