

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

2024.03.12

ITEM A- F (15-2024)

CITY OF EKURHULENI (CoE): SUBMISSION OF THE ANNUAL REPORT, INCLUDING THE AUDITED ANNUAL PERFORMANCE REPORT, AUDITED ANNUAL FINANCIAL STATEMENTS AND THE REPORT OF THE AUDITOR-GENERAL, FOR THE 2022/23 FINANCIAL YEAR

1. PURPOSE

To submit the Annual Report of the City of Ekurhuleni (CoE), including the Audited Annual Performance Report, Audited Annual Financial Statements and the report of the Auditor-General, for the 2022/23 Financial Year to Council.

2. STRATEGIC OBJECTIVE

Promoting good governance.

3. WARD/S AFFECTED

All wards are affected.

4. IDP LINKAGE

Unqualified Audit.

5. EXECUTIVE SUMMARY

The Annual Financial Statements for the 2022/23 Financial Year have been prepared in accordance with Section 126 of the Municipal Finance Management Act (MFMA) and the Annual Report for the 2022/23 Financial Year in terms of Section 127 of the MFMA.

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 February 2024 (COE and Entities) and including the Consolidated.

The audit outcomes were as follows:

COE Core	Unqualified audit opinion
COE Consolidated	Unqualified audit opinion
ERWAT	Unqualified audit opinion
EHC	Unqualified audit opinion

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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 April 2024 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 2022/23 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. 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 2022/23 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

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. BACKGROUND / MOTIVATION / 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 2022/23 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 130 targets in the 2022/23 Financial Year. Against these commitments, 100 (77%) of the targets were achieved and 30 (23%) were not achieved. The committed targets were contributed by the 24 Departments and Entities for the City-wide SDBIP. Of the 24 Departments and Entities that committed to the targets, 13 Departments achieved 100% of their planned targets. 5 Departments and 1 Entity achieved 50% and less of their planned targets. Out of these, Ekurhuleni Housing Company and Service Delivery Coordination Departments achieved none (0%) of their planned targets.

CITY-WIDE ANNUAL PERFORMANCE BY GDS THEMATIC AREAS

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 Job Creating Economic Growth Thematic Area which achieved 94% of their planned target, followed by Urban Integration Thematic Area at 76%. The Environmental Wellbeing and Social Empowerment GDS Thematic Areas recorded 75% achievement respectively. Effective Corporative Governance Thematic Area recorded an achievement of 73%.

CITY-WIDE 2022/23 ANNUAL PERFORMANCE PER CLUSTER

The City's Annual Performance against the targets set for the 2022/23 Financial Year shows that the Governance and Economic Development Cluster recorded the highest performance of 82% target achievement followed by Infrastructure Cluster which recorded 76% target achievement. Social Cluster recorded 73% achievement.

CITY-WIDE ANNUAL PERFORMANCE ACROSS SOCIAL CLUSTER

The Social Cluster committed to a total of 16 targets and of the 16 targets, 10 (60%) targets were achieved, and 6 (40%) targets were not achieved as presented. 2 Departments in this Cluster achieved 100% of their planned targets for the year under review. These Departments are Disaster and Emergency Management Services (DEMS) and Sports, Recreation, Arts and Culture (SRAC). The second highest performance was recorded by Ekurhuleni Metropolitan Police Department (EMPD) at 75% achievement. These are followed by Environmental Resource and Waste Management (ERWM) at 60% achievement. Health and Social

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Development Department achieved 50% of their planned targets, while the Service Delivery Coordination Department achieved 0% of their planned targets.

CITY-WIDE ANNUAL PERFORMANCE ACROSS INFRASTRUCTURE CLUSTER

The Cluster committed to a total of 49 targets and of the 49 committed targets, 37 (76%) were achieved and 12 (24%) were not achieved. City Planning, Real Estate, Enterprise Programme Management Office (EPMO), Energy, and Ekurhuleni Water Care Company (ERWAT) achieved 100% of their planned targets in this Cluster. These are followed by Roads and Storm Water at 75%, Water and Sanitation at 58% and Human Settlement at 25%. While Ekurhuleni Housing Company (EHC) achieved 0% of their planned targets.

CITY-WIDE ANNUAL PERFORMANCE ACROSS GOVERNANCE AND ECONOMIC DEVELOPMENT CLUSTER

The performance of the Cluster was measured against 65 targets that were planned to be met in the 2022/23 Financial Year. A total of 53 (82%) targets were achieved and 12(18%) were not achieved. 7 Departments (Risk Management, Information Communication and Technology (ICT); Communications and Brand Management, Internal Audit, Legislature, Human Resources, and Transport and Fleet Management Department) achieved 100% of their set targets. The second highest performing Department is Economic Development with 90% of their set targets achieved followed by the Finance Department in this Cluster sitting at 69%. It must be noted that this Cluster is the best performing compared to the other two Clusters.

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

***Note:** The figures explained in this section relate to the COE Core Financial Statements and not Consolidated. In the attached consolidated Financial Statements, two columns are provided, one for the economic Entity and one for the controlling Entity. The economic Entity refers to the entire COE group, i.e. the COE plus the Entities, whilst the controlling Entity refers to the COE only.*

The Financial Performance of the City is explained for the 3 main Financial Statements, being the Statement of Financial Performance, the Statement of Financial Position and the Cash Flow Statement.

Statement of Financial Performance

Explanatory notes on what the Statement of Financial Performance entails

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

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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 R317 743 881 in the current year compared to a surplus of R230 749 526 in previous year. The collections of rates are still below targets and where budgeted revenue could not be realised. 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.

Statement of Financial Performance				
	June 23	June 22	Value variance	% Variance
REVENUE				
Service charges	29 793 852 824	26 934 564 790	2 859 288 034	9,6%
Rental of facilities and equipment	97 911 532	95 559 261	2 352 271	2,4%
Construction contracts - HSDG Grant	30 171 857	113 708 125	(83 536 268)	-276,9%
Interest earned - outstanding debtors	1 131 900 996	433 854 228	698 046 768	61,7%
Income from agency services	319 731 584	294 477 724	25 253 860	7,9%
Licences and permits	48 983 795	43 261 957	5 721 838	11,7%
Other Income	188 269 916	122 787 738	65 482 178	34,8%
Interest earned - external investments	115 038 073	108 478 855	6 559 218	5,7%
Gains on sale of assets	-	19 143 685	(19 143 685)	0,0%
Property rates	7 841 075 519	7 805 420 006	35 655 513	0,5%
Property rates - penalties imposed	279 449 362	118 606 521	160 842 841	57,6%
Government grants and subsidies	9 486 868 639	8 644 391 352	842 477 287	8,9%
Public contributions and donations	179 665 463	127 840 419	51 825 044	28,8%
Fines	857 009 452	783 575 980	73 433 472	8,6%
Total Revenue	50 369 929 012	45 645 670 641	4 724 258 371	9,4%

Total revenue for the year amounted to R50 369 929 012, which is 9.4% increase from the revenue of the 2021/22 Financial Year which was R45 645 670 641. The increased revenue is mainly resulting from the increase in the implementation of the inflationary adjustments (costs of bulk increases) consumption of the services charges which increased by 9.6%, the interest levied on consumer accounts increased by 61.79% and other income increased 34.8% due to reopening of facilities after lockdown, while property rates grew by .0.5% and Government grants increased by 8.9%, as a result of increase in allocations and improved spending rate on grants received.

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A comparison of the actual revenue against the budget revenue shows a 2.3% deviation.

Statement of Financial Performance				
	Budget	Actual	Value variance	% Variance
REVENUE				
Service charges	30 889 160 852	29 793 852 824	1 095 308 028	3,5%
Rental of facilities and equipment	87 402 651	97 911 532	(10 508 881)	-12,0%
Construction contracts - HSDG Grant	130 157 556	30 171 857	99 985 699	76,8%
Interest earned - outstanding debtors	1 042 601 461	1 131 900 996	(89 299 535)	-8,6%
Income from agency services	324 758 486	319 731 584	5 026 902	1,5%
Licences and permits	43 957 756	48 983 795	(5 026 039)	-11,4%
Other Income	54 038 211	188 269 916	(134 231 705)	-248,4%
Interest earned - external investments	80 064 609	115 038 073	(34 973 464)	-43,7%
Property rates	8 231 352 036	7 841 075 519	390 276 517	4,7%
Property rates - penalties imposed	137 772 894	279 449 362	(141 676 468)	-102,8%
Government grants and subsidies	9 550 692 767	9 486 868 639	63 824 128	0,7%
Public contributions and donations	-	179 665 463	(179 665 463)	0,0%
Fines	988 983 646	857 009 452	131 974 194	13,3%
Total Revenue	51 560 942 925	50 369 929 012	1 191 013 913	2,3%

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

The total expenditure for the year amounted to R50 052 185 131 which is 9.3% increase from the expenditure of the 2021/22 Financial Year which was R45 414 921 117.

Statement of Financial Performance				
	June 23	June 22	Value variance	% Variance
EXPENDITURE				
Employee related costs	9 553 363 175	9 268 685 162	284 678 013	3,0%
Remuneration of councillors	146 095 823	145 080 418	1 015 405	0,7%
Depreciation	2 669 110 395	2 633 418 638	35 691 757	1,3%
Impairment of assets	22 997 709	37 574 810	(14 577 101)	-63,4%
Finance costs	1 412 085 521	1 342 741 751	69 343 770	4,9%
Debt impairment	7 556 936 407	4 819 760 979	2 737 175 428	36,2%
Collection cost	241 803 580	97 283 030	144 520 550	59,8%
Bulk purchases	20 214 500 978	19 211 895 219	1 002 605 759	5,0%
Contracted Services	2 753 049 524	2 498 036 683	255 012 841	9,3%
Grants and subsidies paid	1 322 808 630	1 231 508 688	91 299 942	6,9%
General expenses	4 159 433 389	4 128 935 739	30 497 650	0,7%
Total Expenditure	50 052 185 131	45 414 921 117	4 637 264 014	9,3%
NET SURPLUS FOR THE YEAR	317 743 881	230 749 524	86 994 357	27%

Significant cost increases relate to, debt impairment increased by 36.2% due to the failing in collection rate, the revised policy on indigent changed thereof; Collection costs increased by 59.8% as the City was implementing credit control measures, as evident in the interest levied on the consumer accounts. The bulk purchased increased by 5.0% in line with the increase in

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the consumption of services charges and increase passed to the City by bulk service providers. Contracted services increased by 9.3% due to costs of revenue enhancement strategy, while grants paid increased by 6.9% due to the excess consumption by deemed indigents.

A comparison of the actual expenditure against the budget expenditure shows a 1.9% over expenditure due as a result of the excess increased debt impairment.

Statement of Financial Performance				
EXPENDITURE	Budget	Actual	Value variance	% Variance
Employee related costs	10 433 444 667	9 553 363 175	880 081 492	8,4%
Remuneration of councillors	150 854 782	146 095 823	4 758 959	3,2%
Depreciation	2 931 717 005	2 669 110 395	262 606 610	9,0%
Impairment of assets	-	22 997 709	(22 997 709)	100,0%
Finance costs	1 448 197 641	1 412 085 521	36 112 120	2,5%
Debt impairment	5 694 389 467	7 556 936 407	(1 862 546 940)	-32,7%
Collection cost	230 449 097	241 803 580	(11 354 483)	-4,9%
Bulk purchases	20 886 047 423	20 214 500 978	671 546 445	3,2%
Contracted Services	2 534 611 528	2 753 049 524	(218 437 996)	-8,6%
Grants and subsidies paid	971 109 506	1 322 808 630	(351 699 124)	-36,2%
General expenses	3 855 292 194	4 159 433 389	(304 141 195)	-7,9%
Total Expenditure	49 136 113 310	50 052 185 131	(916 071 821)	-1,9%
NET SURPLUS FOR THE YEAR	2 424 829 615	317 743 881	2 107 085 734	87%

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.

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When comparing the Statement of Financial Position with that of 2022, the following variances are evident:

Statement of Financial Position				
ASSETS	June 23	June 22	Value variance	% Variance
CURRENT ASSETS	12 927 057 328	11 792 899 426	(1 134 157 902)	-8,8%
NON-CURRENT ASSETS	62 906 267 452	63 040 811 808	134 544 356	-0,2%
TOTAL ASSETS	75 833 324 780	74 833 711 234	(999 613 546)	1,3%
CURRENT LIABILITIES	15 249 640 701	13 787 551 517	1 462 089 184	9,6%
NON CURRENT LIABILITIES	11 326 672 183	12 106 891 701	(780 219 518)	-6,9%
TOTAL LIABILITIES	26 576 312 884	25 894 443 218	681 869 666	2,6%
NET ASSETS (NET POSITION)	49 257 011 896	48 939 268 016	317 743 880	0,6%
Accumulated Surplus/(Deficit)	49 257 011 896	48 939 268 016	(317 743 880)	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 adjusted for all non-cash transactions. All other cash transactions not resulting from the Statement of Financial Performance are recorded. These Items can be referenced back to both the capital budget as well as the Items reported as part of the quarterly section 11 withdrawals reports submitted to Council.

There are three main categories:

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

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

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

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A healthy financial situation is one where the City has a net cash surplus resulting from operations as main source of revenue rather than from financing activities. A second important measure is to look for a correlation between cash generated from financing activities and investing activities which shows that funds borrowed were invested in capital infrastructure and not used for operations.

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

Cash resources increased as follows:

Cash flow Statement				
	June 23	June 22	Value variance	% Variance
Net Cash inflow from Operating activities	2 926 887 307	2 064 224 163	(862 663 144)	-29,5%
Net Cash outflow from Investing activities	(3 049 662 419)	(2 589 325 397)	460 337 022	15,1%
Net Cash inflow from Financing activities	(58 314 466)	338 873 622	(397 188 088)	681,1%
Net Increase in Cash and Cash equivalents	(181 089 578)	(186 227 612)	5 138 034	-2,8%
Cash and Cash equivalents at Beginning of the year	773 143 249	958 370 861	(185 227 612)	-24,0%
Cash and Cash equivalents at End of the year	592 053 671	772 143 249	(180 089 578)	-3041,8%

The City generated from its operating activities a cash of R2.927 billion during the 2022/23 Financial Year and last year was R2.064 billion, an increase of R862 million. The year started with a cash balance of R772 million and ended with cash of R592 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 decreased by R58 million as a results of long term liabilities repayment for R800 million and R742 million was raised for the financing of the capital expenditure. The cash was generated as follows:

- From operations – R863 million cash increase - Simply stated this means that the difference between amounts received from our customers for services rendered and grants received were R863 million more than the amounts that we paid out as operating expenditure to our employee costs and suppliers in delivering services.
- From investing activities – R3.0 billion cash outflow – this means that we invested R3.0 billion in the acquisition and replacement of the capital expenditure.
- From financing activities – R58 million cash outflow – This relates to repayment of R800 million worth of long term loans, and new long term borrowing raised in the current year of R742 million for financing of the capital expenditure.

The fact that the cash generated from operations is over R2.869 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 borrow 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 Loan Redemption Profile					
Period	Opening Balance	New Loans	Redemption	Closing Balance	Inv Maturing
2021/22	9,600,921,671	1,000,000,000	667,950,674	9,932,970,998	
2022/23	9,932,970,998	741,982,950	793,723,575	9,881,230,372	
2023/24	9,881,230,372		1,691,211,391	8,190,018,981	800,000,000
2024/25	8,190,018,981		917,445,163	7,272,573,818	
2025/26	7,272,573,818		785,630,580	6,486,943,238	
2026/27	6,486,943,238		822,409,456	5,664,533,782	
2027/28	5,664,533,782		251,427,737	5,413,106,045	
2028/29	5,413,106,045		179,717,349	5,233,388,696	

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 2017	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	Closing Balance 30 June 2023
ABSA	585 048 606	537 503 780	484 175 283	369 068 863	437 965 685	205 430 842	291 882 375
Nedbank	236 140 196	82 844 270	1 000 000 000	938 007 164	971 424 897	860 189 751	901 063 595
DBSA			2 000 000 000	4 028 641 175	2 024 933 185	5 434 276 971	4 924 105 520
Municipal Bonds	4 250 869 337	5 379 729 763	5 197 173 374	4 409 502 313	6 528 619 283	3 525 881 110	3 967 041 646
Total Liabilities	5 072 058 139	6 000 077 813	8 681 348 657	9 745 219 515	9 962 943 050	10 025 778 674	10 084 093 136

The City has an accumulated surplus of R49.257 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 Year to Date	Percentage Spent (Actual vs Adjusted Budget)
Chief Operating Officer	29,000,000	28,684,035	98.91%
City Planning	300,000	57,596	19.20%
Council General	29,000,000	28,989,840	99.96%
Disaster & Emergency Management Services	31,000,000	29,434,209	94.95%
Economic Development	25,250,000	24,854,139	98.43%
Ekurhuleni Metro Police Department	35,500,000	35,469,321	99.91%
Energy	603,233,106	602,317,935	99.85%
Environmental Resources & Waste Management	129,750,000	128,837,689	99.30%
Executive Office	250,000	29,560	11.82%
Human Resources Management	50,000	49,520	99.04%
Human Settlements	555,330,987	549,111,994	98.88%
Information and Communication Technology	334,587,212	330,732,869	98.85%
Real Estate	86,048,978	84,777,408	98.52%
Roads and Stormwater	243,110,777	233,561,413	96.07%
Sport Recreation Arts and Culture	41,875,790	41,837,992	99.91%
Transport Planning & Provision	260,000,000	259,960,000	99.98%
Water and Sanitation	625,750,000	606,870,228	96.98%
Grand Total	3,030,036,850	2,985,575,748	98.53

Capital budget was curtailed from R3 215 985 911 (in 2021/22) to R3 030 036 850 in 2022/23. The expenditure performance against budget in the current year is 98.53% for the City, excluding its Entities, which is above the previous year's performance of 96.91% but higher than the norm or target 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) requires that 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 presents in all material aspect the financial results and financial position of the City and its cash flow.

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-
- b) Predetermined objectives, whether the information reported by the City on service delivery targets is useful 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 is 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.

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

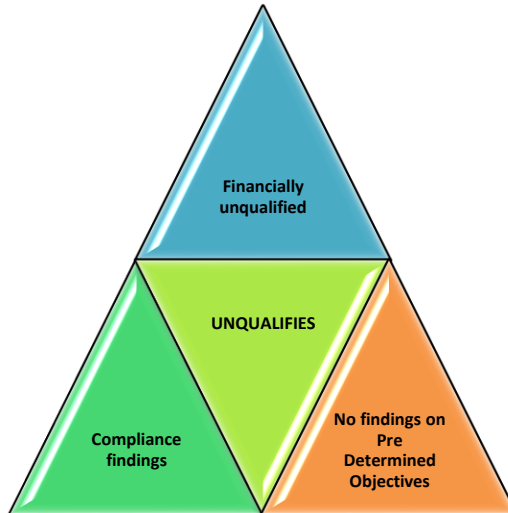
In the Private Sector, an unqualified audit is the norm. There is no concept of “Clean” in the Private Sector and the term is also not contained in Audit Standards.

However, in Public Sector a higher level of accountability is required. The goal is to achieve a 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 FINDINGS, AND THE REPORT OF THE AUDITOR GENERAL IS SUMMARIZED AS FOLLOWS:

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Audit results per outcome area

Outcome area	Movement	2022-23	2021-22	2020-21
Financial statements	▶			
Annual performance report				
<ul style="list-style-type: none"> Strategic objective 1: To deliver reliable, affordable and sustainable services and ensure improved infrastructure maintenance 	▶			
Compliance with legislation				
<ul style="list-style-type: none"> Annual financial statements 	▶			
<ul style="list-style-type: none"> Procurement and contract management 	▼			
<ul style="list-style-type: none"> Revenue management 	▶			
<ul style="list-style-type: none"> Expenditure management 	▶			
<ul style="list-style-type: none"> Asset management 	▶			
<ul style="list-style-type: none"> Consequence management 	▶			
<ul style="list-style-type: none"> Strategic planning and performance management 	▶			
<ul style="list-style-type: none"> Human Resource management 	▶			
<ul style="list-style-type: none"> Utilisation of conditional grants 	▶			

 Unqualified / No material findings	 Qualified	 Adverse	 Disclaimed	 Material findings	 Not audited
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 Improvement	 Regression	 Unchanged
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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’s 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.

Par 7: **Emphasis of matters**

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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 2022 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 2023.

Material impairment

Par 9. As disclosed in note 14 to the Consolidated and Separate Financial Statements, the consumer debtors' balance has been impaired. The allowance for impairment of consumer debtors amounts to R16 586 465 329 (2022: R20 505 208 907) which represents 68% (2022: 73%) of total consumer debtors. The contribution to the allowance for debt impairment was R7 976 253 520 (2022: R4 848 693 063).

Par 10. As disclosed in note 13 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 R2 197 709 912 (2022: R1 750 211 617) which represents 82% (2022: 81%) of total traffic fines debtors.

Par 11. As disclosed in note 13 to the Consolidated and Separate Financial Statements, the property rates debtors' balance has been impaired. The allowance for impairment of property rates debtors amounts to R2 661 866 720 (2022: R3 481 258 920) which represents 61% (2022:81%) of total property rates debtors.

Par 12: Material losses

As disclosed in note 37 to the Consolidated and Separate Financial Statements, material electricity losses of R2 333 616 165 (2022: R2 400 497 279) was incurred, which represents 16% (2022: 17%) of total electricity purchased. Technical losses amounted to R638 775 862 (2022: R622 851 521) and non-technical losses amounted to R1 694 840 303 (2022: R1 777 645 758).

Par 13: Material uncertainties

With reference to note 42 to the Consolidated and Separate Financial Statements, the group is the defendant in various claims. The ultimate outcome on the matters could not be determined and no provision for any liability that may result was made in the Financial Statements.

Par 14: Other matters

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

Par 15: UNAUDITED DISCLOSURE NOTES

In terms of section 125(2)(e) of the MFMA, particulars of non-compliance with the MFMA should be disclosed in the Consolidated and Separate 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.

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Responsibilities 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 Standard of GRAP and the requirements of the MFMA and the DORA, and for such internal control as the Accounting Officer determines is necessary to enable the preparation of the 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 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.

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 must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for the selected strategic objective presented in the Annual Performance Report. The accounting officer is responsible for the preparation of the Annual Performance Report.

Par 21: I selected the following strategic objective presented in the Annual Performance Report for the year ended 30 June 2023 for auditing. I selected a strategic objective that measures the Municipality's performance on its primary mandated functions and that is of significant national, community or public interest.

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Strategic objective	Page numbers	Purpose
To deliver reliable, affordable and sustainable services and ensure improved infrastructure maintenance	X - X	To promote integrated human settlements by ensuring access to basic services

Par 22: I evaluated the reported performance information for the selected strategic objective against the criteria developed from the performance management and reporting framework, as defined in the general notice. When an Annual Performance Report is prepared using these criteria, it provides useful and reliable information and insights to users on the Municipality's planning and delivery on its mandate and objectives.

Par 23: I performed procedures to test whether:

- the indicators used for planning and reporting on performance can be linked directly to the municipality's mandate and the achievement of its planned objectives.
- the indicators are well defined to ensure that they are easy to understand and can be applied consistently, as well as verifiable so that I can confirm the methods and processes to be used for measuring achievements.
- the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated.
- the indicators and targets reported on in the Annual Performance Report are the same as those committed to in the approved initial or revised planning documents.
- the reported performance information is presented in the Annual Performance Report in the prescribed manner.
- there is adequate supporting evidence for the achievements reported and for the reasons provided for any over- or underachievement of targets taken to improve performance.
- I performed the procedures for the purpose of reporting material findings only; and not to express an assurance opinion or conclusion.
- I did not identify any material findings on the reported performance information for the selected strategic objective.

Other matters

Par 26: I draw attention to the matters below.

REPORT ON THE AUDIT OF COMPLIANCE WITH LEGISLATION

Par 30: In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The Accounting Officer is responsible for the Municipality's compliance with legislation.

Par 31: I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.

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Par 32: Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the Municipality, clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this Auditor's report.

Par 33: The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Procurement and Contract Management

Par 34: Some of the contracts were awarded to bidders based on points given for legislative requirements that differed from those stipulated in the original invitation for bidding, in contravention of SCM regulations 21(b) and 28(1)(a)(i) and the Preferential Procurement Regulations.

Par 35: Some of the invitation to tender for procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by the 2017 Preferential Procurement Regulation 8(2).

Other information

Par 36- 39: Other information

Internal control

Par 40: I considered internal control relevant to my audit of the Consolidated and Separate Financial Statements, Annual Performance Report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.

Par 41: The matter reported below is limited to the significant internal control deficiency that resulted in the material findings on compliance with legislation included in this report.

Par 42: Management did not adequately review and monitor compliance with applicable laws and regulations as material non-compliances were identified during the audit.

**SECTION D: APPROVAL OF FINAL YEAR END TRANSACTIONS FOR THE
COMPILATION OF THE 2022/23 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 R22 909 709 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 April 2023.

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No redundant stock was identified. The inventory write-off for the year under review was R38 099 646.

- 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.

7. COMMENTS FROM RELEVANT DEPARTMENTS

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 2023/24 Financial Year.

8. LIST OF ANNEXURE/S

Annexure A: Annual Report

Annexure B: Audited Financial Statements

Annexure C: Auditor-General's Report on the Consolidated Financial Statements (i.e., COE and the Entities combined)

9. RECOMMENDATION

1. **That** the Annual Report of the City of Ekurhuleni (CoE), including the Audited Annual Performance Report, Audited Annual Financial Statements and the report of the Auditor-General, for the 2022/23 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 April 2024 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 Report, including the Audited Annual Performance Report, Audited Annual Financial Statements and the report of the Auditor-General, for the 2022/23 Financial Year, **BE APPROVED**.