

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

2021.03.31

A-F (20-2021)

CITY OF EKURHULENI (CoE): SUBMISSION OF ANNUAL REPORT, INCLUSIVE OF ANNUAL FINANCIAL STATEMENTS AND REPORT OF THE AUDITOR-GENERAL, FOR THE 2019/20 FINANCIAL YEAR

PURPOSE

To submit the Annual Report, inclusive of the Annual Financial Statements and the Report of the Auditor-General, for the 2019/20 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 2019/20 financial year has been prepared in accordance with Section 126 of the Municipal Finance Management Act and the Annual Report for the 2019/20 financial year in terms of Section 127 of the Municipal Finance Management Act.

Section 127 requires that the annual report must be submitted to Council within seven months after the end of the financial year (January of each year).

The COE has completed both the financial statements, Consolidated financial statements as well as the annual report within the legislative deadlines. The municipal entities have also complied will 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 March 2021 (COE and Entities) and March 2021 (Consolidated).

The audit outcomes were as follows:

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

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The final annual report with the annual financial statements and reports of the Auditor General must now be approved by Council. The report should then be referred to the Municipal Public Accounts Committee (MPAC) to perform the oversight function and their report must be submitted to Council before the end of May 2021 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 2019/20 financial year and as such section 32 of the MFMA must be followed. The council committee referred to in section 32 of the MFMA that will investigate the irregular, fruitless and wasteful expenditure is the MPAC committee. The committee must in their report back to Council in May 2021, 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 2019/20 Financial Statements as required by the Generally Recognised Accounting Practices (GRAP).

The following Annexures are attached to this submission:

Annexure A: Annual Report

Annexure B: Audited Financial Statements (Consolidated)

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

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

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DISCUSSION

SECTION A: ORGANISATIONAL PERFORMANCE AS CONTAINED IN THE ANNUAL REPORT

The full analysis of the city's performance against its commitments set in the Service Delivery Budget Implementation Plan (SDBIP) for the 2019/20 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 ninety-five (95) targets in the 2019/2020 financial year. Against these commitments, 73 (77%) of the targets were achieved and 22 (23%) were not achieved. The committed targets were contributed by the twenty-six (26) departments and entities for the City-wide SDBIP. Of the twenty-six (26) departments and entities that committed to the targets, ten (10) departments achieved hundred per cent (100%) of their planned targets. three (3) departments and two (2) entities achieved less than fifty per cent (50%) of their planned targets, with Brakpan Bus Company (BBC), Ekurhuleni Housing Company, SRAC and Office of the COO achieving none (0%) of their planned targets.

CITY-WIDE ANNUAL PERFORMANCE BY GDS THEMATIC AREAS

The reported performance is in support of a Delivering City trajectory of the Growth and Development Strategy 2055 (GDS). The performance against the Thematic Areas of the Growth and Development Strategy (GDS), on targets that were planned to be delivered over the period under review, is summarised as follows:

- The highest performance was recorded for the Environmental Wellbeing GDS Thematic Area in which hundred per cent (100%) of the eleven (11) targets that were planned for the financial year were achieved.
- The second highest performance was recorded for targets that were planned for the Job Creating Economic Growth GDS Thematic Area. Five (5) of the six (6) targets that were planned were achieved and this translates to eighty-three per cent (83%) target achievement. This was followed by Social Empowerment GDS Thematic Area with 78% achievement of the nine (9) targets that were planned.
- A total of twenty-nine (29) targets were planned for the Effective Cooperative Governance GDS Thematic Area, of which 22 (76%) were achieved and 7 (24%) were not achieved.
- A total of forty (40) targets were planned for the Sustainable Urban Integration GDS Thematic Area. Of the forty (40) targets that were planned, 28 (70%) were achieved and 12 (30%) were not achieved.

CITY-WIDE 2019/2020 ANNUAL PERFORMANCE PER CLUSTER

The City's annual performance against the targets set for the 2019/2020 financial year shows that the Social Cluster recorded the highest performance of eighty-five per cent (85%) target achievement followed by Governance and Economic Cluster which recorded seventy-eight per cent (78%) target achievement. Infrastructure Cluster recorded seventy-two per cent (72%) achievement.

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CITY-WIDE ANNUAL PERFORMANCE ACROSS SOCIAL CLUSTER

Social Cluster

The Social Cluster committed to a total of twenty (20) targets and of the 20 targets, 17 (85%) targets were achieved and 3 (15%) targets were not achieved. Three (3) departments in this cluster achieved 100% of their planned targets for the year under review. These departments are Environmental Resource and Waste Management Services; Health and Social Development and Disaster and Emergency Management Services. The second highest performance was recorded by Ekurhuleni Metro Police Department (EMPD) which achieved 75% of its planned targets. Sport, Recreation, Arts and Culture department and Office of the Chief Operations Officer (OCCO) both achieved nil per cent (0%) of their planned targets.

CITY-WIDE ANNUAL PERFORMANCE ACROSS INFRASTRUCTURE CLUSTER

Infrastructure Cluster

The cluster committed to a total of 39 targets and of the 39 committed targets, 28 (72%) were achieved and 11 (28%) were not achieved. Real Estate; Enterprise Programme Management Office (EPMO) and East Rand Water Care Company (ERWAT) achieved hundred per cent (100%) of their planned targets in this cluster. These are followed by Energy and City Planning departments with 89% and 75%, respectively. Both Water and Sanitation and Human Settlement achieved 67% followed by Roads and Stormwater department with 43%. Ekurhuleni Housing Company achieved nil per cent (0%) of their set targets.

CITY-WIDE ANNUAL PERFORMANCE ACROSS GOVERNANCE AND ECONOMIC DEVELOPMENT CLUSTER

Governance and Economic Development Cluster

The performance of the cluster was measured against thirty-six (36) targets that were planned to be met in the 2019/2020 financial year. A total of 28 (78%) targets were achieved and 8 (22%) were not achieved. Four (4) departments (Risk Management, Internal Audit; Communications and Brand Management and Corporate Legal Services) achieved 100% of their set targets. The second highest performing departments are Economic Development and Legislature, both with eighty-three (83%) of their set targets achieved. These are followed by Transport and Fleet Management department which achieved eighty per cent (80%) of its targets. The Information Communication and Technology (ICT); Finance and Human Resources departments achieved sixty-seven per cent (67%) of their set targets. Brakpan Bus Company recorded nil per cent (0%) target achievement.

SUMMARY OF HIGHLIGHTS FOR 2019/2020 ANNUAL PERFORMANCE

During the period under review, the pro-poor agenda remained the foremost developmental agenda of the City in its commitment to stimulate and improve economic growth for the benefit of poor by broadening its reach through service delivery to all informal settlements. Despite the Covid-19 related challenges in the last quarter of the financial year, the key focus was on the continuing improvement of the quality of targeted services to informal settlements. Electrification, gravelling and upgrading of roads in the informal settlements, promoting

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targeted service provision in informal settlements and maintenance of service levels in all areas of the City are some of the noteworthy key service delivery highlights.

1. SUSTAINABLE URBAN INTEGRATION

All the City's residents in both formal and informal settlements receive a weekly comprehensive waste management service. Through a combination of in-house and outsourced services, 718 655 formal properties receive once a week kerbside refuse removal while 119 informal settlements receive a weekly comprehensive waste management package. Majority of the households receive services through round collection while few households in the informal settlements are serviced through bulk containers.

The City has prioritized the electrification of informal settlements and a total of 10 886 PV Solar lighting units were installed in the informal settlements. Pre-payment meters are installed to meter the usage of electricity in the re-blocked informal settlements and the network in these areas is constantly monitored. The City also installed high mast lights and streetlights for public lighting in areas which did not have electricity. During the financial year under review, the City has installed a total of 722 street lights and 95 high mast lights throughout the city.

Some of the highlights with regards to water and sanitation provision are that the City received a basic services improvement grant to improve services in the Informal Settlement during the COVID-19 pandemic. The following are the major highlights of performance achieved during the reporting period:

- A total of 2317 new water connection were installed which is 94.5% achievement against the targeted 93%;
- Water quality target of over 95% was achieved keeping the Blue Drop requirement for the City;

The percentage of water complaints callouts and sanitation complaints callouts resolved within 48hours were achieved at 95% and 96%, respectively, meeting the set standard, which is 90%.

The City delivered a total of 2623 chemical toilets bringing the total number of overall toilets to 41083 in the city. There was a high demand of chemical toilets due to the Covid-19 basic services relief program. This contributed to the improvement of the ratio of chemical toilets to household from 1:10 to 1:5 in some informal settlements. The efforts to improve sanitation infrastructure resulted in the replacement, upgrading and extension of over 11, 68 km of sewer pipes. There has also been an improvement in the sewer connections by an additional 2317 connections to the network, which increases access to sanitation for the people in formal dwellings.

The City is responsible for the management of 8 224 km of paved roads and approximately 1658 km of gravel road network. In terms of the maintenance of roads, the City's strategy during the 2019/2020 financial year was directed towards ensuring that equal presence in all three regions is achieved. Furthermore, the City continued to put more emphasis on providing access to informal settlement areas in order to ensure that emergency vehicles, such as ambulances, police vehicles and any emergency vehicles, are able to access these areas.

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The City was well under way to eradicate the backlog on speed humps but this was negatively impacted by the national lockdown, which started in March 2020. The backlog was eradicated entirely in the Eastern region; 150 speed humps were implemented. 62 Speed humps were implemented in the South and 78 were implemented in the North. The backlog has not yet been eradicated entirely in these two regions.

2. SOCIAL EMPOWERMENT

Some of the key service delivery priorities during the 2019/2020 reporting period were: - reduce HIV transmission from Mother-To-Child to below 2%; and increase access to Antiretroviral Therapy initiations by increasing the number of eligible patients initiated on Antiretroviral Therapy, thus increasing the life expectancy of citizens in Ekurhuleni.

During the reporting period, an HIV transmission rate of from Mother-To-Child of below 2% was achieved. This achievement could also be attributed to among others, improved implementation of the Prevention on Mother-to-Child Transmission (PMTCT) of HIV Programme interventions and proper policy implementation and monitoring. Fifty-four thousand two hundred and fifty (54,250) patients against a target of thirty-three thousand (33,000) were put on antiretroviral treatment which translate into more patients having a better prospect of living a healthy and long life.

Part of the environmental health services is to ensure a reduction in rodent infestation in the City. A reduction in rodent infestation has been observed, with four percent (4%) of inspected premises found to be infested with rodents after intervention in the informal settlements. This was achieved as a result of the intensification of rodent control inspections that were extended to all Ekurhuleni areas including the least infested areas.

The City's Sport, Recreation, Arts and Culture department in conjunction with the Soul City Sports Club and local running Club hosted the fifth Annual World Aids Day Road Races on the 1 December 2019 at the Katlehong Sports Complex. The objectives of the races are to bring the community back into sport and to create awareness in fighting HIV/AIDS through sport. There were a total of one hundred and eighty-seven (187) at the 5km fun run, four hundred and seventy (470) runners which completed the 10km race and three hundred and nine (309) runners that completed the 21km.

3. JOB CREATION

The City has continually assisted investors at different stages of investment to remove stumbling blocks to make their developments and investment a reality. The interventions have led to the improved working relationships amongst key role players and departments in the City, especially City Planning, Real Estate, Economic Development and Infrastructure. During the year under review, the City managed to attract R6 549 092 770 Rand Value of Investment. This achievement was against the R6bn target and was achieved despite the challenging economic conditions. The Covid-19 had a negative impact on investment within the region and the economic challenges were further compounded by a continued decline in the manufacturing sector which is the second biggest sector in the economy of the region contributing over 20%. The investments came from sectors such as retail and real estate, manufacturing, transport and logistics as well as aviation industry.

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These investments were largely new with limited expansions. Amongst the investments attracted are as follows:

- **Development of Tembisa Mall:** The development is a clear indication of the intent to continue supporting investments in Townships in support of township's economy. The development injected over R1bn into the townships economy and creating over 2000 jobs.
- **Expansion of OR Tambo International Airport:** Expansion to accommodate offices, parking, hotels and retail. This amounted to the total Investment of R4.5billion currently under implementation.
- **Sky Park Mixed Use Development:** The development signifies the continued investment along the R21 corridor around the OR Tambo Airport. The investment alone injected over R1bn and is currently under construction.
- **Barloworld Expansion in Isando:** The investment was as a result of Barloworld relocation of their head office to Ekurhuleni in the Isando Industrial Area.
- **Tambo Springs Logistics Gateway:** The continued investment in the Tambo Springs Inland Port in partnership with Transnet, CoE, Gauteng Provincial Government and the Tambo Springs Development Company which involves the installation of bulk infrastructure.

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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 is when Expenditure being more than Revenue.

It is important to note that the financial statements are prepared on the accrual basis and not the cash basis meaning that the transactions as recorded (both revenue and expenditure) when services are rendered or received, does not relate to amounts received or paid, but to the City being entitled to the revenue or being liable for the expenditure. In addition, non-cash items (both revenue and expenditure) are included in the Statement of Financial Performance. Resultantly, neither the surplus nor the deficit refers to cash. To see what the cash balance is, one must refer to the Cash Flow Statement.

As examples, the following is provided:

Revenue for assessment rates and user charges for services – revenue contained in the Statement of Financial Performance is BILLED revenue and not revenue collected.

Gain on sales of assets – this amount is the “profit” made on the sale of assets being the difference between the carrying value of the asset and the selling price (or insurance recovery) received.

Depreciation – depreciation is the systematic expensing of the value of an asset as it is used up and does not relate to any cash payment made (nor is the money owed to anyone for that matter). A road can last for 40 years and every year 1/40th of the road is “used up” and that must be shown as an expenditure item called depreciation. The intention is to set these funds aside so that there is cash available at the end of the useful life of the asset to replace the asset.

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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 loss of R319 078 865 due to the impact of Covid 19 pandemic where budgeted revenue could not be realised and an additional allocation raised on the debt impairment (provision for bad debts) and a surplus for the 2019/20 period was R1 455 500 005. The full set of GRAP accounting standards, as approved by the Accounting Standards Board were fully complied with in the preparation of these annual financial statements.

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

Statement of Financial Performance				
	June 20	June 19	Value variance	% Variance
REVENUE				
Service charges	23,030,695,000	21,153,924,617	1,876,770,383	8.1%
Rental of facilities and equipment	84,099,157	76,002,723	8,096,434	9.6%
Interest earned - outstanding debtors	354,577,088	393,388,972	(38,811,884)	-10.9%
Income from agency services	246,003,581	305,156,458	(59,152,877)	-24.0%
Licences and permits	32,915,237	43,989,029	(11,073,792)	-33.6%
Other Income	154,054,203	235,914,589	(81,860,386)	-53.1%
Interest earned - external investments	306,732,178	393,246,152	(86,513,974)	-28.2%
Gains on sale of assets	18,039,993		18,039,993	100.0%
Property rates	5,668,546,859	5,395,430,732	273,116,127	4.8%
Property rates - penalties imposed	83,401,449	83,532,438	(130,989)	-0.2%
Government grants and subsidies	8,402,560,341	7,724,271,767	678,288,574	8.1%
Public contributions and donations	143,384,792	29,628,665	113,756,127	79.3%
Fines	720,757,605	820,850,338	(100,092,733)	-13.9%
Total Revenue	39,245,767,483	36,655,336,480	2,590,431,003	6.6%

Total revenue for the year amounted to R39 245 767 483, which is 6.6% increase from the revenue of the 2018/2019 year which was R36 655 336 480. The increased revenue is mainly resulting from the increase in the consumption of the services charges which increased by 8.1%, while property rates grow by 4.8% and increase of 8.1% in grants income. Most revenue items contracted due to the impact of Covid-19 pandemic and the adverse economic conditions.

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A comparison of the actual revenue against the budget revenue shows a 4.4% deviation.

<u>Statement of Financial Performance</u>				
	Budget	Actual	Value variance	% Variance
REVENUE				
Service charges	23,677,114,191	23,030,695,000	646,419,191	2.7%
Rental of facilities and equipment	80,844,228	84,099,157	(3,254,929)	-4.0%
Interest earned - outstanding debtors	500,463,108	354,577,088	145,886,020	29.2%
Income from agency services	249,490,908	246,003,581	3,487,327	1.4%
Licences and permits	54,770,929	32,915,237	21,855,692	39.9%
Other Income	172,330,129	154,054,203	18,275,926	10.6%
Interest earned - external investments	434,099,216	306,732,178	127,367,038	29.3%
Gains on sale of assets	-	18,039,993	(18,039,993)	#DIV/0!
Property rates	6,140,478,219	5,668,546,859	471,931,360	7.7%
Property rates - penalties imposed	55,402,125	83,401,449	(27,999,324)	-50.5%
Government grants and subsidies	8,905,911,716	8,402,560,341	503,351,375	5.7%
Public contributions and donations	-	143,384,792	(143,384,792)	100.0%
Fines	798,192,760	720,757,605	77,435,155	9.7%
Total Revenue	41,069,097,529	39,245,767,483	1,823,330,046	4.4%

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

The total expenditure for the year amounted to R39 564 846 348 which is 4.9% increase from the expenditure of the 2018/2019 year which was R37 507 712 713.

<u>Statement of Financial Performance</u>				
	June 20	June 19	Value variance	% Variance
EXPENDITURE				
Employee related costs	8,769,926,678	8,280,628,317	489,298,361	5.6%
Remuneration of councillors	141,224,613	137,935,967	3,288,646	2.3%
Depreciation	2,613,405,797	2,345,909,609	267,496,188	10.2%
Impairment of assets	43,793,819	93,738,466	(49,944,647)	-114.0%
Finance costs	1,187,412,121	891,518,673	295,893,448	24.9%
Debt impairment	3,702,413,924	4,136,551,991	(434,138,067)	-11.7%
Collection cost	114,868,883	127,898,248	(13,029,365)	-11.3%
Bulk purchases	15,932,324,318	14,021,782,715	1,910,541,603	12.0%
Contracted Services	2,527,617,945	2,469,896,900	57,721,045	2.3%
Grants and subsidies paid	1,490,676,623	1,808,075,875	(317,399,252)	-21.3%
Loss/(Profit) on disposal of assets	-	14,596,043	(14,596,043)	#DIV/0!
General expenses	3,041,181,627	3,280,959,279	(239,777,652)	-7.9%
Total Expenditure	39,564,846,348	37,609,492,083	1,955,354,265	4.9%

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Significant cost increases relate to, annual increase in salary costs in line with bargaining bodies; Depreciation increased by 10.2% as a result of the implementation of the new capex rollout programme, while finance costs increased by 24.9% due to increase in borrowing in the previous financial year. The bulk purchased increased by 12% in line with the increase in the consumption of services charges and increase passed to the city by bulk service providers. All other expenditure items contracted due to the impact of Covid-19 pandemic.

A comparison of the actual expenditure against the budget expenditure shows a 1.4% over expenditure due to the additional amount provided on the debt impairment.

Statement of Financial Performance				
EXPENDITURE	Budget	Actual	Value variance	% Variance
Employee related costs	9,036,987,690	8,769,926,678	267,061,012	3.0%
Remuneration of councillors	142,795,066	141,224,613	1,570,453	1.1%
Depreciation	2,119,771,357	2,613,405,797	(493,634,440)	-23.3%
Impairment of assets	-	43,793,819	(43,793,819)	100.0%
Finance costs	812,013,274	1,187,412,121	(375,398,847)	-46.2%
Debt impairment	2,980,257,519	3,702,413,924	(722,156,405)	-24.2%
Collection cost	126,715,188	114,868,883	11,846,305	9.3%
Bulk purchases	15,933,919,661	15,932,324,318	1,595,343	0.0%
Contracted Services	2,957,393,207	2,527,617,945	429,775,262	14.5%
Grants and subsidies paid	1,618,347,296	1,490,676,623	127,670,673	7.9%
Loss on derecognition of property, plant & equ	15,307,321	-	15,307,321	100.0%
General expenses	3,263,236,742	3,041,181,627	222,055,115	6.8%
Total Expenditure	39,006,744,321	39,564,846,348	(558,102,027)	-1.4%

The financial performance for the year reflects as a positive performance. The minimal variance between the budget and actual indicates an improved level of planning being performed by departments and realisation of budgeted revenue projections, and keeping expenditure within the approved budget.

Statement of Financial Position

Explanatory notes on what the Statement of Financial Position entails

The purpose of the Statement of Financial Position is to give an account of the assets and liabilities of the city at the end of the financial year.

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

When comparing the Statement of Financial Position with that of 2019, the following variances are evident:

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<u>Statement of Financial Position</u>				
ASSETS	June 20	June 19	Value variance	% Variance
CURRENT ASSETS	11,721,360,637	10,991,284,082	(730,076,555)	-6.2%
NON-CURRENT ASSETS	59,584,518,616	58,605,916,747	(978,601,869)	1.6%
TOTAL ASSETS	71,305,879,253	69,597,200,829	(1,708,678,424)	2.4%
CURRENT LIABILITIES	12,879,763,568	10,518,083,825	2,361,679,743	18.3%
NON CURRENT LIABILITIES	10,734,451,805	11,068,374,258	(333,922,453)	-3.1%
TOTAL LIABILITIES	23,614,215,373	21,586,458,083	2,027,757,290	8.6%
NET ASSETS (NET POSITION)	47,691,663,880	48,010,742,746	(319,078,866)	-0.7%
Accumulated Surplus/(Deficit)	47,691,663,880	48,010,742,746	319,078,866	-0.7%

Net assets decreased of 0.7% from the previous year due to the additional debt impairment amount raised.

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 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 20	June 19	Value variance	% Variance
Net Cash inflow from Operating activities	2,139,553,142	3,124,298,425	984,745,283	46.0%
Net Cash outflow from Investing activities	(5,207,804,547)	(5,902,481,148)	(694,676,601)	-13.3%
Net Cash inflow from Financing activities	1,281,594,392	2,681,270,843	(1,399,676,451)	-109.2%
Net Increase in Cash and Cash equivalents	(1,786,657,013)	(96,911,880)	(1,689,745,133)	94.6%
Cash and Cash equivalents at Beginning of the year	3,430,881,905	3,527,793,785	(96,911,880)	-2.8%
Cash and Cash equivalents at End of the year	1,644,224,892	3,430,881,905	(1,786,657,013)	-10866.3%

The COE generated from its operating activities a cash of R2.139 billion during the 2019/20 financial year and last year was R3.124. The year started with a cash balance of R3.4b and ended with cash of R1.6b. The cash on hand decreased significantly due to the fact that the increase in the allocation of capital expenditure was funded from internal revenue. The financing element increased by R1.65 billion for the financing of the capital expenditure and while R368 million of long term borrowing were repaid. The cash were generated as follows:

- From operations – R2.139 billion cash increase - Simply stated this means that the difference between amounts received from our customers for services rendered and grants received were R3b more than the amounts that we paid out as operating expenditure to our employee costs and suppliers in delivering services
- From investing activities – R5.2 billion cash outflow – this means that we invested R5.2b in the acquisition and replacement of the capital expenditure.
- From financing activities – R1,281 billion cash inflow – This relates to repayment of R368m worth of long term loans, and new long term borrowing received in the current year of R1.65 billion relating to the financing of the capital expenditure.

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The fact that the cash generated from operations are over R2.139 b more than the cash generated from financing activities shows that the City is able to generate funds from its own operation and does not borrowing beyond prudent levels. This will minimize the borrowings for the financing of the capital expenditure programme in future and repayment of amount borrowed.

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

City of Ekurhuleni Borrowings Redemption Profile					
Period	Opening Balance	New Borrowings	Redemption	Closing Balance	Inv Maturing
2014/15	5,799,050,834	750,000,000	284,180,372	6,264,870,463	32,620,000
2015/16	6,264,870,463		342,666,436	5,922,204,027	
2016/17	5,922,204,027		361,074,769	5,561,129,258	
2017/18	5,561,129,258	1,300,000,000	433,174,085	6,427,955,173	
2018/19	6,427,955,173	3,000,000,000	420,172,767	9,007,782,406	
2019/20	6,007,782,406	1,650,000,000	373,305,569	7,284,476,836	
2020/21	5,664,416,668		2,149,281,374	3,515,135,294	1,615,000,000
2021/22	3,698,506,079		545,995,001	3,152,511,078	
2022/23	3,339,655,496		558,866,029	2,780,789,467	
2023/24	2,971,835,572		1,372,303,832	1,599,531,741	800,000,000
2024/25	1,793,948,035		589,141,879	1,204,806,156	
2025/26	1,404,607,123		419,845,299	984,761,824	

The bullets loans will be redeemed from sinking funds that are in place and funds are transferred annually to the reserves. The redemption of the loans will therefore not have a negative impact on the cash available for operations.

External borrowing profiles for the last two and the next two financial years is as follows:

Financial Institution	Closing Balance 30 June 2017	Closing Balance 30 June 2018	Closing Balance 30 June 2019	Closing Balance 30 June 2020	Closing Balance 30 June 2021
ABSA	585,048,606	537,503,780	484,175,283	424,809,545	357,898,957
Nedbank	236,140,196	82,844,270	1,000,000,000	970,060,168	936,689,384
DBSA			2,000,000,000	2,000,000,000	2,000,000,000
Municipal Bonds	4,429,666,667	5,318,536,003	5,013,333,332	6,379,333,332	3,896,333,332
Total Liabilities	5,250,855,469	5,938,884,053	8,497,508,615	9,774,203,045	7,190,921,672

The city has an accumulated surplus of R47.691b –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	Expenditure for the Year	Percentage Spent
Chief Operating Officer	47,800,000	46,550,046	97.39%
City Manager	50,000	117,774	235.55%
City Planning	550,000	501,834	91.24%
Communication and Brand Management	25,000	15,600	62.40%
Corporate Legal Services	133,205	101,280	76.03%
Council General	323,821,106	234,940,177	72.55%
Disaster & Emergency Management Services	67,951,961	66,540,551	97.92%
Economic Development	46,780,000	45,101,031	96.41%
Ekurhuleni Metro Police Department	83,528,198	80,229,462	96.05%
Energy	627,764,653	661,976,830	105.45%
Environmental Resources & Waste Management	230,869,098	229,992,292	99.62%
Executive Office	181,247	93,958	51.84%
Finance	270,000	266,018	98.53%
Health and Social Development	2,632,868	2,346,455	89.12%
Human Resources Management	150,000	147,435	98.29%
Human Settlements	1,120,054,444	1,148,344,360	102.53%
Information and Communication Technology	646,307,858	632,420,519	97.85%
Internal Audit	30,000	25,780	85.93%
Real Estate	76,148,381	75,040,572	98.55%
Risk Management	9,500	9,500	100.00%
Roads and Stormwater	397,698,208	394,855,088	99.29%
Sport Recreation Arts and Culture	40,779,678	40,164,798	98.49%
Strategy & Corporate Planning	120,000	119,991	99.99%
Transport Planning & Provision	491,659,808	490,800,651	99.83%
Water and Sanitation	644,304,805	673,126,774	104.47%
Grand Total	4,849,620,018	4,823,828,775	99.47%

Capital budget was curtailed due to the impact of Covid-19 pandemic and the lockdown from R5 982 968 466 (in 2018/2019) to R4 849 620 018 in 2019/20. The expenditure performance against budget in the current year is 99.47% (best spending target in the history of the city) as compared to the previous year of 94.31%.

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SECTION C: REPORT OF THE AUDITOR-GENERAL

The Auditor General (AG) report contained in the annexures to this report is the signed report. The page numbers (which refer to the pages in the annual report) will be included in the published version (glossy) of the annual report.

The MFMA, Section 126 (3) require The Auditor-General must—

- a) audit those financial statements; and
- b) submit an audit report on those statements to the accounting officer of the city or entity within three months of receipt of the statements.

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

- a) Financial Statements, whether the financial statement fairly present in all material aspect the financial results and financial position of the city and it cash flow
- b) Predetermined objectives, whether the information reported by the city on service delivery targets is usefulness and reliable as reported in the city's annual report
- c) Compliance with Laws and Regulations, whether the city has complied with applicable laws and regulations regarding financial matters, financial management and other related matters.
- d) Any other audit work performed on behalf of the city (other audit services)

Additional clarity / definitions:

What types of audit opinions are there?

DISCLAIMER - When the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive (i.e. very serious / chaos).

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.

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What a financial audit opinion does not say – in other words, even if you are unqualified, it does not mean that:

- *There are no fraud*
- *The city has enough cash / is financially in a good position*

What is Materiality?

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

What is Significant matters?

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

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

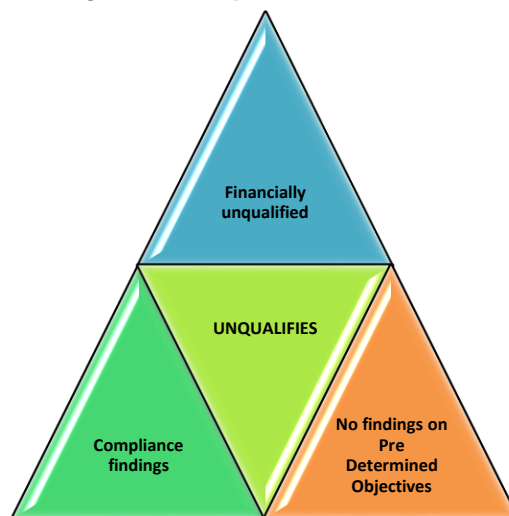
In private sector, an unqualified audit is the norm. There is no concept of “clean” in private sector and the term is also not contained in audit standards.

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

Then what is a “Clean Audit”?

A clean audit is an audit opinion that is:

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



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THE CITY OBTAINED UNQUALIFIED AUDIT OPINION WITH NO FINDINGS (CLEAN), AND THE REPORT OF THE AUDITOR GENERAL IS SUMMARIZED AS FOLLOWS:

Par 1-2: Audit opinion – **UNQUALIFIED AUDIT OPINION**, on the consolidated and separate financial statements of the City of Ekurhuleni.

Par 3 to 4: **Basis for opinion** – auditing of AFS and expressing an opinion as to whether the AFS gives a true reflection of the city financial performance and its financial position for the year ended and the audit procedures performed in reaching the audit opinion.

Par 5: Indicate that sufficient audit evidence was obtained to express the audit opinion.

Par 6: **Key Audit Matters** – Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the 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 an opinion thereon and I do not provide a separate opinion or conclusion on these matters.

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: Restatement of corresponding figures

As disclosed in note 55 to the consolidated and separate financial statements, the corresponding figures for 30 June 2019 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 2020.

Par 9: Material uncertainties

With reference to note 42 to the consolidated and separate financial statements, the group is the defendant in various lawsuits. The outcome of these matters cannot presently be determined and/or reliably measured; therefore, no provision for any liabilities that may result has been made in the consolidate and separate annual financial statements.

Par 10: Material impairment

As disclosed in the note 14 to the consolidated and separate financial statements, the consumer debtors balance has been significantly impaired. The allowance for impairment of consumer debtors amounts to R12 495 253 915 (2018-2019: R9 114 377 582) which represents 68% (2018-2019: 65%) of total consumer debtors. The contribution to the provision for debt impairment was R3 638 005 622 (2018-19: R4 062 101 226).

Par 11 & 12: Material losses

As disclosed in note 53 to the consolidated and separate financial statements, material electricity losses of R1 881 786 377 (2018-2019: R1 184 000 058) was incurred which represent 14% (2018-19: 12%) of total electricity purchased. Technical losses amounted to R579 728 806 (2018-19: R584 569 066) and was due to losses inherent to electricity supply.

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Non-technical losses amounted to R1 302 057 571 (2018-19: R599 430 992) and were due to theft through illegal connections and bypassing or tampering of meters.

As disclosed in note 53 to the consolidated and separate financial statements, material water losses of R1 083 752 695 (2018-19: R1 002 005 635) was incurred which represents 30% (2018-19: 28%) of the total water purchased. Technical losses amounted to R162 186 366 (2018-19: R502 114 060) and was due to evaporation and losses inherent to water supply. Non-technical losses amounted to R921 566 328 (2018-19: R499 891 575) and were due to leaks and pipeline infrastructure requiring maintenance

Impact of Covid-19

Par 13: I draw attention to note 46 in the financial statements, which deals with the possible effects of the future implications of Covid-19 on the metropolitan municipality's future prospects, performance and cash flows. Management have also described how they plan to deal with these events and circumstances. My opinion is not modified in respect of this matter.

UNAUDITED DISCLOSURE NOTES

Par 15 In terms of section 125(2)(e) of the MFMA, the group is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of consolidated and separate financial statements and accordingly I do not express an opinion thereon.

Par 17-18: Accounting Officer's responsibility – compilation of Group and Separate 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 19-20: Auditor-General's responsibilities for the audit of the consolidated and separate financial statements

REPORT ON THE AUDIT OF THE ANNUAL PERFORMANCE REPORT

Par 21: 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 23: I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected intermediate outcomes presented in the annual performance report of the group for the year ended 30 June 2020:

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Strategic Objectives audited

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

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

REPORT ON THE AUDIT OF COMPLIANCE WITH LEGISLATION

Par 28: In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the group with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance. The material findings on compliance with specific matters in key legislations are as follows:

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

Other information

Par 30- 33: Other information

Internal control

Par 37: I considered internal control relevant to my audit of financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. I did not identify any significant deficiencies in internal control.

OTHER REPORTS

Investigations

Par 35: I draw attention to the following engagements conducted by various parties that had or could have an impact on the matters reported in the group's consolidated and separate financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the consolidated and separate financial statements or findings on the reported performance information or compliance with legislation.

Par 41: A total of 34 investigations into allegations relating to financial misconduct, fraud or improper conduct in SCM were ongoing at year-end. Some of these investigations have been ongoing for a long time. The Municipal Regulations on Financial Misconduct, Procedures and Criminal Proceedings and the Disciplinary Regulations for Senior Managers require that each investigation be completed within 30 days from the date of appointing the investigator.

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**SECTION D: APPROVAL OF FINAL YEAR END TRANSACTIONS FOR THE
COMPILATION OF THE 2019/20 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 R43 793 819 had to be impaired and derecognised as these Capital Expenditure did not meet the subsequent capitalization requirements as per the applicable accounting standards, which have to be derecognised.
- The criteria for redundant stock are where no or little movement for the past three years occurs on the item. Stock with no movement for the last three years were identified and circulated to departments to indicate any need for the items as from January 2020. No redundant stock was identified.
- The annual stock taking for the year ended 30 June 2020 was conducted throughout the Council from 8 June 2020 until 26 June 2020, in a staggered manner to avoid the hampering of the Council's Operations. Damaged stock to the amount of R24 164 was found.
- During the annual stock take differences were found on stock items - Stock Shortages to be written off – R28 282 356
- 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.

OTHER DEPARTMENTS/ BODIES CONSULTED

The finance management team was consulted, and these results were reviewed by the audit committee and their recommendations were noted in preparing these reports. HOD's commented on matters raised by the Auditor-General in respect of matters under their area of responsibility, and corrective action will be monitored by the OPCA, Internal Audit and Audit Committee in the 2020/21 financial year.

RECOMMENDATION

1. **That** the Annual Report, inclusive of the Annual Financial Statements and the Report of the Auditor-General for the 2019/20 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, and the Ministerial Exemption issued in terms of section 171(1)(b) of the MFMA, "Gazette" published on 05 August 2020.

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- 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 and the Ministerial Exemption issued in terms of section 171(1)(b) of the MFMA, "Gazette" published on 05 August 2020.
- 4. That** the Municipal Public Accounts Committee **REPORT BACK** to Council by no later than end May 2021 as required by sections 32 and 129 of the Municipal Finance Management Act and the Ministerial Exemption issued in terms of section 171(1)(b) of the MFMA, "Gazette" published on 05 August 2020.
- 5. That** the final year-end transactions for the compilation of the financial statements as described in the report, **BE APPROVED**.
- 6. That** the city and municipal entities' Annual Reports, inclusive of the Annual Financial Statements and the Report of the Auditor-General for the 2019/20 financial year, **BE APPROVED**.