

City of Johannesburg Council 2023-05-12

COJ : MUNICIPAL PUBLIC ACCOUNTS COMMITTEE 2021-04-21

COJ LEGISLATURE

2 OVERSIGHT REPORT ON THE 2021/22 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 for approval, in terms of section 129 of the Municipal Finance Management Act (MFMA) of 2003, the oversight report on the 2021/22 integrated annual report of the City of Johannesburg.

3 SUMMARY

- The 2021/22 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 the audit report of the Auditor-General of South Africa (AGSA) contained more repeat material findings. The deterioration in audit outcomes for Johannesburg Housing Company (JOSHCO) is worrying, as the entity regressed from unqualified with findings to qualified with findings, with no entity auditee in the group obtaining clean audit.
- The overall financial health of the City remained a concern with a slight regression in the current financial year, some of the key concerns are significant challenges with the collection of revenue, material losses of electricity and impairment of debtors. The City's high debt levels remains a threat to the liquidity with the loans and borrowing of R23.7 billion when compared to total current assets of R23.2 billion.
- Procurement continues to be a significant contributor to the poor audit outcomes. This is the result of inadequate implementation of internal controls and decentralised supply-chain management processes. Irregular expenditure has increased to unacceptable levels, as has the possible abuse of MFMA regulation 36(1)(a)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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- Vacancies at senior management levels contributed significantly to the poor performance. The boards of many municipal-owned entities have similarly not appointed senior managers, sometimes with unexplained delays in recruitment processes. Senior managers that are either full-time or acting have not adequately been held to account for poor performance, this was a concern even in the previous year.
- Consequence management for poor performance and non-compliance with legislation is inadequately implemented:
 - The root cause is the failure of senior management to hold officials accountable.
 - There has been minimal disciplinary action taken against senior managers who have not adhered to delegated responsibilities, particularly the prevention of unauthorised, irregular, or fruitless and wasteful expenditure (UIFW expenditure).
 - 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.
 - It is unacceptable that despite the establishment of the disciplinary board by council on the 21st of April 2021 and eight years after the promulgation of the regulations requiring the establishment of the board, the board is not functional,.
- The poor role classification of the City`s departments is also causing a great confusion on who must do what, especially Group Forensic Investigation Services (GFIS), Labour Relations, Group Risk Assurance Services (GRAS) and City Manager Office. During the question-and-answer sessions with the Executive², it became apparent that there is poor allocation of roles especially on handling of disciplinary cases and management of financial and non-financial reporting which is detrimental to the performance of the City.
- The City has failed to complete a number of significant projects on time SAP system upgrade project , mSCOA and Tlhabologo projects due to the contractual issues and weak IT governance controls. This has led to the City incurring fruitless and wasteful expenditure for SAP licenses not used due to the delay in the rolling out the SAP upgrade. Hence the City is struggling to achieve its ICT goals through the effective use of technology.
- The Group Annual financial Statements submitted for Audit had material misstatements before correction on 62% of the auditees, Only two out of thirteen auditees were free from material misstatements on the component of the expenditure management and there was also a regression on the audit outcomes of the Audit of predetermined objectives with material findings raised by Auditor General of South Africa (AGSA) on 54% of audited Key Performance Indicators (KPI`s).

² See Annexure A for a full list of questions and answers by the Executive.

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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 report³. 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 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.

In the City of Johannesburg, Council delegated the responsibility to consider the annual report to the Municipal Public Accounts Committee (MPAC)⁴ on 22nd February 2023. The Committee was tasked with drafting an oversight report on the annual report, which was supposed to be referred to the committee by council by the 31st of January, but due to delays which the mayor states the reasons during the tabling of annual report during the February council as required by MFMA section 127(3)(a), report was referred to MPAC on 22nd of February 2023. The oversight report was to be adopted by Council in an ordinary meeting before 31st March 2023, due to delays it will only be tabled in the Council ordinary meeting of 25th April 2023.

The oversight report must, as prescribed in 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 entities⁵. The annual reports of the 12 entities are included in the consideration process.

By the end of January, seven months after the financial year, the annual report of the municipality and any entity owned by the municipality must be tabled in council. Based on the above, council then uses the annual report to oversee the performance of the respective municipality.

³ In terms of section 121(1) of the MFMA and section 46 of the Municipal Systems Act (MSA), No. 32 of 2000

⁴ As envisaged in section 129 of the MFMA and Circular 32 of the MFMA

⁵ The twelve entities are: City Power, Joburg Market, 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 (JOSHO), Johannesburg Water, Metropolitan Trading Company (MTC), and Pikitup.

COJ LEGISLATURE**5 FINDINGS, OBSERVATIONS AND RESERVATIONS****(1) AUDIT OUTCOME**

The City achieved an unqualified audit outcome with findings, the same outcome as the 2020/21 financial year. This is well short of a clean audit outcome⁶.

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 reported⁷ 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 review

Table 1: Audit outcomes for the City of Johannesburg

FINDINGS	2019	2020	2021	2022
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	No 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 inspect whether service delivery has taken place, only whether there is sufficient audit evidence to support the claim that there is service delivery.

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 A clean audit would be an unqualified audit outcome with no material findings.

⁷ Only the IDP scorecard is audited.

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(a) MATERIAL FINDINGS ON REPORTED PERFORMANCE

While the annual report contains 60 key performance indicators (KPI`s), only 13 indicators were audited by the AGSA as part of the audit. The 48 indicators form part of the revised Institutional Service Delivery Budget Implementation Plan for 2021/22 and are categorised under priority number 1 (A City that gets the basics right) in seven mayoral priorities. Of the seven priorities, only one was audited. Of the thirteen KPI`s from the mayoral priority number one, material misstatements were identified for seven indicators under this priority. For these seven indicators, there was insufficient audit evidence to determine actual performance, Management submitted supporting evidence that materially differed from the reported achievement or management did not clearly define some measurement method used for some indicators.

Table 2: Audit of priorities of the SDBIP 2021/22

PRIORITY	AUDITED	MATERIAL FINDINGS
Priority 1: A City that gets the basics right	Yes	Material findings
Priority 2: A safer and secure City	<i>No</i>	<i>Not audited</i>
Priority 3: A caring City	<i>No</i>	<i>Not audited</i>
Priority 4: A business – friendly City	<i>No</i>	<i>Not audited</i>
Priority 5: An inclusive City	<i>No</i>	<i>Not audited</i>
Priority 6: A well-run City	<i>No</i>	<i>Not audited</i>
Priority 7: A smart City	<i>No</i>	<i>Not audited</i>

Source: 2021/22 annual report and audit report

Under Priority 1, there were thirteen indicators which were sampled for audit by the AGSA and material findings were identified on seven indicators. Human and Social Development, Transport Department and Environmental Infrastructure and Social Development (EISD) are the custodians of these indicators and did not submit or provided supporting evidence that materially differs from the information reported in the annual performance report. The table below depict the sampled key performance indicators(KPI`s).

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Table 3: Material findings on reported performance

PRIORITY	INDICATOR	TARGET	REPORTED PERFORMANCE	AGSA FINDING
Priority 1	Percentage of Households with access to water	97.89	99.79	No sufficient appropriate audit evidence for reported achievement.
Priority 1	Percentage of Households with access to Sanitation	93.14	93.01	No sufficient appropriate audit evidence for reported achievement.
Priority 1	Number of lane km of road resurfaced	70L/KM	131.10L/KM	Evidence submitted material differs from reported achievement
Priority 1	Number of gravel km upgraded and surfaced	15.11km	20.86km	Evidence submitted material differs from reported achievement
Priority 1	Number of kilometers of open storm water drains converted to underground systems	3km	3.05km	Evidence submitted material differs from reported achievement
Priority 1	Number of indigent households benefiting from ESP (free basic services)	120 000	152 248	Evidence submitted material differs from reported achievement
Priority 1	Total water loss	21%	31.8%	The indicator was not clearly defined and the method used for calculation was not clear.

Source: 2021/22audit report

It appears that issues are only detected during the audit process, rather than through internal monitoring in-year and after year end. There is a clear need to review the reporting and auditing process. Group Strategy, Policy Coordination and Relations (GSPCR) must ensure that the evidence is available before the start of the audit, and that the calculations used to

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determine reported performance are appropriate. Group Internal Audit Services (GIAS) must audit the indicators and detect problems before the information is provided to the AGSA. During the question-and-answer sessions with the Executive⁸ GSPCR indicated that they have “started with the roll out and implementation of the Microsoft Power BI Performance Reporting Dashboard to enhance the monitoring and reporting and management of data in the City. They further state that on the 16 February 2023, the Quarter 2 SDBIP Performance was presented at GPAC through the Power BI. Subsequent to that, on 16th and 29th March 2023, the Power BI was introduced to Integrated Planning Committee (Management/ Executive/Strategic Support officials)”. It was also stated that Internal Audit conducted a Process Walk-Through on the system to ensure that it is credible and in line with the City’s planning documents. The reporting of the performance information remains a great concern to the council as there have been a regression on the usefulness and reliability of reporting in the indicators that are directly linked to the service delivery. The adverse audit opinion indicates that City can’t even keep the reliably supporting evidence on the reported performance information, of the core service delivery KPI’s, which weakens the oversight arm of the City as the executive can’t account on what is reported as the reported performance information was declared unreliably and useless by AGSA.

(b) MATERIAL NON-COMPLIANCE WITH LEGISLATION

Municipalities must comply with legislation promulgated by Parliament and the Gauteng Provincial Legislature, and all regulations promulgated under the legislation. During the audit, the AGSA assesses all documentation provided to determine whether there has been compliance with the legislation. The AGSA for the third consecutive year found material non-compliance within the City across all 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 repeated findings for each compliance area are deeply concerning. The regression—the increased number of material findings—demonstrates a failure of management’s efforts to effect change and a continued failure to hold officials accountable.

⁸ See Annexure A for a full list of questions and answers by the Executive.

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COMPLIANCE AREA	2020	2021	2022
Annual financial statements	Finding	Finding	Finding
Procurement and contract management	Finding	Finding	Finding
Expenditure management	Finding	Finding	Finding
Consequence management	Finding	Finding	Finding
Strategic planning and performance Management	Finding	Finding	Finding

Source: Audit reports of the City of Johannesburg

As there are too many material findings to be addressed in this report, only the most critical findings will be addressed in detail: First, Non- monitoring of the contractors/providers on a monthly basis, as this result to service providers getting paid more money than the work that they have completed. Second, failure to keep credible and reliable evidence on the reported performance information, this jeopardizes the oversight ability as we are relying on information that is not useful and credible for targets achieved in service delivery indicators. Finally, the continued failure to have an updated disaster recovery and business continuity plans, this is matter of urgency as the unforeseen events are occurring more often recently, outdated disaster recovery and business continuity plans exposes City to a huge risk. The matter urgently requires improved coordination between Group Information Technology and Group Risk. During the question-and-answer sessions with the Executive⁹ it was confirmed that the City to date does not have the tested and effective Business Continuity Plan, it was further stated that funding for the BCP project was catered for in the GRAS Demand & Acquisition Plan for 2022/2023 FY to augment current capacity, procurement has been deferred due to budget re-basing.

The most significant area of material non-compliance is with procurement and contract management. This is exacerbated by the absence of consequence management and disbandment of MPAC committee due to local government elections that took place in November 2021, Committee was only reestablished in February 2022 . The finding of the AGSA on consequence management is the failure to investigate the irregular expenditure arising from poor supply-chain management. While some—in terms of number, not value—irregular expenditure is the result of the failure of document management systems, a considerable amount of irregular expenditure is the result of non-compliance with legislation and regulations by senior management.

⁹ See Annexure A for a full list of questions and answers by the Executive.

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The city did not annual performance objectives and indicators for the municipal entities and included in the municipal entities multi-year business plans, as requires by the section 93B(a) of the MSA. In essence the budget was allocated to the entities from the city without the clearly defined service level agreement (SDA). When the committee enquired from the executive on how and why the SDA was not completed for the entities during the 2021/22 financial year it was stated that the addendum to the current SDA was signed.

Table 5: Material findings leading to irregular expenditure

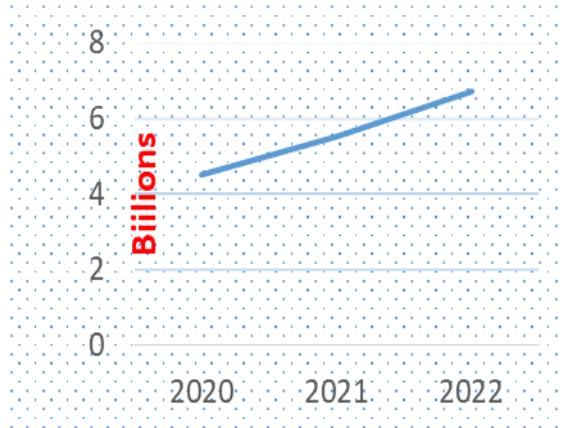
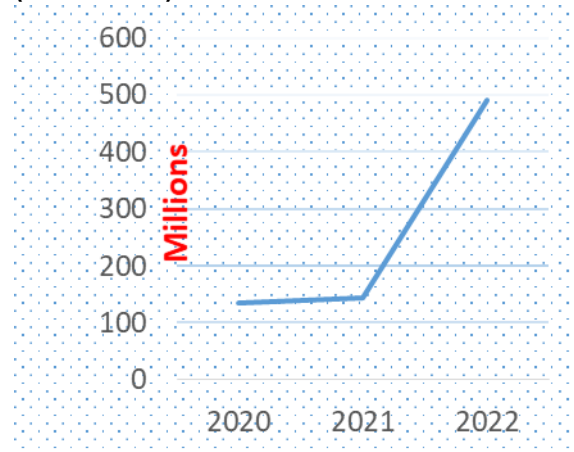
MATERIAL FINDING	2020	2021	2022
Procurement of goods and services below R200 000 without obtaining the required price quotations	Finding	Finding	Finding
Procurement of goods and services above R200 000 without inviting competitive bidding	Finding	Finding	Finding
Deviations for impracticality approved where it was not impractical to invite competitive bids	Finding	Finding	Finding
Contracts awarded to bidders who had not submitted a declaration of local production and content	No finding	Finding	Finding
Quotations accepted from bidders who did not submit declaration on whether employed by the state	Finding	No finding	finding
Contract performance and monitoring measures and methods were not sufficient to ensure effective contract management	Finding	Finding	Finding
Awards made to companies who directors were in service of state institution	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: Audit reports of the City of Johannesburg

All unauthorised, irregular, or fruitless and wasteful expenditure (UIFW expenditure) must be recovered or written off. The expenditure must be recovered if an official is found to be liable because he or she acted deliberately or negligently. For at least the previous five financial years, despite the creation of Group Forensics and Investigation Services (GFIS), there have been very few recoveries. This has been combined with a clear failure to prevent the incurrence of UIFW expenditure. When the accounting officers were asked whether he fulfilled his legislated mandate to prevent UIFW expenditure, he indicated that the recent approval of the re-establishment of the Disciplinary Board and the pending appointment of its members, the implementation of consequence management will be enabled. The operationalization of the Disciplinary Board is a high priority of the Office of the City Manager. The disciplinary board referenced by accounting officer was established by council in April of 2021, but is non-functional to date.

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COJ LEGISLATURE**Graph 1: Cumulative irregular expenditure for CJMM, excluding entities (R' billions)***Source: Audited Group AFS***Graph 2: Cumulative fruitless and wasteful expenditure for CJMM, excluding entities (R' millions)***Source: Audited Group AFS***(c) AUDIT OUTCOMES OF ENTITIES**

The City has 12 entities. Each entity is subjected to the same audit as CJMM. In 2017/18, the Group had four entities with clean audits namely: Johannesburg City Parks and Zoo(JCPZ), Johannesburg Road Agency (JDA), Johannesburg Property Company (JPC) and Johannesburg City Theatres (JCT). Since then, there has been a stark deterioration. For 2018/19, JCPZ and JPC lost their clean audits outcome, for the first time in several years, JCT and JDA lost theirs during 2019/20 financial year. This leaves the group without any clean audits for the third consecutive year, during the 2020/21 financial year the Group had one entity (MTC) with qualified audit opinion, during the year under review JOSCO regressed to qualified audit opinion. It is worth stating that out of 13 COJ group auditees 8 of them had material misstatements in the financial statements submitted to AGSA before the correction, hence the City is on the brink of obtaining qualified opinion in the overall financial statements if the internal controls around the process of preparing annual financial statements are not strengthened urgently. Executive indicated that they are various causes of material findings in the annual financial statements which includes the following amongst others: The workings for the preparation of the Financial Statements are done manually on excel spreadsheets due to the accounting systems, that were implemented in 2007, which does not comply with requirements of current accounting standards and best practice. Due to the size and complexity of the City as well as the onerous requirements from an accounting standards perspective, the lack of automation results in human errors; Departments not

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declaring complete and accurate Irregular expenditure to GRAS; Audit file prepared by junior personnel and not reviewed by FD's and ED's and poor lack of monitoring of fixed assets by departments. The table below as depicts the audit outcomes of the Municipal Owned Entities for the previous four years.

Table 6: Audit outcome by entity

ENTITY	2019	2020	2021	2022
City Power	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
JCPZ	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
JDA	Clean	Unqualified with findings	Unqualified with findings	Unqualified with findings
JPC	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
Joburg Market	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
Joburg Theatre	Clean	Unqualified with findings	Unqualified with findings	Unqualified with findings
JOSHCO	Unqualified with findings	Unqualified with findings	Unqualified with findings	Qualified
JRA	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
Johannesburg Water	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
Metrobus	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
MTC	Unqualified with findings	Unqualified with findings	Qualified	Unqualified with findings
Pikitup	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings

Source: Audit reports of the City of Johannesburg

The financial statements of five of the twelve entities were free from the material misstatements before correction, while six entities had material misstatements that were eventual corrected after AGSA highlighted them to the management. The material misstatements of one entity (JOSHCO) could not be corrected, hence the entity got unqualified audit opinion on the financial statements. The major concern—and the symptom of the systematic absence of good governance across the City—is that all entities had material findings for expenditure management. The Group still have a long way to go in obtaining the clean audit in the annual financial statements as over 60% of the sets of financial statements submitted by the Group had the material misstatements that the AGSA had to assist management in correcting them.

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The CFO`s of the entities needs to implement a strong internal controls around the proper record keeping of information required to prepare the annual financial statements, as significant of the of the material findings raised by the AGSA around the financial statements relates to improper keeping of accounting records required to prepare the annual financial statements.

Table 7: Material findings for entities

ENTITY	PERFORMANCE REPORT	COMPLIANCE WITH LEGISLATION
City Power	No Material Findings	Material non-compliance
JCPZ	No Material Findings	Material non-compliance
JPC	No Material Findings	Material non-compliance
Joburg Market	No Material Findings	Material non-compliance
JOSHCO	No Material Findings	Material non-compliance
JRA	Material findings	Material non-compliance
Johannesburg Water	No Material Findings	Material non-compliance
JCT	No Material Findings	Material non-compliance
Metrobus	Material findings	Material non-compliance
MTC	Material findings	Material non-compliance
Pikitup	Material findings	Material non-compliance

Source: Audit reports of the entities of CoJ

The most disconcerting material non-compliance with key legislation was at City Power. The entity is responsible for 30%(R962 million) of the irregular expenditure incurred by the group during the financial year. The AGSA also identified that reasonable steps were not taken to prevent irregular expenditure or fruitless and wasteful expenditure. Out of all 12 entities, City Power appears to have the most work to do to improve compliance with legislation as it relate to procurement processes.

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The deterioration in audit outcomes for JOSHCO was the result of the incorrect disclosure of the commitments. During the question-and-answer sessions with the Executive¹⁰, it was stated that incorrect disclosure of commitments was due to the fact that entity over the past 3/4 years has taken on work on behalf of other departments, this led to an increased number of commitments in the register. The management of the commitments register became a challenge due to the large volume of transactions. There was also poor document management due to JOSHCO's office being under renovation and employees having to work from different locations and moving documents around with them to the different locations. Many documents were lost during these transitions. There was also lack of co-ordination in the process of the updating of the commitments register between the projects/development department, legal department, SCM department and Finance department. This led to many inaccuracies in the register as picked up by AGSA and eventually led to a qualified audit opinion.

(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 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 by their officials. 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, for the City and 12 of its entities, this was not the case.

The AGSA identified significant control deficiencies in every entity. Either the accounting officer failed to exercise adequate oversight, which was identified in CJMM and twelve entities, and/or senior management lacked the necessary control disciplines, which was identified in CJMM and twelve entities. For CJMM and all twelve entities, the accounting officer failed to take adequate steps to prevent UIFW expenditure, which is required by legislation. The last finding is significant, as the amendment to the Public Audit Act makes it clear that the ultimate responsibility—and liability—for material irregular expenditure lies with the accounting officer. Despite the audit outcomes, senior managers, particularly in CJMM, faced little or no consequences for these failures.

¹⁰ See Annexure A for a full list of questions and answers by the Executive.

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The disciplinary action that has been undertaken appears to be ineffective. This may be the result of the City taking too long to conclude the disciplinary cases with some cases open for over 18 months, or some implicated officials moved from the core to the entities. As soon as an official is employed at an entity, disciplinary procedures are halted. Second, often officials resign after the commencement of disciplinary procedures. Disciplinary procedures are then ended despite, in many incidences, officials being liable for UIFW expenditure. The legislation is clear: officials that negligently or deliberate incur UIFW expenditure are liable for the expenditure, and that any loss that results from the expenditure should be recovered. It is startling to find that recoveries over the past four years—for a Group which has a budget in the fifties of billions of Rands- recoveries does not even equate to one million. The City is of the view that the recoveries should only be made for only fruitless and wasteful expenditure, not for irregular expenditure despite MFMA circular 68 being very clear that all financial losses resulting from irregular expenditure should be recovered. The city only verify if the service is rendered and not normally conduct the value for money assessment for irregular transactions to test recoverability of the transactions.

Table 8: AGSA opinion on internal controls by entity

ENTITY	ADEQUATE STEPS NOT TAKEN TO PREVENT UIFW EXPENDITURE	ACCOUNTING OFFICER DID NOT EXERCISE ADEQUATE OVERSIGHT	SENIOR MANAGEMENT LACKED NECESSARY CONTROL DISCIPLINES
CJMM	Finding	Finding	Finding
City Power	Finding	Finding	Finding
JCPZ	Finding	Finding	Finding
JDA	Finding	Finding	Finding
JPC	Finding	Finding	Finding
Joburg Market	Finding	Finding	Finding
Joburg Theatre	Finding	Finding	Finding
JOSHCO	Finding	Finding	Finding
JRA	Finding	Finding	Finding
Johannesburg Water	Finding	Finding	Finding

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ENTITY	ADEQUATE STEPS NOT TAKEN TO PREVENT UIFW EXPENDITURE	ACCOUNTING OFFICER DID NOT EXERCISE ADEQUATE OVERSIGHT	SENIOR MANAGEMENT LACKED NECESSARY CONTROL DISCIPLINES
Metrobus	Finding	Finding	Finding
MTC	Finding	Finding	Finding
Pikitup	Finding	Finding	Finding

Source: Audit report of the entities of CoJ

Vacancies are another cause of the poor performance. There are several senior manager positions vacant with acting appointees, such as the Group Chief Financial Officer, Executive Director: Corporate and Shared Services, Executive Director: Health, Executive and the Group Head : GFIS, to name a few. The vacancies in entities are as numerous and have directly resulted in the deterioration in audit outcomes. The problems are so severe that the AGSA flagged the entities poor performance as due to instability in leadership positions. While Council has had difficulty appointing senior managers, the board of entities have little excuse for the problem that jeopardises the entities of the City. Even with the vacancies, acting officials must be held accountable.

As well as the poor leadership, another root cause is a failure to manage a disintegrated operating system in the City of Johannesburg Metropolitan Municipality. This is the opinion of the AGSA, which is a view that is strongly supported by MPAC. Examples of this are numerous: Most significantly, the role of Group Strategic Supply Chain Management is largely advisory, as user departments responsible for procurement. This has resulted in irregular expenditure, as officials who do not specialise in procurement are tasked with managing supply chain management processes, some of which are extremely complicated. The approach also results in each department procuring its own goods or services when coordinating procurement for multiple departments may result in economies of scale that would allow the City to leverage its size to improve value for money. The same issues affect material findings on reported performance, as there is a lack of coordination and standardisation in processes. Invoicing is decentralised, where invoices are sent to user departments, some of which are tardy with the forwarding of invoices for payment to Group Finance, the result of which is the failure of the City to pay service providers within 30 days. The decentralised nature of disciplinary processes has resulted in the uneven implementation of disciplinary proceedings, where some departments take overly long to discipline its officials while advice is provided by human resources field officers that do not specialise in the management of disciplinary procedures.

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(e) KEY AUDIT MATTERS AND EMPHASIS OF MATTERS

The audit report includes sections on key audit matters (KAMs) and emphasis of matters. While neither affects the audit outcome, each is significant in understanding the state of the City. KAMs were implemented to increase transparency around the audit process and highlight the areas that are of significant risk of material misstatement or areas of significant judgement by the auditor. For the City, the KAMs is the revenue from the service charges for water and electricity due to significant judgement applied in calculating the estimation of consumption in the recognition of revenue. Emphasis of matters, in contrast, are the aspects of the financial statements that, in the view of the AGSA, are the most important to understanding the financial statements. The emphasis of matters are repeat matters from the previous financial year: the restatement of corresponding figures, material contingencies, material impairment of debtors and material electricity losses.

With regards to the four emphases of matters, the restatement of corresponding figures is likely the result of the material misstatements in the annual financial statements that were detected and corrected by the AGSA. As long as there are misstatements in the annual financial statements submitted for audit, there will likely be the restatement figures from the previous financial year. Material uncertainties, which loosely translates into incidences where the City is being sued and *may* lose money going forward, were considered in-depth during the consideration of the annual report. The high number of lawsuits is demonstrative of poor contract management and supply-chain management. Material impairment of debtors and material electricity losses continue to jeopardise the financial wellbeing of the City. Each emphasis of matter is addressed below, in the section of financial performance.

(2) FINANCIAL PERFORMANCE

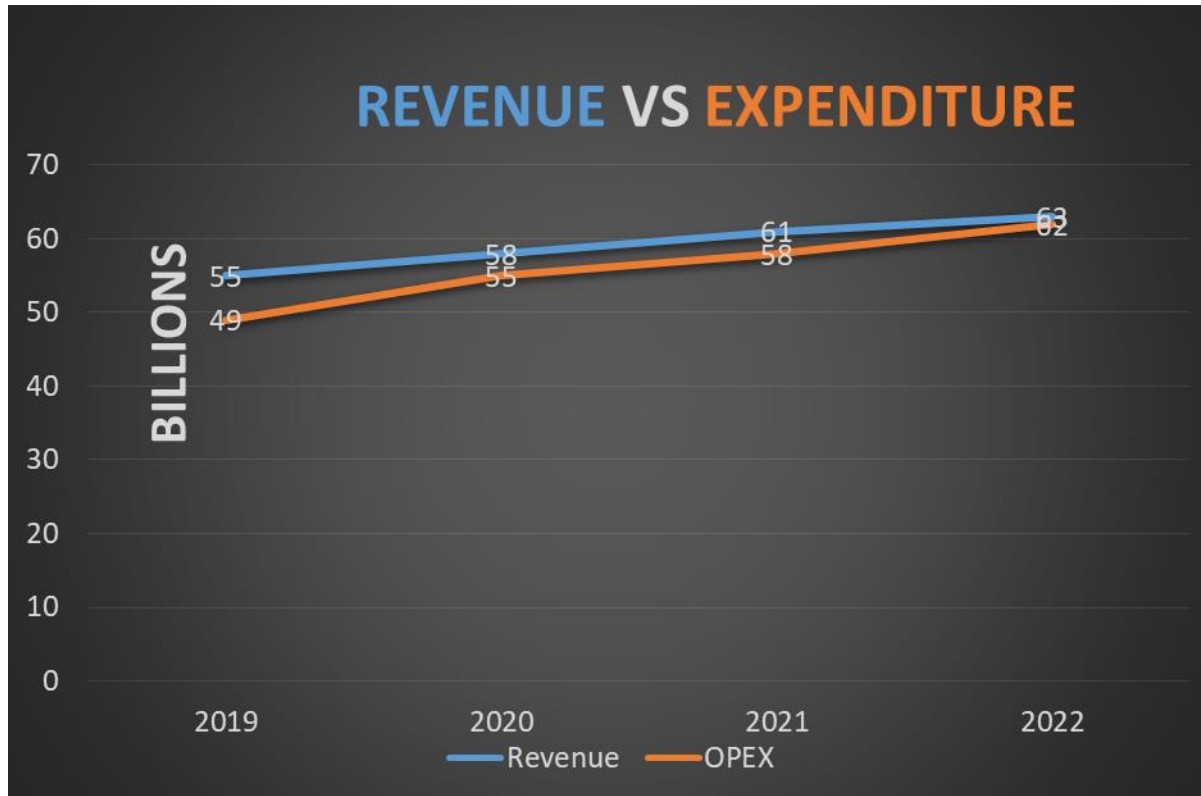
Though the City realized a surplus in the current financial year. There have been an insignificant increase of only 3% in the total revenue from R61.1 billion in the previous financial year to R62.6 in the current year, while total expenditure increased by 6% from R5.7.8 billion to R61.5 billion in the current year. The surplus for the decreased by 336% from R3.7 billion in the previous year to R1.1 billion in the current year. The decrease in surplus was due to more increase in OPEX than the increase in revenue.

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Graph 3: Revenue and expenditure for the Group (R' billions)



Source: Audited Group AFS

(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 & sanitation charges 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, it is concerning that the revenue billed will not be collected as the City is struggling to collect revenue, this will negatively impact the city to fund its operations as it mainly rely on the revenue from rates and service charges to fund the operation.

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SOURCE OF REVENUE	2022	INCREASE	INCREASE %
Sale of electricity	R 17.1bn	R 1.6bn	10.00%
Sale of water	R 7.82bn	R 0.60bn	8.33%
Refuse removal	R 1.87bn	R 0.28bn	14.97%
Sewer & Sanitation Charges	R 5.69bn	R 0.56bn	10.9%
Property rates	R 13.49bn	R 0.46bn	3.53%
Grants & Subsidies	R 12.1bn	-R 0.50bn	-4.13%
Total increase		R 3.00bn	43.6 %

Revenue increased for all the service charges. This is despite revenue from services rendered being R3.8 billion under the adjusted budget. The City indicated that under recovery was largely attributable to a decreased in water and electricity consumption in business and institutions resulting from load shedding, lockdown restrictions and increased distribution losses [s]¹¹. All the service and the rates billed were subjected to the tariff increase during the financial year.

Impairments—revenue billed that will most likely not be collected—increased materially to R37.9 billion from R32.7 billion. The result of repeated annual impairments is that 82.15 percent of the debtors' book is now impaired, which is lost revenue to the City. Much of this revenue may not be collectable, as there are complex societal issues and poverty underlying the failure of households and businesses to pay. But it is clear that the City could do better; perhaps the rollout of the smart meters is the first step in the implementation of the improved billing and collection of revenue.

Over and above impairment losses, electricity and water losses cost the City R6.2 billion in 2021/22 financial year. The City procures electricity from Eskom and water from Rand Water. The losses consists of the electricity and water bought but the City did not get return due to theft, illegal connections just to mention few. The electricity and water, losses are financially material, and increasing substantially. Non -technical electricity and water losses are the highest contributors of the losses sitting at R2.8 billion (69%) and R1.5 billion (71%) of total losses respectively. The increase in non-technical electricity losses—which includes billing errors, bypassing and tempering of meters, and illegal connections—this is deeply concerning as the entities together with the Group finance department are doing very little to address this issues more especially enforcement of the by-laws on illegal connections and improvements in the actual and accurate billings. The graph below depicts the trend on the water and electricity losses:

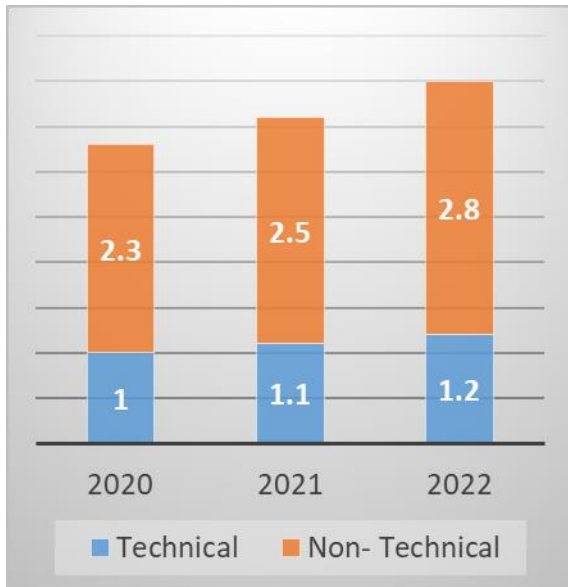
¹¹ Note 2.2 of the Statement of Comparison of Budget and Actual Amounts.

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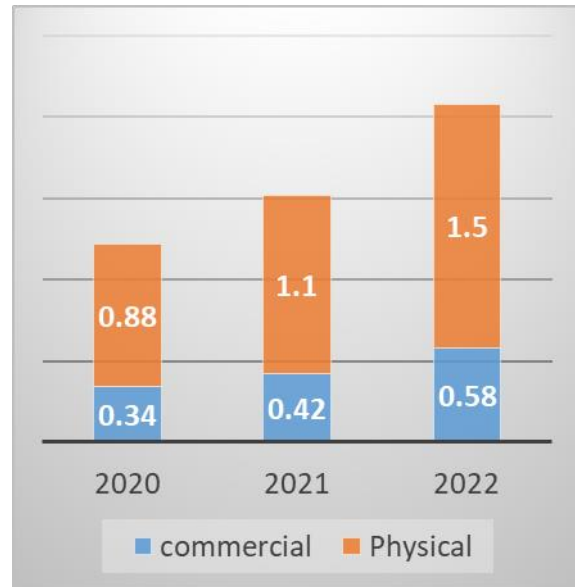
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Graph 4: Electricity losses (R' billions)



Source: Audited Group AFS

Graph 5: Water losses (R' billions)



Source: Audited Group AFS

(b) EXPENDITURE

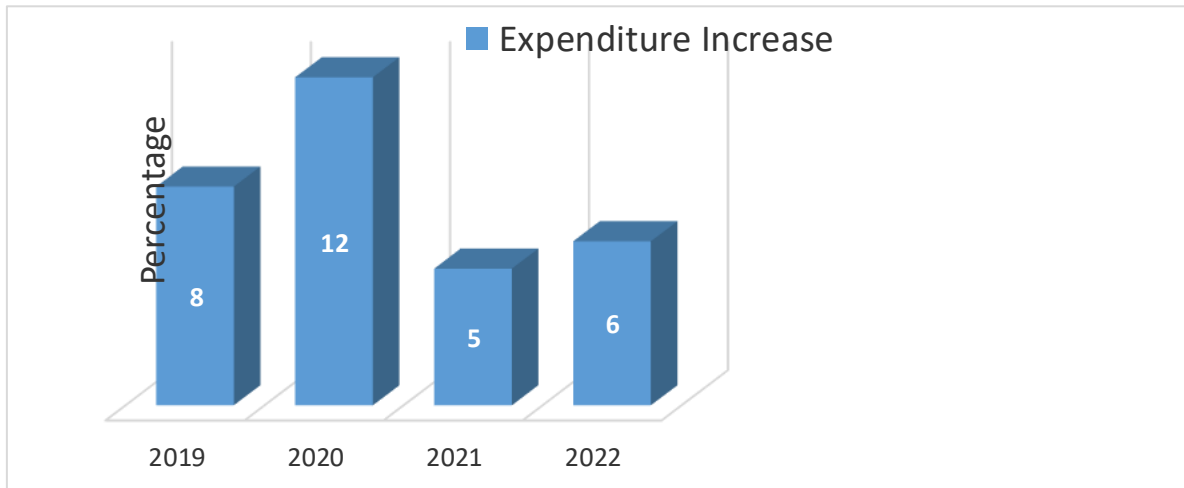
The Committee sees a clear attempt to manage expenditure to ensure the financial sustainability of the City. While, overall, expenditure increased by only six percent—driven largely by employee-related costs, bulk purchases and expenses, this shows a significant improvement from 12% increase during the 2020 financial year. The percentage of expenditure increase have been below 10% from 2019, except for 2020 financial year due to expenditure incurred to comply with COVID-19 regulations.

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Graph 5: Total expenditure Increase (Percentage)



Source: Audited Group AFS

The employee cost only increased by 6% in the current financial year which is the same percentage as previous financial year, this increase is mainly due collective bargaining agreement stipulated a raise of five percent for all employees (excluding senior management), the low percentage of increase in the employee related costs is exacerbated by high vacancy rate.

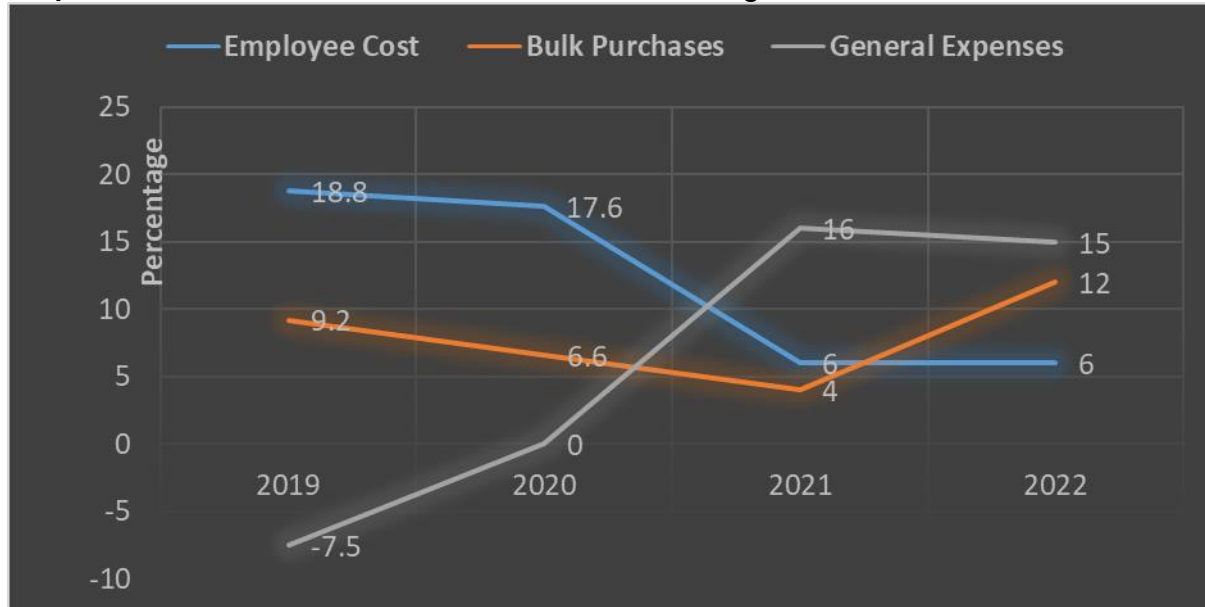
The cost for bulk purchases increased by 12.5% in the current financial year from 4% increase in the previous financial year. The committee feels that the cost of bulk purchases can still be reduced significantly, if the losses of the bulk purchases are managed efficiently as they losses constitute almost 30% of the total bulk purchases. However, the committee noted the intention by the council to reduce its expenditure as depicted in the graph below:

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Graph 6: COST DRIVERS OF EXPENDITURE (Percentage)



Source: Audited Group AFS

The upward trajectory in bulk purchases was due to increase in demand during the financial year as there was low demand in the previous financial year due to lock down. The significant proportion of the general expenditure is fleet cost which is shared service at the City, it is worth noting that this cost is responsible for significant proportion of the irregular expenditure across the City, due to AVIS contract that was declared irregular during the 2018/19 financial year.

The straight trajectory for the employee related cost can be attributable to the City not having recruitments in the bulk intakes in general workers, JMPD officers and cleaners & securities. Unlike in the previous three financial years where City was on recruitment drive.

(c) FINANCIAL SUSTAINABILITY

The overall financial health of the City remained a concern with a slight regression in the current financial year. Some of the key concerns remains under revenue management expenditure management, cash management and assets and liabilities management. The credit rating opinion issued by Moody's Investors Services in April 2022 was updated following the update sovereign action to "Ba3 stable" which is an improvement as compared to 2021 financial year rating opinion of "Ba3 rating on review". Although the current upgrade in the credit rating will assist the City on plans to raise funds considering the stable rating received, the liquidity of the City remains a concern as the City is highly indebted with the loans and borrowings of R23.7 billion when compared to total current assets of R23.2 billion.

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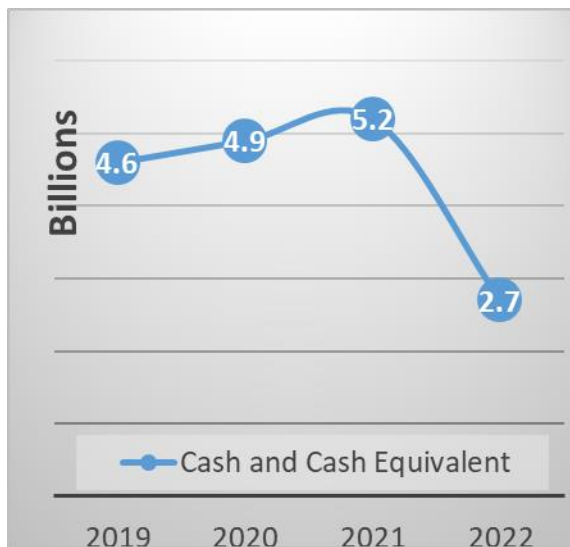
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The City has set up a sinking fund to ensure that there are sufficient funds to redeem the loans and bonds when they fall due. However, the fund appears to not be efficient as the value of fund is R3.1 billion in comparison to the balance of loans and bonds of R23.7 billion is too minimal. This is a concern because when the loans and bonds are due for settlement in future, sufficient funds may not have been accumulated in the fund to cover the loans redemption. The City may find itself having to raise further loans just to settle the loans and bonds due for redemption rather than to finance key projects.

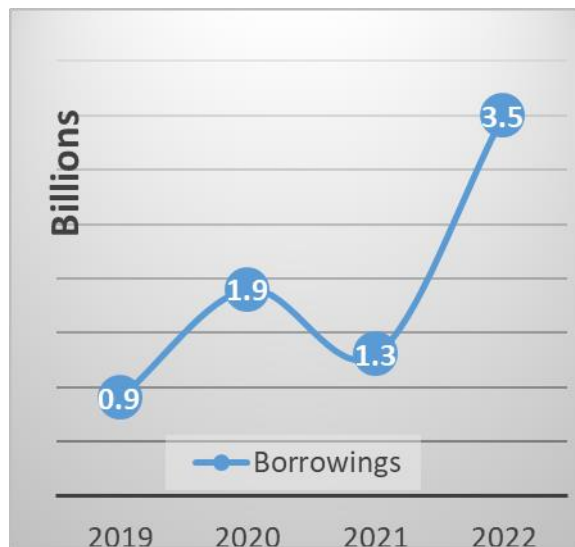
Despite the positive credit rating, the cash position of the City is concerning noting that the current recorded cash and cash equivalent balance has significantly decreased to R2.79 billion from R5.25 billion recorded in the prior year, indicating that the City financial health is under pressure as depicted in the graphs below:

Graph 7: Cash and cash equivalents (R' billion)



Source: Group audited AFS

Graph 8: CURRENT PORTION OF LOANS AND BORROWINGS (R' billions)



Source: Group audited AFS

The high amount of current portion of the loans and borrowings indicates that the City might at risk of not be able to cover its current obligations with the cash that is available at the bank. The resumption of the City to be a net borrower, while within the National Treasury norm, should be carefully watched going forward. According to the Municipal Borrowing Bulletin, the City has a materially higher debt-to-revenue ratio than other metropolitan municipalities. There is no metropolitan municipality in South Africa that has borrowed as much as the City as a percentage of revenue. It should be noted that financing costs expense of the City was over R2.6 billion in 2021/22.

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COJ LEGISLATURE**(3) SERVICE DELIVERY PERFORMANCE**

The revised SDBIP for the 2021/22 financial year consist of 60 (sixty) Key Performance Indicators (KPI`s) and targets to drive the strategic agenda for the financial year. The reported actual performance is derived from departments and the entities quarterly performance report against the corporate scorecard. During the year under review City had sixty indicators and the targets, of which thirty - six (36) were achieved twenty – two (22) were not achieved. 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 AGSA only audited five KPIs` for core and one for each entity of which 54% of them material misstatements were identified by AGSA.

Table 10: Percentage of targets achieved as per service delivery performance plans

ENTITY	2020	2021
CJMM	66%	57%
City Power	42%	55%
JCPZ	80%	74%
JDA	53%	42.9%
JPC	30%	33%
Joburg Market	71%	100%
Joburg Theatre	81%	95%
JOSHCO	30%	31%
JRA	61%	62.5%
Johannesburg Water	84%	80%
Metrobus	70%	89%
MTC	46%	40%
Pikitup	53%	82%

Source: 2020/21 and 2021/22 annual reports of the City of Johannesburg and its entities

(a) PERFORMANCE OF DEPARMENTS AND ENTITIES

Section 79 portfolio committees perform extensive in-year oversight over the various departments and entities of the City. The committees analyse quarterly performance, request various reports from the Executive, and conduct 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. The following is a summary of key findings of these oversight committees: ¹²

¹² See Annexure D for S79 inputs

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For **Integrated Waste Management**, Increasingly, operational landfill sites are left with less than 5 years of disposal air space as the City disposes over 1.4 million tons of waste annually. For 2021/2022 financial year, the overall total of waste diverted from landfill was 242 573 tonnes, up from 234, 845 tonnes in the previous year. The increase in tonnage (which is 23% of the waste that was generated) in FY/22, demonstrates growing volumes of waste generated in the City and the diminishing landfill space for waste disposal. This is a great concern because City might find itself without any landfill site to dispose the waste.

The **Air Quality Management** It is clear that beside the climate no longer being stable, air pollution is fast becoming the key marker of our times. Therefore, the Department's quarterly reports on the management of Atmospheric Emission Licenses (AEL) is crucial tool for monitoring air quality. During the 2021/2022 financial year twelve (12) Air Emission Licenses (AEL) compliance inspections were undertaken during the year as part of compliance monitoring of the AEL issued by the City. Overall, a total of 2388 applications were reviewed during the year with 91% of Land use and JPC applications reviewed within guideline timeline and 70% EIAs reviewed within guidelines timelines.

The **Issuing of title deeds and Refurbishment of hostels** In terms of the refurbishment of the Old Age homes 5, no target was reported. Same applies to the refurbishment of Hostels, 5 was reported to have been achieved without any targets mentioned. It is worth noting a total of number of 2811 title deeds were issued against a target of 2810, still with no breakdown of who the beneficiaries are, in terms of how many women and child headed households.

Johannesburg Metropolitan Police Department (JMPD) In terms of the safety of residents department has surpassed its target in relation to enforcement activities to address crime in the City. This saw the Department implementing 1777 joint operations. These number of joint operations can be attributed to the Buya Mthetho. Also the Department has implemented 8984 traffic enforcement operations across the City. The Department conducted a total of 436 drug search and seizure operations against an annual target of 85 operations, which represents a 412% over-achievement. The establishment of the Land Invasion Unit has seen the JMPD conducting 143 operations during the reporting period, despite the glaring shortages of personnel.

The **Licensing services** partnered with Road Traffic Management (RTMC), the aim was to improve licensing services through upskilling and developing employees. As a result 107 Licensing officials have been trained on Front line end user, Helpdesk administration and Electronic Vehicle Testing. A

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satellite office has been open at Thuso House, Braamfontein to accelerate service delivery. However, with that being said the Committee has noted that the Touters are still a problem in the centers.

Emergency Service Management: The City has surpassed its target in relation to the KPI on the number of buildings inspected. The target for the year was 2800 and the Department inspected a total of 6224, representing more than 122% increase. A total of 1879 flammable substances installations were inspected against the target of 1000, representing an increase of 88%. Also a total of 789 liquor outlets, places of entertainment and taverns were inspected against the target of 700, representing a 12% increase in yearly targets. A total of 3628 community members were trained against the target of 1579, representing more than 130% increase in yearly targets. Whereas a total of 1154 teachers were trained against the target of 200, representing a whopping increase of 477%. That said, however, the Committee is concerned that the Department failure to meet the target in relation to percentage fire calls responded to within 3 minutes.

The concerns around **Development Planning** division are the ongoing technical and operational glitches of the CPMS which lead to delays in in the processing of building plan applications The vacant senior/management level positions which pose operational challenges and impact overall service delivery. The lack of litigation budget required to institute legal action against properties that are not compliant and lack of budget and work stoppages experienced at the Jabulani TOD due to the withdrawal of the NDPG grant allocation by National Treasury.

Library and Information Services By end of the fourth quarter a total of 449,552 users accessed electronic resourced registering a cumulative total of 1,230,635 for the financial year. A total of 82 libraries out of the 89 were opened and offered limited services and online programmes. The availability of free Wi-Fi within library premises encouraged community members to use the internet via their own devices, which further increased the number of people accessing library facilities. Individuals accessing the eLearning programmes in 2021/22 were 115 551. The Libraries Youth Skills Development and Digital Transformation Programme employed 90 youth during the period.

Sports and Recreation: The City recorded over 4 million users accessing sport and recreation facilities as well as 367,559 participants in community swimming pools. This is a drastic increase from 2020/21 financial year where 829 945 individuals accessed the City's facilities due to sever lockdown restriction. COJ also hosted and facilitated a broad spectrum of mass participation events. One of which is the Senior Invitational Athletics series hosted at Roodepoort Athletics which attracted participants from neighbouring countries and abroad. Priority sporting codes were also implemented successfully, with the department implementing 20 sporting

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codes with various sports and recreation clubs. This initiative provides formal sporting opportunities and supports the department's goals of improving sport performance through an integrated and sustainable club structure.

Environmental Awareness: COJ through JCPZ has also contributed to environmental awareness by implementing various programmes which includes topics as biodiversity, wetlands, water, birds, wildlife and nature reserves and poaching issues. By end of 2021/22 financial year, a total of 56 905 participants were reached through the Environmental Education & Awareness Programme and the Masibambisane Zoo Programme.

(b) CONCERNS AROUND REPORTED PERFORMANCE

On the 16 of March 2023, as part on the annual report process the committee held a roundtable discussion with the public and five professional stakeholders to solicit their inputs in the 2021/22 Annual Report. The stakeholders or residence express their dissatisfaction around the inconsistency on the reported performance and the actual reality they experience on daily basis. They indicated that City is failing to deliver basic services. In the Inner City in particular, but in many other areas, there is limited collection of trash, cleaning pavements and appropriate by-law enforcement. This is despite the reported improved performance on the collection of refuse. They further state that despite reported performance on revenue collection, billing is a significant issue for property owners, with a participant in roundtable claiming that officials have requested bribes for the connection meters. A huge challenge for City Power is the corruption within their contractors. The stakeholders experience on the ground indicated that there are many cases of contractors threatening to disconnect properties (without a valid disconnection card) in order to elicit bribes. This seriously damages City Powers reputation, as most people do not know they are contractors and think they are City Power employees. It is also important to note that most contractors will deliberately work after hours or over weekends in order to extort more money out of City Power, is anyone looking into this?

For members of the Municipal Public Accounts Committee, the problems with the annual report and the approach of the City is palpable. The disconnect between reported performance and what the 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 to business that are in substantial arrears.

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(c) CONDITIONAL GRANT EXPENDITURE

The City is provided monetary transfers from the National Government and the Gauteng Provincial Government, some of which is transferred only once certain conditions are met. These grants are provided to enable service delivery, in particular by providing funding for capital expenditure. In 2021/22. As of 30 June 2022, the City had failed to spend R71.6 million of funding provided by these grants. This performance requires significant improvement, as the failure to spend grant money delays or denies the provision of services to local communities. While over previous financial years the administration paid back hundreds of millions of rands in conditional grants, the continued failure to timeously spend grant funding is unacceptable.

Table 11: Conditinal grants paid back in 2021/22

Grant	Amount paid back
Provincial Grants (Operating Projects)	R2million
Municipal Emergency Housing Grant	R57.3million
Jozi Ihlomihle (HIV/AIDS) Provincial Grant	R7.9 million
Energy Management Grant	R4.4million
Total paid back	R71.6million

Source: Group audited annual financial statements

(4) CONCERNS**(a) NONFUNCTIONALITY OF THE DISCIPLINARY BOARD**

The terms of reference for the disciplinary board was initial adopted by Council on 20 April 2021, and further amendments to the terms of reference were approved by Council in May 2022, which management indicated that they are non-complying with regulations. Again council rescinded the amended terms of reference in March 2023. During the question and answers session management indicated that "as per delegation to the Executive Mayor, by way of Council resolution on the establishment of the Disciplinary Board, the members of the Board will be appointed at the next meeting of the Mayoral Committee in April 2023. A report on the exercise of this delegation for the appointment of members will be submitted to Council at the next sitting of Council. "It was further stated that the meantime, the Office of the City Manager is working on finalizing the Standard Operating Procedures to ensure that the DB is operational upon appointment of the members.

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The Committee has worked hard to correct this, notably by publicly and privately lobbying for the establishment and functioning 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 disciplinary board, which is an independent advisory body, is also tasked with monitoring 'the institution of disciplinary proceedings against an alleged transgressor'. The City has established a disciplinary board however it is not functional. From a recommendation contained in the 2019/20 oversight report on the annual report, Council resolved *"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"*. Since then, MPAC has repeatedly followed up on the matter, each time being assured that the board will be established and functional. The Executive must take swift action to ensure that the board is functional.

(b) FAILURE BY GROUP AUDIT COMMITTEE (GAC) AND GROUP RISK GOVERNANCE COMMITTEE (GRGC) TO PRESENT COMMITTEE'S INPUTS ON ANNUAL REPORT TO MPAC

Prior commencement of the process of preparing the oversight report the committee send to council the process plan to be approved, with all the dates and purpose of each meeting. The council approved process plan on the oversight report on annual report clearly states that on the 10th of March the committee will receive inputs from the GAC,GPAC and GRGC. During the meeting the committee only received the presentation by the GPAC chairperson. GAC and GRGC chairperson indicated that they won't be available to present because they were just recently appointed and not ready to account to the committee. The committee is really concerned because this have become a trend as even in the previous financial year the committee didn't receive the inputs from the chairperson of the GAC, while a special meeting had to be scheduled to receive inputs from the GRGC chairperson in the previous financial year. The committee, despite the busy schedule had to organize an extra ordinary meeting to accommodate the presentations from these chairpersons on the 24th of March 2023, when councilors were supposed to be in recess. The timing of the Annual General Meeting (AGM) for the entities always clashes with the process of preparing oversight report on annual report, this means if the new chairpersons are elected the committee will always have challenges on getting inputs from committes on Annual Report. The committee through the office of the City Manager will require a detailed report on this matter and how this risk will be mitigated if new chairperson are elected.

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(c) LATE TABLING OF THE ANNUAL REPORT BY EXECUTIVE MAYOR

The tabling of the annual report on the 22nd of February 2023 and late establishment of the committee, compromised the committee`s oversight work as the annual report meetings were distracted by the council recess from the 24th of March 2023 to 12th of April 2023. The committee only had 5 weeks to complete the Oversight report. In a typical year the committee must have 8 weeks (two months) to prepare with the oversight on annual report as per MFMA Section 129(1). The time constraints hindered the committee from conducting effective oversight process as the committee was working on a tight deadlines more especially during the questions and responses sessions, committee had to seat for over nine hours in a meeting to deliberate on the responses from the executive for three consecutive days. The committee would like to encourage the executive mayor and Legislature to ensure that annual report is tabled by the 31st of January, for the committee to prepare the oversight report and submit to council by 31st of March before the council recess and Easter holidays. This seem to be a trend in the City as this was the case even in the previous financial year.

(d) NON-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. This is clear on the non - functional of the disciplinary board which the council established three years ago.

(e) THE ABSENCE OF CONSEQUENCE MANAGEMENT

Consequence management has been inadequately implemented in the City. Senior management have not been held to account for poor performance, particularly material findings of non-compliance with legislation. Investigations and disciplinary hearings are resolved at a leisurely pace, and suspended employees costed the City R10 millions during the year under review in salaries. There are two root causes for this: the failure of senior management to hold employees accountable and the poor performance of Group Forensics and Investigation Services (GFIS).

The breadth of scope of the terms of reference, and the approach of GFIS to investigate every reported incident, has resulted in GFIS being spread too thin, investigating too many matters that either should not have been investigated or could have been addressed in a less resource intensive manner. Because of this, investigations by GFIS take longer than necessary to complete and can be of inadequate quality. An unintended consequence

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of the mandate given to GFIS has been that senior managers and entities no longer conduct their own investigations into maladministration and non-compliance. The cases are referred to GFIS. While some cases necessarily have to be referred to GFIS, there will be cases where the evidence is readily available and the outcome clear cut. Having GFIS investigate is inefficient, it also lets senior manager vacate their mandate to hold officials accountable.

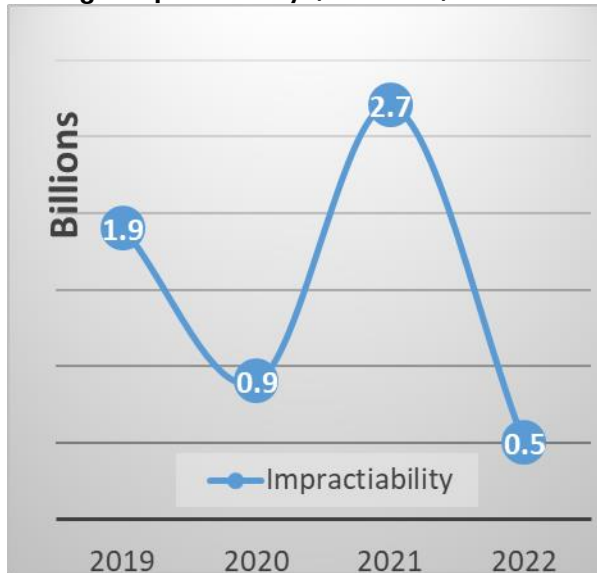
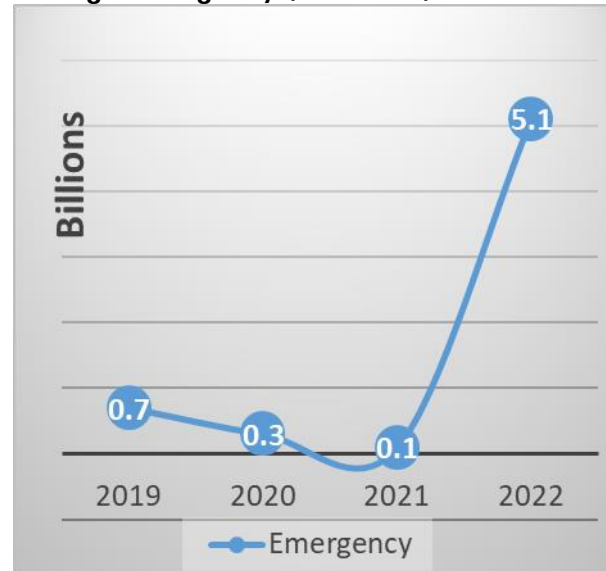
When GFIS was established, there was inadequate planning around the coordination between the new department and several other departments. While GFIS is tasked with investigations, the Labour Relations Unit (LRU) is tasked with advising on disciplinary cases in the City, and Group Legal and Contracts is tasked with managing any legal action that must be taken by the City. There is a clear need for a framework to be established that improves cooperation and coordination between the functions.

(f) THE USE REGULATION 36

While the use of regulation 36 is not illegally, it should also be taken into account that the Constitution of South Africa and the MFMA requires all procurement by municipalities to be fair, equitable, transparent, competitive, and cost-effective. This is not the case in the City as 90 to 95 % of transactions procured using regulation 36 results in Irregular expenditure, AGSA indicated that significant proportions of transactions were regulation 37(1)(a)(i) is mainly due to poor planning and ineffective contract management internal controls. The committee noted the material decrease in the use of regulation 37(1)(a)(v) in the current year. However the committee is not certain whether the decrease in the use of impracticality will continue in the next financial year, as there are no efficient controls that the decrease can be attributable to. The committee noted the municipality elimination of use of regulation 32 during the current financial year, but the increase in the use of regulation 36 is still of concern to the committee.

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COJ LEGISLATURE**Graph 9: Expenditure under contracts through impracticality (R' billion)***Source: Audited Group AFS***Graph 10: Expenditure under contracts through emergency (R' million)***Source: Audited Group AFS*

Unfortunately, regulation 36 does not include a test or set of criteria that will determine whether the use of the regulation is warranted. This provides the accounting officer of a municipality wide discretion to determine whether regulation 36 should be used. During the consideration of the annual report, the use of regulation 36 was considered. The following was noted: Firstly, the reasons given for the use of the regulation, as provided to MPAC, were inadequate. Secondly, there was no requirement to determine whether the City procured the goods or services at a reasonable price. It should be noted that it has been reported that the regulation may be subject to abuse by municipalities, where emergencies or impracticalities are manufactured to allow for the use of the regulation.

During the consideration of the annual report, the significant gaps in the regulations became apparent: the regulations fail to provide (i) clear guidelines and tests to determine its use and (ii) the requirement that an assessment be conducted to ensure value for money. For the latter gap, if either regulation costs the City considerably more than normal procurement processes, this will divert funds away from the procurement of other essential goods or services and result in a loss for the City. The City of Johannesburg must take a lead in enacting policies that address gaps in national legislation, especially with regards to regulation 36.

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(g) 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*

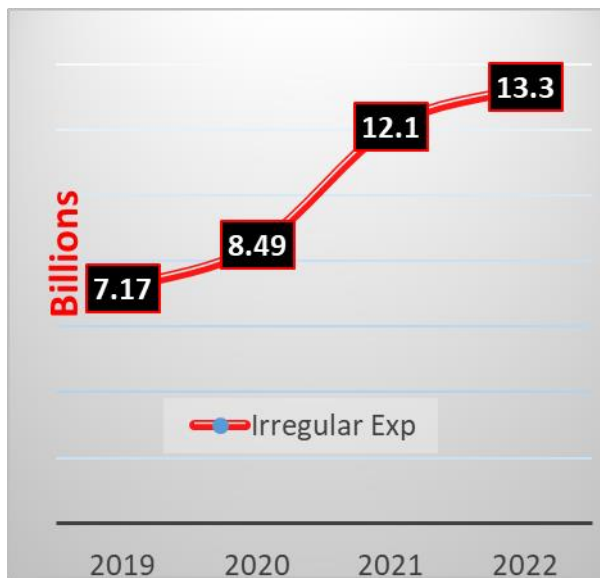
The City has seen sky-rocketing irregular, and fruitless and wasteful expenditure. The continuous hike in the irregular and fruitless and wasteful expenditure is a deep concern to the committee. Though the MPAC did not do much in recommending the recoveries/write offs during the year under review, it is concerning that the city is not taking the foot off accelerator on incurring new transactions of the irregular and fruitless and wasteful expenditure. 2019-24 Medium Term Strategy Framework (MTSF) (MFMA circular 111) states 75% reduction in Irregular and 100% in Fruitless and Wasteful expenditure, City will definitely not comply with this framework because the new instances irregular and fruitless and wasteful are on the upward trajectory, as depicted in the graphs below:

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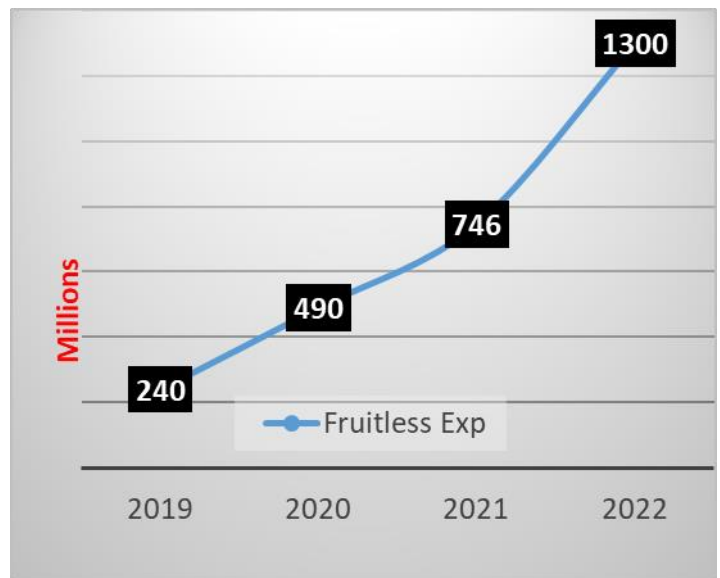
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Graph 12: Irregular expenditure for the Group – closing balance (R' billions)



Source: Audited Group AFS

Graph 13: Fruitless and wasteful expenditure for the Group – closing balance (R' millions)



Source: Audited Group AFS

City of Johannesburg have the highest balance of the Unauthorised, Irregular, Fruitless and Wasteful Expenditure (UIFWE) in the entire country, this is despite some write offs of R2.2 billion, by the council through MPAC, during the financial year under review. 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. During the question and responses session the committee enquired about the development of the effective strategies to reduce the UIFWE, Management indicated that the draft amended UIFWE Reduction Strategy is due for submission to the Mayoral Committee and MPAC prior to submission to Council for approval.

6 STAKEHOLDER INPUT

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

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The Committee ran several adverts calling for inputs into the oversight report from stakeholders and members of the general public. The advert for inputs was in the Sowetan Newspaper of the 8th of March 2023 page 3, Business Day of the 8th of March 2023 page 5 and The Citizens of the 8th of March page 30¹³. Despite advertising in three newspapers the committee did not receive sufficient inputs/comments from the public.

In an effort to solicit inputs from the citizens of City, the committee invited the general public and various professional stakeholders for open public participation on the annual report on the 16th of March 2023 in Connie Bapela Council Chamber. The public participation on annual report was named roundtable discussion. The Officials from the service delivery entities and office of the City Manager was in attendance, responding to questions/comments raised by the members of public, event was also streamed on the COJ social media platforms (Facebook and Twitter page)¹⁴, The event was a success as there was over 100 participants from the City`s various regions providing their inputs in the annual report.

The City Manager provided a keynote address wherein he stated that the past year which the annual report covers was challenging due to the aftereffects of the COVID-19 pandemic, the loss of three Executive Mayors and the 2021 Local government elections. He indicated that the city officials managed to adapt and deliver services despite the disruptions caused by these events.¹⁵ He highlighted that the presentation would focus on an accountability framework to be introduced in the City of Johannesburg to ensure better Audit Outcomes with a sense of urgency.

The City Manager further emphasised the importance of accountability and stated that accountability ensures that the city is transparent in its operations and can be held responsible for its actions. He stated that it helps build trust between the city and its residents, investors, and other stakeholders. He further stated that it also allows for continuous improvement and better decision-making based on feedback and performance.

In conclusion he assured the residents in attendance that the municipality remains committed to working with stakeholders, including the residents, businesses, and community organisations, to ensure that the City of Johannesburg continues to be a prosperous and liveable place for all.

The professional stakeholders invited are having their offices within Johannesburg, stakeholders presented their inputs to the annual report and also allowed the ordinary members of the public to deliberate on the presentations, while officials are responding to the questions raised. Stakeholders that presented during the day were as follows: South Africa Association of Public Accounts Committee (SAAPAC), South Africa

¹³ Please see annexure B for request for public comments.

¹⁴ See annexure B for request for public comments.

¹⁵ See annexure C for a detailed minutes on roundtable meeting.

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Institute of Chartered Accountants (SAICA), South African Cities Network (SACN), South African Local Government Association (SALGA) and Johannesburg Property Owners Association (JPOMA).

The first presenter of the day was Honarable S. Khanyile, the secretary general of the SAAPAC. Honourable Khanyile highlighted the relations between SCOPA's and MPAC's. wherein he briefed the committee with the best practices on being the efficient oversight committee, and how best can the committee perform oversight on annual report, emphasizing the importance of ex facto and post facto on the processes of the oversight report. The public and the officials deliberated on the report from the Honorable.

The second presentations was from Mr D Mughogho, who gave a detailed presentation on the state of the city finances report. He highlighted key trends and events that have impacted city finances over the past decade:

- Coalition Governments - With good political and administrative leadership cities can have more urgency to solve community problems, improve governance, unlock innovation, and function efficiently. Also Instability further erodes investor sentiment and trust of communities and businesses.
- Corruption and Deteriorating Local Governance - Combating corruption is critical not only for ensuring that all public monies are used for the benefit of the public, but also for restoring trust between local government and citizens, which fosters future willingness to invest in a city and to pay for services.
- Covid-19 Impact - During the COVID years, revenue growth slowed down significantly but expenditures grew more rapidly.
- Property Rates - Property rates grew slightly more slowly in the second term under review, but growth was still strong. Governance decisions are playing a role here: rates increases are being limited to protect customers from increases in bills.
- Water Services - Picture on water is mixed, with some cities showing slower growth and others more rapid. Restriction tariffs have resulted in significant increases in water revenues, but these have not been collectible and cash collection rates have declined significantly. Officials believe that restriction tariffs have not been communicated well and have not changed behaviour. People have continued to consume water as before and have simply not paid the higher bills.

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Mr Danga also recommend a way forward to resolve the above challenges, in his recommendations he indicated that we need to Improve agility and create space for innovation, use capable, high performing cities as sites for innovation, testing and experimentation. Allow the regulatory space for them to do this and shift out of compliance and doing things how we have always done them, enter into new ways of doing things.

The committee deliberated on the presentation from the Cities network and also gave chance to the members of the public to deliberate on a brief presentation.

Third presentation was from SAICA, which was presented by Ms N Soopal who presented on how the City can improve its Citizens version report, wherein she indicated that City should improve the interaction and understandability of reports by using infographics as citizens and stakeholders would better understand and engage with the city's content if the city includes infographics in it. She mentioned that it is well-known knowledge that the human brain processes visual information significantly more efficiently than text.

She indicated that although the challenges were outlined, the report did not outline the risks and how it impacts the city. She further mentioned that not all the mitigations address the challenges in the report. The presentation from SAICA was deliberated on by the public and the committee.

Fourth Presentation was from JPOMA, which was represented by Angela Rivers. She highlighted that they are active in the rejuvenation of the inner city through building upgrades, conversions and effective urban and building management. She further highlighted that JPOMA members pay the City of Johannesburg approximately R80M per month for services and taxes which translate to R1 billion per annum.

Ms A Rivers highlighted that JPOMA has taken Pikitup to court because the entity decided to change the tariff per bin to per unit and respectively backdated for five years. She stated that JPOMA finds it to be unfair especially in the affordable housing markets where these costs are passed on to the tenants. Ms A Rivers raised a concern about the hijacked buildings and stated that they are deteriorating. She indicated that the hijackers do not maintain the buildings, do not pay utilities and do not pay rates. She further indicated that the city loses money on electricity, water, rates, refuse and sewer while the landlord loses money on rental. Ms A Rivers stated that JPOMA need to be included in all meetings as they have institutional knowledge and ideas. Reinstate problem properties project (opening properties to developers) and suggest an auction process as opposed to 100-year lease. Lastly use the city's by-Laws and policies as these properties are not for human habitation.

Last presentation was from SALGA, which was represented by Ms M Mgadi. She highlighted the following: AGSA Remarks -A concern was raised that municipalities are audited differently, and SALGA should lobby for the standard auditing procedure that could be applied in all municipalities. She further states that ALGA in Gauteng is proposing to host Municipal Audits Awards ceremony in collaboration with the office of

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the Auditor-General, COGTA, Gauteng Provincial Treasury and office of the Premier, with an emphasis on improving clean governance and financial viability of municipalities in Gauteng by ensuring sound financial management.

SALGA presented on a support request from SALGA. A meeting was held to investigate the support that could be provided to the City Of Johannesburg Central Travel Office, on the regulation of travel facilities within COJ. And the following concerns were raised: The need for a properly defined function and mapping of the business process of the travel facilities, For role players to be held accountable for their key activities in the travel facilities, reason being there is no segregation of duties as one person handles all-key activities of travel facilities and policies related to the travel requisitions are being overlooked, which results in unbudgeted travels, which is not cost effective.

In conclusion SALGA made the following recommendations to the MPAC: To note the support that SALGA is providing to municipalities in Gauteng, to consider the resuscitation of the UIFW MPAC Sub Committee to reduce their regularities within the city, indicate if there is any specific support required from SALGA to improve financial management and governance related matters within the city and participate in the SALGA Municipal Finance and Fiscal Policy working group for knowledge sharing and twinning arrangements exercises where possible. The committee and the public deliberated on the presentation from SALGA.

Below are the pictures taken during the roundtable meeting, recording of event can be made available on request.

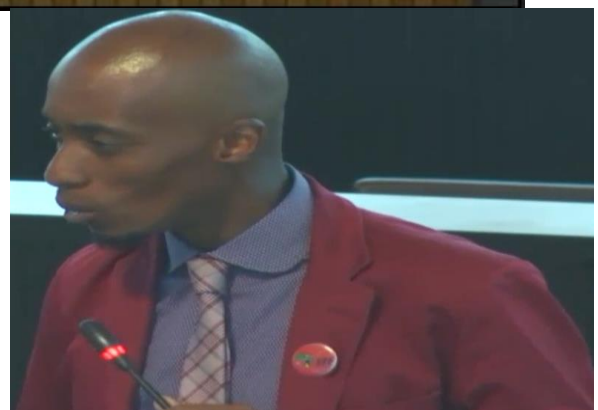
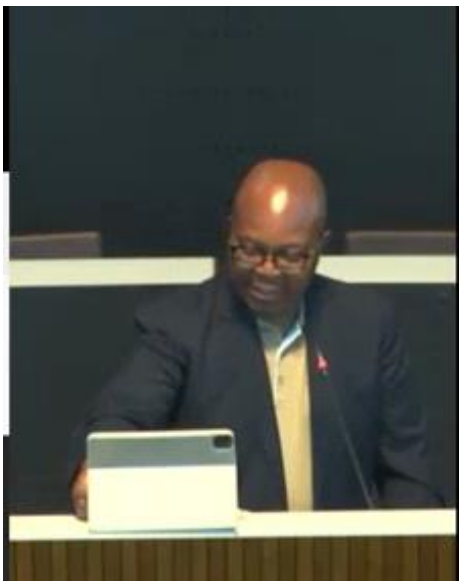
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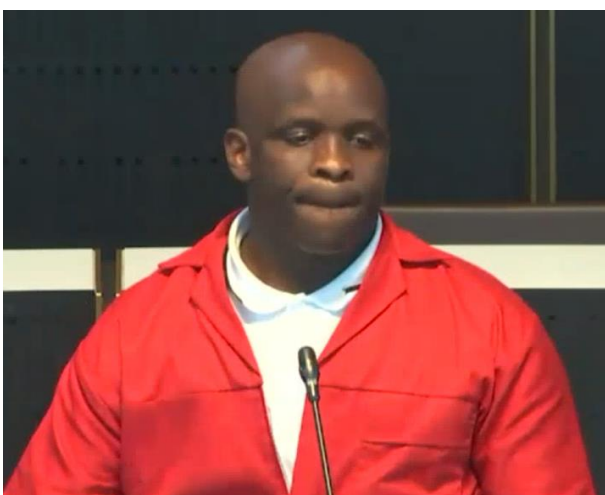
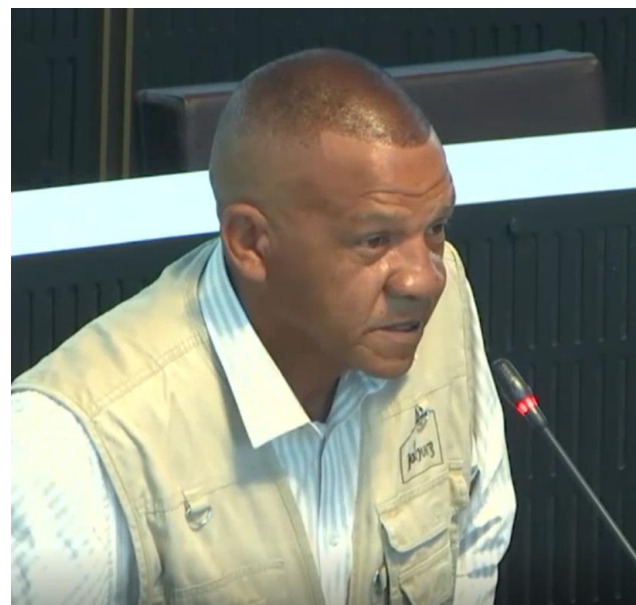
SALGA *** Cities
Network *** SAICA
*** JPOMA *** SAAPAC



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7 POLICY IMPLICATIONS

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

8 LEGAL AND CONSTITUTIONAL IMPLICATIONS

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

9 FINANCIAL IMPLICATIONS

The Legislature incurred costs for catering for meetings of Municipal Public Accounts Committee.

10 COMMUNICATIONS IMPLICATIONS

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

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

11 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 reservations the 2021/22 annual report of the City of Johannesburg, together with the 2021/22 annual reports of the entities of the City of Johannesburg.**
- 2 That Council approve the oversight report on the 2021/22 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 committees oversight reports, which are attached as annexures to the oversight report.**

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- 4 That Group Governance provide a report detailing the strategies that will be implemented to ensure that the chairpersons of GAC, GRGS and GPAC present their inputs on 2022/23 annual report to Municipal Public Accounts Committee (MPAC) on time, considering the possibilities of new chairpersons being elected on February 2024 during AGM. A report must be submitted to Municipal Public Accounts Committee within 30 days of the adoption of this oversight report, in May 2023.
- 5 That Group Governance submit a proof that newly appointed board members and all directors and acting directors of all the entities are registered with the Companies and Intellectual Property Commission (CIPC), A report detailing proof of registration must be submitted to Municipal Public Accounts Committee within 30 days of the adoption of this oversight report, in May 2023.
- 6 That Legislature together with Office of the Executive Mayor provide a report detailing the preventative controls and commitment to the process that must be implemented to ensure that 2022/23 Annual Report is tabled in Council, within seven months after the end of the financial year (by 31 January 2024) in compliance with MFMA section 127(2). A report with a must be submitted to Municipal Public Accounts Committee within 30 days of the adoption of this oversight report, in May 2023.
- 7 That the Office of the City Manager together with Group Forensic Investigations Services (GFIS), Labour Relations and Group Corporate and Shared Services (GCSS) present a report in the In-Committee meeting of the Municipal Public Accounts Committee, on the process flow of Disciplinary matters and clear role classification of each department. A report and presentation must be submitted to Municipal Public Accounts Committee within 30 days of the adoption of this oversight report, in May 2023.
- 8 That Office of the City Manager together with Group Forensic Investigations Services (GFIS) submit a report and presentation detailing why some of the section 56 managers were investigated or disciplined without the council approval. A report and presentation must be submitted to Municipal Public Accounts Committee within 30 days of the adoption of this oversight report, in May 2023.
- 9 That Group Performance Audit Committee (GPAC), Group Audit Committee (GAC) and Group Risk Governance Committee (GRGC) through Group Governance ensure that all their quarterly reports are submitted to Municipal Public Committee (MPAC) at the end of each quarter. The quarterly reports for quarters one (1) to three (3) of the current financial year must be submitted to Municipal Public Accounts Committee within 30 days of the adoption of this oversight report, in May 2023.

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- 10 That Office of the City Manager together with Group Risk and Assurance Service (GRAS) organize a meeting with office of the Auditor General of South Africa (AGSA), National Treasury, COGTA and Municipal Public Accounts Committee, to discuss and find a way forward on the legislative requirements of how process of recoveries and write offs' of the Unauthorised, Irregular, Fruitless and Wasteful Expenditure (UIFWE) for Municipal Entities should be conducted. The meeting must be conducted within 30 days of the adoption of this oversight report, in May 2023.
- 11 That Office of the City Manager together with Group Governance provide a progress report on the appointment of the disciplinary board members, and the finalisation of the standard Operating Procedures. A report must be submitted to Municipal Public Accounts Committee within 30 days of the adoption of this oversight report, in May 2023.
- 12 That Office of the City Manager together with Group Governance provide a report detailing why amendments that are not in line with the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings of 2014, were made to the terms of reference of the Disciplinary Board and submitted to council in May 2022. A report must be submitted to Municipal Public Accounts Committee within 30 days of the adoption of this oversight report, in May 2023.
- 13 That Group Finance through the Office of the City Manager provide a report detailing the initiatives to reduce the irregular expenditure incurred due to improper use of regulation 36 of Municipal Supply Chain Management Regulations. A report must be submitted to Municipal Public Accounts Committee within 30 days of the adoption of this oversight report, in May 2023.
- 14 That Group Governance submit all the signed and approved Service Delivery Agreements (SDA) in terms of Municipal Structures Act (MSA) 93B, every financial year within 30 days after approval. The SDA`s for 2022/23 financial year must be submitted to Municipal Public Accounts Committee within 30 days of the adoption of this oversight report, in May 2023.
- 15 That Group Risk and Assurance Service (GRAS) together with Group Information, Communication & Technology (GICT) provide all the Business Continuity Plans that have been approved to date for entities and core departments, and a clear commitment on when is City likely to have 100% tested and approved Business continuity Plan. A report must be submitted to Municipal Public Accounts Committee within 30 days of the adoption of this oversight report, in May 2023.
- 16 That Group Strategy, Policy Coordination and Relations (GSPCR) assess the presentation made by South Africa Institute of Chartered Accountants (SAICA) during the roundtable session, and confirm if the recommendations and suggestions made are practical to improve reporting on both Citizens Version Report and Integrated annual report. The department must liaise SAICA if any assistance is required.

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- 17 That Johannesburg Development Agency (JDA) provides reasons as to why the National Treasury withdrew the National Development Planning Grant (NDPG) for Jabulani Transit Oriented Development (TOD) project, and also indicate if the project was stopped or the City is funding it. A report must be submitted to Municipal Public Accounts Committee within 30 days of the adoption of this oversight report, in May 2023.**
- 18 That Johannesburg Housing Company (JOSHCO) provide a report detailing if the management fees of 45% charged for student accommodation is market related. The report must also indicate how the property managing company was appointed, further indicate the term of contract and assessment of value for money. A report must be submitted to Municipal Public Accounts Committee within 30 days of the adoption of this oversight report, in May 2023.**
- 19 That City Power submit a report indicating the actual figures and units relation to non-technical losses, illegal connections, bypassed meters, Poor Management of Meter Installations and Maintenance, Poor Data Capturing of Meter Readings, Overbilling on Bulk Purchases and Unmetered CoJ Buildings. Report must also include the overall turnaround strategy of the entity considering lost revenue due to load shedding and possibilities of customers going off Grid. A report must be submitted to Municipal Public Accounts Committee within 30 days of the adoption of this oversight report, in May 2023.**
- 20 During the roundtable meeting with stakeholder it was stated that, Johannesburg Housing Company (JOSHCO) has listed a building called Casa Mia and that building was hijacked and is causing a significant strain on the surrounding community, it has become a crime hotspot. JOSHCO to submit a report to the committee responding to this concern by the stakeholders and legal steps taken. The report must be submitted to Municipal Public Accounts Committee within 30 days of the adoption of this oversight report, in May 2023.**
- 21 That Group Finance, City Power and Joburg Water develop an effective reporting system to monitor and track meter readings, in order to comply with section 97(i) of the Municipal Financial Management Act. A report on the development of the system must be provided to the Section 79 Municipal Public Accounts Committee by June 2023.**
- 22 That Group Finance submit a quarterly report of accounts for water and electricity billed on estimation beyond by law period. Report for quarter 3 must be submitted to Municipal Public Accounts Committee within 30 days of the adoption of this oversight report, in May 2023.**

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- 23 During the public participation meeting with stakeholders it was stated that the City Power Contractors and Officials are deliberately working after hours to get overtime. City Power to submit a report detailing the measures and controls in place to ensure that the contractors and officials do not deliberately work unnecessary overtime. A report must be submitted to Municipal Public Accounts Committee within 30 days of the adoption of this oversight report, in May 2023.**
- 24 That Johannesburg Property Company (JPC) submit a report detailing a list of all the buildings that the City is paying rent for, whilst they are not occupied. A report must be submitted to Municipal Public Accounts Committee within 30 days of the adoption of this oversight report, in May 2023.**
- 25 That Johannesburg Property Company (JPC) submit a report detailing a list of all the buildings owned by Johannesburg Property Company (JPC), the report must include the annual rent collected on each building and the annual expenditure incurred for each building. A report must be submitted to Municipal Public Accounts Committee within 30 days of the adoption of this oversight report, in May 2023.**
- 26 That Johannesburg Road Agency (JRA) together with Group Information, Communication & Technology (GICT) provide a report and presentation on why JRA procured SAP system while the system was procured by core to be used by the Group, presentation must include time frames when procurement process commenced for Core and JRA. A report must be submitted to Municipal Public Accounts Committee within 30 days of the adoption of this oversight report, in May 2023.**
- 27 That Johannesburg Development Agency (JDA) provide a list of all projects that were initiated and were stopped before completion, a report must include the reasons why each project was stopped, expenditure and percentage of completion. A report must be submitted to Municipal Public Accounts Committee within 30 days of the adoption of this oversight report, in May 2023.**
- 28 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.**
- 29 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.**

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- 30 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.**

(COJ LEGISLATURE)
(T Mabogo)
(Cell. 083 702 8292)
(tc)

THE NEXT ITEM WILL FOLLOW THE ANNEXURES TO THIS ITEM