

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

2022.01.27

A-F (12-2022)

CITY OF EKURHULENI (CoE): SUBMISSION OF ANNUAL REPORT, INCLUSIVE OF ANNUAL FINANCIAL STATEMENTS AND REPORT OF THE AUDITOR-GENERAL, FOR THE 2020/21 FINANCIAL YEAR

1. PURPOSE

To submit the Annual Report, inclusive of the Annual Financial Statements and the Report of the Auditor-General, for the 2020/21 financial year to Council.

2. STRATEGIC OBJECTIVE

Promoting good governance

3. WARDS AFFECTED

All wards

4. IDP LINKAGE

Clean Audit

5. EXECUTIVE SUMMARY

The Annual Financial Statements for the 2020/21 financial year has been prepared in accordance with Section 126 of the Municipal Finance Management Act and the Annual Report for the 2020/21 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 statements, Consolidated 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 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 January 2022 (CoE and Entities) and January 2022 (Consolidated).

The audit outcomes were as follows:

CoE Core	Unqualified audit opinion (clean)
CoE Consolidated	Unqualified audit opinion (clean)
ERWAT	Unqualified audit opinion (not clean)
BBC	Disclaimer (not clean)
EHC	Unqualified audit opinion (clean)

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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 May 2022 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 2020/21 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 May 2022, 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 2020/21 Financial Statements as required by the Generally Recognised Accounting Practices (GRAP).

The following Annexures are attached to this submission:

Annexure A: Annual Report

Annexure B: Audited Financial Statements (Consolidated)

Annexure 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.

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6. DISCUSSION

6.1 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 2020/21 financial year is presented in the Annual Report submitted or attached (**Annexure A**).

Over the year under review, the City committed to a total of hundred (100) targets in the 2020/2021 financial year. Against these commitments, 76 (76%) of the targets were achieved and 24 (24%) were not achieved. The committed targets were contributed by the twenty-six (26) departments and entities for the City-wide SDBIP. Of the twenty-six (26) departments and entities that committed to the targets, eleven (11) departments achieved hundred per cent (100%) of their planned targets. Three (3) departments and two (2) entities achieved fifty per cent (50%) and less of their planned targets, with Brakpan Bus Company (BBC), and Service Delivery Coordination achieving none (0%) of their planned targets.

CITY-WIDE ANNUAL PERFORMANCE BY GDS THEMATIC AREAS

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, is summarised as follows:

- The highest performance was recorded for the Social Empowerment Thematic Area in which 88 per cent (88%) of the eight (8) targets that were planned for the financial year were achieved.
- The second highest performance was recorded at 80% out of the ten (10) targets that were planned for Environmental Wellbeing Growth GDS Thematic Area. This was followed by Effective Cooperative Governance GDS Thematic Area with 77% achievement of the thirty (30) targets that were planned.
- A total of forty-six (46) targets were planned for the Sustainable Urban Integration GDS Thematic Area, of which 35 (76%) were achieved and 11 (24%) were not achieved.
- A total of six (6) targets were planned for the Job Creating Economic Growth GDS Thematic Area. Of the six (6) targets that were planned, 3 (50%) were achieved.

CITY-WIDE 2020/2120 ANNUAL PERFORMANCE PER CLUSTER

The City's annual performance against the targets set for the 2020/2120 financial year shows that the Social Cluster recorded the highest performance of eighty-three per cent (83%) target achievement followed by Governance and Economic Cluster which recorded seventy-six per cent (76%) target achievement. Infrastructure Cluster recorded seventy-three per cent (73%) achievement.

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CITY-WIDE ANNUAL PERFORMANCE ACROSS SOCIAL CLUSTER

The Social Cluster committed to a total of eighteen (18) targets and of the 18 targets, 15 (83%) targets were achieved and 3 (17%) targets were not achieved as presented in Figure 1 above. Two (2) departments in this cluster achieved 100% of their planned targets for the year under review. These departments are Sport, Recreation, Arts and Culture, Environmental Resource and Waste Management Services; and Disaster and Emergency Management Services. The second highest performance was recorded by Health and Social Development and Ekurhuleni Metro Police Department (EMPD) which achieved 75% of planned targets. and Service Delivery Coordination achieved nil per cent (0%) of their planned targets.

CITY-WIDE ANNUAL PERFORMANCE ACROSS INFRASTRUCTURE CLUSTER

The cluster committed to a total of 44 targets and of the 44 committed targets, 32 (73%) were achieved and 12 (27%) were not achieved. City Planning; Energy and Enterprise Programme Management Office (EPMO) achieved hundred per cent (100%) of their planned targets in this cluster.

CITY-WIDE ANNUAL PERFORMANCE ACROSS GOVERNANCE AND ECONOMIC DEVELOPMENT CLUSTER

The performance of the cluster was measured against thirty-eight (38) targets that were planned to be met in the 2020/2021 financial year. A total of 29 (76%) targets were achieved and 9 (24%) were not achieved. Four (4) departments (Risk Management, Internal Audit; Communications; Transport and Fleet Management and Brand Management and Corporate Legal Services) achieved 100% of their set targets. Brakpan Bus Company recorded nil per cent (0%) target achievement.

6.2 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

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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 1/40th 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 City of Ekurhuleni generated a surplus of R272 688 836 in the current year compared to a deficit of R319 078 866 in previous year. The collections of rates are still below targets and where budgeted revenue could not be realised. Due to the adverse economic conditions due to the impact of Covid 19 pandemic, additional allocations were made on the debt impairment (provision for bad debts. 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.

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Statement of Financial Performance				
	June 21	June 20	Value variance	% Variance
REVENUE				
Service charges	23,935,071,577	23,030,695,000	904,376,577	3.8%
Rental of facilities and equipment	107,384,050	84,099,157	23,284,893	21.7%
Construction contracts - HSDG Grant	248,068,366	78,675,730	169,392,636	68.3%
Interest earned - outstanding debtors	299,002,892	354,577,088	(55,574,196)	-18.6%
Income from agency services	302,440,429	246,003,581	56,436,848	18.7%
Licences and permits	41,829,990	32,915,237	8,914,753	21.3%
Other Income	185,293,774	154,054,203	31,239,571	16.9%
Interest earned - external investments	173,603,849	306,732,178	(133,128,329)	-76.7%
Gains on sale of assets	-	18,039,993	(18,039,993)	0.0%
Property rates	5,935,443,116	5,668,546,859	266,896,257	4.5%
Property rates - penalties imposed	64,391,660	83,401,449	(19,009,789)	-29.5%
Government grants and subsidies	9,267,627,846	8,323,884,611	943,743,235	10.2%
Public contributions and donations	103,023,326	143,384,792	(40,361,466)	-39.2%
Fines	806,548,225	720,757,605	85,790,620	10.6%
Total Revenue	41,469,729,100	39,245,767,483	2,223,961,617	5.4%

Total revenue for the year amounted to R41 469 729 100, which is 5.4% increase from the revenue of the 2019/20 year which was R39 245 767 483. The increased revenue is mainly resulting from the increase in the inflationary adjustments (costs of bulk increases) consumption of the services charges which increased by 3.8%, while property rates grow by 4.5% and National Treasury made additional allocation on grants funds. Other revenue items contracted due to the impact of Covid-19 pandemic and the adverse economic conditions. Construction grant – HSDG Grant has been reclassified from Government grants and subsidies as per GRAP standards.

A comparison of the actual revenue against the budget revenue shows a 6.0% deviation.

Statement of Financial Performance				
	Budget	Actual	Value variance	% Variance
REVENUE				
Service charges	26,443,700,801	23,935,071,577	2,508,629,224	9.5%
Rental of facilities and equipment	81,720,035	107,384,050	(25,664,015)	-31.4%
Construction contracts - HSDG Grant	418,666,047	248,068,366	170,597,681	40.7%
Interest earned - outstanding debtors	343,992,687	299,002,892	44,989,795	13.1%
Income from agency services	309,290,908	302,440,429	6,850,479	2.2%
Licences and permits	44,893,955	41,829,990	3,063,965	6.8%
Other Income	145,581,782	185,293,774	(39,711,992)	-27.3%
Interest earned - external investments	214,097,015	173,603,849	40,493,166	18.9%
Property rates	5,950,478,219	5,935,443,116	15,035,103	0.3%
Property rates - penalties imposed	60,812,046	64,391,660	(3,579,614)	-5.9%
Government grants and subsidies	9,303,194,616	9,267,627,846	35,566,770	0.4%
Public contributions and donations	-	103,023,326	(103,023,326)	0.0%
Fines	777,561,118	806,548,225	(28,987,107)	-3.7%
Total Revenue	44,093,989,229	41,469,729,100	2,624,260,129	6.0%

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

The total expenditure for the year amounted to R41 197 040 264 which is 4.0% increase from the expenditure of the 2019/20 year which was R39 564 846 348.

Statement of Financial Performance				
	June 21	June 20	Value variance	% Variance
EXPENDITURE				
Employee related costs	8,968,698,540	8,769,926,678	198,771,862	2.2%
Remuneration of councillors	141,428,993	141,224,613	204,380	0.1%
Depreciation	2,543,155,848	2,613,405,797	(70,249,949)	-2.8%
Impairment of assets	33,455,450	43,793,819	(10,338,369)	-30.9%
Finance costs	1,360,639,047	1,187,412,121	173,226,926	12.7%
Debt impairment	4,212,619,324	3,702,413,924	510,205,400	12.1%
Collection cost	116,129,850	114,868,883	1,260,967	1.1%
Bulk purchases	16,658,420,803	15,932,324,318	726,096,485	4.4%
Contracted Services	2,583,547,605	2,527,617,945	55,929,660	2.2%
Grants and subsidies paid	1,320,751,575	1,490,676,623	(169,925,048)	-12.9%
General expenses	3,258,193,229	3,041,181,627	217,011,602	6.7%
Total Expenditure	41,197,040,264	39,564,846,348	1,632,193,916	4.0%

Significant cost increases relate to, annual increase in salary costs in line with bargaining bodies; Debt impairment increased by 12.1% due to the failing in collection rate and the impact of Covid 19 pandemic; Depreciation decreased by 2.8% as a result of completed projects capitalised; while finance costs increased by 12.7% due to increase in borrowing in the previous financial year. The bulk purchased increased by 4.4% in line with the increase in the consumption of services charges and increase passed to the city by bulk service providers. Other expenditure items contracted due to the impact of Covid-19 pandemic.

A comparison of the actual expenditure against the budget expenditure shows a 0.9% over expenditure due to the additional amount provided on the debt impairment.

Statement of Financial Performance				
	Budget	Actual	Value variance	% Variance
EXPENDITURE				
Employee related costs	9,561,263,536	8,968,698,540	592,564,996	6.2%
Remuneration of councillors	142,795,066	141,428,993	1,366,073	1.0%
Depreciation	2,611,345,952	2,543,155,848	68,190,104	2.6%
Impairment of assets	-	33,455,450	(33,455,450)	100.0%
Finance costs	1,168,126,407	1,360,639,047	(192,512,640)	-16.5%
Debt impairment	3,635,301,780	4,212,619,324	(577,317,544)	-15.9%
Collection cost	134,523,262	116,129,850	18,393,412	13.7%
Bulk purchases	17,089,580,280	16,658,420,803	431,159,477	2.5%
Contracted Services	2,917,432,010	2,583,547,605	333,884,405	11.4%
Grants and subsidies paid	1,400,390,460	1,320,751,575	79,638,885	5.7%
Loss on derecognition of property, plant & equ	13,000,000	-	13,000,000	100.0%
General expenses	2,879,125,111	3,258,193,229	(379,068,118)	-13.2%
Total Expenditure	41,552,883,864	41,197,040,264	355,843,600	0.9%

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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 2020, the following variances are evident:

<u>Statement of Financial Position</u>				
ASSETS	June 21	June 20	Value variance	% Variance
CURRENT ASSETS	9,909,821,188	11,732,818,652	1,822,997,464	18.4%
NON-CURRENT ASSETS	61,994,520,733	59,993,779,482	(2,000,741,251)	3.2%
TOTAL ASSETS	71,904,341,921	71,726,598,134	(177,743,787)	0.2%
CURRENT LIABILITIES	11,606,071,865	13,108,189,534	(1,502,117,669)	-12.9%
NON CURRENT LIABILITIES	11,919,994,726	10,512,822,103	1,407,172,623	11.8%
TOTAL LIABILITIES	23,526,066,591	23,621,011,637	(94,945,046)	-0.4%
NET ASSETS (NET POSITION)	48,378,275,330	48,105,586,497	272,688,833	0.6%
Accumulated Surplus/(Deficit)	48,378,275,330	48,105,586,497	(272,688,833)	0.6%

Net assets increased by 0.6% from the previous year due to increased revenue contracted by increases in expenditure.

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

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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 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:

Cash flow Statement				
	June 21	June 20	Value variance	% Variance
Net Cash inflow from Operating activities	2,827,981,267	2,139,553,142	(688,428,125)	-24.3%
Net Cash outflow from Investing activities	(3,296,111,764)	(5,207,804,547)	(1,911,692,783)	-58.0%
Net Cash inflow from Financing activities	(217,723,534)	1,281,594,392	(1,499,317,926)	688.6%
Net Increase in Cash and Cash equivalents	(685,854,031)	(1,786,657,013)	1,100,802,982	-160.5%
Cash and Cash equivalents at Beginning of the year	1,644,224,892	3,430,881,905	(1,786,657,013)	-108.7%
Cash and Cash equivalents at End of the year	958,370,861	1,644,224,892	(685,854,031)	-7156.5%

The CoE generated from its operating activities a cash of R2.827 billion during the 2020/21 financial year and last year was R2.139 billion. The year started with a cash balance of R1.6 billion and ended with cash of R958 million. The cash on hand decreased significantly due to the fact that the planned collection rate were not achieved, and internal reserves were utilized to fund operations. The financing element increased by R1.976 billion for the financing of the

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capital expenditure and while R2.193 billion of long term borrowing were repaid in the current year. The cash were generated as follows:

- From operations – R2.8 billion cash increase - Simply stated this means that the difference between amounts received from our customers for services rendered and grants received were R2.8 billion more than the amounts that we paid out as operating expenditure to our employee costs and suppliers in delivering services.
- From investing activities – R3.3 billion cash outflow – this means that we invested R3.3 billion in the acquisition and replacement of the capital expenditure.
- From financing activities – R218 million cash outflow – This relates to repayment of R2.194 billion worth of long term loans, and new long term borrowing raised in the current year of R1.976 billion for financing of the capital expenditure.

The fact that the cash generated from operations are over R2.828 billion 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:

City Of Ekurhuleni Loan Redemption Profile					
	Opening Balance	New Loans	Redemption	Closing Balance	Inv Maturing
2014/15	5,288,777,044.80	750,000,000.00	284,180,371.56	5,754,596,673.24	32,620,000.00
2015/16	5,754,596,673.24		342,666,435.70	5,411,930,237.54	
2016/17	5,411,930,237.54		361,074,768.89	5,050,855,468.65	
2017/18	5,050,855,468.65	1,300,000,000.00	433,174,085.35	5,917,681,383.30	
2018/19	5,917,681,383.30	3,000,000,000.00	420,172,767.12	8,497,508,616.18	
2019/20	8,497,508,616.18	1,650,000,000.00	373,305,569.46	9,774,203,046.72	
2020/21	9,774,203,046.72	1,976,000,000.00	2,149,281,373.50	9,600,921,673.22	1,615,000,000.00
2021/22	9,600,921,673.22		667,950,672.87	8,932,971,000.35	
2022/23	8,932,971,000.35		693,723,574.71	8,239,247,425.64	
2023/24	8,239,247,425.64		1,519,627,658.40	6,719,619,767.24	800,000,000.00
2024/25	6,719,619,767.24		748,746,655.76	5,970,873,111.48	
2025/26	5,970,873,111.48		594,294,086.16	5,376,579,025.32	
2026/27	5,376,579,025.32		619,211,541.93	4,757,367,483.40	
2027/28	4,757,367,483.40		600,793,979.24	4,156,573,504.16	
2028/29	4,156,573,504.16		572,407,177.07	3,584,166,327.08	
2029/30	3,584,166,327.08		553,709,176.95	3,030,457,150.13	
2030/31	3,030,457,150.13		516,531,783.40	2,513,925,366.74	
2031/32	2,513,925,366.74		228,630,593.74	2,285,294,773.00	
2032/33	2,285,294,773.00		162,643,010.20	2,122,651,762.79	
2033/34	2,122,651,762.79		2,122,651,762.79	0.00	

The bullets loans will be redeemed from 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:

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Financial Institution	Closing Balance 30 June 2017	Closing Balance 30 June 2018	Closing Balance 30 June 2019	Closing Balance 30 June 2020	Closing Balance 30 June 2021
ABSA	585,048,606	537,503,780	484,175,283	369,068,863	437,965,685
Nedbank	236,140,196	82,844,270	1,000,000,000	938,007,164	971,424,897
DBSA			2,000,000,000	4,028,641,175	2,024,933,185
Municipal Bonds	4,250,869,337	5,379,729,763	5,197,173,374	4,409,502,313	6,528,619,283
Total Liabilities	5,072,058,139	6,000,077,813	8,681,348,657	9,745,219,515	9,962,943,050

The city has an accumulated surplus of R48.378b –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.

Capital Budget Implementation

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

	Sum of Adjusted Budget	Sum of Actual Expenditure Year to Date	Percentage Spent
Chief Operating Officer	57,514,800	56,809,608	98.77%
City Planning	300,000	300,000	100.00%
Communication and Brand Management	2,525,000	2,161,422	85.60%
Corporate Legal Services	29,300	29,300	100.00%
Council General	175,934,576	175,443,351	99.72%
Disaster & Emergency Management Services	94,614,500	93,587,653	98.91%
Economic Development	124,442,550	123,983,064	99.63%
Ekurhuleni Housing Company (EHC)	24,863,429	23,412,855	94.17%
Ekurhuleni Metro Police Department	68,538,500	67,876,015	99.03%
Energy	593,890,800	593,028,084	99.85%
Environmental Resources & Waste Management	223,500,000	224,830,844	100.60%
Executive Office	176,576	96,982	54.92%
Finance	170,000	169,527	99.72%
Health and Social Development	2,189,435	2,145,158	97.98%
Human Resources Management	75,000	65,939	87.92%
Human Settlements	795,567,000	794,999,586	99.93%
Information and Communication Technology	519,319,768	520,222,971	100.17%
Internal Audit	20,000	19,900	99.50%

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Real Estate	213,605,857	210,215,407	98.41%
Risk Management	-	-	0.00%
Roads and Storm-water	513,862,595	511,952,297	99.63%
Sport Recreation Arts and Culture	69,649,100	67,778,766	97.31%
Strategy & Corporate Planning	10,000	9,950	99.50%
Transport Planning & Provision	292,864,166	292,814,716	99.98%
Water and Sanitation	765,741,764	760,894,566	99.37%
Grand Total	4,539,404,716	4,522,847,961	99.64%

Capital budget was curtailed due to the impact of Covid-19 pandemic and the lockdown from R4 849 620 018 (in 2019/20) to R4 539 404 716 in 2020/21. The expenditure performance against budget in the current year is 99.64% (best spending target in the history of the city) as compared to the previous year of 99.47%.

6.3 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).

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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 city.

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”?

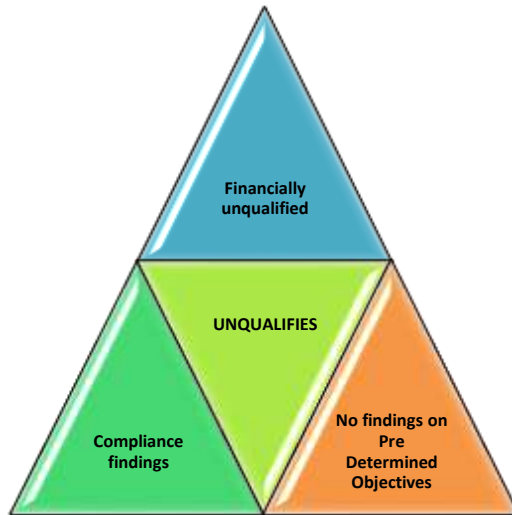
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A clean audit is an audit opinion that is:

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



THE CITY OBTAINED UNQUALIFIED AUDIT OPINION WITH NO FINDINGS (CLEAN), 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 consolidated and separate financial statements for 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 my opinion, and I do not provide a separate opinion on these matters.

Par 7: I have determined that there are no key audit matters to communicate in this auditor's report.

Par 8: **Emphasis of matters**

I draw attention to the matters below. My opinion is not modified in respect of these matters.

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Par 9: Restatement of corresponding figures

As disclosed in note 54 to the consolidated and separate financial statements, the corresponding figures for 30 June 2020 were restated as a result of errors in the consolidated and separate financial statements of the group at, and for the year ended, 30 June 2021.

Material impairment

Par 10: 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 R16 126 582 209 (2019/20: R12 495 253 915) which represents 73% (2019/20: 68%) of total consumer debtors. The contribution to the provision for debt impairment was R4 116 187 914 (2019/20: R3 638 005 622).

Par 11: As disclosed in note 12 to the consolidated and separate financial statements, the traffic fines debtors' balance has been impaired. The allowance for impairment of traffic fines debtors amounts to R1 350 493 038 (2020: R904 563 621) which represents 81% (2020: 80%) of total traffic fines debtors.

Par 12 & 13: Material losses

As disclosed in note 59 to the consolidated and separate financial statements, material electricity losses of R1 452 572 745 (2019/20: R1 881 786 377) was incurred which represent 16% (2019/20: 14%) of total electricity purchased. Technical losses amounted to R447 499 394 (2019/20: R579 728 806) and was due to losses inherent to electricity supply. Non-technical losses amounted to R1 005 073 351 (2019/20: R1 302 057 571) and were due to theft through illegal connections and bypassing or tampering of meters.

As disclosed in note 59 to the consolidated and separate financial statements, material water losses of R105 530 864 (2019/20: R1 083 752 695) was incurred which represents 30% (2019/20: 30%) of the total water purchased. Technical losses amounted to R15 792 246 (2019/20: R162 186 366) and was due to evaporation and losses inherent to water supply. Non-technical losses amounted to R89 482 061 (2019/20: R921 566 328) and were due to leaks and pipeline infrastructure requiring maintenance.

Par 14: Material uncertainties

With reference to note 42 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.

Par 15: Emphasis of matters

I draw attention to the matters below. My opinion is not modified in respect of these matters.

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UNAUDITED DISCLOSURE NOTES

Par 16 In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the consolidated and separate financial statements and, accordingly, I do not express an opinion on it.

Responsibilities of the for the financial statements

Par 17. The accounting officer is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and Dora and for such internal control as the counting officer determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Par 18. In preparing the consolidated and separate financial statements, the accounting officer is responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the group or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the consolidated and separate financial statements

Par 19. My objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

Par 20. A further description of my responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to this auditor's report.

REPORT ON THE AUDIT OF THE ANNUAL PERFORMANCE REPORT

Par 21. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected strategic objectives presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

Par 22. My procedures address the usefulness and reliability of the reported performance information, which must be based on the municipality's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance

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indicators included in the planning documents. My procedures do not examine whether the actions taken by the Metropolitan municipality enabled service delivery. My procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

Par 23. 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 strategic objectives presented in the municipality's annual performance report for the year ended 30 June 2021.

Strategic Objectives audited

- Strategic objective 1: To promote integrated human settlements through massive infrastructure and services roll out.

Par 24. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

Par 25. I did not identify any material findings on the usefulness and reliability of the reported performance information for strategic objective 1 – To promote integrated human settlements through massive infrastructure and services roll out.

Other matter

Par 26. I draw attention to the matter below.

REPORT ON THE AUDIT OF COMPLIANCE WITH LEGISLATION

Par 28. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the municipality's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

Par 29. I did not identify any material findings on compliance with the specific matters in key legislation set out in the general notice issued in terms of the PAA.

Other information

Par 30- 33: Other information

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Internal control

Par 34: 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 on it. I did not identify any significant deficiencies in internal control.

OTHER REPORTS

Investigations

Par 35. I draw attention to the following engagements conducted by various parties which had, or could have, an impact on the matters reported in the group's financial statements, reported performance information, compliance with applicable legislation and other related matters.

These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

Par 36. A total of 12 investigations into allegations relating to financial misconduct, fraud, or improper conduct in SCM were ongoing at year-end. Some of these investigations have been ongoing since prior year. The Municipal Regulations on Financial Misconduct, Procedures and Criminal Proceedings and the Disciplinary Regulations for Senior Managers require that each investigation be completed within 30 days from the date of appointing the investigator.

Par 37. Special Investigating Unit (SIU) is investigating allegations of corruption and maladministration in the Ekurhuleni Metropolitan Municipality. The investigation will focus on the 9 March 2017 procurement of or contracting for the supply of 200 portable three-wheel motorised waste collection vehicles. The investigation has not been concluded yet.

Par 38. National treasury is conducting an investigation on the appointment of service providers for the maintenance of grass areas. The investigation will focus on the allegation that contractors were forced to subcontract at least 30% of their contracts, however the bid document did not require successful bidders to subcontract. The investigation has not been concluded yet.

**6.4 SECTION D: APPROVAL OF FINAL YEAR END TRANSACTIONS FOR THE
COMPILATION OF THE 2020/21 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:

- An amount of R33 455 450 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.

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- 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 2021. No redundant stock was identified.
- The annual stock taking for the year ended 30 June 2021 was conducted throughout the Council from 24 May 2021 until 24 June 2021, in a staggered manner to avoid the hampering of the Council's Operations.
- During the annual stock take differences were found on stock items - Stock Shortages to be written off – R19 906 656.
- Debtors written off in terms of the GCFO's delegated powers – these are reported to Council in terms of the various council resolutions taken regarding the delegations.

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. HODs 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 2020/21 financial year.

RECOMMENDATION

1. **That** the Annual Report, inclusive of the Annual Financial Statements and the Report of the Auditor-General for the 2020/21 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 2022 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 city and municipal entities' Annual Reports, inclusive of the Annual Financial Statements and the Reports of the Auditor-General for the 2020/21 financial year, **BE APPROVED**.