Report of the auditor-general to the Gauteng Provincial Legislature and the council on the City of Ekurhuleni Metropolitan Municipality

Report on the audit of the consolidated and separate financial statements

Qualified opinion

1. I have audited the consolidated and separate financial statements of the City of Ekurhuleni Metropolitan Municipality and its subsidiaries (the group) set out on pages xx to xx, which comprise the appropriation statement, consolidated and separate statement of financial position as at 30 June 2025, consolidated and separate statement of financial performance, consolidated and separate statement of changes in net assets, the consolidated and separate cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

2. In my opinion, except for the possible effects of the matter described in the basis for a qualified opinion section of this auditor's report, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the City of Ekurhuleni Metropolitan Municipality and its subsidiaries as at 30 June 2025, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 24 of 2024 (Dora).

Basis for qualified opinion

Consumer debtors

3. I was unable to obtain sufficient and appropriate evidence to confirm the valuation and completeness of receivables from exchange transactions and non-exchange transactions. During the financial year, data within the computerised accounts receivable system was subject to manipulation through unauthorised manual adjustments and system overrides, which compromised the integrity of the financial data on receivables balance. These circumventions compromised the reliability of the information produced by the system and the audit trail supporting receivables from exchange and non-exchange transactions.

4. I was unable to confirm or verify by alternative means receivable from exchange transactions, non-exchange transactions and consumer debtors as disclosed in notes 11, 12 and 13 in the financial statements as at 30 June 2025. As a result, I was unable to determine whether any adjustments were necessary to the recorded receivables. Consequently, I was unable to determine the impact of the misstatement on receivables from exchange transactions, receivables from non-exchange transactions and consumer debtors.

Context for opinion

5. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the responsibilities of the auditor-general for the audit of the consolidated and separate financial statements section of my report.

6. I am independent of the group in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.
8. In terms of the IRBA Rule on Enhanced Auditor Reporting for the Audit of Financial Statements of Public Interest Entities, published in Government Gazette No. 49309 dated 15 September 2023 (EAR Rule), I report:

Final materiality

9. The scope of our audit was influenced by my application of materiality. An audit is designed to obtain reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error, and they 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 the consolidated and separate financial statements.
10. My determination of materiality is a matter of professional judgement and is affected by my perception and understanding of the financial information needs of intended users, which includes the quantitative and qualitative factors that determine the level at which relevant decisions taken by users would be affected by a misstatement. These factors helped to determine the scope of the audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated and separate financial statements as a whole.
11. Based on my professional judgement, I determined final materiality for the consolidated and separate financial statements as follows:

Materiality considerations	Materiality considerations	Separate financial statements
Final materiality amount	R559 million.	R559 million.
Basis for determining materiality	1% of total expenditure, as disclosed in the prior year's audited annual financial statements.	1% of total expenditure, as disclosed in the prior year's audited annual financial statements.
Rationale for benchmark applied	Total expenditure is an appropriate quantitative indicator of materiality as it represents the group's essence and drives its mandate to deliver basic services.	Total expenditure is an appropriate quantitative indicator of materiality as it represents the municipality's essence and drives its mandate to deliver basic services.

Group audit scope

12. I tailored the scope of the audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, considering the structure of the group and the accounting processes and controls.

Material uncertainty related to going concern

13. I draw attention to the matter below. My opinion is not modified in respect of this matter.

14. As disclosed in note 46 to the consolidated and separate financial statements, the performance indicators suggest that the group may continue to experience short-term financial pressure, despite improvements in cash flow. While the group has demonstrated an increased ability to generate revenue, the pace at which cash becomes available may not always align with immediate financial obligations. Liquidity and solvency levels remain below expectations, largely due to historical financial performance.

15. In terms of the EAR Rule, I report on how I have evaluated management's assessment of the group's ability to continue as a going concern. I considered:

    - the group's cash flow projections, approved budget and Integrated Development Plan (IDP) to determine whether sufficient resources are available to sustain operations
    - assumptions relating to revenue collection and funding sources, including the impact of low collection rates on cash flows
    - the group's ability to meet its financial obligations
    - the impact of identified financial pressures and governance deficiencies
    - council resolutions, mayoral committee minutes, and oversight reports for indications of financial distress or planned remedial actions.

16. I concluded that the management's assessment of the group's ability to continue as a going concern is appropriate.

Key audit matters

17. Key audit matters are those matters that, in professional judgement, were of most significance in my audit of the consolidated and separate financial statements for the current period. These matters were addressed in the context of my audit of the consolidated and separate financial statements as a whole and in forming my opinion, and I do not provide a separate opinion on these matters.

18. In addition to the matter described in the material uncertainty related to the going concern section, I have determined the matter described below to be the key audit matter to be communicated in my report. In terms of the EAR Rule, I am required to also report the outcome of audit procedures or key observations with respect to the key audit matter.

Key audit matter	How matter was addressed and outcomes or key observation

Revenue from service charges (electricity and water)	Our audit procedures included:
The municipality generates a significant portion of its revenue from service charges relating to electricity and water supplied to residents and businesses. Due to the large number of consumers, reliance on automated billing systems and the risk of inaccuracies in metre readings and billing processes, revenue from service charges was considered to be a matter of most significance in our audit. In addition, there is a risk that revenue may be misstated due to incorrect tariff application, incomplete billing or system-related errors. The recognition of revenue is governed by the applicable **GRAP 9** and **GRAP 23.**	• Evaluating the design and implementation of key controls over the revenue and billing cycle. • Testing a sample of consumer accounts to confirm that tariffs applied were approved by the council and correctly configured in the billing system. • Testing metre readings and consumption data used to generate billing. • Performing analytical procedures comparing electricity and water revenue with prior years and consumption trends. • Performing cut-off testing around year-end to ensure that revenue was recognised in the correct reporting period. • Assessing the adequacy of disclosures relating to revenue in the financial statements. No material misstatements were identified as a result of procedures performed.

Emphasis of matters

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

20. As disclosed in note 13 to the consolidated and separate financial statements, material loss relating to traffic fines has been impaired. The allowance for impairment of traffic fines debtors amounts to R2 739 788 968 (2024: R2 653 787 032), which represents 82% (2024: 82%) of total traffic fines. This was due to non-payment of long-outstanding traffic fines.

21. As disclosed in note 40 to the consolidated and separate financial statements, material electricity loss of R3 067 588 141 (2024: R2 750 624 166) was incurred, which represents 15,5% (2024: 16%) of total electricity purchased. Technical loss of R858 388 622 (2024: R736 309 218) was due to electricity lost while being distributed from the source of generation through the transmission and distribution network to the final consumer. Non-technical loss of R2 209 199 519 (2024: R2 014 314 948) was due to administrative and technical errors, negligence, theft of electricity, tampering with metres and connections, which form part of illegal consumptions and faulty metres.

22. With reference to note 46 to the consolidated and separate financial statements, the group is the defendant in the various lawsuits. The ultimate outcome of the matters could not be determined and no provision for any liability that may result was made in the financial statements.

Other matters

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

24. In terms of section 125(2)(e) of the MFMA, the 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.

Responsibilities of the accounting officer for the financial statements

25. The accounting officer is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the standards of GRAP and the requirements of the MFMA and for such internal control as the accounting 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.

26. 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.

Responsibilities of the auditor-general for the audit of the financial statements

27. 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.

28. 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. This description, which is located at page 11, forms part of my auditor's report.

Report on the audit of the annual performance report

29. 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.

30. I selected the following strategic objective presented in the annual performance report for the year ended 30 June 2025 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.

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

31. 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.

32. In performing the audit, my procedures focused on the material indicators relating to water, electricity, sanitation, human settlements and related infrastructure.

33. 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
- all the indicators relevant for measuring the municipality's performance against its primary mandated and prioritised functions and planned objectives are included
- the indicators are well defined to ensure 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 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 and is comparable and understandable
- there is adequate supporting evidence for the achievements reported and for the reasons provided for measures taken to improve performance.

34. I performed the procedures for the purpose of reporting material findings only, and not to express an assurance opinion or conclusion.

35. I did not identify any material findings on the reported performance information for the selected strategic objective.

Other matter

36. I draw attention to the matter below.

Achievement of planned targets

37. The annual performance report includes information on reported achievements against planned targets and provides measures taken to improve performance.

38. The table that follows provides information on the achievement of planned targets and lists the key service delivery indicators that were not achieved as reported in the annual performance report.

To deliver reliable, affordable and sustainable services and ensure improved infrastructure maintenance

Targets achieved: 71% Budget spent: 96%		
Key service delivery indicator not achieved	**Planned target**	**Reported achievement**
TR6.13: KMs of new municipal road network	6KM	1,06KM
RSD1.3: Number of stormwater systems constructed	20	9
WS3.11: Percentage of callouts responded to within 48 hours (sanitation/wastewater)	85%	43.07%
WS3.21: Percentage of callouts responded to within 48 hours (water)	85%	52.91%

Report on compliance with legislation

39. 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.

40. 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.

41. 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.

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

Expenditure management

43. Reasonable steps were not taken to prevent irregular expenditure amounting to R42 952 885, as disclosed in note 47 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed irregular expenditure was caused by the contravention of SCM regulations 21(b) and 28(1)(a)(i) and the Preferential Procurement Regulations.

Procurement and contract management

44. 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. Similar non-compliance was also reported in the prior year.

45. Contract performance was inadequately monitored, with insufficient measures in place to ensure effective contract management, as required by section 116(2) of the MFMA.

Other information in the annual report

46. The accounting officer is responsible for the other information included in the annual report. The other information referred to does not include the consolidated and separate financial statements, the auditor's report and those selected strategic objectives presented in the annual performance report that have been specifically reported in this auditor's report.

47. My opinion on the consolidated and separate financial statements, the report on the audit of the annual performance report and the report on compliance with legislation does not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.

48. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the consolidated and separate financial statements and the selected strategic objective presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

49. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected, this will not be necessary.

Internal control deficiencies

50. 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.

51. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion and the material findings on compliance with legislation included in this report.

52. The accounting officer did not exercise adequate oversight responsibility over financial reporting and compliance with legislation, as well as the related internal controls. Effective and appropriate measures were not implemented in a timely manner to prevent and detect material errors in the submitted annual financial statements, as well as to prevent and detect non-compliance with legislation.

53. The accounting officer developed an action plan to address the prior years' significant findings, but adherence to the plan was not adequately monitored on a timely basis by the appropriate level of management, resulting in numerous material findings relating to compliance with laws and regulations.

54. The accounting officer did not adequately design and implement IT controls to prevent, detect and prevent unauthorised access to the financial reporting system, resulting in data manipulation.

55. Senior management did not always ensure that adequate controls were designed, implemented and monitored to ensure proper financial reporting and compliance with laws and regulations, resulting in material non-compliance with laws and regulations.

Material irregularities

56. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit and on the status of material irregularities as previously reported in the auditor's report.

Material irregularity in progress

57. I identified another material irregularity during the audit and notified the accounting officer of this, as required by material irregularity regulation 3(2). By the date of this auditor's report, the responses of the accounting officer were not yet due. This material irregularity will be included in next year's auditor's report.

Status of previously reported material irregularities

58. The material irregularities identified are as follows:

Distribution centre not utilised

59. Resources of the municipality were not utilised economically, as required by section 62(1) (a) of the MFMA. The municipality did not take appropriate steps to ensure that once the distribution centre was completed, it was placed in use. The distribution centre was completed, and an occupancy certificate was issued on 27 June 2022.

60. The non-compliance is likely to result in the misuse of the vacant distribution centre at the Ekurhuleni fresh produce market for the CoE. The expansion on the fresh produce market was constructed and completed on 27 June 2022 and was intended to boost the economy within the CoE, as well as generate an additional stream of revenue. The cost of expanding the fresh produce market with the additional distribution centre amounted to R39 778 318.

61. The accounting officer was notified of the material irregularity on 12 December 2024.

62. The accounting officer has taken the following actions to address the material irregularity:

- Property valuers appointed in February 2025 completed the valuation of the distribution centre in February 2025.

- The council passed a resolution in July 2025 authorising the AO to conduct the required public participation process relating to the proposed long-term lease of the distribution centre.

- A provincial government gazette was issued in August 2025 pertaining to the notice of the public participation process to be conducted on the proposed long-term leasing of the distribution centre, with a meeting scheduled for 4 September 2025. Hereafter, the public participation outcome will be submitted to the council to request the resolution to finalise the process. After the receipt of this approval, the AO will issue a bid advertising to invite potential tenants, followed by the bid evaluation and subsequent award. The distribution centre will then be handed over to the successful bidder and the commencement of the functionality of the distribution centre will take place.

- The public meeting took place on 4 September 2025 in the Supper Hall, Springs Civic Centre however, there was no attendance by any members of the community.

- Engagements were undertaken with National Treasury and Provincial Treasury to obtain guidance on the prescribed process to be followed in respect of the proposed long-term lease of the property.

- No disciplinary process was initiated as the project manager is no longer in the employment of the municipality.

63. I will follow up on the implementation of the planned action during my next audit.

Other reports

64. In addition to the investigations relating to material irregularities, I draw attention to the following engagements conducted by various parties. 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.

65. The municipality is conducting a number of investigations based on allegations of procurement irregularities and financial misconduct. Some of these investigations had been finalised while others were still in progress at the date of this auditor's report.

AUDITOR - GENERAL

Johannesburg

23 March 2026

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence