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**40 OVERSIGHT REPORT ON THE 2019/20
ANNUAL REPORT OF THE CITY OF
JOHANNESBURG BY THE MUNICIPAL
PUBLIC ACCOUNTS COMMITTEE (MPAC)**

1 STRATEGIC THRUST

A responsive, accountable, efficient and productive metropolitan government.

2 OBJECTIVE

To submit to Council, in terms of section 129 of the Municipal Finance Management Act (MFMA) of 2003, the oversight report on the 2019/20 integrated annual report of the City of Johannesburg.

3 SUMMARY

- It is recommended that the 2019/20 annual report will be adopted with reservations. This is due to the underperformance of the City and its entities. The underperformance is far-reaching, including repeated material findings by the Auditor-General of South Africa (AGSA), the high incurrence of irregular expenditure and the absence of consequence management.
- It is deeply concerning that no municipal entities achieved a clean audit outcome in 2019/20. This is the first time that there has not been a clean audit outcome in the Group in over a decade. This appears to be part of a trend towards worsening outcomes that is underpinned by instability, inadequate governance systems and non-existent or not properly implemented preventative controls.
- While the City is financially sound, there continues to be significant issues with the collection of revenue, loss of electricity and impairment of debtors. The City has high debt levels, a sub-optimal liquidity ratio and a substantial increase in the wage bill due to insourcing. The City will be challenged to carefully manage its expenditure and optimise revenue, particularly with the current weak economic outlook, further exacerbated by Covid-19, while maintaining investment in infrastructure and significantly improving expenditure on repairs and maintenance.
- Procurement continues to be a significant contributor to the poor audit outcomes. This is the result of inadequate or inadequately implemented internal controls and inadequate monitoring of supply-chain management processes. Irregular expenditure has increased to unacceptable levels, driven largely by the irregular use of section 36(1)¹ of the Municipal Supply Chain Management Regulations.

¹ Deviating from the constitutional requirements that all procurement by the state be transparent, competitive and cost-effective because of emergencies and impracticalities, because there is a sole supplier, or in order to procure zoo animals and works of art.

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- Municipal entities pose a risk to the effective and efficient delivery of services to residents. The entities struggle to comply with legislation, ensure good governance and implement the strategic priorities of the City. Intervention is required to improve the performance of the boards of entities.
- The annual report, in its current format, does not enable citizens to hold the City accountable, as it is inaccessible, riddled with errors and inconsistently formatted.
- With the current information available, it cannot be determined whether the City receives value-for-money, both in terms of the cost of implementing its projects and providing services and in terms of the procurement of individual goods and services.
- Consequence management for poor performance and non-compliance with legislation is inadequately implemented:
 - The disciplinary board, despite having Council approve its terms of reference, has yet to be established.
 - The boards of municipal entities do not recover unauthorised, irregular or fruitless and wasteful expenditure when it has resulted in a loss to the entity, as required by section 32(2) of the Municipal Financial Management Act (MFMA).
 - The City does not utilise section 37D of the Pension Funds Act, which allows an employer to claim compensation from the pension benefit of the employee for loss or damages suffered as a direct result of a member's dishonesty, fraud, theft or misconduct.
 - Disciplinary cases and investigations into improper conduct by employees take too long to complete, undermining consequence management and costing the City through suspension with pay.
- Not all resolutions of Council are implemented, undermining the democratically elected Council and the supporting legislation.

4 BACKGROUND

The financial year is the basis for planning, budgeting and reporting. After the end of the financial year, which is on 30 June, every municipality and municipal entity must prepare an annual report². The annual report provides a municipality with an opportunity to report on service delivery and financial performance of the municipality and its entities. Performance is reported against targets set in the integrated development plan (IDP), business plans and budget. The purpose of the annual report is, as per section 121(2) of the MFMA, to:

- Provide a record of the activities of the municipality or entity;
- Provide a report on performance against the budget; and
- Promote accountability to the local community for decisions made.

² In terms of section 121(1) of the MFMA and section 46 of the Municipal Systems Act (MSA), No. 32 of 2000.

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In the City of Johannesburg, Council referred the annual report to the Municipal Public Accounts Committee (MPAC)³ on 11 May 2020. The Committee was tasked with drafting an oversight report on the annual report, which may be adopted by Council in an ordinary meeting on 24 and 25 June March 2021. The oversight report must, as required by section 129(1) of the MFMA, include a statement indicating whether 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 report of the City covers the Group, which consists of City of Johannesburg Metropolitan Municipality (CJMM) and 12 entities^{4 5}. The annual reports of the 12 entities are included in the consideration process.

Note on Covid-19 delays to the annual report process

During a typical financial year, the annual report of the municipality and its entities must be tabled in council within seven months after the end of the financial year, which is by the end of January. This did not happen in the City for two reasons: First, the Minister of Finance, in Government Gazette No. 43582 of 05 August 2020, extended all deadlines related to the annual report, including the tabling of the annual report in Council, by two months to the end of March 2021. Second, the audit by the Auditor-General of South Africa (AGSA) was only completed on 30 April 2021. The AGSA informed the Committee that the audit took longer than expected due to Covid-19 and in order to ensure that the audit was complete and thorough. Due to these delays, on 24 March 2021, the Executive Mayor tabled a limited number of annual reports in Council. The final annual report, with the consolidated audit report, was tabled in Council during an extra-ordinary meeting on 11 May 2021. Due to missing or incorrect documents, additional reports were tabled in Council on 30 May 2021.

³ As envisaged in section 129 of the MFMA and Circular 32 of the MFMA.

⁴ The twelve entities are: City Power, Johannesburg Fresh Produce Market (Joburg Market), Joburg City Theatres (Joburg Theatre), Johannesburg City Parks and Zoo (JCPZ), Johannesburg Development Agency (JDA), Johannesburg Metropolitan Bus Services (Metrobus), Johannesburg Property Company (JPC), Johannesburg Roads Agency (JRA), Johannesburg Social Housing Company (JOSHCO), Johannesburg Water, Metropolitan Trading Company (MTC), and Pikitup.

⁵ CJMM has three further entities, which are dormant (Johannesburg Tourism, Johannesburg Zoo and Roodepoort City Theatre) or currently being integrated with other entities (is being integrated with Joburg Theatre).

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5 2019/20 PERFORMANCE OF THE CITY

(1) Audit outcome of the group

The City achieved an unqualified audit outcome with findings, the same outcome since the 2012/13 financial year. The financial statements of the City were unqualified, the performance report had material misstatements that were corrected, and there were findings for non-compliance with legislation. This is well short of a clean audit outcome.

A clean audit outcome means that Auditor-General of South Africa (AGSA) is of the opinion that: (i) the financial statements are likely an accurate representation of the finances of the City; (ii) that the performance reported⁶ by the City is likely credible; and (iii) there was compliance with the law. The terms used by the AGSA to describe this is that (i) the financial statements are free from material misstatements, (ii) there were no material findings or misstatements on reported performance and (iii) there were no material findings on non-compliance with legislation.

Year under

Table 1: Audit outcomes for the City of Johannesburg

FINDINGS	2017	2018	2019	2020
Audit outcome	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
Financial statements	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
Reported performance	Material findings	Material findings	Material findings	Material findings
Compliance with key legislation	Material non-compliance	Material non-compliance	Material non-compliance	Material non-compliance

↑

Source: Audit reports of the City of Johannesburg

While of considerable value, audit outcomes are inherently limited. Auditors only test a sample of the figures and transactions provided for audit; an audit is not a comprehensive investigation of all reported information. There remains a risk that the AGSA did not detect misstatements or non-compliance with legislation. Audits do not determine whether service delivery has taken place, only whether there is sufficient audit evidence to support the claim of what service delivery is reported. Nevertheless, clean audit outcomes are the gold standard of good governance in the public sector. Material findings by the AGSA must be treated with the utmost seriousness, and remedied by management as soon as possible.

⁶ Only the IDP scorecard is audited.

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(a) Material findings on reported performance

While the annual report contains, possibly, hundreds of measures of reported performance, *only* 48 indicators are submitted to the AGSA as part of the audit. The 48 indicators form part of the Institutional Service Delivery Budget Implementation Plan (SDBIP) for 2019/20, and can be found under Component I of the annual report. The indicators are categorised under four outcomes. Of the four outcomes, one was audited. There were material misstatements identified by the AGSA but, in what may signal an improvement, there were no indicators that had findings on the usefulness or reliability of reported performance information. As only one outcome was audited, it is unclear at this stage whether this should be considered a sign of an improvement in the management of performance information.

Table 2: Audit of priorities of the SDBIP 2019/20

OUTCOME		2020
1	Improved quality of life and development-driven resilience for all.	<i>Not audited</i>
2	Provide a resilient, liveable, sustainable urban environment – underpinned by smart infrastructure supportive of a low carbon economy.	Material misstatements
3	An inclusive, job-intensive, resilient, competitive and smart economy that harnesses the potential of citizens.	<i>Not audited</i>
4	A high performing metropolitan government that proactively contributes to and builds a sustainable, socially inclusive, locally integrated and globally competitive Gauteng City Region.	<i>Not audited</i>

Source: 2019/20 annual report and audit report

(b) Material non-compliance with legislation

The AGSA has again found material non-compliance within the City across six compliance areas. A majority of the material findings were for non-compliance with supply-chain management legislation, which falls under the procurement and contract management compliance area. The lack of improvement demonstrates the ineffective efforts of management to effect change and a continued failure to hold officials accountable.

Table 3: Material findings on compliance with key legislation by the AGSA

COMPLIANCE AREA	2018	2019	2020
Annual financial statements	Finding	Finding	Finding
Asset management	Finding	Finding	Finding
Consequence management	Finding	Finding	Finding
Expenditure management	Finding	Finding	Finding
Procurement and contract management	Finding	Finding	Finding
Revenue management	Finding	Finding	Finding

Source: 2019/20 audit report

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The non-compliance with procurement and contract management legislation has resulted in a ballooning irregular expenditure balance. Irregular expenditure for the Group now stands at R8.7 billion. This is despite R1.9 billion in irregular expenditure being written off and certified as irrecoverable over the past two financial years.

Table 4: Material findings leading to irregular expenditure

MATERIAL FINDING	2018	2019	2020
Procurement of goods and services below R200 000 without obtaining the required price quotations	Finding	Finding	Finding
Procurement of goods and services above R200 000 without inviting competitive bidding	Finding	Finding	No finding
Deviations for impracticality approved where it was not impractical to invite competitive bids	Finding	Finding	Finding
Contracts awarded to bidders based on preference points that were not allocated and/or calculated as required	Finding	No finding	Finding
Contracts awarded based on points different from criteria set in original invitation for bidding	No finding	Finding	No finding
Insufficient evidence that quotations were only accepted from bidders whose tax matters were in order	No finding	No finding	Finding
Contracts or quotations awarded to bidders based on pre-qualification criteria that differed from criteria set in original invitation for bidding	No finding	Finding	No finding
Insufficient evidence that a proper authority extended or modified contracts	No finding	Finding	No finding
Contract performance and monitoring measures and methods were not sufficient to ensure effective contract management	Finding	Finding	Finding
Quotations accepted from bidders who did not submit declaration on whether employed by the state	No finding	Finding	No finding
Awards made to providers whose directors were in service of state institution	No finding	Finding	Finding
Failure of persons in the City to disclose that family members had private or business contract awarded by the City	Finding	Finding	Finding

Source: 2019/20 audit report

(c) Audit outcomes of entities

The City has 12 entities. Each entity is subjected to the same audit as CJMM. In 2016/17, five of the 12 entities of the City achieved clean audit outcomes. Since then, there has been a stark deterioration. For 2017/18, the Johannesburg Social Housing Company (JOSHCO) lost its clean audit outcome, for the first time in several years. In 2018/19, the Johannesburg Property Company (JPC) and JCPZ failed to achieve clean audit outcomes.

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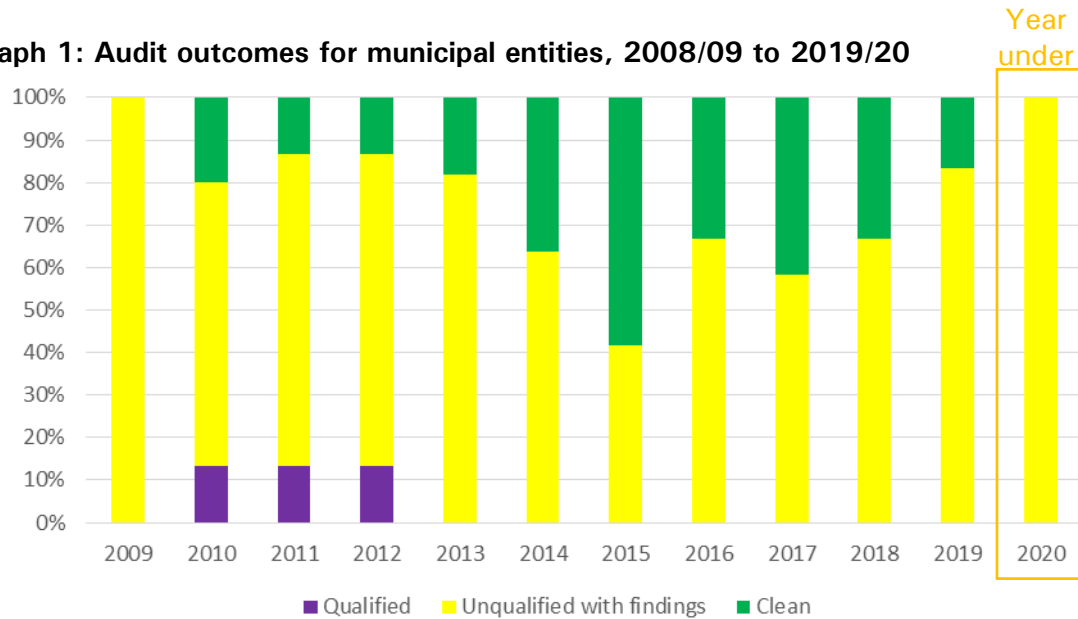
In 2019/20, the Johannesburg Development Agency (JDA) and Joburg City Theatres (JCT), the remaining two entities with clean audit outcomes, had material findings of non-compliance with legislation.

Table 5: Audit outcome by entity

ENTITY	2017	2018	2019	2020
City Power	Unqualified with findings			Unqualified with findings
JCPZ	Clean	Clean	Unqualified with findings	Unqualified with findings
JDA	Clean	Clean	Clean	Unqualified with findings
JPC	Clean	Clean	Unqualified with findings	Unqualified with findings
Joburg Market	Unqualified with findings			Unqualified with findings
Joburg Theatre	Clean	Clean	Clean	Unqualified with findings
JOSHCO	Clean	Unqualified with findings	Unqualified with findings	Unqualified with findings
JRA	Unqualified with findings			Unqualified with findings
Johannesburg Water	Unqualified with findings			Unqualified with findings
Metrobus	Unqualified with findings			Unqualified with findings
MTC	Unqualified with findings			Unqualified with findings
Pikitup	Unqualified with findings			Unqualified with findings

Source: Entity audit reports

As demonstrated in Graph 1, this is the first time in over a decade that no entity of the City has achieved a clean audit.

COJ LEGISLATURE**Graph 1: Audit outcomes for municipal entities, 2008/09 to 2019/20**

Source: Entity audit reports and the Auditor-General of South Africa's consolidated general reports on the audit outcomes of local government.

Nine entities received unqualified financial statements with findings, eight had no material findings on reported performance, and all twelve entities had material findings of non-compliance with legislation. In terms of changes from the previous financial year, the quality of the financial statements submitted for audit improved for Johannesburg Property Company (JPC) and Johannesburg Water, while there was a deterioration for Johannesburg City Parks and Zoo (JCPZ), Johannesburg Development Agency (JDA) and Metrobus. For reported performance, City Power and Pikitup improved while there was a deterioration for JCPZ. And, for compliance with legislation, there were new findings for JCT and the JDA.

Table 6: Material findings by entity

Entity	2019			2020		
	Financial statements	Reported performance	Compliance with legislation	Financial statements	Reported performance	Compliance with legislation
City Power	UF	F	F	UF	No	F
JCT	No	No	No	No	No	F
Joburg Market	UF	No	F	UF	No	F
JCPZ	No	No	F	UF	F	F
JDA	No	No	No	UF	No	F
JPC	UF	No	F	No	No	F
JRA	UF	No	F	UF	No	F

COJ LEGISLATURE**Table 6: Material findings by entity**

Entity	2019			2020		
	Financial statements	Reported performance	Compliance with legislation	Financial statements	Reported performance	Compliance with legislation
JOSHCO	UF	No	F	UF	No	F
Johannesburg Water	UF	F	F	No	F	F
Metrobus	No	F	F	UF	F	F
MTC	UF	F	F	UF	F	F
Pikitup	UF	F	F	UF	No	F

UF = Unqualified financial statements with findings

F = Findings of material misstatements or findings of material non-compliance with legislation

Source: Entity audit reports

At this time, it is unclear if the findings for JCT and the JDA are indicative of systemic issues or, more innocuously, due to mistakes that can be easily rectified and prevented going forward. The concern is that there appears to exist a trend across all entities, where entities that had once received clean audits have yet to rectify compliance issues. Many entities have seen an increased number of findings of material non-compliance with legislation, rather than fewer. The Committee asked both JCT and JDA about what controls will be implemented to prevent repeat findings and whether the entities will be able to achieve a clean audit outcomes for 2020/21. The two entities claimed that they will rectify the issues and that they should regain their clean audit outcomes. The Committee cannot be entirely assured of this considering the poor performance across the Group.

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Table 7: Material findings of non-compliance

Entity	2019						2020					
	Annual financial	Asset management	Consequence	Expenditure management	Procurement and contract management	Revenue management	Annual financial	Asset management	Consequence	Expenditure management	Procurement and contract management	Revenue management
City Power	F	F	F	F	F	F	F	F	F	F	F	F
JCT										F		
Joburg Market	F		F	F	F		F		F	F		
JCPZ			F	F			F			F		
JDA							F					
JPC	F		F		F				F	F		
JRA	F			F	F		F		F	F		
JOSHCO	F		F	F	F	F	F		F			
Johannesburg Water	F			F	F	F			F	F	F	F
Metrobus				F	F		F		F			
MTC	F		F	F	F		F		F		F	
Pikitup	F			F			F			F	F	

F = material finding of non-compliance

Source: Entity audit reports

(d) Root causes of audit findings

For the City and for each entity, officials are tasked with ensuring the completeness of information submitted for auditing and ensuring compliance with legislation. To create an enabling environment for officials, the accounting officer must exercise adequate oversight over his or her senior managers and senior managers must ensure that controls are in place and implemented. The result of this should be that legislation is strictly adhered to, procurement is closely monitored, and the findings of the AGSA and internal audit are resolved timeously. Risks are identified and mitigated, and consequence management is implemented when officials negligently or deliberately act improperly. Unfortunately, in the City, this is not the case.

There are significant control deficiencies across the Group, with a deterioration in leadership, as per the assessment of the AGSA, for Joburg Market, JCPZ, JDA and JPC. In terms of financial and performance

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management, there was a deterioration for Joburg Market, JCPZ, JDA and Johannesburg Water. There was instability across many entities this year, but it was particularly prominent in the three entities under economic development: Joburg Market, JPC and MTC. It is clear that instability is detrimental to the controls in the municipal entities. Where new managing directors or CEOs were appointed, such as at JOSHCO and Pikitup, there was an improvement in the leadership controls.

Table 8: AGSA determination of deficiencies in internal controls

ENTITY	2019			2020		
	Leadership	Financial and performance management	Governance	Leadership	Financial and performance management	Governance
City Power	C	C	G	C	C	G
JCT	G	G	G	G	G	G
Joburg Market	G	G	G	C	C	C
JCPZ	G	G	G	C	C	G
JDA	G	G	G	C	C	G
JPC	G	C	C	C	C	C
JRA	C	C	C	C	G	G
JOSHCO	C	C	G	G	C	G
Johannesburg Water	G	G	C	G	C	G
Metrobus	C	C	C	C	C	C
MTC	C	C	C	C	C	C
Pikitup	I	C	G	C	C	G

G = Good
C = Area of concern
I = Intervention required

(e) Key audit matters and emphasis of matters

The audit report includes sections on key audit matters (KAMs) and emphasis of matters. While neither section affects the audit outcome, each is important to understand the state of the City. KAMs increase transparency around the audit process and highlight the areas that are at a significant risk of material misstatement or areas of significant judgement by the auditor. The first KAM concerns the failure by the City to provide requested information to the AGSA within the agreed timeframe. The inability to provide the AGSA with information is illustrative of the poor state

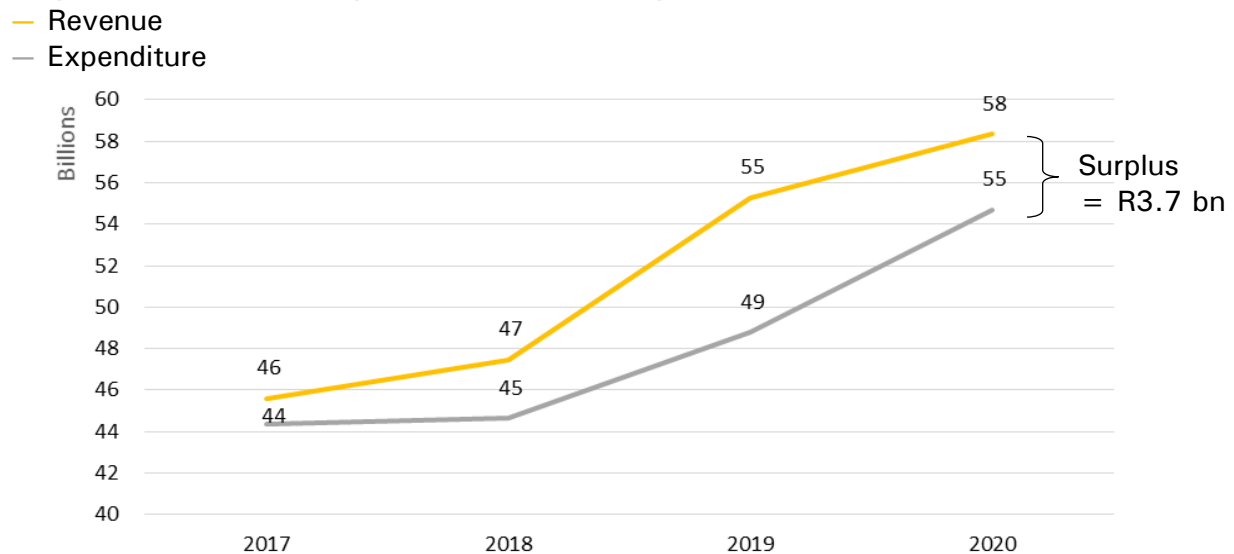
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of document management in the City and inadequate preparation for the audit. Revenue recognition was also a KAM, as there is significant judgement used to accurately determine revenue due to the complex nature of estimating meter readings. While the estimates of management were reasonable, there were material amendments made to the financial statements as the manual and IT controls designed 'were not adequately implemented'. Both KAMs were in the previous year's audit report.

Emphasis of matters, in contrast, are the aspects of the financial statements that, in the view of the AGSA, are the most important to understand the financial statements. There are four repeat emphasis of matters: restatement of corresponding figures, material uncertainties, material impairment of debtors and material electricity losses. The restatement of corresponding figures alerts the reader that the 2019 figures have been restated. The material uncertainties is due to the large number of court cases faced by the City which *may* result in losses. The high number of lawsuits is demonstrative of poor supply-chain management and contract management. Material impairment of debtors and material electricity losses continue to jeopardise the financial wellbeing of the City. The two emphasis of matters is addressed below, in the section of financial performance.

(2) Financial performance

The City had a surplus: its revenue exceeded its expenditure by R3.7 billion. This is lower than the surplus of R6.9 billion in the previous year. The surplus shrank as revenue increased by only six percent, while expenditure increased by 12 percent.

Graph 2: Revenue and expenditure for the Group (R' billions)

Source: Audited Group AFS

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The City continues to have high levels of debt and a poor liquidity ratio, demonstrating that the state of the finance of the City remains relatively precarious.

(a) Revenue

Revenue is derived from three main sources:

- Revenue from rates, which is charged as a percentage of the valuation of the properties;
- Revenue from the rendering of services, which primarily consists of the sale of electricity, water, sewerage and refuse removal; and
- Revenue from government grants, which includes operating grants such as the Equitable Share Levy and Fuel Tax as well as capital grants such as the Urban Settlements Development Grant.

The collection of revenue is the primary source of funding that the City uses to provide services. While revenue from the sale of electricity, water, refuse removal and sewerage and sanitation increased, only the increase in revenue from sewerage and sanitation exceeded the increase in the tariff. As D Mughogho of the South African Cities Network during the roundtable on the 2019/20 annual report, the City is increasingly unable to cross-subsidise its expenditure through electricity and water, especially due to the increase in the cost of bulk purchases from Eskom and Rand Water. Revenue from property rates increased by only one percent, with officials claiming that this is due to the high number of objections to property valuations.

Table 9: Change in revenue from 2018/19 to 2019/20

SOURCE OF REVENUE	2020	INCREASE	INCREASE %	TARIFF INCREASE %
Sale of electricity	R 15.52 bn	R 1.59 bn	11%	13.09%
Sewerage and sanitation	R 4.96 bn	R 0.80 bn	19%	9..90%
Government grants	R 11.18 bn	R 0.43 bn	4%	
Sale of water	R 7.19 bn	R 0.20 bn	3%	9.90%
Property rates	R 12.55 bn	R 0.18 bn	1%	5.50%
Sale of refuse removal	R 1.79 bn	R 0.14 bn	8%	7%
Other	R 5.17 bn	- R 0.06 bn		
Total increase		R 3.07 bn	6 %	

(b) Expenditure

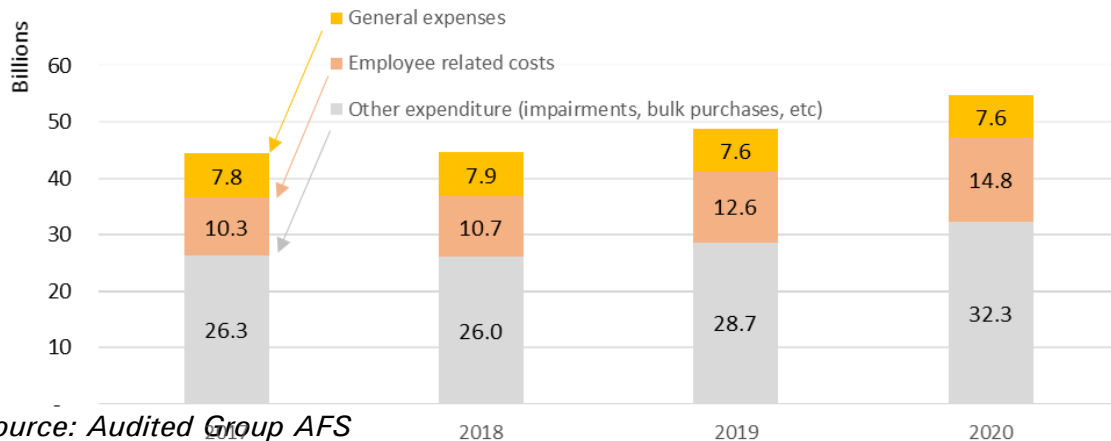
The increase in expenditure, at 12 percent, was largely because of employee-related costs and debt impairment expenses. Employee-related costs increased due to the salary increase agreed to through the collective

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bargaining agreement and, more significantly, the large increase in the number of employees. The City has insourced security guards, cleaners, recruited additional Johannesburg Metro Police Department officers and Pikitup has increased its staff contingent significantly. There are questions regarding whether the insourcing of employees is sustainable, considering that increase the cost of providing services to residents. While debt impairment expenses have long been at unacceptable levels, Covid-19 resulted in a dramatic increase of 50 percent in 2019/20.

Table 10: Change in expenditure from 2018/19 to 2019/20

SOURCE OF EXPENDITURE	2020	INCREASE	INCREASE %
Debt impairment	R6.88 bn	R2.30 bn	50%
Employee-related costs	R14.79 bn	R2.28 bn	17%
Bulk purchases	R17.67 bn	R1.14 bn	7%
General expenses	R7.62 bn	R0.06 bn	0%
Other	R7.74 bn	R0.19 bn	3%
Total increase		R5.90 bn	12 %

Graph 3: Expenditure for the Group (R' billions)

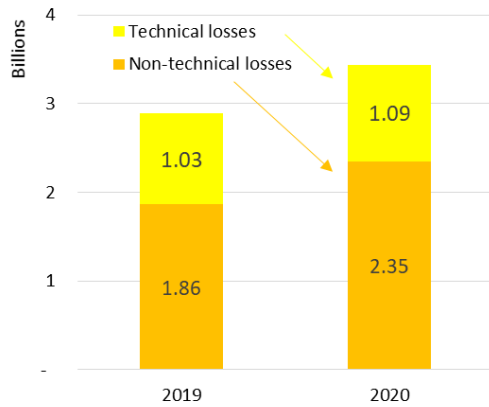
Source: Audited Group AFS

(c) Electricity losses and debt impairment

The allowance for impairment now stands at 80 percent of the consumer debtor's book. That means for every R1 owed to the City, the City expects only 20 cents will be collected. Electricity losses increased substantially to R3.43 billion, largely caused by the R2.35 billion increase non-technical electricity losses, which includes billing errors, bypassing and tempering of meters, and illegal connections. The continued high allowance for impairment and electricity losses brings into doubt the viability of the City going forward. If the City does not arrest this trend, there will be a significant threat to the continued existence of the City in its current form.

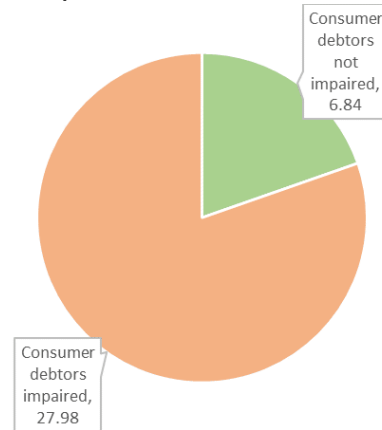
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Graph 4: Electricity losses (R' billions)



Source: Audited Group AFS

Graph 5: Consumer debtors impaired (R' billions)

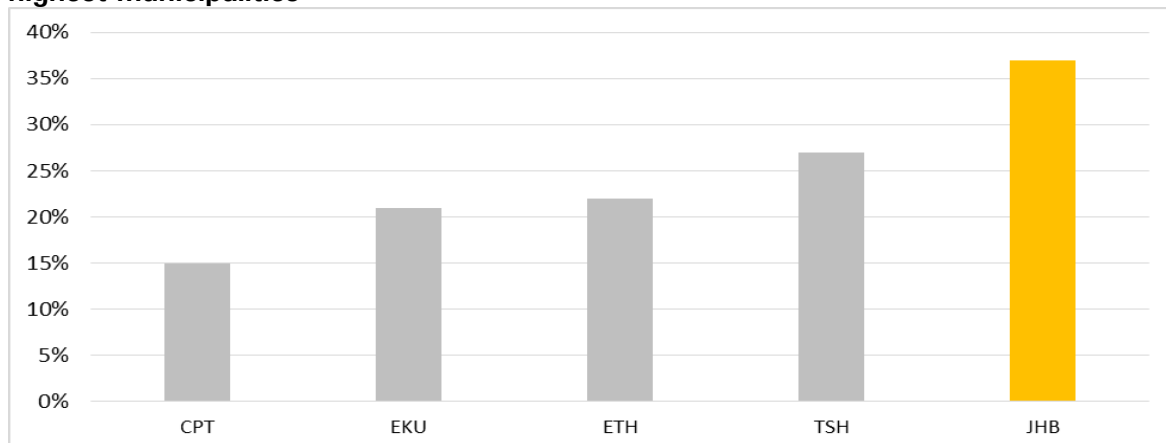


Source: Audited Group AFS

(d) Financial sustainability

While the decrease in the net surplus has yet to impact the cash resources of the City, there are a still number of concerns, such as the current ratio of 1.03 below the National Treasury norm of 1.5 to 2.1. The current ratio includes consumer debtors, which makes up the largest component of current assets and which the City may have difficulty converting into cash. The cash-to-cost coverage ratio amounts to only two months. To protect the finances of the City, and as a result of national lockdown, the City’s capital expenditure decreased substantially, from R7.3 billion to R5.8 billion in terms of cash flows from investing activities. According to the Municipal Borrowing Bulletin, the City has a materially higher debt-to-revenue ratio than other metropolitan municipalities.

Graph 6: Debt-to-revenue ratio for metropolitan municipalities at 31 March 2020 – five highest municipalities



Source: Municipal Borrowing Bulletin, Issue 17 (June 2020)

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(3) Service delivery performance

In the view of the Committee, there is a clear link between audit outcomes, financial management and service delivery. A clean audit outcome and sound financial management would be indicative of a well-functioning municipality, creating an enabling environment to effectively and efficiently provide services. Yet, a clean audit outcome and sound financial management would not compensate for poor service delivery. The question for residents, then, is whether the City, despite its challenges, delivered services as promised. Residents care if there is running water, a steady supply of electricity, regular and reliable refuse removal, pot-hole free roads, by-law enforcement, if services are provided to those in need and if the variety of other services provided are accessible and of an acceptable standard.

There is an enormous quantity of information included in the annual report and the annual reports of the twelve entities. A vast majority of the information included is not subject to verification and not audited, making an assessment of validity and reliability is difficult for this Committee. The only performance information subject to audit, of which only some of it is audited, is performance against predetermined objectives. The City achieved 73 percent of its predetermined objectives—out of 48 targets approved in the IDP, 35 were achieved. Across all entities, the average performance was 64 percent, compared to 62 percent in 2018/19.

Table 11: Percentage of targets achieved as per service delivery performance plans

ENTITY	2018	2019	2020
City of Johannesburg	56%	56%	73%
City Power	68%	74%	67%
JCPZ	80%	96%	91%
JDA	42%	52%	47%
JPC	93%	86%	50%
Joburg Market	53%	60%	71%
Joburg Theatre	90%	94%	91%
JOSHCO	52%	30%	24%
JRA	76%	57%	89%
Johannesburg Water	26%	48%	70%
Metrobus	67%	70%	71%
MTC	37%	42%	82%
Pikitup	44%	42%	18%

Source: 2017/18 and 2018/19 annual reports of the City of Johannesburg and its entities

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(a) Performance of departments and entities

The Committee relies on the oversight portfolio of Council for oversight over performance of departments and entities. These committees perform extensive in-year oversight through analyses of quarterly departmental and entity performance reports, by requesting various reports and undertaking oversight visits to projects and regions across the City. This knowledge and expertise is leveraged during the consideration of the annual report, where each committee authors an oversight report on its respective portfolio. Due to the timing of the annual report process and the failure of some committees to quorate, inputs were not received from all committees. The following is a summary of key findings of the reports received:

For **basic service delivery**, poor performance continued to plague refuse removal. The work of Pikitup was severely hampered, again, by the lack of a reliable fleet of vehicles. While diversion of waste from landfills improved to 17 percent of total waste, more needs to be done to avert the risk of the City running out of available landfill space, as already 'one of the four landfill sites was expected to reach the end of its lifespan by the end of the current financial year'. Pikitup only collected 84 percent of general business waste within seven days and only issued 18 percent of bins within seven days of application. Johannesburg Water provided 9 959 households with newly provisioned access to LoS1 basic water services in informal settlements against a target of 2 103. LoS1 sanitation services were provided to 2 735 informal settlement households against a target of 1 660. City Power electrified 3 688 units in informal settlements against an annual target of 2 000 units, while the entity installed 2 697 public lights. There was also considerable concern expressed with the increase in power interruptions.

The provision of services related to **health** was particularly important with the emergence of Covid-19. Encouragingly, 14 clinics are providing extended service hours and the City continued to test and provide treatment for TB and HIV. The number of households receiving the expanded social package increase to 110 000 against a target of 50 000. There remains concerns with the programme, including ensuring that all qualifying households are able to apply and that all households that are on the programme are appropriately vetted. In terms of **public safety**, the increase in the number of foot patrols and stop and search resulted in an 11 percent increase in the number of arrests and an increase in the recovery of stolen vehicles. The CCTV camera expansion that was planned is not reported on, jeopardising the leveraging of technology to improve public safety. The average number of metropolitan police officers on duty appears inaccurate, as the figure reported is identical to the previous year's figures.

The contribution of the municipality to **economic development** is varied. The target for SMMEs supported was met, while it is unclear how many employment opportunities were created through the Expanded Public Work

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Programme (EPWP). Performance for tourism, a key driver of economic growth, was reported as achieved with the target reduced from 4.6 million to 2 million, despite Covid-19 only affecting tourism for three months of the financial year. In terms of work concerning **planning**, the Newtown Urban Development Framework, which was formulated in 2017/18, was finally approved. The Inner City Regeneration Plan has only seen the completion of a literature review and stakeholder engagement. Due to Covid-19, the processing of business plans was below the target while rezoning applications and township applications processed within five months exceeded the targets.

(b) Concerns around reported performance

There are discrepancies between the performance of the City as it is reported and reality on the ground. During the roundtable, it was expressed that the City is failing to deliver basic services. Of great value is the combined submission received from PlanAct, 1-to-1 Agency of Engagement and International Budget Partnership South Africa. The Asivikelane campaign run by the organisations uses social audits to verify claims of service delivery by the City. The campaign found that between 15 and 30 percent of respondents did not have access to water in September and October 2020, with 'insufficient taps, low water pressure and inadequate maintenance which leaves taps leaking and broken for extended periods of time'. The water tanks provided in response to Covid-19 were either insufficient in number or irregularly filled. The campaign also found that over the past eight months, since September 2020, the draining and cleaning of toilets was inadequate, with 'almost a third of residents said their toilets were not drained or cleaned in the previous seven days'. This challenges the claim by Johannesburg Water that toilets were cleaned twice-weekly and, since Covid-19, cleaned three times a week. There have been similar challenges with waste removal, with a third of residents reporting that waste was not removed in the previous seven days.

While the information of the Asivikelane programme does not relate to the 2019/20 reporting period, the Committee views it as likely accurate and indicative that reported performance information is of a questionable reliability and credibility. For members of the Municipal Public Accounts Committee, the problems with the annual report and the approach to reporting of the City is palpable. The disconnect between reported performance and what councillors witness and experience on a daily basis can be vast. This concerns the delivery of basic services—water, electricity and refuse removal—to delays with the construction of much needed infrastructure and public facilities. Councillors are acutely aware of problems with billing, where meters are not properly monitored and services provided

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to business that are in substantial arrears. The Committee urges that section 79 oversight portfolio committees improve their work to ensure that reported information is accurate. The Committee strongly believes in the use of active citizenry to verify reported performance and increase accountability.

6 CONCERNS**(1) Public accountability and the annual report**

A purpose of an annual report is, as per section 121(2)(c) of the MFMA, is 'to promote accountability to the local community for the decisions made throughout the year by the municipality or municipal entity'. King IV goes further, with Principle 5 of the municipality sector supplement stating that 'the council should ensure that reports issued by the municipality enable stakeholders to make informed assessments of the municipality's performance'. For municipalities, as with all spheres of government, the primary stakeholder is the public. The annual report, therefore, must enable the citizens of Johannesburg to hold the City accountable. The Committee questions, with the guidance of N Balton of the Ahmed Kathrada Foundation and N Soopal of the South African Institute of Chartered Accountants (SAICA) from the roundtable, whether the annual report, in its current form, is enabling this.

Although the City of Johannesburg publishes thirteen annual reports, which includes the twelve annual reports of the municipal entities, the main report, as uploaded to the website of the City, is the integrated annual report. This report reflects the performance of the Group as a whole, including all entities. The report, as it stands, is 586 pages long, excluding the annual financial statements. It should be noted that, of all the information included in the annual report, only the annual financial statements and the Institutional Service Delivery Budget Implementation Plan 2019/20 are audited by the AGSA.

The annual report has many long paragraphs from everything on the number of residents in the City, legislative requirements related to the annual report, political leadership, the departments and entities, and many other facets of the City. Pages 61 to 77 consist solely of tables of public meetings per ward. The Group Information and Communication Technology (GICT) subsection, which starts on page 82, for some reason includes the priorities of the former Executive Mayor and provides information on the number of laptops purchased and the refurbishment of a data centre that did not take place. The subsection is 29 pages long, ending on page 111. The usefulness of all this information to the public is questionable, beyond the provision of WiFi, the upgrading of SAP and a number of other indicators. There are also numerous errors in the annual report, such as the labelling the 2018/19 audit outcomes as that of 2019/20 on page 50, referring to membership of the audit and advisory committees in the 2018/19 financial year on Page 52.

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The explicit reference to GICT does not mean that *only* the GICT subsection is inappropriate; it is an example to demonstrate that the annual report is not presented in an appropriate, considered, integrated or accessible manner. An integrated report should 'communicate a clear, concise, integrated story explaining how all of their resources create value'⁷. The annual report does not do this, and has not done this. The concern was raised in the previous oversight report, on the basis of the presentation by Z Kimmie of the Foundation for Human Rights in the roundtable on the 2018/19 annual report. During this year's roundtable, Balton of the Ahmed Kathrada Foundation made specific reference on the international standards of integrated reporting. Soopal mentioned that SAICA is working to adapt integrated reporting from the private sector to the public sector and could assist the City with its integrated reporting. Soopal also referred the Committee to citizens' report of the AGSA on the MFMA audit, which will improve accessibility and accountability.

The Committee is of the view that the structure and formatting of the annual report does not fulfill the intended role of the annual report. That is, it does not assist residents to hold the City accountable. There may be multiple reasons for this failing. The first is the legislative requirements, in terms of the information that must be included in the annual report. This would be a minor reason, as much of the information included in the annual report is not required by legislation. The second reason is likely the way the annual report is compiled. It appears that each entity is provided with a section to report on their selected performance. The lack of integrated or coordinated approach to compiling the report may lead to the inclusion of a lot of information that is of limited use to the general public. As stated by Soopal, an integrated annual report starts with integrated thinking across the City. There is considerable room for improvement both in the approach of the Executive and in the publication of the annual report.

Recommendation:

That Group Policy, Strategy Coordination and Relations (GSPCR) benchmarks the 2019/20 annual report on the International Integrated Report Framework of the International Integrated Reporting Council and any other relevant international or local integrated reporting frameworks. The review must result in a comprehensive report recommending changes to the annual report. The review must be completed within 30 days of the adoption of this oversight report and the resulting report must be submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.

⁷ International Federation of Accountants, Integrated Reporting Resources, <https://www.ifac.org/knowledge-gateway/integrated-reporting-pao-network>

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Recommendation:

That Group Policy, Strategy Coordination and Relations (GSPCR) engages with the South African Institute of Chartered Accountants (SAICA) on improving integrated reporting for the annual report. The engagement must result in a report detailing all communication and any outcomes. The engagement should seek to establish a long-term working relationship with SAICA. The engagement must occur within 30 days of the adoption of this oversight report and the resulting report must be submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.

Recommendation:

That Group Policy, Strategy Coordination and Relations (GSPCR) develops a citizens' version of the annual report for the financial year 2020/21, providing an accessible, clear, concise, integrated evaluation of the performance of the City to enable the citizens of Johannesburg to hold the City accountable. The citizens' report of the Auditor-General of South Africa for the Municipal Financial Management Act Reporting should be used as a benchmark. A framework for the development of the citizen's report should be completed within 30 days of the adoption of this oversight report and be submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021. The citizens' version of the annual report should accompany the 2020/21 annual report of the City on tabling in Council.

Recommendation:

That all municipal entities develop a citizens' version of the annual report of the entity for the financial year 2020/21, providing an accessible, clear, concise, integrated evaluation of the performance of the entity to enable the citizens of Johannesburg to hold the entity accountable. The citizens' version of the annual report should be informed by the framework as developed by Group Policy, Strategy Coordination and Relations (GSPCR). An implementation plan for the citizens' version of the annual report should be completed within 60 days of the adoption of this oversight report and be submitted to the sitting of the Municipal Public Accounts Committee in September 2021. The citizens' version of the annual report should accompany the 2020/21 annual report of the entity on tabling in Council.

Recommendation:

That Office of the Speaker develop a plan to distribute the citizens' version of the annual report widely to improve public participation in the oversight process. The plan must include the distribution of both printed and electronic copies of the citizens' version of the annual report. The plan must be developed within 60 days of the adoption of the of this oversight report and be submitted to the sitting of the Municipal Public Accounts Committee in September 2021.

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(2) BOARDS OF MUNICIPAL ENTITIES

The 2019/20 annual report states that municipal entities are 'implementation arms, creating focused, specialised and non-bureaucratic processes'⁸. It goes on to claim that '[t]he focus on good corporate governance and activism of the shareholder has seen sustained and improved performance in the audit outcomes at a number of Municipal Entities...' ⁹. The Committee views the above statements as inaccurate, as it may be the case that municipal entities, in some instances, have become obstacles to the implementation of City strategies as there has been a marked deterioration in the audit outcomes and governance in the entities.

As stated earlier in this report, the City has twelve municipal entities, with a further dormant entity, 'the Joburg Tourism Company [to] be resuscitated'¹⁰. The entities are independent bodies wholly owned by the City. Entities are created by a sphere of government with the intention of harnessing private sector efficiencies while maintaining public accountability. The alternatives to this would be private sector entities providing services without the public accountability or, purportedly, the City providing the services directly without the private sector efficiencies.

As the sole shareholder of all twelve municipal entities, the City appoints a board of directors, with the board of directors 'responsible and fully accountable to the shareholder for achieving its strategic objectives'¹¹. Section 76(3) of the Companies Act requires that directors must act in good faith; in the best interests of the company; and with the degree of care, skill and diligence that may reasonably be expected.

The Committee is of the view that, generally, there is a deterioration in governance across municipal entities. This has not only been witnessed by the audit results but also, in an even more pronounced manner, by inadequate service delivery and supply chain management abuses related to Covid-19. It appears that in some entities, governance mechanisms are either insufficient, inadequate or regularly bypassed.

During the annual report process, the Committee asked some boards what they would do to prevent repeat audit outcomes. Unfortunately, many responses were from management and not the board members themselves. Many of the reports were unsatisfactory. Through a rigorous interrogation of the entities and the representatives of the board (that were eventually called to account by the Committee), some frightening information came to light. For example, City Power, as of 2019, had no documented standard operating procedures, even for supply-

⁸ City of Johannesburg 2019/20 Annual Report, 57.

⁹ Ibid, 70.

¹⁰ Ibid.

¹¹ Department of Public Enterprises, 2021:21.

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chain management, which could explain the litany of non-compliance within the entity. For JRA, the supply-chain management policy had not been updated since 2013, despite the changing environment, the publication of new MFMA circulars and the promulgation of new preferential procurement regulations.

Although in-depth analysis may be required to determine the shortcomings of the boards, there may be four explanations. The first is the instability at a board level. Board members are appointed on one-year terms, which are renewable up to four times. This allows for wide discretion as to whether board members will return. While this provides flexibility to remove poorly performing directors, it undermines the independence of the entities and, as instability always does, results in poor governance across the entire entity. This is not to negate the responsibility of management and all officials to deliver services, ensure sound financial management and comply with legislation (which is seriously lacking across some entities). Rather, the Committee seeks to emphasise that instability at a board level can undermine the work of management and hard-working officials.

The second explanation is the lack of formal minimum requirements set by Council that individuals must meet to be appointed to be a member of a board. The Committee has not seen or performed a formal assessment on the qualifications of any board members, and therefore the concern may not be necessarily empirically correct. But the poor performance of so many entities when responding to questions posed by the Committee (including questions previously asked around compliance with MFMA Circular 104 related to Covid-19 procurement) indicates that there may not be a set of criteria evenly applied across the board appointments. It is important to establish a rigorous methodology for board assessments and minimum qualification or experience requirements for board members.

The Department of Public Enterprises, on 25 March 2021, published the second version of State-Owned Company Board Evaluation Framework. The Framework should be used as the basis to establish a monitoring cycle of the performance of boards in the City. The Department of Public Enterprises also published, in 2009, the Handbook for the Appointment of Persons to Boards of State and State Controlled Institutions. Chapter Five of the Handbook addresses the appointment process, which requires that tailored role description be developed for board members. The Committee does not know whether there exists a formal tailored role description for board members of entities, stipulating experience and qualifications required to be a board member of an entity.

The third explanation is inadequate monitoring of boards and entities, and inadequate support provided by the Shareholder Services Directorate of Group Governance. The Directorate is meant to provide strategic and operational support to boards. The responses by Group Governance to questions by the Committee on the training provided to board members (Question C/GG.2), technical support offered to board members (Question C/GG.3) and what monitoring was performed on compliance with the shareholders compacts (Question C/GG.5) indicated that

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an intervention is required to improve the Group Governance and its Directorate. Separately, in response to a question by the Committee (Question C/CM.24), it was revealed that there is no department in the City responsible for monitoring policies, procedures, controls and remedial action across the Group.

The fourth explanation is that the shareholder compacts may not be adequate. For example, the Committee asked Group Governance to provide extracts from each shareholder compact that details any conditions or clauses that relate to supply chain management (Question C/GG.5). In response, a clause requiring that the preparation of the annual report be compliant with the MFMA was extracted.

Lastly, the Committee has been deeply concerned by the lack of recoveries of UIFW expenditure by boards. Section 32(2) of the MFMA requires that UIFW expenditure be recovered or, if not recoverable, written off. Boards are responsible for the determining whether a recovery should take place in terms regulation 75 of the Municipal Budget and Reporting Regulations. Over the past five years, out of all 12 entities, only JCT has recovered UIFW expenditure. In response to a question on whether each board understands that it must recover UIFW expenditure (Question C/GG.6), the Committee received little assurance that there will be recoveries going forward. This failure needs to be urgently addressed.

Recommendation:

That Group Governance develops a new evaluation framework for boards of directors in the City of Johannesburg, in line with the State-Owned Company Board Evaluation Framework published by the Department of Public Enterprises. The development must be completed within 30 days of the adoption of this oversight report and the framework must be submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.

Recommendation:

That Group Governance engages with the Department of Public Enterprises in order to implement a new, or align an existing, evaluation framework for board of directors in the City of Johannesburg. The engagement must result in a report with recommendations. The engagement must occur within 30 days of the adoption of this oversight report and the resulting report must be submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021

Recommendation:

That Group Governance reviews, or develops new, role descriptions for each board of each municipal entity, ensuring an appropriate minimum mix of qualifications and experience across every board. A framework for implementation of the new role descriptions must be completed within 30 days of the adoption of this oversight report and be submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.

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Recommendation:

That Group Governance engages with Corruption Watch in order to develop a methodology to improve transparency, public participation and to establish a merit-based criteria to improve the appointment of board members of municipal entities. The engagement must result in a report with recommendations. The engagement must occur within 30 days of the adoption of this oversight report and the resulting report must be submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021

Recommendation:

That Group Governance reviews all shareholder compacts to ensure that the compacts make explicit reference to the responsibility of each entity to comply with the provisions of the MFMA, to comply with supply-chain management legislation, to keep all policies up to date and to have all standard operating procedures documented. The review must result in a report with recommendations. The engagement must occur within 30 days of the adoption of this oversight report and the resulting report must be submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021

Recommendation:

That Group Governance, Group Finance, Group Risk and Assurances Services and Group Strategy, Policy Coordination and Relations jointly establish a policy and standard operating procedures forum to ensure that the policies of entities are compliant with legislation and are up to date, and to ensure that all entities have documented standard operating procedures. A plan to establish the forum must be developed within 30 days of the adoption of this oversight report and the resulting report must be submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021

Recommendation:

That Group Governance revises its induction material for new board members of all municipal entities with specific reference to section 32(2) of the MFMA, regulation 75 of the Municipal Budget and Reporting Regulations, MFMA Circular 68 and the terms of reference for the investigation of the recoverability of UIFW expenditure in the City of Johannesburg. The material must be submitted to National Treasury for comment on completion. The process must be completed within 30 days of the adoption of this oversight report and be submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021. The comments by National Treasury on the material must be submitted to the first sitting of the Municipal Public Accounts Committee after the comments are received.

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Recommendation:

That Group Governance organises annual training of board members on document management and record keeping by the Gauteng Provincial Archives. A plan to introduce the training must be developed within 30 days of the adoption of this oversight report and the resulting report must be submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021

Recommendation:

That Group Governance provides all board members of all municipal entities with electronic or printed copies of section 32(1) and 32(2) of the MFMA, regulation 75 of the Municipal Budget and Reporting Regulations, MFMA Circular 68 and the terms of reference for the investigation of the recoverability of UIFW expenditure in the City of Johannesburg. For the aforementioned legislation, the specific sections must be extracted from the legislation and provided as a document in itself. The documents must be provided to all board members within 30 days of the adoption of this oversight report and on induction of all new board members going forward. A report attesting to the implementation of this resolution must be submitted to the sitting of the Municipal Public Accounts Committee in August 2021.

Recommendation:

That the Office of the City Manager undertakes an urgent intervention in Group Governance in relation to its work with municipal entities. The intervention must address the poor performance of Group Governance in terms of its processes to nominate board members, to monitor the performance of municipal entities, to monitor compliance with legislation by municipal entities and in terms of the training and technical supports it offers to board members of municipal entities. The intervention must take place within 30 days of the adoption of this oversight report. A report attesting to the implementation of this resolution must be submitted to the sitting of the Municipal Public Accounts Committee in August 2021.

Recommendation:

That Group Governance ensure that all boards of municipal entities that sat on more than six occasions during 2019/20 provide reasons for why each meeting took place. The boards must provide the minutes of all meetings. The boards must also provide a list of ancillary costs, such a catering and transport. The reasons must be provided within 30 days of the adoption of this oversight report and be submitted to the sitting of the Municipal Public Accounts Committee in August 2021.

(3) Cost effectiveness and value-for-money

'South Africa does not get good value for money in public spending. Waste and inefficiency reduce developmental impact, and become a glaring problem in the context of limited state resources.'

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- National Treasury, Budget Review 2021

'Not much to go around, yet not the right hands at the till'.

- Auditor-General of South Africa, theme of the Audit Outcomes for Local Government for the Period 2018-19 Report

'The value-for-money that municipalities derive from procurement is often questionable in relation to market related costs.'

- Independent Committee of Inquiry into the State of Municipalities in Gauteng, 2021

Section 217(1) of the Constitution of South Africa requires that procurement by any organ of state be 'in accordance with a system which is fair, equitable, transparent, competitive and cost-effective'. The Committee believes that the cost-effective requirement has not adequately implemented in the City as a guiding principle in procurement and an effort to live up to the spirit of the Constitution.

If procurement is not cost-effective, and if the City does not receive value-for-money, there will be less funds available to provide services to residents. Cost effectiveness should be seen in two ways: First, what is the overall efficiency in expenditure by the City? Second, are the prices paid by the City to service providers for goods and services reasonable?

In the roundtable, Balton of the Ahmed Kathrada Foundation stated that the annual report does not include any unit costs for each service delivered. For example, a unit cost can be the cost incurred for the JRA to construct a kilometre of road, for the Department of Housing to construct a housing unit or for City Power to provide a new electricity connection in an informal settlement. This concern was also raised by D Mughogho of the South African Cities Network (SACN). Mughogho stated that, in many municipalities, there is a municipal expenditure inefficiency gap, where municipal expenditure is higher than reasonable levels required to provide services. The annual report does not provide this information, preventing the Committee from determining whether the City is efficiently spending its appropriated budget.

The second aspect of cost effectiveness is whether goods and services are procured at market-related prices. Procurement in the City covers a wide range of activities, including turnkey construction projects, debt collections services, software license, vehicles, stationery and computers. The Committee has confronted the issue of whether the City procures are market related prices through its work on determining the recoverability of UIFW expenditure. The Committee engaged with National Treasury on the matter, and was informed that recoverability is determined by whether value-for-money was received. In

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response to the guidance, the Committee has demanded more information from departments and entities. This revealed that many officials view value-for-money as determined by whether the goods or services were received, regardless of whether the goods or services could have been procured at a lower cost.

To rectify the above shortcomings, three things need to be corrected. First, there should be the introduction of value-for-money audits in City. Second, there needs to be benchmarking of the cost to provide services across the county. Third, there should be benchmarking on how to include information related to value-for-money in the annual report. The cumulative effect of the implementation of the above measures should improve accountable and compliance in terms of cost effectiveness.

Recommendation:

That the Group Internal Audit Services, Group Risk Assurance Services and the internal audit units of each entity develops an implementation plan for the introduction of value-for-money audits. The plan must include the methodology to be used in the audits, the resources that will be acquired and required to implement the audits and a timeframe for implementation. The implementation plans must be completed within 30 days of the adoption of this oversight report and the resulting report must be submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.

Recommendation:

That Group Internal Audit Services and Group Risk Assurance Services engages with the Ahmed Kathrada Foundation on the implementation of value-for-money audits. The engagement must result in a report with recommendations. The engagement must occur within 30 days of the adoption of this oversight report and the resulting report must be submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.

Recommendation:

That Group Strategy, Policy Coordination and Relations undertakes a benchmarking exercise to determine best practice for reporting on the cost of providing services in the annual report. The benchmarking exercise should begin within 30 days of the adoption of this oversight report and be completed within 90 days of the adoption of this oversight report. The benchmarking exercise should result in a report with recommendations. The final report must be submitted to the Municipal Public Accounts Committee.

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Recommendation:

That Group Finance undertakes a benchmarking exercise to determine the average cost of providing essential services in South Africa. The Ahmed Kathrada Foundation and the South African Cities Network should be consulted during this exercise. The benchmarking exercise should begin within 30 days of the adoption of this oversight report and be completed within 90 days of the adoption of this oversight report. The benchmarking exercise should result in a report with recommendations. The final report must be submitted to the Municipal Public Accounts Committee.

Recommendation:

That Group Internal Audit Services, Group Risk and Assurance Services and Group Forensic and Investigation Services ensure that all investigations undertaken make an assessment on the recovery of funds for the City, including, where services were received, and a determination of whether value-for-money was received. The process must occur within 30 days of the adoption of this oversight report and a report attesting to the implementation of this recommendation must be submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.

Recommendation:

That all the City and all municipal entities include the operating and capital expenditure, as well as the average cost for delivering a service, for all applicable key performance indicators in organisational performance scorecards in the 2020/21 annual report. Group Strategy, Policy Coordination and Relations must coordinate the process. The process to introduce the additional reporting information must begin within 30 days of the adoption of this oversight report and a report attesting to the implementation of this recommendation must be submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.

(4) Procurement and preventative controls

'If properly designed and implemented, such [internal] controls will detect most material irregularities that could result in a financial loss. These controls are proactive and are an eloquent expression of the key guards being at their posts at all times. This is relatively cheaper than relying on investigations that will be triggered after money has changed hands in ways that are not credible or transparent. Preventative controls promote transparency, strengthen accountability, and are predictable with known expected outcomes. In essence, preventative controls are an invincible fortress against all possible abuses of the public purse'.

- Kimi Makwetu, Auditor-General of South Africa, Auditor-General's Foreword, Preventative Control Guides, 2020:3.

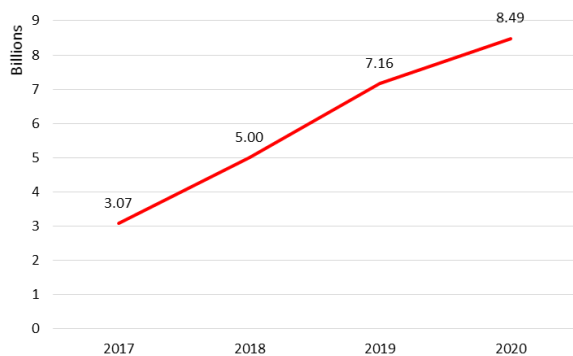
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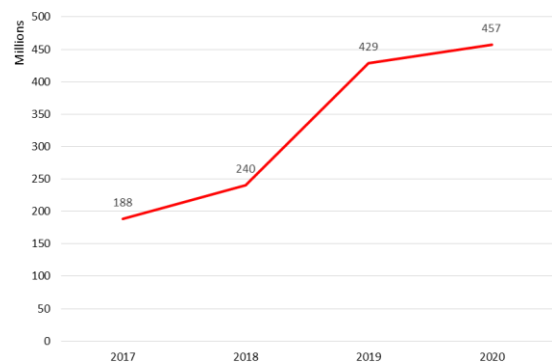
The City has seen sky-rocketing unauthorised, irregular and fruitless and wasteful expenditure. While unauthorised expenditure is unlawful and concerning, in the City it must be addressed at a political level, in terms of a commitment to either increase specific budget votes or to cut expenditure. The deeper concern is the failure to prevent irregular expenditure and fruitless and wasteful expenditure.

Graph 7: Irregular expenditure for the Group – closing balance (R' billions)



Source: Group audited AFS

Graph 8: Fruitless and wasteful expenditure for the Group – closing balance (R' millions)



Source: Group audited AFS

In October 2020, the AGSA published its six part guide on preventative controls. The guides are to 'enable oversight structures to assess whether the most important preventive controls are implemented'. The guides provide a number of questions for oversight structures to ask management. The responses to the questions may reveal if there are weaknesses related to internal controls that need remedial action. The Committee asked a number of questions from the guides, with a particular focus on preventative controls related to the procurement of goods and services. The responses to the questions demonstrated weaknesses that need to be addressed and some of the causes of the irregular and fruitless and wasteful expenditure.

In terms of supply chain management, the Committee asked what supply chain management training was offered by Group Strategic Supply Chain Management (GSSCM) to officials (Question C/GF.12), what technical support was offered to officials across the Group if they are unsure or came across complex issues related to procurement (C/GF.16), what are the required competencies and skills of non-SCM officials involved in SCM processes (Question C/GF.11), whether the SCM policy addresses the risks of the deviations and offer mitigations (Question C/GF.13), and whether procurement plans were followed (questions C/GF.10, E/CP.13, E/RA.6 and E/JW.8).

There are a number of measures that GSSCM must take to improved SCM practices in the City. The easiest to remedy is for GSSCM to establish and advertise a dedicated email address through which technical advice can be sought and found. As all departments and entities are involved in procurement, GSSCM

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needs to offer regular training to officials across the Group. The process should eventually result in a City of Johannesburg competency exam, which officials must pass in order to be involved in procurement.

After the questions were asked, GSSCM took the first steps to rectifying some of the issues: it published its first 'Supply Chain Processes and Procedures Bulletin' on 10 June 2021, with a second bulletin issued on 15 June 2021. The bulletins, which were emailed to all CJMM staff, are welcomed by the Committee. From the bulletins, the Committee realised that GSSCM is not the only stakeholder responsible for advising on compliance issues. Group Risk and Assurance Services (GRAS) is a department that includes Group Compliance and Group Internal Audit Services. GRAS should be required to issue similar bulletins, instead informed by analysing findings of non-compliance by internal and external audits. By sharing this information, it could alert officials what actions can be taken to ensure compliance across the City.

In another question (Question C/GF.23), the Committee asked what controls are in place to prevent the late payment of invoices. The late payment of invoices is prevalent in the City, and results in interest charges that constitute fruitless and wasteful expenditure. In response, Group Finance mentioned specific controls that will be implemented from June 2021. The controls are welcomed even if the Committee feels that they should have already existed.

When looking at corrective controls, a key document required by legislation is the annual remedial action plan to address the findings of the AGSA. In the view of the Committee, the current plan is not appropriate and does not appear to be developed to address the particular audits findings. The plan does not name the department(s) responsible for the material non-compliance, does not provide timelines for implementation of remedial action and does not name the specific senior manager responsible for the implementation. It appears that the plan does not have adequate management buy-in. This could be addressed by it being discussed in an appropriate management forum, such as the Extended Management Team or Operation Clean Audit meetings.

As mentioned in the roundtable by the Ahmed Kathrada Foundation and Corruption Watch, a control currently not adequately implemented is transparency around procurement. As mentioned by the Ahmed Kathrada Foundation, the list of contracts awarded by the City that is on the City's website has not been updated since December 2019. It appears that this issue is not restricted to the City's website, as GSSCM stated that not all contracts are uploaded to internal systems, preventing the GSSCM from monitoring contract expiration. This is a major concern, as the City irregularly uses regulation 36 deviations to enter into new contracts or extend existing contracts when a contract that provides essential goods and services expires and a new contract is not already in place. The Committee believes that National Treasury should issue a circular on whether this is permitted and provide clear guidelines on what is the correct course of action

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should be when this happens. In the meantime, as a proactive measure that, a review of the Supply Chain Management Policy should take place in order to include the risks and possible mitigations related to the use of regulation 36, as discussed in response to a question by the Committee (Question C/GF.13).

Recommendation:

That National Treasury is requested to issue a new MFMA circular that provides guidance on the use of regulation 36 of the Municipal Supply Chain Management Regulations and on the processes that should be followed when an existing contract providing goods or services that are essential to the operations of the City expires without a new contract being in place. The Committee must write to National Treasury within 30 days of the adoption of this oversight report and communication must be submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.

Recommendation:

That Group Finance review the Supply Chain Management Policy to include risks and mitigations associated with the use of regulation 36. The review should start within 30 days of the adoption of this oversight report. A report attesting to the start of the review process must to the next sitting of the Municipal Public Accounts Committee, in August 2021.

Recommendation:

That Group Finance review the Supply Chain Management Policy to require all contracts to be uploaded to a central database. The Policy should be changed so that contracts that meet a threshold in terms of duration or value that are not uploaded to the central database be categorised as irregular expenditure. The review should start within 30 days of the adoption of this oversight report. A report attesting to the start of the review process must to the next sitting of the Municipal Public Accounts Committee, in August 2021.

Recommendation:

That Group Finance upload to the website of the City the list of contracts awarded by the City in 2020. Group Finance should put in place controls to ensure that this information is regularly uploaded to the website. The relevant information on the website should be uploaded within 30 days of the adoption of this oversight report and a report confirming the implementation of this resolution must be submitted to the sitting of the Municipal Public Accounts Committee in August 2021.

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Recommendation:

That Group Finance review its processes to improve its monitoring and reporting of expiring contracts. The processes must require Group Finance to inform the relevant section 79 oversight committee if a contract that is required for service delivery is expiring and procurement processes for a new contract are not at a sufficiently advanced stage. The review should start within 30 days of the adoption of this oversight report. A report attesting to the start of the review process must to the next sitting of the Municipal Public Accounts Committee, in August 2021.

Recommendation:

That all senior management in the Group, along with all board members of the municipal entities, be required to read the preventative controls guides of the Auditor-General of South Africa. The guides must be provided to senior management and board members by the Office of the City Manager and Group Governance within 30 days of the adoption of this oversight report. A report confirming the implementation of this resolution and confirming that the guides have been read must be submitted to the sitting of the Municipal Public Accounts Committee in September 2021.

Recommendation:

That the accounting officer includes, if not already included, demand management and the expiration of contracts in future performance scorecards of senior management. A report confirming the intention to implement this resolution and must be submitted to the next sitting of the Municipal Public Accounts Committee in August 2021.

Recommendation:

That Group Strategic Supply Chain Management establishes a dedicated email address to which all procurement and supply chain management queries can be sent. The existence of the email address must be advertised continuously and records must be kept of the number and type of queries and the response times. The email address must be established within 30 days of the adoption of this oversight report and a report attesting to the implementation of this resolution must be submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.

Recommendation:

That Group Strategic Supply Chain Management must provide in-house training on supply chain management compliance to officials across the Group. A plan to introduce the training must be developed within 30 days of the adoption of this oversight report and the plan must be submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.

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Recommendation:

That Group Strategic Supply Chain Management must continue to regularly publish and distribute to all officials the new Supply Chain Processes and Procedures Bulletin. A plan to continue publishing the Bulletin must be developed within 30 days of the adoption of this oversight report and the plan must be submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.

Recommendation:

That Group Risk and Assurance Service regularly publish and distribute to all officials bulletins providing guidance on compliance related matters. The bulletin must communicate new legislative requirements, internal and external audit findings, and mechanism and actions that can be taken for officials to ensure compliance with legislation. The guidance must be practical and informed by internal and external audit findings, seeking to prevent repeat findings across different departments and entities. A plan to begin publishing the bulletin must be developed within 30 days of the adoption of this oversight report and the plan must be submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.

Recommendation:

That the Office of the City Manager require all departments to apply the administrative controls, listed in Item 8 as tabled before the Municipal Public Accounts Committee on 31 May 2021, to prevent the late payment of invoices that incur interest charges and, therefore, fruitless and wasteful expenditure. The controls must be implemented within 30 days of the adoption of this oversight report and a report confirming this must be submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.

Recommendation:

That all future remedial action plans for findings affecting the audit outcome be required to list the department(s) responsible for the material findings and the recommended remedial action that the department(s) must implement. For each remedial action, the plan must provide specific timeframes and list the senior manager responsible for implementation. The plan must have served in a meeting of the Extended Management Team, Operation Clean Audit or similar management body before adoption. A plan for the implementation of the revised format of the remedial action plan must be developed within 30 days of the adoption of this oversight report. The plan must be submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.

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(5) Consequence management

'Along with preventative controls, consequence management plays a key role. Preventative controls are not effective if they are not monitored. Consequence management demonstrates that wrong doing is not accepted and there is accountability.'

- N Soopal, South Africa Institute of Chartered Accountants, Roundtable on the 2019/20 Annual Report of the City of Johannesburg, 9 June 2021

The Committee is of the view that consequence management has been inadequately implemented in the City. Senior management have not been held to account for poor performance, particularly for material findings of non-compliance with legislation by the AGSA. The disciplinary board for financial misconduct is not yet functional, despite being required by legislation. Investigations and disciplinary hearings are resolved at a leisurely pace, and suspended employees cost the City tens of millions every year in salaries.

The Committee has worked hard to correct this, notably by publicly and privately lobbying for the establishment of a disciplinary board. The disciplinary board, which is required by the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings of 2014, must hear allegations of financial misconduct. The terms of reference for the disciplinary board was adopted by Council on 20 April 2021, which should have resulted in the immediate establishment of the board. Yet, in response to questions from the Committee (Question C/CM.19), it was revealed that management had yet to establish the disciplinary board or processes for reporting of allegations of financial misconduct or the board to function.

An element of consequences management that appears to be overlooked in the City is the use of section 37D of the Pension Funds Act. The legislation allows an employer to claim from a pension fund compensation to be paid from the pension benefit of the member for loss or damages suffered as a direct result of a member's dishonesty, fraud, theft or misconduct. In response to a question on how many section 37D claims there were in 2019/20 (Question C/CS.3), the response was that the information was unavailable and that Group Corporate and Shared Services only knew of one instance of the use of the provision at Metrobus. There clearly needs to be improved monitoring of the use of this effective tool to recover losses by the City and increased training to senior management on the option to claim against pension savings.

The Committee is of the view that underpinning the implementation of consequence management is ensuring that the correct human resources controls are in place. This includes ensuring that the code of conduct for municipal officials

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is understood by all officials, job description of all officials involved in SCM make explicit reference to their SCM responsibilities and officials in the Group are made aware of the role of the disciplinary board in relation to financial misconduct.

Considering the issues around consequence management, the frequent reports in the press of issues of corruption within the City and potential SCM abuses that were revealed in an internal audit report into Covid-19 related procurement, the Committee believes that the recommendation made by K Pillay of Corruption Watch that an anti-corruption forum be established by the City. The forum will include both internal and external stakeholders, including law enforcement agencies. The forum can be modeled on the Health Sector Anti-Corruption Forum and the Infrastructure Built Anti-Corruption Forum. The forum will not only address irregularities with procurement but also issues with bribery in some customer-facing departments within the City.

Recommendation:

That the Office of the City Manager and Group Risk and Assurance Services establish a properly constituted disciplinary board and develop standard operating procedures for the reporting of allegations of financial misconduct and for the processes of departments supporting the disciplinary board. This resolution must be implemented within 30 days of the adoption of this oversight report and evidence of the implementation of this resolution must be submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.

Recommendation:

That Group Corporate and Shared Services review the induction of new employees and training of current employees on the code of conduct for municipal officials in order to ensure that all employees are familiar with the code of conduct. This resolution should be implemented within 30 days of the adoption of this oversight report and evidence of the implementation of this resolution must be submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.

Recommendation:

That Group Corporate and Shared Services review job descriptions for all employees involved in procurement or supply-chain management process. The department must establish which employees are involved in procurement or supply-chain management process, determine whether the job descriptions include the procurement or supply-chain management process, and rectify any omissions detected. A plan for the implementation of this resolution must be developed within 30 days of the adoption of this oversight report and submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.

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Recommendation:

That Group Corporate and Shared Services develops a Group-wide training for the use of section 37D of the Pension Funds Act and implements a Group-wide monitoring of the use of section 37D of the Pension Funds Act. A plan for the implementation of this resolution must be developed within 30 days of the adoption of this oversight report and submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.

Recommendation:

That Group Corporate and Shared Services and Group Risk and Assurance Services develop a programme to inform all officials in the Group about the role on disciplinary board, on how to report allegations of the financial misconduct reporting, and how what conduct will result in an official being referred to the disciplinary board. A plan for the implementation of this resolution must be developed within 30 days of the adoption of this oversight report and submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.

Recommendation:

That an anti-corruption forum be established for the City. The forum must be established by the Municipal Public Accounts Committee, Group Forensics and Investigation Services and Group Risk and Assurance Services, along with other relevant internal stakeholders. The forum must include external law enforcement agencies, Corruption Watch and other external stakeholders. Corruption watch should be engaged to assist with the establishment of the forum. A plan for the establishment of the forum, including confirmation of the participation of external stakeholders, must be developed within 30 days of the adoption of this oversight report and submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.

(6) Improving the annual report for oversight

Integral to oversight is the availability of information. As part of the oversight process on the annual report, section 79 portfolio oversight committees assist MPAC by performing oversight over departments and entities in their respective portfolios. As procurement, supply chain management, budget expenditure and compliance with legislation affects service delivery, almost all of the committees consider these factors during the oversight process. Unfortunately, in its current format, the annual report and the annual financial statements do not provide adequate information. The committees require information related to audited expenditure per each budget vote by department, whether the respective department has audit findings or is responsible for irregular or fruitless and wasteful expenditure. This information must be published in order to enable rigorous oversight.

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Recommendation:

That the 2020/21 annual report, and all future annual reports, include a breakdown of audit findings by department. Group Strategy, Policy Coordination and Relations must develop a plan for the implementation of this resolution within 30 days of the adoption of this oversight report and submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.

Recommendation:

That the 2020/21 annual report, and all future annual reports, include operating and capital budget expenditure by vote and department. Group Strategy, Policy Coordination and Relations must develop a plan for the implementation of this resolution within 30 days of the adoption of this oversight report and submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.

Recommendation:

That the 2020/21 annual financial statements, and all future annual financial statements, include the departments responsible for irregular or fruitless and wasteful expenditure incurred. Group Finance must develop a plan for the implementation of this resolution within 30 days of the adoption of this oversight report and submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.

(7) Investigations required

During the consideration process, the Committee noted two matters that it feels must be subject to further investigation. First, in a report on overtime pay (responding to Question C/CS.9), which indicated that Metrobus paid over R22 million to just 55 employees who worked overtime in 2019/20, an average of R408 895.78 per an employee. Second, Pikitup's expenditure on security and insurance increased in 2019/20 by R23 million and R9 million respectively. The explanation given by Pikitup in response to a question (Question E/PI.3) on the increase was not satisfactory. Group Forensics and Investigations Services (GFIS) should investigate the manner. While the Committee develops the terms of reference for the investigation, GFIS should undertake a preliminary investigation to determine if the information in the reports submitted to the Committee are accurate.

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Recommendation:

That Group Forensics and Investigation Services (GFIS) investigate the payment of overtime at Metrobus. GFIS should undertake a preliminary investigation ahead of the finalisation of a terms of reference for the investigation by the Municipal Public Accounts Committee. The preliminary investigation should determine if the information provided to the Committee is accurate. The preliminary investigation should result in a report with findings. The preliminary investigation should be completed within 30 days of the adoption of this oversight report and the report submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.

Recommendation:

That Group Forensics and Investigation Services (GFIS) investigate the increased expenditure on security and insurance at Pikitup. GFIS should undertake a preliminary investigation ahead of the finalisation of a terms of reference for the investigation by the Municipal Public Accounts Committee. The preliminary investigation should determine if the information provided to the Committee is accurate. The preliminary investigation should result in a report with findings. The preliminary investigation should be completed within 30 days of the adoption of this oversight report and the report submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.

(8) Implementation of Council resolutions

The Committee has faced considerable obstacles in terms of having the resolutions of Council, as based on the recommendation of the Committee, implemented. Failure to implement a resolution of the elected Council undermines Council and democracy itself. Council is vested with the executive and legislative authority. Officials must implement the resolutions of Council unless Council withdraws its resolution or if the resolution is unlawful.

Recommendation:

That officials who do not implement the resolutions of Council be appropriately sanctioned, in line with applicable legislation and policies.

7 COVID-19

Although Covid-19 severely impacted the performance of the City for the final three months of the 2019/20 financial year, the Committee has not expressly addressed its impact in the oversight report. This is due to two reasons: it is difficult to discern how exactly Covid-19 impacted the performance of the City, considering that key performance indicators were changed to accommodate the decreased performance. Taken in the early months of Covid-19, the Committee is not in a position to comment on this decision of Council. Second, the Committee has, over a number of months, looked into procurement issues related to Covid-19. The Committee intends to finalise a separate oversight report on the procurement issues in July or August 2021.

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8 OVERSIGHT PROCESS

The oversight process was compressed and unexpected in its timing. The delays with the final audit report, and therefore the delay with the tabling of the annual report in Council, created considerable uncertainty for the Committee in terms of planning the oversight process. The annual report was unexpectedly tabled in Council on 11 May 2021, resulting in a rush to set up the necessary mechanisms for oversight. It created delays all along the oversight process, providing the Committee with less time to devise questions, the accounting officers with less time to prepare responses and the Committee with less time to consider the responses. Some responses were received the day before the meeting, limiting the ability of the Committee to ensure that its interrogation was effective.

The Committee considered the annual report over the following meetings:

- 17 May 2021;
- 20 May 2021;
- 31 May 2021;
- 3 June 2021;
- 10 June 2021;
- 11 June 2021;
- 14 June 2021;
- 17 June 2021;
- 18 June 2021; and
- 21 June 2021.

The Committee acknowledges that it must increasingly focus on service delivery and value-for-money in future oversight reports. The Committee decided to focus on procurement, governance and internal controls considering the current challenges facing the City. The Committee is also of the view that section 79 oversight portfolio committees should review their approaches to the annual report oversight process in order to improve inputs and to contribute to the effectiveness of the oversight.

The Committee was considerably constrained by the resources provided to it during the oversight process. The Committee secretariat primarily consisted of an acting coordinator, who continued in his substantive position and simultaneously acted in another position, and a researcher. The Committee also has sub-committee dedicated to the consideration of UIFW expenditure, which sat twice during the period. Typically, oversight committees sit once a month. From May to June, the Committee sat 12 times and the sub-committee sat twice. The compressed timeframe, as mentioned above, further jeopardised the work of the Committee. While this oversight report and minutes of the meetings have been affected by the intensive oversight process and tight timeframes, the Committee greatly appreciates the work of its secretariat.

Yet it is clear that a failure to properly capacitate the Committee through full-time appointments risks undermining the work of the Committee. The Committee needs to be better capacitated, with a full-time coordinator and additional secretariat members to

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address the complicated nature of consideration of the recoverability of UIFW expenditure. Considering as the Select Committee on Cooperative Governance & Traditional Affairs, Water and Sanitation and Human Settlements of the National Council of Provinces, when the City appeared before it in March 2020, and the South African Local Government Association Gauteng Municipal Finance and Fiscal Policy Working Group expressed the view that the sub-committee could be a pilot with the potential to be implemented in other municipalities, it is important that the City ensure that adequate resources are dedicated to the sub-committee.

Recommendation:

That the Secretary to Council urgently review the capacitation of secretariat of the Municipal Public Accounts Committee. The review must ensure that the Committee and the Sub-Committee of Municipal Public Accounts Committee for the Investigation of UIFW Expenditure are appropriately and adequately capacitated. The Secretary to Council must ensure that there are no vacancies in the secretariat. The review must be completed within 30 days of the adoption of this oversight report and submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.

9 STAKEHOLDER INPUT

The Committee received presentations and inputs from the Auditor-General of South Africa (AGSA), the Group Audit Committee (GAC), the Group Performance Audit Committee (GPAC), the Group Performance Audit Committee (GPAC), and the Office of the City Manager.

The Committee hosted a roundtable on the annual report with selected stakeholders. The stakeholders that participated in the roundtable were the Ahmed Kathrada Foundation; the Dullah Omar Institute; Corruption Watch; South African Cities Network (SACN); and the South African Institute of Chartered Accountants (SAICA).

The Committee ran several adverts calling for inputs into the oversight report from stakeholders and members of the general public. In response, the Committee received two inputs: a combined submission by PlanAct, 1-to-1 Agency of Engagement and International Budget Partnership South Africa on its Asivikelane campaign and an input from the Wits School of Governance. Time constraints prevented substantive engagement with the inputs but the Committee intends to consider the inputs more rigorously in the coming months.

10 POLICY IMPLICATIONS

This report is in line with the terms of references of the Municipal Public Accounts Committee.

This report requires that the City's Supply Chain Management Policy be reviewed.

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11 LEGAL AND CONSTITUTIONAL IMPLICATIONS

This oversight report is in accordance with section 129(1) of the MFMA.

12 FINANCIAL IMPLICATIONS

The Legislature incurred costs for catering for meetings of Municipal Public Accounts Committee. All meetings were longer than five hours, as required by section 10(2) of the Municipal Cost Containment Regulations. A venue was hired from Joburg Theatre for the meeting on 4 March 2020, as no internal venues were available.

13 COMMUNICATIONS IMPLICATIONS

The City Manager, as the accounting officer, must, within seven days of its adoption by Council, make public this oversight report, in accordance with section 129 (3) of the MFMA and in terms of section 21A of the MSA.

The report, once adopted, will also be shared with the Gauteng Provincial Department of Cooperative Governance and Traditional Affairs (COGTA), the Gauteng Provincial Treasury, the Gauteng Provincial Legislature and the Auditor-General of South Africa.

14 OTHER DEPARTMENTS/ BODIES CONSULTED

The various departments and entities of the City were given a chance to respond, through the Office of the City Manager, to questions from the Municipal Public Accounts Committee. The oversight report was informed by these responses.

IT IS RECOMMENDED

- 1 That Council approve, with reservation, the 2019/20 annual report of the City of Johannesburg, together with the 2019/20 annual reports of the entities of the City of Johannesburg.**
- 2 That Council approve the oversight report on the 2019/20 annual reports of the City of Johannesburg, noting the observations cited in the body of the report.**
- 3 That the Council considers the content and recommendations of the section 79 portfolio committee oversight reports, which are attached as annexures to the oversight report.**
- 4 That Group Policy, Strategy Coordination and Relations (GSPCR) benchmarks the 2019/20 annual report on the International Integrated Report Framework of the International Integrated Reporting Council and any other relevant international or local integrated reporting frameworks. The review must result in a comprehensive**

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report recommending changes to the annual report. The review must be completed within 30 days of the adoption of this oversight report and the resulting report must be submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.

- 5 That Group Policy, Strategy Coordination and Relations (GSPCR) engages with the South African Institute of Chartered Accountants (SAICA) on improving integrated reporting for the annual report. The engagement must result in a report detailing all communication and any outcomes. The engagement should seek to establish a long-term working relationship with SAICA. The engagement must occur within 30 days of the adoption of this oversight report and the resulting report must be submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.
- 6 That Group Policy, Strategy Coordination and Relations (GSPCR) develops a citizens' version of the annual report for the financial year 2020/21, providing an accessible, clear, concise, integrated evaluation of the performance of the City to enable the citizens of Johannesburg to hold the City accountable. The citizens' report of the Auditor-General of South Africa for the Municipal Financial Management Act Reporting should be used as a benchmark. A framework for the development of the citizen's report should be completed within 30 days of the adoption of this oversight report and be submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021. The citizens' version of the annual report should accompany the 2020/21 annual report of the City on tabling in Council.
- 7 That all municipal entities develop a citizens' version of the annual report of the entity for the financial year 2020/21, providing an accessible, clear, concise, integrated evaluation of the performance of the entity to enable the citizens of Johannesburg to hold the entity accountable. The citizens' version of the annual report should be informed by the framework as developed by Group Policy, Strategy Coordination and Relations (GSPCR). An implementation plan for the citizens' version of the annual report should be completed within 60 days of the adoption of this oversight report and be submitted to the sitting of the Municipal Public Accounts Committee in September 2021. The citizens' version of the annual report should accompany the 2020/21 annual report of the entity on tabling in Council.
- 8 That Office of the Speaker develop a plan to distribute the citizens' version of the annual report widely to improve public participation in the oversight process. The plan must include the distribution of both printed and electronic copies of the citizens' version of the annual report. The plan must be developed within 60 days of the adoption of the of this oversight report and be submitted to the sitting of the Municipal Public Accounts Committee in September 2021.

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- 9 That Group Governance develops a new evaluation framework for boards of directors in the City of Johannesburg, in line with the State-Owned Company Board Evaluation Framework published by the Department of Public Enterprises. The development must be completed within 30 days of the adoption of this oversight report and the framework must be submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.**
- 10 That Group Governance engages with the Department of Public Enterprises in order to implement a new, or align an existing, evaluation framework for board of directors in the City of Johannesburg. The engagement must result in a report with recommendations. The engagement must occur within 30 days of the adoption of this oversight report and the resulting report must be submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021**
- 11 That Group Governance reviews, or develops new, role descriptions for each board of each municipal entity, ensuring an appropriate minimum mix of qualifications and experience across every board. A framework for implementation of the new role descriptions must be completed within 30 days of the adoption of this oversight report and be submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.**
- 12 That Group Governance engages with Corruption Watch in order to develop a methodology to improve transparency, public participation and to establish a merit-based criteria to improve the appointment of board members of municipal entities. The engagement must result in a report with recommendations. The engagement must occur within 30 days of the adoption of this oversight report and the resulting report must be submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.**
- 13 That Group Governance reviews all shareholder compacts to ensure that the compacts make explicit reference to the responsibility of each entity to comply with the provisions of the MFMA, to comply with supply-chain management legislation, to keep all policies up to date and to have all standard operating procedures documented. The review must result in a report with recommendations. The engagement must occur within 30 days of the adoption of this oversight report and the resulting report must be submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.**
- 14 That Group Governance, Group Finance, Group Risk and Assurances Services and Group Strategy, Policy Coordination and Relations jointly establish a policy and standard operating procedures forum to ensure that the policies of entities are compliant with legislation and are up to date and to ensure that all entities have documented standard operating procedures. A plan to establish the forum must be developed within 30 days of the adoption of this oversight report and the resulting report must be submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.**

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- 15 That Group Governance revises its induction material for new board members of all municipal entities with specific reference to section 32(2) of the MFMA, regulation 75 of the Municipal Budget and Reporting Regulations, MFMA Circular 68 and the terms of reference for the investigation of the recoverability of UIFW expenditure in the City of Johannesburg. The material must be submitted to National Treasury for comment on completion. The process must be completed within 30 days of the adoption of this oversight report and be submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021. The comments by National Treasury on the material must be submitted to the first sitting of the Municipal Public Accounts Committee after the comments are received.**
- 16 That Group Governance organises annual training of board members on document management and record keeping by the Gauteng Provincial Archives. A plan to introduce the training must be developed within 30 days of the adoption of this oversight report and the resulting report must be submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.**
- 17 That Group Governance provides all board members of all municipal entities with electronic or printed copies of section 32(1) and 32(2) of the MFMA, regulation 75 of the Municipal Budget and Reporting Regulations, MFMA Circular 68 and the terms of reference for the investigation of the recoverability of UIFW expenditure in the City of Johannesburg. For the aforementioned legislation, the specific sections must be extracted from the legislation and provided as a document in itself. The documents must be provided to all board members within 30 days of the adoption of this oversight report and on induction of all new board members going forward. A report attesting to the implementation of this resolution must be submitted to the sitting of the Municipal Public Accounts Committee in August 2021.**
- 18 That the Office of the City Manager undertakes an urgent intervention in Group Governance in relation to its work with municipal entities. The intervention must address the poor performance of Group Governance in terms of its processes to nominate board members, to monitor the performance of municipal entities, to monitor compliance with legislation by municipal entities and in terms of the training and technical supports it offers to board members of municipal entities. The intervention must take place within 30 days of the adoption of this oversight report. A report attesting to the implementation of this resolution must be submitted to the sitting of the Municipal Public Accounts Committee in August 2021.**
- 19 That Group Governance ensure that all boards of municipal entities that sat on more than six occasions during 2019/20 provide reasons for why each meeting took place. The boards must provide the minutes of all meetings. The boards must**

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also provide a list of ancillary costs, such a catering and transport. The reasons must be provided within 30 days of the adoption of this oversight report and be submitted to the sitting of the Municipal Public Accounts Committee in August 2021.

- 20 That the Group Internal Audit Services, Group Risk Assurance Services and the internal audit units of each entity develops an implementation plan for the introduction of value-for-money audits. The plan must include the methodology to be used in the audits, the resources that will be acquired and required to implement the audits and a timeframe for implementation. The implementation plans must be completed within 30 days of the adoption of this oversight report and the resulting report must be submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.
- 21 That Group Internal Audit Services and Group Risk Assurance Services engages with the Ahmed Kathrada Foundation on the implementation of value-for-money audits. The engagement must result in a report with recommendations. The engagement must occur within 30 days of the adoption of this oversight report and the resulting report must be submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.
- 22 That Group Strategy, Policy Coordination and Relations undertakes a benchmarking exercise to determine best practice for reporting on the cost of providing services in the annual report. The benchmarking exercise should begin within 30 days of the adoption of this oversight report and be completed within 90 days of the adoption of this oversight report. The benchmarking exercise should result in a report with recommendations. The final report must be submitted to the Municipal Public Accounts Committee.
- 23 That Group Finance undertakes a benchmarking exercise to determine the average cost of providing essential services in South Africa. The Ahmed Kathrada Foundation and the South African Cities Network should be consulted during this exercise. The benchmarking exercise should begin within 30 days of the adoption of this oversight report and be completed within 90 days of the adoption of this oversight report. The benchmarking exercise should result in a report with recommendations. The final report must be submitted to the Municipal Public Accounts Committee.
- 24 That Group Internal Audit Services, Group Risk and Assurance Services and Group Forensic and Investigation Services ensure that all investigations undertaken make an assessment on the recovery of funds for the City, including, where services were received, and a determination of whether value-for-money was received. The process must occur within 30 days of the adoption of this oversight report and a report attesting to the implementation of this recommendation must be submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.

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- 25** That all the City and all municipal entities include the operating and capital expenditure, as well as the average cost for delivering a service, for all applicable key performance indicators in organisational performance scorecards in the 2020/21 annual report. Group Strategy, Policy Coordination and Relations must coordinate the process. The process to introduce the additional reporting information must begin within 30 days of the adoption of this oversight report and a report attesting to the implementation of this recommendation must be submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.
- 26** That the Municipal Public Accounts Committee writes to National Treasury requesting a new MFMA circular that provides guidance on the use of regulation 36 of the Municipal Supply Chain Management Regulations and on the processes that should be followed when an existing contract providing goods or services that are essential to the operations of the City expires without a new contract being in place. The Committee must write to National Treasury within 30 days of the adoption of this oversight report and communication must be submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.
- 27** That Group Finance review the Supply Chain Management Policy to include risks and mitigations associated with the use of regulation 36. The review should start within 30 days of the adoption of this oversight report. A report attesting to the start of the review process must to the next sitting of the Municipal Public Accounts Committee, in August 2021.
- 28** That Group Finance review the Supply Chain Management Policy to require all contract to be uploaded to a central database. The Policy should be changed so that contracts that meet a threshold in terms of duration or value that are not uploaded to the central database be categorised as irregular expenditure. The review should start within 30 days of the adoption of this oversight report. A report attesting to the start of the review process must to the next sitting of the Municipal Public Accounts Committee, in August 2021.
- 29** That Group Finance upload to the website of the City the list of contracts awarded by the City in 2020. Group Finance should put in place controls to ensure that this information is regularly uploaded to the website. The relevant information on the website should be uploaded within 30 days of the adoption of this oversight report and a report confirming the implementation of this resolution must be submitted to the sitting of the Municipal Public Accounts Committee in August 2021.
- 30** That Group Finance review its processes to improve its monitoring and reporting of expiring contracts. The processes must require Group Finance to inform the relevant section 79 oversight committee if a contract that is required for service delivery is expiring and procurement processes for a new contract are not at a

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sufficiently advanced stage. The review should start within 30 days of the adoption of this oversight report. A report attesting to the start of the review process must to the next sitting of the Municipal Public Accounts Committee, in August 2021.

- 31 That all senior management in the Group, along with all board members of the municipal entities, be required to read the preventative controls guides of the Auditor-General of South Africa. The guides must be provided to senior management and board members by the Office of the City Manager and Group Governance within 30 days of the adoption of this oversight report. A report confirming the implementation of this resolution and confirming that the guides have been read must be submitted to the sitting of the Municipal Public Accounts Committee in September 2021.
- 32 That the accounting officer includes, if not already included, demand management and the expiration of contracts in future performance scorecards of senior management. A report confirming the intention to implement this resolution and must be submitted to the next sitting of the Municipal Public Accounts Committee in August 2021.
- 33 That Group Strategic Supply Chain Management establishes a dedicated email address to which all procurement and supply chain management queries can be sent. The existence of the email address must be advertised continuously and records must be kept of the number and type of queries and the response times. The email address must be established within 30 days of the adoption of this oversight report and a report attesting to the implementation of this resolution must be submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.
- 34 That Group Strategic Supply Chain Management must provide in-house training on supply chain management compliance to officials across the Group. A plan to introduce the training must be developed within 30 days of the adoption of this oversight report and the plan must be submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.
- 35 That Group Strategic Supply Chain Management must continue to regularly publish and distribute to all officials the new Supply Chain Processes and Procedures Bulletin. A plan to continue publishing the Bulletin must be developed within 30 days of the adoption of this oversight report and the plan must be submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.
- 36 That Group Risk and Assurance Service regularly publish and distribute to all officials bulletins providing guidance on compliance related matters. The bulletin must communicate new legislative requirements, internal and external audit findings, and mechanism and actions that can be taken for officials to ensure compliance with legislation. The guidance must be practical and informed by

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internal and external audit findings, seeking to prevent repeat findings across different departments and entities. A plan to begin publishing the bulletin must be developed within 30 days of the adoption of this oversight report and the plan must be submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.

- 37 That the Office of the City Manager require all departments to apply the administrative controls, listed in Item 8 as tabled before the Municipal Public Accounts Committee on 31 May 2021, to prevent the late payment of invoices that incur interest charges and, therefore, fruitless and wasteful expenditure. The controls must be implemented within 30 days of the adoption of this oversight report and a report confirming this must be submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.
- 38 That all future remedial action plans for findings affecting the audit outcome be required to list the department(s) responsible for the material findings and the recommended remedial action that the department(s) must implement. For each remedial action, the plan must provide specific timeframes and list the senior manager responsible for implementation. The plan must have served in a meeting of the Extended Management Team, Operation Clean Audit or similar management body before adoption. A plan for the implementation of the revised format of the remedial action plan must be developed within 30 days of the adoption of this oversight report. The plan must be submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.
- 39 That the Office of the City Manager and Group Risk and Assurance Services establish a properly constituted disciplinary board and develop standard operating procedures for the reporting of allegations of financial misconduct and for the processes of departments supporting the disciplinary board. This resolution must be implemented within 30 days of the adoption of this oversight report and evidence of the implementation of this resolution must be submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.
- 40 That Group Corporate and Shared Services review the induction of new employees and training of current employees on the code of conduct for municipal officials in order to ensure that all employees are familiar with the code of conduct. This resolution should be implemented within 30 days of the adoption of this oversight report and evidence of the implementation of this resolution must be submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.
- 41 That Group Corporate and Shared Services review job descriptions for all employees involved in procurement or supply-chain management process. The department must establish which employees are involved in procurement or supply-chain management process, determine whether the job descriptions include the procurement or supply-chain management process, and rectify any omissions

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- detected. A plan for the implementation of this resolution must be developed within 30 days of the adoption of this oversight report and submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.
- 42 That Group Corporate and Shared Services develops a Group-wide training for the use of section 37D of the Pension Funds Act and implements a Group-wide monitoring of the use of section 37D of the Pension Funds Act. A plan for the implementation of this resolution must be developed within 30 days of the adoption of this oversight report and submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.**
- 43 That Group Corporate and Shared Services and Group Risk and Assurance Services develop a programme to inform all officials in the Group about the role on disciplinary board, on how to report allegations of the financial misconduct reporting, and how what conduct will result in an official being referred to the disciplinary board. A plan for the implementation of this resolution must be developed within 30 days of the adoption of this oversight report and submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.**
- 44 That an anti-corruption forum be established for the City. The forum must be established by the Municipal Public Accounts Committee, Group Forensics and Investigation Services and Group Risk and Assurance Services, along with other relevant internal stakeholders. The forum must include external law enforcement agencies, Corruption Watch and other external stakeholders. Corruption watch should be engaged to assist with the establishment of the forum. A plan for the establishment of the forum, including confirmation of the participation of external stakeholders, must be developed within 30 days of the adoption of this oversight report and submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.**
- 45 That the 2020/21 annual report, and all future annual reports, include a breakdown of audit findings by department. Group Strategy, Policy Coordination and Relations must develop a plan for the implementation of this resolution within 30 days of the adoption of this oversight report and submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.**
- 46 That the 2020/21 annual report, and all future annual reports, include operating and capital budget expenditure by vote and department. Group Strategy, Policy Coordination and Relations must develop a plan for the implementation of this resolution within 30 days of the adoption of this oversight report and submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.**
- 47 That the 2020/21 annual financial statements, and all future annual financial statements, include the departments responsible for irregular or fruitless and wasteful expenditure incurred. Group Finance must develop a plan for the**

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implementation of this resolution within 30 days of the adoption of this oversight report and submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.

- 48 That Group Forensics and Investigation Services (GFIS) investigate the payment of overtime at Metrobus. GFIS should undertake a preliminary investigation ahead of the finalisation of a terms of reference for the investigation by the Municipal Public Accounts Committee. The preliminary investigation should determine if the information provided to the Committee is accurate. The preliminary investigation should result in a report with findings. The preliminary investigation should be completed within 30 days of the adoption of this oversight report and the report submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.**
- 49 That Group Forensics and Investigation Services (GFIS) investigate the increased expenditure on security and insurance at Pikitup. GFIS should undertake a preliminary investigation ahead of the finalisation of a terms of reference for the investigation by the Municipal Public Accounts Committee. The preliminary investigation should determine if the information provided to the Committee is accurate. The preliminary investigation should result in a report with findings. The preliminary investigation should be completed within 30 days of the adoption of this oversight report and the report submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.**
- 50 That officials who do not implement the resolutions of Council be appropriately sanctioned, in line with applicable legislation and policies.**
- 51 That the Secretary to Council urgently review the capacitation of secretariat of the Municipal Public Accounts Committee. The review must ensure that the Committee and the Sub-Committee of Municipal Public Accounts Committee for the Investigation of UIFW Expenditure are appropriately and adequately capacitated. The Secretary to Council must ensure that there are no vacancies in the secretariat. The review must be completed within 30 days of the adoption of this oversight report and submitted to the next sitting of the Municipal Public Accounts Committee, in August 2021.**
- 52 That the Council notes the content of the inputs provided by stakeholders, which are attached as annexures to the oversight report.**
- 53 That the accounting officer, in accordance with section 21A of the Municipal Systems Act and section 129(3) of the Municipal Financial Management Act, make public this oversight report within seven days of its adoption by Council.**

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- 54 That the accounting officer, in accordance with the section 129(3)(b) of the Municipal Financial Management Act, submit this oversight report to the Gauteng Provincial Department of Cooperative Governance and Traditional Affairs (COGTA), the Gauteng Provincial Treasury and Auditor-General of South Africa within seven days of its adoption by Council.**
- 55 That the accounting officer, in accordance with the section 132(1)(b) of the Municipal Financial Management Act, submit this oversight report to the Gauteng Provincial Legislature within seven days of its adoption by Council.**
- 56 That the Johannesburg Property Company provide a comprehensive report detailing the increase in security expenditure and board expenses for the 2019/20 financial year. The report must be submitted to the Section 79 Economic Development Committee by August 2021.**
- 57 That the Johannesburg Property Company provide a report on the provision for doubtful debts raised indicating the projects for which the facilitation fees were raised in the previous financial year of R33 million. The report must indicate the amount raised per project/development. The report must be submitted to the Section 79 Economic Development Committee by August 2021.**
- 58 That the Joburg Fresh Produce Market provide a report explaining why there were large discrepancies between the 2019/20 Fourth Quarter Performance Report and the Annual Report for irregular expenditure and deviations that were reported. The report must be submitted to the Section 79 Economic Development Committee by August 2021.**
- 59 That the Department of Economic Development, the Joburg Property Company and the Joburg Fresh Produce Market provide a report on the actual expenditure vs budgeted expenditure of all capital projects in the 2019/20 financial year. The report must also include the actual progress on every project. The report must be submitted to the Section 79 Economic Development Committee by August 2021.**
- 60 That the Department of Economic Development, Joburg Fresh Produce Market and the Joburg Property Company provide a comprehensive report on measures that have been taken to ensure consequence management of officials where projects have been underspent/overspent and key performance indicators have not been achieved in the 2019/20 financial year. The report must be submitted to the Section 79 Economic Development Committee by August 2021.**

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61 That the accounting officer through GRAS strengthen an oversight responsibility by implementing internal controls to exercise sufficient control discipline over financial reporting and compliance with key legislation.

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THE NEXT ITEM FOLLOWS THE ANNEXURES TO THIS ITEM