ANNEXURE C

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 the City of Ekurhuleni Metropolitan Municipality and its subsidiaries (the group) set out on pages ... to ..., which comprise the consolidated and separate appropriation statement, the consolidated and separate statement of financial position as at 30 June 2023, the consolidated and separate statement of financial performance, statement of changes in net assets, the cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

2. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the group as at 30 June 2023, 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 Standard of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 5 of 2022 (the 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 responsibilities of the auditor-general for the audit of the consolidated and separate financial statements section of my 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. I have determined that there are no key audit matters to communicate in this auditor's report.

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 54 to the consolidated and separate financial statements, the corresponding figures for 30 June 2022 were restated as a result of an error in the financial statements of the group at, and for the year ended, 30 June 2023.

Material losses impairments – consumer debtors

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

10. As disclosed in note 13 to the consolidated and separate financial statements, the traffic fines debtors' balance has been impaired. The allowance for impairment of traffic fines debtors amounts to R2 197 709 912 (2022: R1 750 211 617) which represents 82% (2022: 81%) of total traffic fines debtors.

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

Material losses - electricity

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

Material uncertainties

13. With reference to note 42 to the consolidated and separate financial statements, the group is the defendant in various claims. The ultimate outcome on the matters could not be determined and no provision for any liability that may result was made in the financial statements.

Other matter

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

Unaudited disclosure notes

15. In terms of section 125(2)(e) of the MFMA, particulars of non-compliance with the MFMA should be disclosed in the consolidated and separate financial statements. This disclosure

requirement did not form part of the audit of the consolidated and separate financial statements and, accordingly, I do not express an opinion on it.

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

16. The accounting officer is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the SA Standard of GRAP and the requirements of the MFMA and the Dora, and for such internal control as the accounting officer determines is necessary to enable the preparation of the consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

17. In preparing the consolidated and separate financial statements, the accounting officer is responsible for assessing the group's ability to continue as a going concern; disclosing, as applicable, matters relating to going concern; and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the group or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the auditor-general for the audit of the consolidated and separate financial statements

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

19. A further description of my responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

20. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for the selected strategic objective presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

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

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

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

23. I performed procedures to test whether:

- the indicators used for planning and reporting on performance can be linked directly to the municipality's mandate and the achievement of its planned objectives
- the indicators are well defined to ensure that they are easy to understand and can be applied consistently, as well as verifiable so that I can confirm the methods and processes to be used for measuring achievements
- the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated
- the indicators and targets reported on in the annual performance report are the same as those committed to in the approved initial or revised planning documents
- the reported performance information is presented in the annual performance report in the prescribed manner
- there is adequate supporting evidence for the achievements reported and for the reasons provided for any over- or underachievement of targets taken to improve performance.

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

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

Other matters

26. I draw attention to the matters below.

Achievement of planned targets

27. The annual performance report includes information on reported achievements against planned targets and provides explanations for over- or underachievement.

28. The municipality plays a key role in delivering services to South Africans. The table that follows provides information on the achievement of planned targets and lists the key service delivery indicators that were not achieved as reported in the annual performance report. The reasons for any underachievement of targets are included in the annual performance report on pages xx to xx.

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

Targets achieved: 78% *Budget spent: 99%*		
Key service delivery indicator not achieved	**Planned target**	**Reported achievement**
Number of subsidised housing units constructed using various Human Settlements Programmes	923	119
Number of serviced sites	830	320
Number of title deeds distributed to beneficiaries	3000	1984
Percentage of surfaced municipal road lanes which have been resurfaced and resealed	1.3%	0.92%
Percentage of reported pothole complaints resolved within standard municipal response time	80%	8.95%
Number of new sewer connections meeting minimum standards	600	119
Percentage of callouts responded to within 48 hours (sanitation /wastewater)	85%	26.13%
Percentage of callouts responded to within 48 hours (water)	85%	13.83%
Number of water meters installed and uploaded on the billing system	3000	1861
Number of properties with access to refuse removal services	748 110	748 108

Material misstatements

29. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for the strategic objective - To deliver reliable, affordable and sustainable services and ensure improved infrastructure maintenance. Management subsequently corrected all the misstatements and I did not include any material findings in this report.

Report on compliance with legislation

30. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial

management and other related matters. The accounting officer is responsible for the municipality's compliance with legislation.

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

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

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

Procurement and Contract Management

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

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

Other information in the annual report

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

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

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

39. 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

40. I considered internal control relevant to my audit of the consolidated and separate financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.

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

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

Auditor - General

Johannesburg

29 February 2024

AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

The annexure includes the following:

- The auditor-general's responsibility for the audit
- The selected legislative requirements for compliance testing

Auditor-general's responsibility for the audit

Professional judgement and professional scepticism

As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the consolidated and separate financial statements and the procedures performed on reported performance information for selected strategic objective and on the municipality's compliance with selected requirements in key legislation.

Financial statements

In addition to my responsibility for the audit of the consolidated and separate financial statements as described in this auditor's report, I also:

- identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made
- conclude on the appropriateness of the use of the going concern basis of accounting in the preparation of the consolidated and separate financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the municipality and its subsidiaries to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the consolidated and separate financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the consolidated and separate financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease operating as a going concern
- evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and determine whether the consolidated

and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

Communication with those charged with governance

I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated to those charged with governance, I determine those matters that were of most significance in the audit of the consolidated and separate financial statements for the current period and are therefore key audit matters. I describe these matters in this auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in this auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest of such communication.

Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
MFMA	Section 1 - Paragraph (a), (b) & (d) of the definition: irregular expenditure Section 1 - Definition: service delivery and budget implementation plan Sections 14(1), 14(2)(a), 14(2)(b), 122(1), 122(2), 126(1)(a), 126(1)(b), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), MFMA 127(2), 127(5)(a)(i), 127(5)(a)(ii), 129(1), 129(3), 63(1), 65(2)(e), 11(1), 65(2)(a), 65(2)(b), 87(8), 62(1)(d), 29(1), 29(2)(b), 62(1)(1)(f)(i), 62(1)(f)(iii), MFMA 62(1)(f)(ii), 62(1)(f)(i), 64(2)(f), 64(2)(b), 64(2)(c), 64(2)(g), 53(1)(c)(ii), 1, 72(1)(a)(ii), 24(2)(c)(iv), 171(4)(a), 171(4)(b), 32(2)(b), 170, 1 - paragraph (a), (b) & (d) of the definition: irregular expenditure, 32(2), 32(2)(b), 32(6)(a), 32(7), 171(4)(a), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117
SCM Regulations	Regulations 5, 44, 46(2)(e), 46(2)(f), 12(1)(c), 16(a), 17(a)& (c), 17(a) & 17(b), 13(c), 43, 19(a) &(b), 36(1)(a), 12(3), 27(2)(a)&(e), 22(1)(b) & 22(2), 28(1)(a)(i), 21(b), 29(1) (a) & (b), 29(5)(a)(ii) & (b)(i), SCM reg. 13(c), 43, 38(1) (c.), 38(1)(d)(ii) & (g)(iii), 38(1)(e.), 38(1)(g)(i), 38(1)(g)(ii), 32
Municipal budget and reporting regulation	Regulations 71(1), 71(2), 72
Municipal investment regulation	Regulations 6, 7, 12(2), 12(3)
DoRA	Sections 16(1), 11(6)(b), 12(5), 16(3)
NEMWA	Section 20(b)
Environmental Conservation Act (ECA)	Section 20(1)
National Water Act (NWA)	Section 22(1)(b)
MSA	Sections 56(a), 57(6)(a), 66(1)(a), 67(1)(d), 57(2)(a), 74(1), 96(b), 29(1)(b)(ii), 26(h), MSA 42, MSA 25(1), 25(1), 26(a), 26(c), 26(i), 41(1)(a), 43(2), 41(1)(b), 93B(a), 93B(b), 34(a) and 41(1)(c)(ii), 34(b), 38(a), 3(4)(b) and 15(1)(a)(ii), 3(5)(a), 3(6)(a), 3(3) MSA schedule 1: Code of conduct for councillors section 5(2), 7(1) & (2) MSA schedule 2: Code of conduct for municipal staff members section 5(1) and 5A(1) & (2). SCM reg. 46(2)(e) MSA schedule 1: Code of conduct for councillors section 5(2), 7(1) & (2)

Legislation	Sections or regulations
	MSA schedule 2: Code of conduct for municipal staff members section 5(1) and 5A(1) & (2)
Municipal performance regulations for municipal managers and managers directly accountable to municipal managers	Regulations 2(3)(a), 4(4)(b), 8(3)
Regulations on appointment and conditions of employment of senior managers	Regulations 17(2), 36(1)(a), 2(1)(e), 2(3)(a)
Municipal Property Rates Act	Section 3(1)
Municipal planning and performance management regulations	Regulations 15(1)(a)(i), 9(1)(a), 10(a), 12(1), 8, 7(1)
Financial misconduct regulations	Regulations 5(2), 5(3), 5(4), 6(8)(b), 10(1), 5(6), 8(4)
PRECCA	Section 34(1)
Disciplinary regulations for senior managers	Regulations 8(4) 5(6), 5(2), 5(3), 5(4)
PPR 2017	Regulations 8(5), 8(2), 9(1), 5(6), 5(7), 5(1) & 5(3), 6(8), 7(8), 10(1)&(2) & 11(1), 6(1) and 7(1)
PPR 2022	Regulations 4(1) and 5(1), 4(4) & 5(4)
PPPFA	Sections 2(1)(a), 2(1)(a), 2(1)(f)