

**EKURHULENI METROPOLITAN MUNICIPALITY
ORDINARY COUNCIL MEETING**

2017.01.26

ITEM A-F (01-2017)

SUBMISSION OF ANNUAL REPORT, INCLUSIVE OF ANNUAL FINANCIAL STATEMENTS AND REPORT OF THE AUDITOR-GENERAL, FOR THE 2015/2016 FINANCIAL YEAR

PURPOSE

To submit the Annual Report, inclusive of the Annual Financial Statements and the Report of the Auditor-General, for the 2015/2016 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 2015/2016 financial year has been prepared in accordance with Section 126 of the Municipal Finance Management Act and the Annual Report for the 2015/2016 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 EMM has completed both the financial statements as well as the annual report within the legislative deadlines. The municipal entities have also complied will all various legislative deadlines.

The external audit has been completed and the required amendments were made to the financial statements. The Auditor General has issued his reports on the various sets of financial statements during November 2016 (EMM and Entities) and December 2016 (Consolidated).

The audit outcomes were as follows:

EMM Core	Unqualified audit opinion (not clean)
EMM Consolidated	Unqualified audit opinion (not clean)
ERWAT	Unqualified audit opinion (not clean)
BBC	Clean Audit Opinion
EDC Group	Clean Audit Opinion

**EKURHULENI METROPOLITAN MUNICIPALITY
ORDINARY COUNCIL MEETING**

2017.01.26

ITEM A-F (01-2017)

The final annual report with the annual financial statements and report of the Auditor General must now be approved by Council. The report should then be referred to the Municipal Public Accounts Committee (MPAC) to perform the oversight function and their report must be submitted to Council before the end of March 2016 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 2015/2016 financial year and as such section 32 of the MFMA must be followed. The council committee referred to in section 32 of the MFMA that will investigate the irregular, fruitless and wasteful expenditure is the MPAC committee. The committee must in their report back to Council in March 2016, 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). However, virements are required for the authorization of the Unauthorised Expenditure incurred by the Ekurhuleni Metropolitan Police Department for an amount of
- Certified as irrecoverable and 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 municipality only and the reports of the municipal entities are attached as annexures to this report.

This submission also include, a request to Council of ratification of Final Year End Transactions on the Compilation of the 2015/2016 Financial Statements as required by the Generally Recognised Accounting Practices (GRAP).

The following Annexures are attached to this submission:

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

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

**EKURHULENI METROPOLITAN MUNICIPALITY
ORDINARY COUNCIL MEETING**

2017.01.26

ITEM A-F (01-2017)

DISCUSSION

SECTION A: ORGANISATIONAL PERFORMANCE AS CONTAINED IN THE ANNUAL REPORT

The full analysis of the municipality's performance against its commitments set in the Service Delivery Budget Implementation Plan (SDBIP) for the 2015/16 financial year is presented in the Annual Report submitted or attached (Annexure A).

Over the year under review, EMM committed to a total of 103 targets. Of the 103 targets committed to, 72 were achieved and 31 were not achieved. Of the 31 targets not achieved, 10 recorded no performance at all and 21 recorded partial performance. While target achievement remains a major concern, the municipality is making commendable strides in improving its performance.

There has been a notable improvement on the credibility of the reported performance information. This is evidenced by the achievement of favourable audit results on the audit of performance against predetermined objectives. The improvement is attributed to a focused implementation of control measures which included the evidence based reporting approach meant to impact positively on the usefulness and reliability of reported information and other performance monitoring interventions instituted which included strong oversight mechanisms and other management practices.

The reported performance is in support of a Delivering City trajectory of the Growth and Development Strategy 2055 (GDS). Against the thematic areas of the GDS, some of the results achieved included:

1. RE-GOVERN

The City made commendable strides in promoting a more effective, accountable, responsive, transparent and clean local government. In its efforts to improve good governance, the City placed a premium on legislative compliance, strengthening of management practices, broadening participation, financial governance and dedicated customer care as well as striving for effective service delivery.

Some of the results and critical milestones achieved which are indicative of the fact that good governance reigns in the municipality included the following:

- The City received a four notch upgrade by the Moody's from A1.za/Prime-1 to Aaa.za/Prime-1
- EMM is the most financially municipality in the country when considering liquidity, net assets and accumulated cash reserves
- Although the municipality regressed from a clean audit to an unqualified audit opinion in terms of the audit results issued by the Auditor General South Africa (AGSA) with regards to the financial statements, favourable audit results were achieved regarding the audit of

**EKURHULENI METROPOLITAN MUNICIPALITY
ORDINARY COUNCIL MEETING**

2017.01.26

ITEM A-F (01-2017)

performance against predetermined objectives. This is attributed to improvement in the management practices and compliance to government legislation regarding the management of performance information

- Strengthened the risk management and internal audit capabilities
- The City recorded considerable improvements on the citizens' satisfaction rating based on the indicators explored in the 2016 Quality of Life Survey conducted by the Gauteng City Region Observatory (GCRO).
- Improved the spending on its capital budget
- Strengthened the functionality of the Customer Care Centres and continued to improve the handling of customer queries using the capabilities of the Call Centre.
- Made available a total of 32 contact points for the provision of uniform customer services
- The metro commenced with the implementation of an ERP system. When the ERP system is fully operational it will assist the City in the subsequent years to promote the effective management of EMM resources and information to respond to public queries and service requests.
- Stability of the ICT systems improved during the financial year. Enabled customer facing applications were kept available 97,64% of the times.
- 79% of critical and prioritized posts were filled
- With regards to the financial viability of the metro, 90,61%
- Made significant strides in the finalisation of filling by-law contravention cases through the Courts
- Completed the preparations for the establishment of the Office of the Ombudsman

2. RE-INDUSTRIALISE

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

- 199,184 business tourists visited Ekurhuleni
- 9,793 job opportunities were created
- R-value of investments committed - R8,356 billion;
- 307 enterprises participated in the EMM's business incubation programme.

3. RE-URBANISE

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

- Equipping 1988 unmetered stands with water meters.
- Providing 1,896 additional households with water connections
- The City maintained the Blue Drop status above 95% for five consecutive years. This is indicative of EMM's positive efforts in promoting the quality of drinking water within the region.
- The City enabled sanitation connections to a total of 1,896 additional households

**EKURHULENI METROPOLITAN MUNICIPALITY
ORDINARY COUNCIL MEETING**

2017.01.26

ITEM A-F (01-2017)

- In its effort to contribute to the reduction of crime and increase access to energy, EMM installed:
 - 6,500 PV solar lighting units were installed in several informal settlements
 - 156 high mast lights were installed
 - 2,263 street lights were installed
 - 10,257 subsidized households were electrified.

In pursuit of providing an efficient transport system, EMM invested in the development of transport infrastructure and focused its efforts on the construction of pedestrian walkways and cyclist paths which resulted in the completion of 10,33km of pedestrian and cyclist paths. A total of 6,23 kms of the phase 1 IRPTN BRT routes were constructed.

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

- Built a total of 341 subsidized housing units and handed them over to beneficiaries
- A total of 11 informal settlements were upgraded to formal townships
- Critical services such as water, sanitation, refuse removal, primary health care and lighting were provided on an ongoing basis to the 119 informal settlements.

In its quest to improve the road infrastructure and to promote the ease of transportation within the City, EMM focused on the construction, upgrade and maintenance of the road and storm water infrastructure network. This included, upgrading of gravel roads to paved roads focusing on previously disadvantaged areas, maintenance of tarred and gravel roads including those that are in the informal settlements, rehabilitation and resurfacing of paved roads to prevent deterioration of existing infrastructure and construction of major roads to reduce congestion and facilitate economic development. In this regard, a total of 61.09 kms of roads was paved/surfaced and 2629,917 km of the road network was maintained. In addition, a total of 104 stormwater systems were added to the existing network and 11,221 stormwater systems were maintained.

4. RE-MOBILISE

The Re-mobilise theme is aimed at building a healthy, active and engaged citizenry that has the capability of working in partnerships to develop the inter-generational capacity. In order to express this ideal, the City ensured that citizens across the city participated actively in a variety of related programmes. A number of initiatives were implemented and yielded some notable results. Building and operating libraries, sports facilities and arts and culture facilities are amongst the programmes that the City embarked on. In the year under review, EMM started the construction of two libraries, one arts and arts and culture facility and completed a total of 38 eco gyms. The municipality made commendable strides in its contribution to the development of children in the region. Strengthening the ECD programme through facilitating training of ECD practitioners resulted to a total of 144 ECD practitioners who received trained on SETA accredited NQF Level 4 ECD training.

Another critical service delivery area of intervention which the City recorded commendable strides on is the area of health care services. Notable achievements included: the reduction of HIV infection in the general population to a level below 23%; reduction of HIV transmission from Mother-To-Child to a level below 2.12% (1,3%); and decrease the burden of disease in

**EKURHULENI METROPOLITAN MUNICIPALITY
ORDINARY COUNCIL MEETING**

2017.01.26

ITEM A-F (01-2017)

Tuberculosis (TB) through improving TB Case Holding and TB treatment outcomes by implementing defaulter management systems aiming at keeping the defaulter rate to a level below the national target of 5%, thus increasing the life expectancy of citizens in Ekurhuleni. With the change in National HIV treatment eligibility criteria, an increased uptake of ARVs was noted, where a total of 48679 eligible patients were initiated on Antiretroviral Therapy. In its efforts to modernize primary health care facilities, a key intervention was the decentralization of the dispensing of chronic medication through the provision of 10 medicine pick-up points in townships across the City. An eHealth patient registration system, designed in-house, was implemented. The system integrates patient registration, booking and SMS services through eHealth records modules, as a result, efficiencies and the customer experience has been enhanced.

Safety and security across the City continues to be a high priority. The City heightened its efforts aimed at reducing road accidents, road fatalities and injuries as well as restoring confidence and respect for the road traffic management. Awareness of road traffic safety issues were implemented thereby inculcating good road user behavior and voluntary compliance to by-laws and traffic laws. These efforts resulted in a decrease of 17% in road traffic accidents during 2015/16 as compared to 2014/15 performance an indication of effectiveness of the interventions implemented.

EMM provided emergency response services through its fire stations. Response times for all safety and security services rendered improved substantially during the year under review with a compliance level at 63% to the prescribed attendance times for a fire risks categories as per SANS 10090. On average 63 Emergency, Medical Vehicles were available on a 24/7 basis. The increased availability of Emergency Medical Vehicles resulted in 64% of Priority 1 emergency medical calls serviced within the required response time.

5. RE-GENERATE

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

All formal households across the City and additional households (RDP) received weekly waste collection services. Some of the informal households are currently serviced through Expanded Public Works programme through local co-operatives. In addition to the above 41,367 240l bins were rolled –out across the City. To increase landfill space, the City actively engaged communities in the recycling of waste. Over the period under review, 22% of waste was diverted from landfills and recycled. EMM made a concerted effort in pursuing the generation of energy from alternate sources. During 2015/2016, one Megawatt of alternative/renewable power was generated.

**EKURHULENI METROPOLITAN MUNICIPALITY
ORDINARY COUNCIL MEETING**

2017.01.26

ITEM A-F (01-2017)

Notwithstanding the above notable achievements, the municipality experienced a myriad of challenges which impeded the full attainment of the results committed to over the year under review.

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

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

The Financial Performance of the municipality 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 municipality'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 Metro 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.

**EKURHULENI METROPOLITAN MUNICIPALITY
ORDINARY COUNCIL MEETING**

2017.01.26

ITEM A-F (01-2017)

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 Ekurhuleni Metropolitan Municipality generated a surplus of R2 170 248 229 and for the 2014/15 period was R2 057 821 569. 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.

Statement of Financial Performance				
	June 16	June 15	Value variance	% Variance
REVENUE				
Property rates	3,946,658,651	3,693,387,443	253,271,208	6.4%
Property rates - penalties imposed	100,916,675	88,405,293	12,511,382	12.4%
Service charges	17,130,454,896	16,304,459,304	825,995,592	4.8%
Rental of facilities and equipment	59,256,123	62,454,731	(3,198,608)	-5.4%
Interest earned - external investments	632,624,010	519,167,378	113,456,632	17.9%
Interest earned - outstanding debtors	459,031,354	292,739,718	166,291,636	36.2%
Fines	218,443,438	224,949,291	(6,505,853)	-3.0%
Licences and permits	51,650,784	53,622,189	(1,971,405)	-3.8%
Income from agency services	276,375,456	257,982,770	18,392,686	6.7%
Government grants and subsidies	6,612,130,291	5,760,182,991	851,947,300	12.9%
Other income	107,259,994	101,349,468	5,910,526	5.5%
Public contributions and donations	53,457,399	92,196,676	(38,739,277)	-72.5%
Total Revenue	29,648,259,071	27,450,897,252	2,197,361,819	7.4%

Total revenue for the year amounted to R29 648 259 071, which is 7.4% increase from the revenue of the 2014/2015 year which was R27 450 897 252. The increased revenue is mainly resulting from the implementation of the annual inflation rate, as well as moderate growth and the increased in services rendered to residents and increased government grant and subsidies allocation.

**EKURHULENI METROPOLITAN MUNICIPALITY
ORDINARY COUNCIL MEETING**

2017.01.26

ITEM A-F (01-2017)

A comparison of the actual revenue against the budget shows a 5.6% deviation.

<u>Statement of Financial Performance</u>				
	Budget	Actual	Value variance	% Variance
REVENUE				
Property rates	4,329,050,838	3,946,658,651	382,392,187	8.8%
Property rates - penalties imposed	99,083,463	100,916,675	(1,833,212)	-1.9%
Service charges	18,628,921,717	17,130,454,896	1,498,466,821	8.0%
Rental of facilities and equipment	68,027,860	59,256,123	8,771,737	12.9%
Interest earned - external investments	316,135,000	632,624,010	(316,489,010)	-100.1%
Interest earned - outstanding debtors	276,974,661	459,031,354	(182,056,693)	-65.7%
Fines	244,177,967	218,443,438	25,734,529	10.5%
Licences and permits	54,204,988	51,650,784	2,554,204	4.7%
Income from agency services	274,013,764	276,375,456	(2,361,692)	-0.9%
Government grants and subsidies	7,047,142,017	6,612,130,291	435,011,726	6.2%
Other income	78,084,596	107,259,994	(29,175,398)	-37.4%
Public contributions and donations		53,457,399	(53,457,399)	100.0%
Total Revenue	31,415,816,871	29,648,259,071	1,767,557,800	5.6%

The total expenditure for the year amounted to R27 478 010 842 which is 7.6% increase from the expenditure of the 2014/2015 year which was R25 385 237 510.

<u>Statement of Financial Performance</u>				
	June 16	June 15	Value variance	% Variance
EXPENDITURE				
Employee related costs	6,338,421,151	5,587,350,485	751,070,666	11.8%
Remuneration of councillors	105,696,037	99,977,319	5,718,718	5.4%
Debt impairment	1,434,057,613	2,211,425,099	(777,367,486)	-54.2%
Collection cost	116,163,244	148,107,160	(31,943,916)	-27.5%
Depreciation	1,663,543,008	1,879,297,210	(215,754,202)	-13.0%
Impairment of assets	281,690,611	178,083,343	103,607,268	36.8%
Repairs and maintenance	1,660,851,257	1,328,381,213	332,470,044	20.0%
Finance costs	848,639,400	571,556,210	277,083,190	32.7%
Bulk purchases	11,662,156,131	10,218,507,648	1,443,648,483	12.4%
Contracted Services	856,564,396	714,568,087	141,996,309	16.6%
Grants and subsidies paid	1,096,477,179	1,167,558,759	(71,081,580)	-6.5%
General expenses	1,413,750,815	1,280,424,977	133,325,838	9.4%
Total Expenditure	27,478,010,842	25,385,237,510	2,092,773,332	7.6%

Significant cost increases relates to increases in employee costs from annual salary costs and the filling of new posts on the revised structure, and improved spending in repairs and maintenance of 20.0% and Bulk Purchases increased by 12.4 % The contribution to the provision for bad debts calculated in accordance with GRAP standards decreased by 54.2%, as a result of

**EKURHULENI METROPOLITAN MUNICIPALITY
ORDINARY COUNCIL MEETING**

2017.01.26

ITEM A-F (01-2017)

council; approving a bad debts written off against the provision allowance. Contacted and general expense increased by 16.6% and 9.4% respectively.

A comparison of the actual expenditure against the budget shows a 6.1% deviation.

Statement of Financial Performance				
EXPENDITURE	Budget	Actual	Value variance	% Variance
Employee related costs	6,617,324,390	6,338,421,151	278,903,239	4.2%
Remuneration of councillors	108,849,049	105,696,037	3,153,012	2.9%
Debt impairment	1,435,562,441	1,434,057,613	1,504,828	0.1%
Collection cost	180,044,802	116,163,244	63,881,558	35.5%
Depreciation	2,093,892,984	1,663,543,008	430,349,976	20.6%
Impairment of assets	-	281,690,611	(281,690,611)	100.0%
Repairs and maintenance	1,983,001,242	1,660,851,257	322,149,985	16.2%
Finance costs	690,298,885	848,639,400	(158,340,515)	-22.9%
Bulk purchases	11,827,222,974	11,662,156,131	165,066,843	1.4%
Contracted Services	917,480,769	856,564,396	60,916,373	6.6%
Grants and subsidies paid	1,650,457,914	1,096,477,179	553,980,735	33.6%
General expenses	1,769,808,565	1,413,750,815	356,057,750	20.1%
Total Expenditure	29,273,944,015	27,478,010,842	1,795,933,173	6.1%

Operating expenditure below budget mainly less spending on employee costs at 4.2%, and saving on depreciation cost of 20.6% due to the revision of assets useful lives and savings in General expenses and contracted services were 20.1% and 6.6% respectively. Grants and Subsidies paid at 33.6% less due to the remapping of the revenue foregone on subsidised services and indigent which were mapped/ decreased the Services Charges income as required by iGRAP 9, applied for the first time in the 2015/16 financial year.

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 municipality at the end of the financial year.

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

When comparing the Statement of Financial Position with that of 2015, the following variances are evident:

**EKURHULENI METROPOLITAN MUNICIPALITY
ORDINARY COUNCIL MEETING**

2017.01.26

ITEM A-F (01-2017)

<u>Statement of Financial Position</u>				
	June 16	June 15	Value variance	% Variance
ASSETS				
CURRENT ASSETS	14,615,894,830	13,291,583,225	(1,324,311,605)	-9.1%
NON-CURRENT ASSETS	49,592,020,041	46,113,799,915	(3,478,220,126)	7.0%
TOTAL ASSETS	64,207,914,871	59,405,383,140	4,802,531,731	7.5%
CURRENT LIABILITIES	8,600,478,087	7,353,457,269	1,247,020,818	14.5%
NON CURRENT LIABILITIES	8,524,801,350	8,311,131,623	213,669,727	2.5%
TOTAL LIABILITIES	17,125,279,437	15,664,588,892	1,460,690,545	8.5%
NET ASSETS (NET POSITION)	47,082,635,434	43,740,794,248	3,341,841,186	7.1%
Accumulated Surplus/(Deficit)	47,082,635,434	43,740,794,248	(3,341,841,186)	7.1%

Net assets increased by 7.1% from year to year.

Cash Flow Statement

Explanatory notes on what the Cash Flow Statement entails

The cash flow statement shows a positive net cash inflow (money received). Here accruals are not applicable as the focus is on cash movements. Technically the statement starts with the accounting surplus as per the Statement of Financial Performance which gets adjusted for all non-cash transactions. All other cash transactions not resulting from the Statement of Financial Performance are recorded. These items can be referenced back to both the capital budget as well as the items reported as part of the quarterly Section 11 withdrawals reports submitted to Council.

There are three main categories:

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

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

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

**EKURHULENI METROPOLITAN MUNICIPALITY
ORDINARY COUNCIL MEETING**

2017.01.26

ITEM A-F (01-2017)

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

Cash resources increased as follows:

Cash flow Statement				
	June 16	June 15	Value variance	% Variance
Net Cash inflow from Operating activities	4,860,358,069	4,529,589,382	(330,768,687)	-6.8%
Net Cash outflow from Investing activities	(4,281,596,947)	(3,284,828,885)	996,768,062	23.3%
Net Cash inflow from Financing activities	(307,551,001)	562,075,120	(869,626,121)	282.8%
Net Increase in Cash and Cash equivalents	271,210,121	1,806,835,617	(1,535,625,496)	-566.2%
Cash and Cash equivalents at Beginning of the year	7,701,376,113	5,894,540,496	1,806,835,617	23.5%
Cash and Cash equivalents at End of the year	7,972,586,234	7,701,376,113	271,210,121	340.2%

The EMM generated from its operating activities a cash of R4.9 billion during the 2015/2016 financial year and last year was R1.8b. The year started with a cash balance of R7.7b and ended with cash of R7.9b. The cash were generated as follows:

- From operations – R4.9 billion cash increase - Simply stated this means that the difference between amounts received from our customers for services rendered and grants received were R4.9b more than the amounts that we paid out as operating expenditure to our employee costs and suppliers in delivering services
- From investing activities – R4.3 billion cash outflow – this means that we invested R4.3b of our cash. Of this, R3.9 billion was spent on acquiring capital projects, and R245m invested in sinking funds for the repayment of long term borrowings.
- From financing activities – R307 million cash decrease – This relates to repayment of R345m worth of long term loans. No new long term borrowing were entered into in the current year. In addition, we received R37m of consumer deposits.

The fact that the cash generated from operations are over R4.9b more than the cash generated from financing activities shows that the Metro 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.

**EKURHULENI METROPOLITAN MUNICIPALITY
ORDINARY COUNCIL MEETING**

2017.01.26

ITEM A-F (01-2017)

The loan redemption profile of the existing loans is as follows:

Period	Opening Balance	New Loans	Redemption	Closing Balance	Inv Maturing	Net Redemption	Annuity Payments	Bullet Payments
2013/14	5,198,340,315	785,000,000	184,289,481	5,799,050,834		184,289,481	- 215,730,852	400,020,333
2014/15	5,799,050,834	750,000,000	284,180,372	6,264,870,463	32,620,000	251,560,372	251,423,872	32,756,500
2015/16	6,264,870,463		342,666,436	5,922,204,027		342,666,436	342,666,436	
2016/17	5,922,204,027		361,074,769	5,561,129,258		361,074,769	361,074,769	
2017/18	5,561,129,258		381,507,419	5,179,621,839		381,507,419	381,507,419	
2018/19	5,179,621,839		316,839,434	4,862,782,406		316,839,434	316,839,434	
2019/20	4,862,782,406		240,032,404	4,622,750,001		240,032,404	240,032,404	
2020/21	4,622,750,001		1,862,577,255	2,760,172,746	1,615,000,000	247,577,255	247,577,255	1,615,000,000
2021/22	2,760,172,746		255,517,250	2,504,655,496		255,517,250	255,517,250	
2022/23	2,504,655,496		264,486,590	2,240,168,906		264,486,590	264,486,590	
2023/24	2,240,168,906		1,074,554,204	1,165,614,702	800,000,000	274,554,204	274,554,204	800,000,000
2024/25	1,165,614,702		286,007,579	879,607,123		286,007,579	286,007,579	
2025/26	879,607,123		105,666,667	773,940,456		105,666,667	105,666,667	
2026/27	773,940,456		105,666,667	668,273,790		105,666,667	105,666,667	
2027/28	668,273,790		105,666,667	562,607,123		105,666,667	105,666,667	
2028/29	562,607,123							

These loans will be redeemed from a sinking fund that is 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 loans increased as follows in the past two financial years:

Financial Institution	Closing Balance 30 June 2015	Closing Balance 30 June 2016	Closing Balance 30 June 2017	Closing Balance 30 June 2018	Closing Balance 30 June 2019
ABSA	665,295,677	627,439,953	585,048,606	537,503,780	484,175,283
Nedbank	498,300,997	374,156,951	236,140,196	82,844,270	-
Municipal Bonds	4,591,000,000	4,410,333,333	4,429,666,667	4,049,000,000	3,868,333,333
Total Liabilities	5,754,596,673	5,411,930,237	5,250,855,469	4,669,348,050	4,352,508,616

The Metro has an accumulated surplus of R43.7b –meaning that the net assets exceeds the municipality liabilities by this amount. The accumulated surplus is stated in accrual terms and is not a cash surplus.

Capital Budget Implementation

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

**EKURHULENI METROPOLITAN MUNICIPALITY
ORDINARY COUNCIL MEETING**

2017.01.26

ITEM A-F (01-2017)

Department	Sum of Adjusted Budget	Expenditure for the Year	Percentage Spent
Chief Operating Officer	1,330,000	1,250,437	94.02%
City Manager	3,230,000	1,935,084	59.91%
City Planning	4,400,000	2,981,162	67.75%
Communication and Brand Management	820,000	793,225	96.73%
Corporate Legal Services	1,400,000	1,344,676	96.05%
Customer Relations Management	49,668,651	45,302,380	91.21%
Disaster & Emergency Management Services	114,817,072	112,946,879	98.37%
Economic Development	76,000,000	56,649,121	74.54%
EMPD	78,895,000	76,572,674	97.06%
Energy	508,760,000	490,902,446	96.49%
Environmental Resources Management	157,072,542	132,059,344	84.08%
EPMO	3,180,000	3,179,498	99.98%
Executive Office	1,431,353	1,238,606	86.53%
Finance	9,951,000	9,708,042	97.56%
Fleet Management	14,415,075	13,362,103	92.70%
Health & Social Development	112,789,171	112,219,308	99.49%
Human Resources Management & Development	1,030,000	1,015,822	98.62%
Human Settlements	590,532,961	424,796,211	71.93%
ICT	329,410,271	323,990,428	98.35%
Internal Audit	384,500	370,593	96.38%
Legislature	3,800,000	2,844,798	74.86%
Real Estate	207,123,696	206,535,186	99.72%
Risk Management	220,000	219,277	99.67%
Roads and Stormwater	762,642,459	633,036,775	83.01%
SRAC	200,282,181	189,261,384	94.50%
Strategy & Corporate Planning	310,000	286,596	92.45%
Transport	837,157,351	653,698,611	78.09%
Waste Management	112,550,000	128,833,987	114.47%
Water & Sanitation	474,833,393	466,530,663	98.25%
Grand Total	4,658,436,676	4,093,865,317	87.88%

Capital spending increased from R3 069 164 272 (in 2014/2015) to R4 093 865 317 (87.9% in 2015/2016). The actual spending on capital amount increased by R1.024 billion from previous financial year but performance against budget was also better than the previous financial period from 80.5% down to 87.9% in the current year.

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 municipality or entity within three months of receipt of the statements.

**EKURHULENI METROPOLITAN MUNICIPALITY
ORDINARY COUNCIL MEETING**

2017.01.26

ITEM A-F (01-2017)

The report of the Auditor General will include audit work performed on the following activities of the municipality:

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

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 municipality has enough cash / is financially in a good position*

What is Materiality?

**EKURHULENI METROPOLITAN MUNICIPALITY
ORDINARY COUNCIL MEETING**

2017.01.26

ITEM A-F (01-2017)

- Amount determined by AG that is deemed to be big enough to cause a misstatement - +-R100m for EMM
- Opinion based on findings that are material in value, i.e. errors > R100m impacts on opinion

What is Significant matters?

Regardless of the materiality amount, certain items are deemed to be material due to the nature of the item, such as disclosure requirements.

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

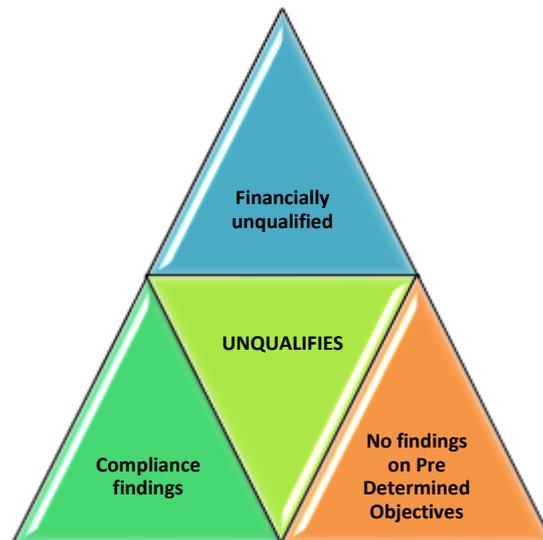
In private sector, an unqualified audit is the norm. There is no concept of “clean” in private sector and the term is also not contained in audit standards.

However, in public Sector a higher level of accountability is required. The goal is to achieve clean audit as we are dealing with public funds.

Then what is a “Clean Audit”?

A clean audit is an audit opinion that is:

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



**EKURHULENI METROPOLITAN MUNICIPALITY
ORDINARY COUNCIL MEETING**

2017.01.26

ITEM A-F (01-2017)

THE MUNICIPALITY OBTAINED UNQUALIFIED AUDIT OPINION (NOT CLEAN), AND THE REPORT OF THE AUDITOR GENERAL IS SUMMARIZED AS FOLLOWS:

Par 2: Accounting Officer's responsibility – compilation of Annual Financial Statements (AFS), in other words, the City Manager is responsible for the compilation of the annual financial statements as well as the disclosure notes. This includes the notes on irregular, fruitless and wasteful expenditure.

Par 3 to 4: Auditor General's responsibility – auditing of AFS and expressing an opinion as to whether the AFS gives a true reflection of the municipality 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: Audit opinion – **UNQUALIFIED AUDIT OPINION**

Par 7: Indicates that Emphasis of Matter is intended to draw attention to the matters but it does not change the audit opinion, in other words, the audit opinion remains unqualified and these matters also do not impact on the clean audit principle.

Par 8: **Significant uncertainties**

With reference to note 41 to the annual financial statements, the municipality is the defendant in various court cases and disputes. The ultimate outcome of these matters cannot presently be determined or reliably measured; therefore no provision for any liability that may result has been made in the financial statements.

Par 9: **Restatement of corresponding figures**

This references will be applicable if the previous financial results as proved by council were restated due to additional information that's was discovered in the current financial period, if such errors are material and requires restatement of the previous results as per the GRAP standards.

Par 10: **Material impairment**

As disclosed in note 13 to the annual financial statements, trade and other receivables were significantly impaired as the recoverability of these amounts are doubtful. The impairment of receivables amounts to R7 631 080 181 (2015: R9 144 328 715), which represents 58% (2015: 68%) of consumer debtors.

Par 11 & 12: **Material losses**

As disclosed in note 53 to the annual financial statements, material losses amounting to R1 327 872 680 (2015: R748 033 030) were incurred as a result of electricity distribution losses, which represent 15.64% (2015: 10.06%) of total electricity purchased. The total technical losses of electricity amounts to 5.9% (2015: 5.9%) and non-technical losses to 9.74% (2015: 4.16%).

As disclosed in note 53 of the annual financial statements, material losses amounting to

**EKURHULENI METROPOLITAN MUNICIPALITY
ORDINARY COUNCIL MEETING**

2017.01.26

ITEM A-F (01-2017)

R759 000 125 (2015: R707 966 059) were incurred as a result of water distribution losses, which represent 30.60% (2015: 32.11%) of total water purchased. The total technical losses of water amounts to 15.00% (2015: 15.00%) and non-technical losses to 15.60% (2015: 17.11%).

Par 13: Material underspending on the capital budget

As disclosed in the statement of comparison of budget and actual amounts, an amount of R564 571 359 were underspend on capital projects which represent 22% of the total allocated budget. However, the percentage underspending is only 12%.

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. This disclosure requirement did not form part of the audit of the financial statement and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Par 16: In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

Para 17: I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected intermediate outcomes presented in the annual performance report of the municipality for the year ended 30 June 2016:

- Intermediate outcome 1.1.1 – Regional accessible public transport network
- Intermediate outcome 1.1.2 – Invest in on-grid long term infrastructure
- Intermediate outcome 1.1.3 – Develop long term informal settlement plans
- Intermediate outcome 4.3.1 – Integrate service delivery and citizen responsibility
- Intermediate outcome 5.4.1 – Strategic acquisition and management of key assets

Para 18: I evaluate the usefulness of the reported performance information to determine whether it was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPP).

**EKURHULENI METROPOLITAN MUNICIPALITY
ORDINARY COUNCIL MEETING**

2017.01.26

ITEM A-F (01-2017)

Para 19: I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

Par 20: I did not identify any material findings on the usefulness and reliability of the reported performance information for the selected intermediate outcomes.

Para 21: Although I identified no material findings on the usefulness and reliability of the reported performance information for the selected intermediate outcomes. I draw attention to the following matters:

Achievements of planned targets

Para 22: Refer to the annual performance report for information on the achievements of planned targets for the year.

Adjustments of material misstatements

Par 23: I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the report performance information of the following selected intermediate outcomes:

- Intermediate outcome 1.1.1 – Regional accessible public transport network
- Intermediate outcome 1.1.2 – Invest in on-grid long term infrastructure
- Intermediate outcome 1.1.3 – Develop long term informal settlement plans
- Intermediate outcome 4.3.1 – Integrate service delivery and citizen responsibility
- Intermediate outcome 5.4.1 – Strategic acquisition and management of key assets

Par 24: As management subsequently corrected the misstatements, I did not raise material findings on the reliability and usefulness of the reported performance information.

Compliance with laws and regulations

Par 25: I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Expenditure Management

Par 26: Reasonable steps were no taken to prevent irregular expenditure as required by section 62(1)(d) of the MFMA.

Procurement and Contract Management

Par 27: Goods and services of a transaction value above R200 000 were procured without

**EKURHULENI METROPOLITAN MUNICIPALITY
ORDINARY COUNCIL MEETING**

2017.01.26

ITEM A-F (01-2017)

inviting competitive bids, as required by Supply Chain Management (SCM) regulation 19(a). deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).

Internal control

Par 28: I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

Leadership

Par 29: The accounting officer did not exercise adequate oversight responsibility regarding compliance with laws and regulations.

Financial and performance management

Para 30: Management did not ensure adequate controls are designed, implemented and monitored to ensure compliance with laws and regulations.

OTHER REPORTS

Para 31: I draw attention to the following engagements that could potentially impact on the municipality's financial, performance and compliance related matters. My opinion is not modified in respect of these engagements that are either in progress or have been completed.

Investigations

Par 32: During the financial year 56 investigations by the internal audit division of the municipality relating mainly to non-compliance with SCM regulations, fraud and financial misconduct were conducted, of which 22 were being carried forward from the previous financial year. Of these, 34 investigations were finalised and 22 of the investigations were in progress.

SECTION D: APPROVAL OF FINAL YEAR END TRANSACTIONS FOR THE COMPILATION OF THE 2015/2016 FINANCIAL STATEMENTS

As part of the compilation of the financial statements process, and to comply with the requirements of Generally Recognized Accounting Practices (GRAP), the following transactions were processed that requires ratification from or notification to Council:

Council approval required:

- Other Assets to be written off: assets with a book value of R7 838 173 being derecognised by the relevant departments, as assets that are no longer in use or have reached the end of their useful lives,
- An amount of R281 690 611 had to be impaired as these Capital Expenditure did not meet capitalization requirements as per applicable accounting standards, which have to be derecognised.

**EKURHULENI METROPOLITAN MUNICIPALITY
ORDINARY COUNCIL MEETING**

2017.01.26

ITEM A-F (01-2017)

- 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 2016. Where no comments were received, it is presumed that there is no need for the stock - Redundant Stock to be written off – R85 710.
- The annual stock taking for the year ended 30 June 2016 was conducted throughout the Council from 5 May 2016 until 31 May 2016, in a staggered manner to avoid the hampering of the Council's Operations. Damaged stock to the amount of R32 166 was found.
- During the annual stock take differences were found on stock items - Stock Shortages to be written off – R489 451.
- Debtors written off in terms of the CFO's delegated powers – these are reported to Council in terms of the various council resolutions taken regarding the delegations.
- Virements were done between the following from Votes 1:4:5:10 and 15 to Votes 2 and 9 in accordance with Circular 68 of the MFMA and the Accounting Policy for Material budget variances. These virements did not result in an outflow of cash from the municipality but were made to defray the increased amount for the provision for bad debts as calculated in accordance with the EMM policy for provision for bad debts and the applicable accounting standards.

ORGANISATIONAL AND HUMAN RESOURCE IMPLICATIONS

None

FINANCIAL IMPLICATIONS

None

LEGAL IMPLICATIONS

None

COMMUNICATION IMPLICATION

None

OTHER DEPARTMENTS/ BODIES CONSULTED

The Finance Management team was consulted, and these results were reviewed by the audit committee and the 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 2016/17 financial year.

**EKURHULENI METROPOLITAN MUNICIPALITY
ORDINARY COUNCIL MEETING**

2017.01.26

ITEM A-F (01-2017)

RECOMMENDATION

1. **That** the Annual Report, inclusive of the Annual Financial Statements and the Report of the Auditor-General for the 2015/2016 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 2016 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 municipality and municipalities entities Annual Reports, inclusive of the Annual Financial Statements and the Report of the Auditor-General for the 2015/2016 financial year, **BE APPROVED**.