

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

**2023.02.02**

**A-F (12-2023)**

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**CITY OF EKURHULENI (CoE): SUBMISSION OF ANNUAL REPORT, INCLUSIVE OF ANNUAL FINANCIAL STATEMENTS AND REPORT OF THE AUDITOR-GENERAL, FOR THE 2021/22 FINANCIAL YEAR**

**PURPOSE**

To submit the Annual Report, inclusive of the Annual Financial Statements and the Report of the Auditor-General, for the 2021/22 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 2021/22 financial year have been prepared in accordance with Section 126 of the Municipal Finance Management Act and the Annual Report for the 2021/22 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 2023 (COE and Entities) and January 2023 (Consolidated).

The audit outcomes were as follows:

COE Core	<b>Unqualified audit opinion (clean)</b>
COE Consolidated	<b>Unqualified audit opinion (clean)</b>
ERWAT	<b>Unqualified audit opinion (not clean)</b>
EHC	<b>Unqualified audit opinion (not clean)</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 May 2023 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 2021/22 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 2023, 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 2021/22 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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**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 2021/22 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 and one (101) targets in the 2021/2022 financial year. Against these commitments, 78 (77%) of the targets were achieved and 23 (23%) were not achieved. The committed targets were contributed by the twenty-four (24) departments and entities for the City-wide SDBIP. Of the twenty-four (24) departments and entities that committed to the targets, thirteen (13) departments achieved hundred per cent (100%) of their planned targets. Five (5) departments and one (1) entity achieved fifty per cent (50%) and less of their planned targets, with Service Delivery Coordination department 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 and the performance is summarised as follows: -

- The highest performance was recorded for the Environmental Wellbeing GDS Thematic Area in which hundred per cent (100%) of the seven (7) targets that were planned for the financial year were achieved.
- The second highest performance was recorded for targets that were planned for the Job Creating Economic Growth GDS Thematic Area. Ten (10) of the twelve (12) targets that were planned were achieved and this translates to eighty-three per cent (83%) target achievement.
- A total of twenty-nine (29) targets were planned for the Effective Cooperative Governance GDS Thematic Area. Of the twenty-nine (29) targets that were planned, 22 (76%) were achieved and 7 (24%) were not achieved.
- The above figure indicates that a total of eight (8) targets were planned for the Social Empowerment GDS Thematic Area, of which 6 (75%) were achieved and 2 (25%) were not achieved.
- The Sustainable Urban Integration GDS Thematic Area recorded the lowest achievement at 73% from a total of 45 targets that were planned for the financial year

**CITY-WIDE 2021/2220 ANNUAL PERFORMANCE PER CLUSTER**

The City's annual performance against the targets set for the 2021/2220 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

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cent (76%) target achievement. Infrastructure Cluster recorded seventy-three per cent (73%) achievement.

**CITY-WIDE ANNUAL PERFORMANCE ACROSS SOCIAL CLUSTER**

The Social Cluster committed to a total of sixteen (16) targets and of the 16 targets, 13 (81%) targets were achieved, and 3 (19%) targets were not achieved as presented. Four (4) departments in this cluster achieved 100% of their planned targets for the year under review. These departments are Environmental Resource and Waste Management Services; Sports, Recreation, Arts and Culture; Health and Social Development and Disaster and Emergency Management Services. The second highest performance was recorded by Ekurhuleni Metro Police Department (EMPD) which achieved 50% of its planned targets. Service Delivery Coordination department achieved nil per cent (0%) of their planned targets.

**CITY-WIDE ANNUAL PERFORMANCE ACROSS INFRASTRUCTURE CLUSTER**

The cluster committed to a total of 46 targets and of the 46 committed targets, 28 (61%) were achieved and 18 (39%) were not achieved. City Planning, Enterprise Programme Management Office (EPMO), Roads and Stormwater and Ekurhuleni Water Care Company (ERWAT) achieved hundred per cent (100%) of their planned targets in this cluster. These are followed by Energy department with 90%. Real Estate achieved 67% and EHC achieved 50%. Human Settlement achieved 40% followed by Water and Sanitation department at 20%.

**CITY-WIDE ANNUAL PERFORMANCE ACROSS GOVERNANCE AND ECONOMIC DEVELOPMENT CLUSTER**

The performance of the cluster was measured against thirty-nine (39) targets that were planned to be met in the 2021/2022 financial year. A total of 33 (85%) targets were achieved and 6 (15%) were not achieved. Five (5) departments (Risk Management, Information Communication and Technology (ICT); Communications and Brand Management, Internal Audit and Human Resources) achieved 100% of their set targets. The second highest performing departments is Economic Development, with eighty-nine (89%) of their set targets achieved. This is followed by Finance department which achieved eighty-eight per cent (88%) of its targets followed by Transport and Fleet Management at seventy-five (75%). The Legislature achieved fifty per cent (50%) of their set targets.

**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.*

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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.*

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.

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

<b>Statement of Financial Performance</b>				
	<b>June 22</b>	<b>June 21</b>	<b>Value variance</b>	<b>% Variance</b>
<b>REVENUE</b>				
Service charges	26,934,564,788	23,935,071,577	2,999,493,211	11.1%
Construction contracts - HSDG Grant	113,708,125	248,068,366	(134,360,241)	-118.2%
Rental of facilities and equipment	95,559,257	107,384,050	(11,824,793)	-12.4%
Interest earned - outstanding debtors	433,854,229	299,002,892	134,851,337	31.1%
Income from agency services	294,477,725	302,440,429	(7,962,704)	-2.7%
Licences and permits	43,261,956	41,829,990	1,431,966	3.3%
Other Income	122,787,734	185,293,774	(62,506,040)	-50.9%
Interest earned - external investments	108,478,855	173,603,849	(65,124,994)	-60.0%
Gains on sale of assets	19,143,685	-	19,143,685	0.0%
Property rates	7,805,420,006	5,935,443,116	1,869,976,890	24.0%
Property rates - penalties imposed	118,606,522	64,391,660	54,214,862	45.7%
Government grants and subsidies	8,644,391,351	9,267,627,846	(623,236,495)	-7.2%
Public contributions and donations	127,840,419	103,023,326	24,817,093	19.4%
Fines	783,575,982	806,548,225	(22,972,243)	-2.9%
<b>Total Revenue</b>	<b>45,645,670,634</b>	<b>41,469,729,100</b>	<b>4,175,941,534</b>	<b>9.1%</b>

Total revenue for the year amounted to R45 645 670 634, which is 9.1% increase from the revenue of the 2020/21 year which was R41 469 729 100. The increased revenue is mainly resulting from the increase in the implementation of the revised valuation roll and the inflationary adjustments (costs of bulk increases) consumption of the services charges which increased by 11.1%, while property rates grow by 24.0% and Government grants decreased due to National Treasury reducing grants funding allocation previously provided to reduce the impact of Covid-19 pandemic in previous years. Other revenue items contracted due to the impact of Covid-19 pandemic and the adverse economic conditions. Construction grant – HSDG Grant reduced to less allocation being received in the current year.

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***A comparison of the actual revenue against the budget revenue shows a 2.0% deviation.***

<b>REVENUE</b>	<b>Budget</b>	<b>Actual</b>	<b>Value variance</b>	<b>% Variance</b>
Service charges	27,591,653,457	26,934,564,788	657,088,669	2.4%
Construction contracts - HSDG Grant	235,159,681	113,708,125	121,451,556	0.0%
Rental of facilities and equipment	81,244,919	95,559,257	(14,314,338)	-17.6%
Interest earned - outstanding debtors	329,117,284	433,854,229	(104,736,945)	-31.8%
Income from agency services	309,290,908	294,477,725	14,813,183	4.8%
Licences and permits	45,078,425	43,261,956	1,816,469	4.0%
Other Income	92,004,989	122,787,734	(30,782,745)	-33.5%
Interest earned - external investments	73,953,309	108,478,855	(34,525,546)	-46.7%
Gains on sale of assets	-	19,143,685	(19,143,685)	0.0%
Property rates	8,031,352,036	7,805,420,006	225,932,030	2.8%
Property rates - penalties imposed	216,393,250	118,606,522	97,786,728	45.2%
Government grants and subsidies	8,655,470,759	8,644,391,351	11,079,408	
Public contributions and donations	-	127,840,419	(127,840,419)	100.0%
Fines	927,659,504	783,575,982	144,083,522	15.5%
<b>Total Revenue</b>	<b>46,588,378,521</b>	<b>45,645,670,634</b>	<b>942,707,887</b>	<b>2.0%</b>

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

The total expenditure for the year amounted to R45 461 025 366 which is 9.4% increase from the expenditure of the 2020/21 year which was R41 197 040 264.

<b>Statement of Financial Performance</b>				
	<b>June 22</b>	<b>June 21</b>	<b>Value variance</b>	<b>% Variance</b>
<b>EXPENDITURE</b>				
Employee related costs	9,268,685,159	8,968,698,540	299,986,619	3.2%
Remuneration of councillors	145,072,917	141,428,993	3,643,924	2.5%
Depreciation	2,633,418,638	2,543,155,848	90,262,790	3.4%
Impairment of assets	83,679,079	33,455,450	50,223,629	60.0%
Finance costs	1,337,373,417	1,360,639,047	(23,265,630)	-1.7%
Debt impairment	4,819,760,979	4,212,619,324	607,141,655	12.6%
Collection cost	97,283,030	116,129,850	(18,846,820)	-19.4%
Bulk purchases	19,211,895,219	16,658,420,803	2,553,474,416	13.3%
Contracted Services	2,498,036,683	2,583,547,605	(85,510,922)	-3.4%
Grants and subsidies paid	1,231,508,689	1,320,751,575	(89,242,886)	-7.2%
Loss/(Profit) on disposal of assets		-	-	0.0%
General expenses	4,134,311,556	3,258,193,229	876,118,327	21.2%
<b>Total Expenditure</b>	<b>45,461,025,366</b>	<b>41,197,040,264</b>	<b>4,263,985,102</b>	<b>9.4%</b>

Significant cost increases relate to, annual increase in salary costs in line with bargaining bodies; Debt impairment increased by 12.6% due to the failing in collection rate and the impact of Covid 19 pandemic; Depreciation decreased by 3.4% as a result of completed projects capitalised. The bulk purchased increased by 13.3% in line with the increase in the consumption of services charges and increase passed to the city by bulk service providers.

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General expenditure items contracted due to the impact of Covid-19 pandemic and General Expenses increased by 21.2%

***A comparison of the actual expenditure against the budget expenditure shows a 2% over expenditure due as a result of the excess depreciation and correction of prior period errors items as a result of the GRAP compliance not budget processes.***

<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	9,783,418,924	9,268,685,159	514,733,765	5.3%
Remuneration of councillors	155,879,152	145,072,917	10,806,235	6.9%
Depreciation	2,395,632,812	2,633,418,638	(237,785,826)	-9.9%
Impairment of assets	3,000,000	83,679,079	(80,679,079)	100.0%
Finance costs	1,345,594,336	1,337,373,417	8,220,919	0.6%
Debt impairment	4,654,881,245	4,819,760,979	(164,879,734)	-3.5%
Collection cost	109,906,312	97,283,030	12,623,282	11.5%
Bulk purchases	18,883,056,975	19,211,895,219	(328,838,244)	-1.7%
Contracted Services	2,736,161,437	2,498,036,683	238,124,754	8.7%
Grants and subsidies paid	1,216,702,196	1,231,508,689	(14,806,493)	-1.2%
General expenses	3,285,104,677	4,134,311,556	(849,206,879)	-25.9%
<b>Total Expenditure</b>	<b>44,569,338,066</b>	<b>45,461,025,366</b>	<b>(891,687,300)</b>	<b>-2.0%</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 2020, the following variances are evident:



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<b>Statement of Financial Position</b>				
<b>ASSETS</b>	<b>June 22</b>	<b>June 21</b>	<b>Value variance</b>	<b>% Variance</b>
<b>CURRENT ASSETS</b>	11,533,301,354	9,887,171,086	(1,646,130,268)	-14.3%
<b>NON-CURRENT ASSETS</b>	62,924,568,888	62,399,212,081	(525,356,807)	0.8%
<b>TOTAL ASSETS</b>	<b>74,457,870,242</b>	<b>72,286,383,167</b>	<b>(2,171,487,075)</b>	<b>2.9%</b>
<b>CURRENT LIABILITIES</b>	13,626,552,749	11,826,607,926	1,799,944,823	13.2%
<b>NON CURRENT LIABILITIES</b>	12,106,891,701	11,919,994,726	186,896,975	1.5%
<b>TOTAL LIABILITIES</b>	<b>25,733,444,450</b>	<b>23,746,602,652</b>	<b>1,986,841,798</b>	<b>7.7%</b>
<b>NET ASSETS (NET POSITION)</b>	<b>48,724,425,792</b>	<b>48,539,780,515</b>	<b>184,645,277</b>	<b>0.4%</b>
<b>Accumulated Surplus/(Deficit)</b>	<b>48,724,425,792</b>	<b>48,539,780,515</b>	<b>(184,645,277)</b>	<b>0.4%</b>

Net assets increased by 0.4% 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 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*

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*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 22</b>	<b>June 21</b>	<b>Value variance</b>	<b>% Variance</b>
<b>Net Cash inflow from Operating activities</b>	2,065,224,162	2,827,981,267	762,757,105	36.9%
<b>Net Cash outflow from Investing activities</b>	(2,589,325,396)	(3,296,111,764)	(706,786,368)	-27.3%
<b>Net Cash inflow from Financing activities</b>	338,873,622	(217,723,534)	556,597,156	164.2%
<b>Net Increase in Cash and Cash equivalents</b>	<b>(185,227,612)</b>	<b>(685,854,031)</b>	<b>500,626,419</b>	<b>-270.3%</b>
<b>Cash and Cash equivalents at Beginning of the year</b>	958,370,861	1,644,224,892	(685,854,031)	-71.6%
<b>Cash and Cash equivalents at End of the year</b>	<b>773,143,249</b>	<b>958,370,861</b>	<b>(185,227,612)</b>	<b>-2395.8%</b>

The COE generated from its operating activities a cash of R2.067 billion during the 2021/22 financial year and last year was R2.828 billion. The year started with a cash balance of R958 million and ended with cash of R773 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 billion for the financing of the capital expenditure and while R661 million of long term borrowing were repaid in the current year. The cash were generated as follows:

- From operations – R2 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 – R2.5 billion cash outflow – this means that we invested R2.5 billion in the acquisition and replacement of the capital expenditure.
- From financing activities – R338 million cash outflow – This relates to repayment of R661 million worth of long term loans, and new long term borrowing raised in the current year of R1 billion for financing of the capital expenditure.

The fact that the cash generated from operations are over R2.068 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:

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City of Ekurhuleni Borrowings Redemption Profile								
Period	Opening Balance	New Borrowings	Redemption	Closing Balance	Inv Maturing	Net Redemption	Annuity Payments	Bullet Payments
2018/19	6,427,955,173	3,000,000,000	420,172,767	9,007,782,406		420,172,767	420,172,767	
2019/20	9,007,782,406	1,650,000,000	373,305,570	10,284,476,836		343,365,738	343,365,738	
2020/21	10,284,476,836	1,976,000,000	2,149,281,374	10,111,195,461	1,615,000,000	350,910,589	350,910,589	1,615,000,000
2021/22	10,111,195,461	1,000,000,000	667,950,674	10,443,244,788		358,850,583	358,850,583	
2022/23	10,443,244,788	750,000,000	793,723,575	10,399,521,213		367,819,923	367,819,923	
2023/24	10,399,521,213	965,676,538	1,619,627,658	9,745,570,093	800,000,000	377,887,537	377,887,537	800,000,000
2024/25	9,745,570,093	951,345,382	852,994,058	9,843,921,417		389,340,912	389,340,912	

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 five years is as follows:

Financial Institution	Closing Balance 30 June 2018	Closing Balance 30 June 2019	Closing Balance 30 June 2020	Closing Balance 30 June 2021	Closing Balance 30 June 2022
ABSA	537,503,780	484,175,283	369,068,863	357,898,957	283,048,373
Nedbank	82,844,270	1,000,000,000	938,007,164	936,689,384	899,544,966
DBSA		2,000,000,000	4,028,641,175	3,976,000,000	4,854,044,328
Municipal Bonds	5,318,536,003	5,013,333,332	4,409,502,313	4,330,333,331	3,896,333,330
<b>Total Liabilities</b>	<b>5,938,884,053</b>	<b>8,497,508,615</b>	<b>9,745,219,515</b>	<b>9,600,921,671</b>	<b>9,932,970,998</b>

The city has an accumulated surplus of R48.724 billion –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	Sum of Actual Expenditure	Variance
Chief Operating Officer	37,642,310	37,248,209	98.95%
City Planning	300,000	108,032	36.01%
Communication and Brand Management	5,025,000	3,951,096	78.63%
Council General	64,567,852	61,363,976	95.04%
Disaster & Emergency Management Services	29,646,240	28,704,749	96.82%
Economic Development	43,300,000	40,596,813	93.76%
Ekurhuleni Metro Police Department	40,946,879	38,631,186	94.34%
Energy	401,049,784	398,837,622	99.45%
Environmental Resources & Waste Management	135,900,000	133,542,443	98.27%
Executive Office	250,000	67,924	27.17%
Finance	150,000	149,540	99.69%
Health and Social Development	1,656,686	1,366,463	82.48%
Human Resources Management	75,000	74,978	99.97%
Human Settlements	601,643,377	594,615,214	98.83%
Information and Communication Technology	459,200,217	459,192,533	100.00%
Internal Audit	20,000	19,200	96.00%
Real Estate	108,748,737	101,761,747	93.58%
Roads and Stormwater	290,064,872	284,260,728	98.00%
Sport Recreation Arts and Culture	40,407,307	40,064,636	99.15%
Strategy & Corporate Planning	10,000	10,000	100.00%
Transport Planning & Provision	297,605,954	296,290,094	99.56%
Water and Sanitation	517,322,124	517,633,373	100.06%
	<b>3,075,532,339</b>	<b>3,038,490,555</b>	<b>98.80%</b>

Capital budget was curtailed due to the impact of Covid-19 pandemic and the lockdown from R4 414 809737 (in 2020/21) to R3 075 532 339 in 2021/22. The expenditure performance against budget in the current year is 98.8% which is below the previous year performance of 99.64% but higher than the norm of 95%.

**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.

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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 its 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.*

***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?***

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*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?**

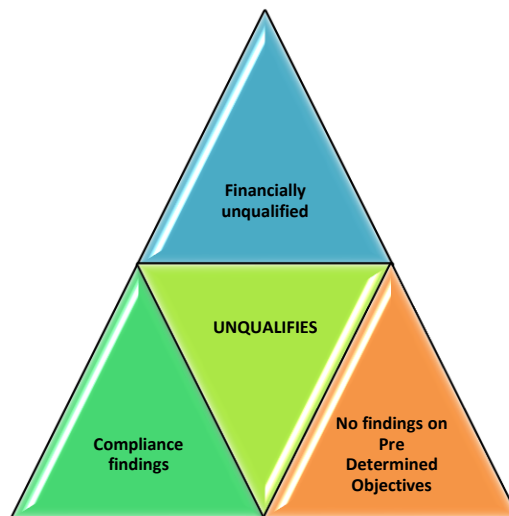
*In private sector, an unqualified audit is the norm. There is no concept of “clean” in private sector and the term is also not contained in audit standards.*

*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**



**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: I have determined that there are no key audit matters to communicate in this auditor’s report.

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**Par 7: Emphasis of matters**

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

**Par 8: Restatement of corresponding figures**

As disclosed in note 54 to the consolidated and separate financial statements, the corresponding figures for 30 June 2021 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 2022.

**Material impairment**

Par 9: As disclosed in the note 13 to the consolidated and separate financial statements, the consumer debtors balance has been significantly impaired. The allowance for impairment of consumer debtors amounts to R20 505 909 (2020/21: R16 126 582 172) which represents 73% (2020/21: 73%) of total consumer debtors. The contribution to the provision for debt impairment was R4 848 693 063 (2020/21: R4 116 187 914).

Par 10: 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 750 211 616 (2021: R1 350 493 038) which represents 81% (2021: 81%) of total traffic fines debtors

**Par 11 & 12: Material losses**

As disclosed in note 60 to the consolidated and separate financial statements, material electricity losses of R2 400 497 279 (2020/21: R1 953 320 909) was incurred which represent 17% (2020/21: 16%) of total electricity purchased. Technical losses amounted to R622 851 521 (2020/21: R524 032 620) and was due to losses inherent to electricity supply. Non-technical losses amounted to R1 777 645 758 (2020/21: R1 429 287 620) and were due to theft through illegal connections and bypassing or tampering of meters.

As disclosed in note 60 to the consolidated and separate financial statements, material water losses of R1 219 419 448 (2020/21: R1 179 288 614) was incurred which represents 32% (2020/21: 33%) of the total water purchased. Technical losses amounted to R182 760 299 (2020/21: R176 893 291) and was due to evaporation and losses inherent to water supply. Non-technical losses amounted to R1 036 659 149 (2020/21: R1 002 395 323) and were due to leaks and pipeline infrastructure requiring maintenance

**Par 13: Material uncertainties**

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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 consolidated and separate annual financial statements.

**Par 14: Other matters**

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

**UNAUDITED DISCLOSURE NOTES**

Par 15 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 16. 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 17. 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 18. 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 19. 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.



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

Par 20. 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 21. 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 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 22. 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 23. 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 24. 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 25. I draw attention to the matter below.

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**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

**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. An investigations relating to the allegations of possible irregulars with regard to the appointment of panel of suppliers for the maintenance and repairs of the group's fleet has been commissioned on 16 March 2022. The Investigation report has not been finalized at the time of reporting.

**SECTION D: APPROVAL OF FINAL YEAR END TRANSACTIONS FOR THE  
COMPILATION OF THE 2021/22 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:

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**Council approval required:**

- An amount of R83 679 079 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 2021. No redundant stock was identified.
- 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. 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 2021/22 financial year.

**RECOMMENDATION**

1. **That** the Annual Report, inclusive of the Annual Financial Statements and the Report of the Auditor-General for the 2021/22 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 2023 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 2021/22 financial year, **BE APPROVED**.