

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

## Report on the audit of the consolidated and separate financial statements

### Opinion

1. I have audited the consolidated and separate financial statements of City of Ekurhuleni Metropolitan Municipality and its subsidiaries (the group) set out on pages ... to ..., which comprise the consolidated and separate statement of financial position as at 30 June 2020, consolidated and separate statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.
2. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the group as at 30 June 2020, and their financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2019 (Act No. 16 of 2019) (Dora).

### Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the consolidated and separate financial statements section of this auditor's report.
4. I am independent of the group in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

**Key audit matters**

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

Key audit matter	How the matter was addressed in the audit
<b>Delays in receipt of information requested for audit purpose</b>	
<p>The accounting officer agreed to provide requested documents within three (3) working days as per the signed audit engagement letter. In some cases, the municipality did not provide the requested documents within the agreed time. These delays adversely impacted the allocated time for audit execution and the evaluation of audit evidence. Accordingly, the delays in providing requested information and the impact thereof, is considered a key audit matter.</p>	<p>To monitor the submission of documents in response to the request for information, a tracking mechanism was set up between the municipality and senior members of the audit team. Where information was not provided timeously, concerns were frequently escalated to leadership at various platforms as follows:</p> <ul style="list-style-type: none"> <li>• Regular audit steering committee meetings were held to assess information not provided. The impact on the financial statements was assessed and reported accordingly.</li> <li>• Escalation of delays to the accounting officer and those charged with governance throughout the audit.</li> <li>• Submitting progress reports to the accounting officer on a regular basis.</li> </ul> <p>I am satisfied that all material outstanding information has been provided and sufficient time was available to assess and report where applicable.</p>

**Emphasis of matters**

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

**Restatement of corresponding figures**

8. As disclosed in note 56 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.

### Material uncertainties

9. 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 was made in the consolidated and separate financial statements.

### Material impairments

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

### Material losses

11. As disclosed in note 53 to the consolidated financial statements, material electricity losses of R1 881 786 377 (2018-19: R1 184 000 058) was incurred which represented 14.12% (2018-19: 11.95%) of total electricity purchased. Technical losses of R579 728 806 (2018-19: R584 569 066) while non-technical losses were R1 302 057 571 (2018-19: R599 430 992).
12. As disclosed in note 53 to the consolidated financial statements, material water losses of R1 083 752 695 (2018-19: R1 002 005 635) was incurred which represents 30.26% (2018-19: 28.45%) of the total water purchased. Technical losses were R162 186 366 (2018-19: R502 114 060) while non-technical losses were R921 566 328 (2018-19: R499 891 575).

### Impact of covid-19

13. I draw attention to note 47 in the consolidated financial statements, which deals with the possible effects of the future implications of covid-19 on the Group's future prospects, performance and cash flows. Management has also described how it plans to deal with these events and circumstances. My opinion is not modified in respect of this matter.

### Other matters

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

### Unaudited disclosure notes

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

## Unaudited supplementary schedules

16. The Group provided supplementary information in the financial statements on whether resources were obtained and used according to the legally adopted budget. The supplementary budget information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. Accordingly, I do not express an opinion on it.

## Responsibilities of the accounting officer for the consolidated and separate financial statements

17. The accounting officer is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and Dora, and for such internal control as the accounting officer determines is necessary to enable the preparation of the consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.
18. In preparing the consolidated and separate financial statements, the accounting officer is responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the group or to cease operations, or has no realistic alternative but to do so.

## Auditor-general's responsibilities for the audit of the consolidated and separate financial statements

19. My objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.
20. A further description of my responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to this auditor's report.

## Report on the audit of the annual performance report

### Introduction and scope

21. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected strategic

objectives presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

22. My procedures address the usefulness and reliability of the reported performance information, which must be based on the Metropolitan Municipality's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators/measures included in the planning documents. My procedures do not examine whether the actions taken by the Metropolitan Municipality enabled service delivery. My procedures also do not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
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 strategic objective presented in the annual performance report of the municipality for the year ended 30 June 2020:

Strategic objective	Pages in the annual performance report
Strategic objective 1 - To promote integrated human settlements through massive infrastructure and services roll out	x – x

24. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
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.

### Other matter

26. I draw attention to the matter below.

### Achievement of planned targets

27. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for year.

## Report on the audit of compliance with legislation

### Introduction and scope

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 municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
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

30. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the consolidated and separate financial statements, the auditor's report and those selected Strategic objective presented in the annual performance report that have been specifically reported on in this auditor's report.
31. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion on it.
32. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements and the selected Strategic objective presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
33. If based on the work I have performed, I conclude that there is a material misstatement in this other information, I am required to report that fact. I have nothing to report in this regard.

### Internal control deficiencies

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

## Other reports

35. I draw attention to the following engagements conducted by various parties which had, or could have, an impact on the matters reported in the group's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
36. 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.
37. Three (3) independent investigations were conducted by the Public Protector on allegations of maladministration, tender irregularities and irregular appointments by the City which covered the period 2009 to 2016. The investigations were concluded during September 2019 and resulted in remedial actions to be implemented by the City. These reports were tabled to council on 31 October 2019.

*Auditor - General*

31 March 2021

Johannesburg



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*