



**MFMA
2021-22**

AUDIT OUTCOMES CITY OF JOHANNESBURG

**Audit outcomes for financial year
ended 30 June 2022**



**AUDITOR-GENERAL
SOUTH AFRICA**

MISSION



The Auditor-General of South Africa has a constitutional mandate and, as the supreme audit institution of South Africa, exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.



VISION

To be recognised by all our stakeholders as a relevant Supreme Audit Institution (SAI) that enhances public sector accountability.



5 year outlook:

The metro's **audit outcomes** remained **stagnant** over the five years, with the metro **remaining** unqualified with findings over the years.

This was due to:

- Instability and vacancies in key positions
- slow responses from management
- audit action plans not effectively implemented to address internal control deficiencies
- poor recording keeping resulting scope limitations on performance reporting
- no consequence management implemented

Overall messages from 2022:

- Leadership should set the tone from the top investigate prior years' UIFW and **applying consequence management**
- Prioritize the **filling of key vacant positions (CM & GCFO)**
- Adequately monitor and enforce **implementation of action plan** to improve the **internal control environment**
- **Implement proper record keeping** in a **timely manner** to support performance reporting
- Focus on **improving the quality of the financial statements and performance report** as well as ensuring **compliance with legislation**
- **Deteriorating financial health** status impacting service delivery with only **58% (20/21: 66%)** overall performance achieved . **Funding models are adequate**, metro highly geared may struggling to raise debt finance, and impacting on CAPEX Funding
- **Non achievement of basic service delivery targets** (incl c88 indicators and service delivery needs gathered from the public participation process) which indicate lack of service delivery **Delays in completing key projects**
- **Aging infrastructure**, with inadequate budgeting for repairs and maintenance. This is resulting increasing water and electricity losses, impacting on available funding ,
- **Increased IE** as a result of procured IT software's not in use , resulting in likely financial losses resulting in an MI.

Overall impact:

- Leadership instability due to key vacancies impacting the implementation of service delivery plans and implementation of key action plans is delayed due to lack of leadership.
- Delays in implementation of key projects as a result of changes within the executive authority (Council) that impacts on current approved project plans, as each change results in changes on service delivery areas to priorities.
- Council committee's (MPAC) processes delayed as a result of instability, impacting the finalization of the cases of UIFW are timeously investigated and transgressor held accountable. MPAC needs improve the oversight provided on consequence management processes and recovery of funds were losses are identified
- Financial sustainability issues noted may impact the long terms infrastructure plans if not properly managed as the City is starting to rely more on Loans to its infrastructure projects. Liquidity position still a concern..

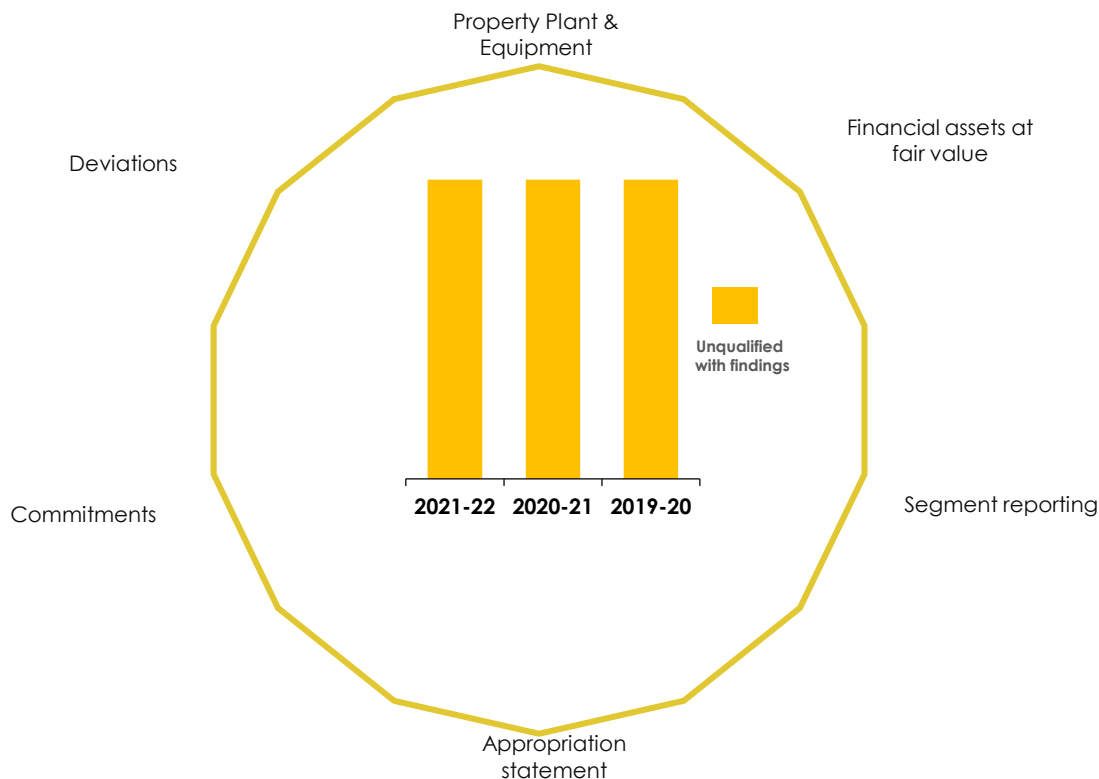


Audit outcome analysis

Financial Statements

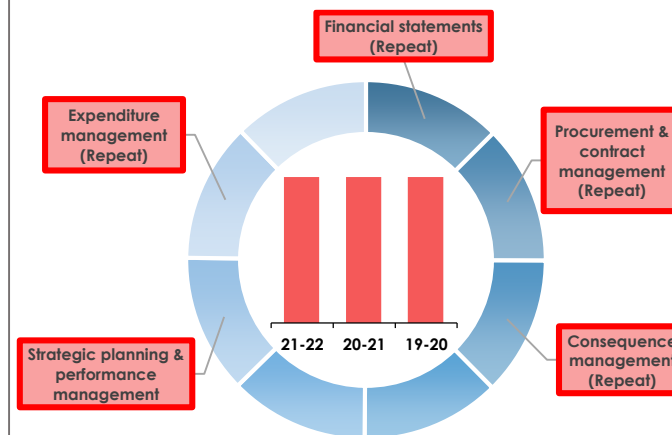
Opinion: Unqualified

Materially misstated areas



Audit outcomes regressed with a total of 6 materially misstated areas. These material misstatements were corrected as a result of audit adjustments granted. The auditee relied on the audit process to produce credible financial statements. If these material misstatements were not adjusted CoJ would not have produced credible and would have received a modified opinion.

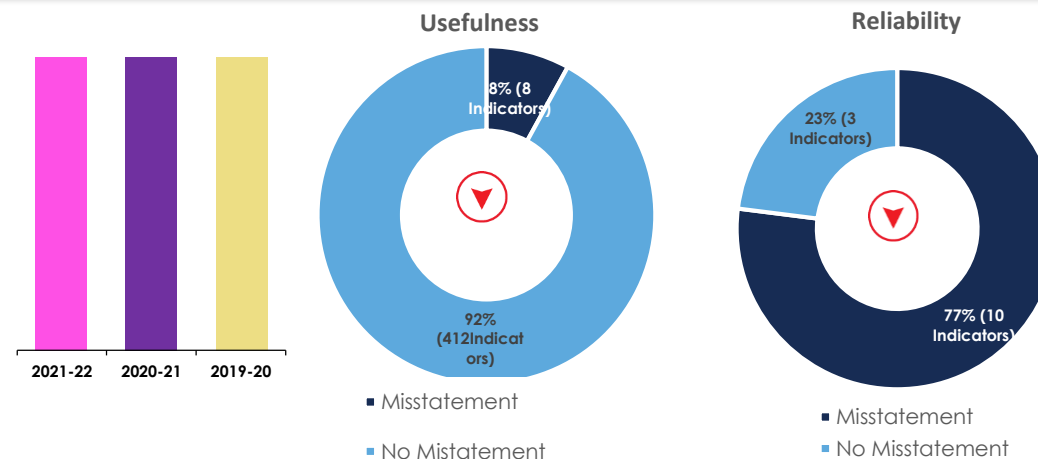
Compliance



Overall stagnation due to:

- management's failure to implement internal controls to address prior year internal control deficiencies
- lack of consequence management which has seen instances of unauthorised, irregular and fruitless and wasteful expenditure

Performance Information



The audit outcomes relating to pre-determined objectives also regressed due to the city's internal control deficiencies on the collection, verification and reporting on the performance information. This is attributable to lack of co-ordination between the City and some of its entities. On usefulness there was one misstatement of which management adjusted and on reliability 10 indicators were misstated and management only adjusted 3 indicators, leading to the opinion being adverse.



2020/21 BUDGET ALLOCATION AND SPEND

Approved and final budget allocation and key performance priorities

1

KEY SERVICE DELIVERY FOCUS AND PROJECTS

Key focus areas and projects for basic service delivery planned and contracted

2

AOPO LINK TO SERVICE DELIVERY

Assessment of whether the City's performance planning addresses the needs of its citizens

3

KEY CONTRACT AWARDED TO DRIVE SERVICE DELIVERY

Reflections on the procurement process for key projects

4

IRREGULAR EXPENDITURE ANALYSIS

Assessment of the extent and nature of IE over time

5

FINANCIAL HEALTH ANALYSIS

Assessment of the metros funding model to assess future sustainability to fund ageing infrastructure and service delivery.

6

INFORMATION TECHNOLOGY ASSESSMENT

Impact of IT assessment on governance and controls

7

LIVED REALITIES EXPERIENCE

What are people experiencing and how responded to

8



1. COJ 2021/22 APPROVED BUDGET ALLOCATION AND SPENDING

A. Total final budget allocation



R32.5 billion [R71,3 billion for group]

B. Opex and Capex

R29,6 billion [R64 billion for group]



R2.9 billion [R7.3 billion for group]

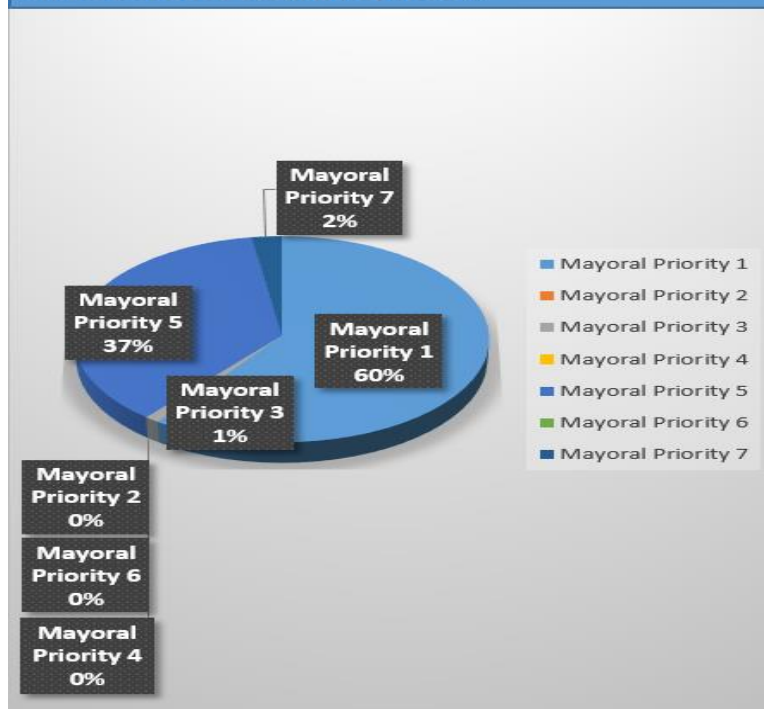
C. Actual % spend

Total: R31.3 billion (96%)

Capex: R3.9 billion (134%)

Opex: R27.4 billion (93%)

Appropriation per mayoral priority



E. Capex Allocation per Key basic services

No.	Key Strategic Objectives	Budget
1	Human Settlements Budget for JoSHCO @ R628 085	R1 116 119 000
2	Water and Sanitation [Budget at J Water level @ R1 096 885 000]	0
3	Roads and Storm Water [Budgeted at JRA level @ R 863 707 000]	R 0
4	Energy [Budgeted at City Power level R 979 823 000]	R 0
5	Other	R 1 822 090 000
Total		R 2 938 209 000

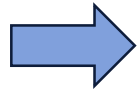
F. Opex Allocation

No.	Allocation	Budget
1	Employee related costs	R 10 176 271 000
2	Bulk purchases	0
3	General expenses	R 6 864 131 000
4	Grants and subsidies	R 5 219 263 000
5	Other	R 7 314 894 000
Total		R 29 574 559 000

93% spend



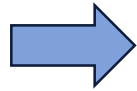
1 Water and Sanitation



KPIs:

- % of households with access to water
- % of households with access to sanitation
- No. of indigent households benefitting from ESP (free basic services)

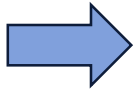
2 Human Settlements



KPIs:

- Number of housing units delivered
- Number of formal sites serviced

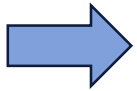
3 Roads and Storm Water



KPIs:

- Number of lane kilometers of roads resurfaced
- Number of kilometers of open storm water drains converted to underground systems
- Number of gravel km upgraded and surfaced

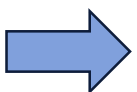
4 Energy



KPIs:

- Number of dwellings provided with connections to mains electricity supply by the municipality

5 Waste management



KPIs:

- Percentage waste diverted from landfill sites

Overall achievements

Service delivery indicators have been included in the IDP and SDBIP in response to the needs from the community, although not all of these have been achieved by year end as only 76% (66% 2020/21) of planned targets in the scoped in Mayoral priority1: *A City that gets the basics right*. Indicators not achieved include:

- Number of social houses developed
- Percentage households with access to sanitation
- Percentage households with access to sanitation
- % of total water losses
- % total electricity losses

Circular 88 implementation

- For tier 1 and 2 the City did not include a total of 23 indicators. 4 of these indicators related to the provision of housing, water and sanitation and e management even though these are service delivery focused indicators.
- The city is implementing the circular 88 increasingly on a phased in approach and more indicators will be implemented in the following year.



CONDITIONAL GRANTS AND KEY PROJECTS CONT.

Gauteng – City of Johannesburg (including through its entities)



Contracts did not include price adjustments and were not comprehensive

Key projects

Inadequate project management provided to poor performing contractors at the JDA and not recovered.

Delay in the completion of long outstanding projects meant to improve adequacy of electricity



Projects visited



Orlando West 7B project

- Payments to the contractor did not align to the payments, and projects for water were not on-track for completion within the anticipated timelines.

Orange Farm 2B

- The project did not attain the completion date, and various factors impacted the timelines of the project.

Lehae Housing Project

- The contract price increase impacted the budget allocated to the project, as budgets allocated for the delivery of services and construction of houses are utilized to compensate for the increase in the cost of the contract. A number of houses were invaded at the time of the audit, beneficiaries' allocated houses from informal settlements are still awaiting the occupation of their houses, indefinitely.



SDBIP/APR Reflections (APR extract)

- Key service delivery inputs that came from the public participation were housing, provision of sanitation, waste management services, electricity and water. inputs were included in the IDP and SDBIP.
- It remains a concern that the City has not yet fully implement circular 88 that requires tier 1 and tier 2 standardised indicators to have been reported
- The overall performance reduced to 58%(20/21:66%) against targets set,

KPI	Target	Achievement
Percentage households with access to water	97.89%	99.79%
Percentage households with access to sanitation	93.14%	93.01%
Number of dwellings provided with connections to mains electricity supply by the municipality	3200	5 769
Number of Social Housing units completed	349	0
Percentage of all recognised informal settlements provided with waste management services	100%	100%

CONDITIONAL GRANTS AND KEY PROJECTS CONT.

Gauteng – City of Johannesburg (including through its entities)



Key projects



Projects visited



Refurbishment of Selby Depot

- Advance payments were made to the contractor, and not recovered by the entity. The contractor abandoned site and a new contractor was being appointed, alterations and remedial work were required to complete the project.

Refurbishment of Eldorado Park Substation

- Long outstanding project, has been in implementation since 2015, and the project has not attained the objective of improving capacity and adequacy of electricity.

Chemical Toilets

- Some chemical toilets visited were in a poor condition. The municipality does not always monitor the provision and servicing of chemical toilets to ensure contract specifications are adhered to.

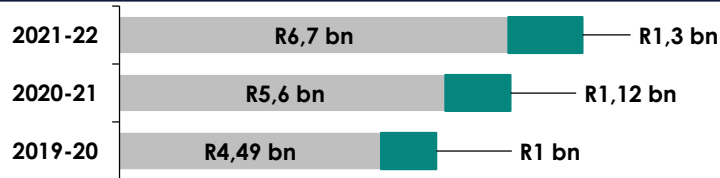
SDBIP/APR Reflections (extract)

- A number of key service delivery targets not achieved with only 48% of targets achieved for the programme relating to basic service

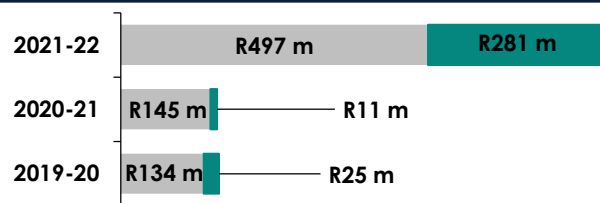
KPI	Target	Achievement
Number of new water connections meeting minimum standards installed	2 004	0
Km of roads and storm water constructed to the required standard	22km	0 km
Number of households with access to sanitation (new sanitation connections)	1 913	0
% of waste water quality compliance according to waste use license	60%	36%

(Also linked to MI issued – Substantial Harm to the General Public – Residents of Hammanskraal)

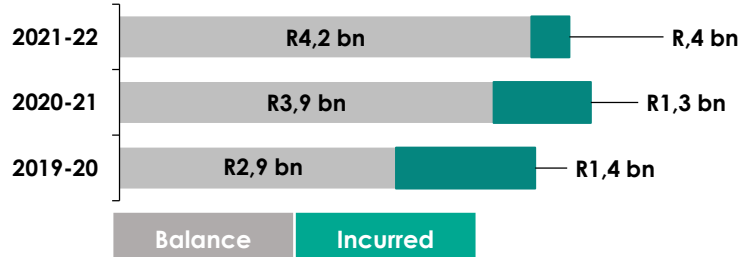
Irregular expenditure



Fruitless and wasteful expenditure



Unauthorised expenditure



Irregular expenditure

- The irregular expenditure increased by 15% in the current year. Majority of this expenditure is attributed to existing contracts that were found to be irregular in prior years. The instances of non-compliances known to exist in the environment relate to deviations, scm processes and policies, which is what was also noted in the current year. The slow implementation of the turnaround strategy aimed to reduce the UIFW in the city is contributing to the extremely high balance of irregular expenditure, currently sitting at R6.7 billion.
- In order to reduce this increasing balance of IE, the tone at the top should be more stringent to echo the non-tolerance of new instance of non-compliance with SCM prescripts and also amplify efforts in dealing with the existing balance through consequence management

Fruitless and wasteful expenditure

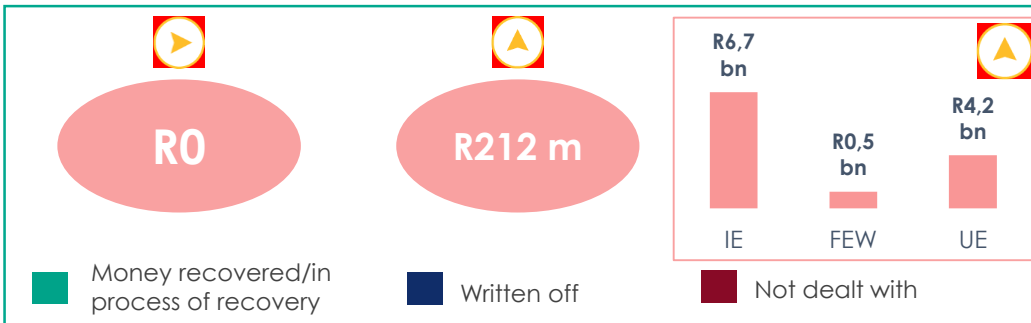
- Fruitless and wasteful expenditure for year has seen a huge increase from what it was in the prior year. The main driver of the 237% increase in the current year is the fruitless and wasteful expenditure incurred on SAP licenses which were procured but never utilized, amounting to R219 mil (64% of the total increase).
- Preventative controls are inadequate as the municipality does not seem to be able to prevent new instances of fruitless and wasteful expenditure from occurring. These instances were also identified by the auditors during the audit and not through management's own processes.
- All 4 MI's relate to the

Unauthorised expenditure

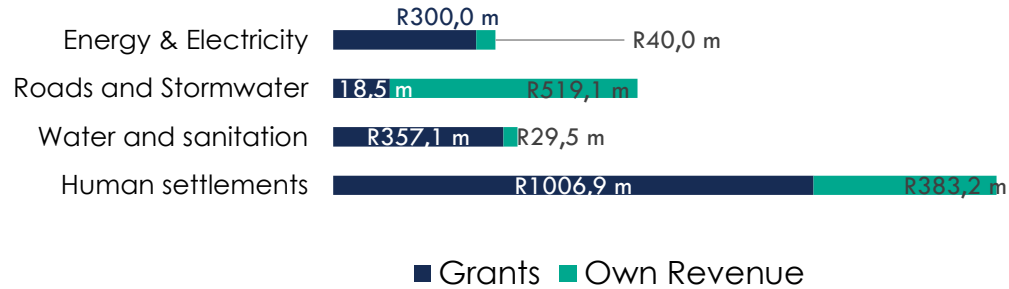
- Unauthorized expenditure increased by 9% from the prior year. 99% of this expenditure relates to cash items of which majority relates to overspending by the housing department within the City as a result of low-cost housing project (Lehae project) being extended beyond the original scope and terms.
- Controls embedded in the municipality were able to identify such instances, however, they failed to prevent these from occurring.

Consequence management

- In the PY 986 investigations were still in progress which has increased from PY. The backlog of UIFWE investigations is due to capacity constraining within the Group Audit and Risk unit, Internal Audit Unit as well as in the Group Forensic Investigations Unit. The municipality also does not have a disciplinary board in place to assist in the accelerating the rate at which these instances are dealt with
- Political instability also plays a major role in the delays of dealing with UIFW as all the position of the units meant to investigate UIFW are currently vacant.



Funding model (R' mil)



Funding model

Overall

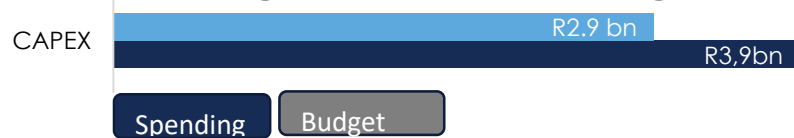
- The funding model is usually through Loans and bonds, grants and own revenue. In the current year, the city was able to raise the borrowings the value of R1.5 Billion from the loans.
- The City's rating by Moody's was updated following the update sovereign action to Ba3 stable" which is an improvement as compared to the 2020-21 financial year rating opinion of Ba3 rating on review. Although the rating has improved, the financial health remain concerning as the rating agency also emphasised that the city's credit profile is constrained capital spending pressures, related to infrastructure backlogs, which are expected to place an upward burden on the city's debt and liquidity with an impact on the future infrastructure plans.
- To improve financial health, the City has developed a financial recovery plan which has since shared with the council, treasury and Cogta. Although this plan is being introduced, the City is still struggling with debt collection and experiences high provision for doubtful debt.

Revenue collection initiatives

- Introduced initiative of disconnection of services to Business, Government and Residential customers not honoring their payments; Courtesy calls, reminders and demand letter on current account; Enforce installation of prepaid meters on the consumers not paying such as Soweto.

	Loans & Bonds (R mil)	Grants (R mil)	Own Revenue (R mil)	Total capex (R mil)
CoJ	2 104	2 096	2 601	6 799

Budget vs Actual Spending



Repairs and Maintenance as a % of Property, Plant and Equipment

Repairs and maintenance	R 811 692 000
Plant, plant and equipment (carrying amount)	R 49 196 837 000
Repairs and maintenance as a % of PPE	2%

Capex Underspending / Overspending (34%)

- There as an overspending on CAPEX of 34%. This relates to the housing projects due to escalations and cancelling the contractors and reappointing new contractors to finish the project..



General IT reflections

The City has developed a sound information technology (IT) system in terms of governance and security of information which is imperative for a sound reporting structure

However, the status of IT environment remains a concern as a result of issues in **IT governance controls**, including:

- **Weak** user access management, IT service continuity, security management
- **Deficiencies** in security policies regarding physical access controls
- Disaster recovery not done for a number of systems

IT service continuity, Physical and Environmental controls, user access management and security management were not effectively designed/implemented

IT contracts for IT projects not adequately managed

Some procured licences not yet fully utilised (Potential MI)

There is a shortage of skills in the ICT function resulting in vulnerability in the IT environment.

IT MIs

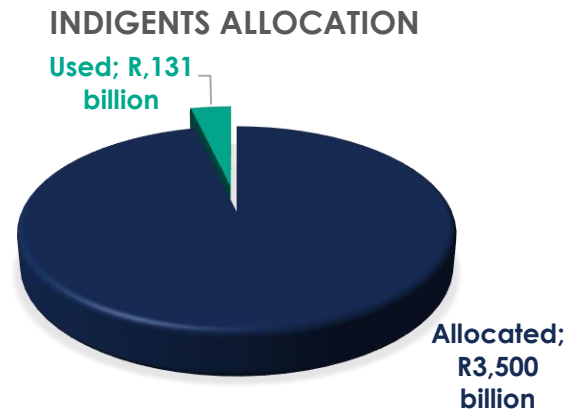
1. **Payment for unutilised software licenses**

There has not been any significant concerns on IT threatening business continuity and thus affecting service delivery.

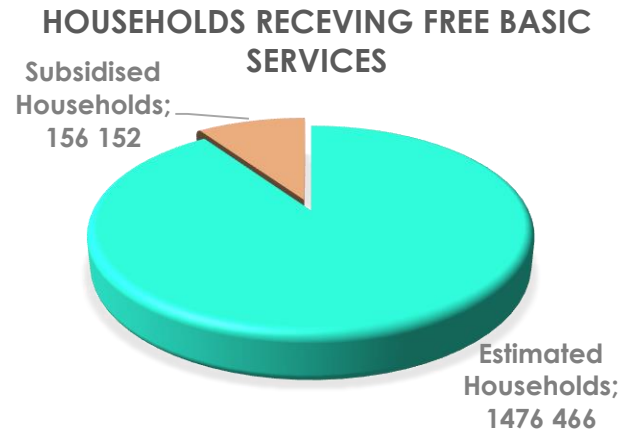


Free basic services - Indigent

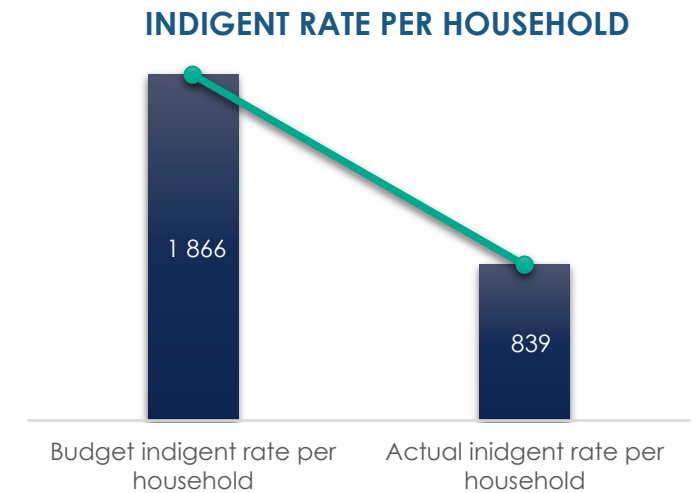
- The National Treasury budgeted for an estimated 1 476 466 indigents households for 2021/22 and funded the number through R5 467 765 984 equitable share for the municipality. The municipality is funding registered indigents and deemed indigents households lesser than the budgeted number.
- The actual indigents rebates according to SAP billing report is R131 094 100 for 156 152 households. The total households registered in the indigent database amounts to 10.5% of the estimated households. The actual spent on indigent households amounts to 3% of the allocated equitable share averaging R839 per household per annum. The 97% under spending to indigents is concerning taking into account the growing need and poverty plight in the country and city.
- It is also worth noting that the accuracy of the indigents' register of the municipality remains a concern as it still contains a number of beneficiaries that are unduly benefitting, i.e. households having sufficient income, deceased beneficiaries. These issues have been raised in the prior years however; no action has been put in place to address this. .
- To address the gap, the municipality should embark on a more targeted approach /campaign to identify residents eligible to be registered to form part of the indigents programme. The ward councillors will be crucial in driving deeper and more target awareness in this regard in the regions and communities they serve.



97% underspending of allocated budget. Unused budget is absorbed by the city.



10,5% households subsidised



Transversal root cause	Key Recommendation
<p>Consequence management:</p> <ul style="list-style-type: none"> Inadequate consequence management, transgressors to existing policies and legislation not held accountable due to not investigating Poor consequence management for transgressions identified by all accountability structures 	<ul style="list-style-type: none"> Senior management to implement a more effective performance management system which promote accountability by all employees, Accounting officer to ensure that the disciplinary board that was established is operational and effective in investigating allegations of financial misconduct and monitor the institution of disciplinary proceedings against alleged transgressors.
<p>Vacancies</p> <ul style="list-style-type: none"> Instability in key positions which has an impact in accountability for none implementation of action plans 	<ul style="list-style-type: none"> The city still requires stability at key positions to ensure that the is proper direction within the city to address the recurring audit issues noted that are currently resulting in the stagnant audit outcomes and the service delivery challenges noted within the City.
<p>Processes and systems, Records management & Data integrity:</p> <ul style="list-style-type: none"> lack of proper record keeping to ensure that complete, relevant and accurate information is accessible and available to support achievements reported in the APR. This is worsened by a lack of co-ordination between the City and some of its entities. Controls pertaining to the preparation of the financial statements were not effectively monitored and consistently implemented resulting in material misstatements and consequently non-compliance with section 122 of MFMA 	<ul style="list-style-type: none"> The city has established policies, standard operating procedures and performance management framework in place. However, the city's administration should ensure that these policies, procedures and framework are fully and consistently adhered to, and are relevant for the current operating environment. For both financial and performance reporting, coordination between the metro, its departments and related municipal entities should continuously be monitored and improved with an aim to proactively prevent and/or correct misstatements before the audit commences. This will assist to reduce the significant level of reliance on the audit process.
<p>Ineffective action plan:</p> <ul style="list-style-type: none"> Inadequately implemented plan that assists with eliminating deficiencies noted permanently. 	<ul style="list-style-type: none"> Accounting officer and oversight committees to ensure adequate oversight and monitoring over the implementation of action plan to ensure audit issues are addressed



9. ACCOUNTABILITY ECOSYSTEM – What did not happen

Senior Management	Accounting Officer	Mayor	Internal Audit	Audit Committee	MPAC	Council
<ul style="list-style-type: none"> MFMA sec 165., Senior management did not adequately implement action plans designed to prevent the recurring instances of non-compliance. Consequence management relating to deviating from policies and procedures relating to compliance with laws and regulations were not implemented adequately, consistently and effectively. Overall outcome for performance information has regressed as compared to prior years and root causes are due to matters within senior management control. 	<ul style="list-style-type: none"> MFMA sec 62, The accounting officer did not hold management accountable in ensuring that internal control deficiencies identified was resolved and prevented for reoccurrence. The level of assurance is also substantiated by the following control deficiencies identified during the audit: Significant deficiencies previously identified in the SCM process system have not been corrected. repeat findings identified in the prior year have reoccurred regarding the use of consultants, there is no consultancy reduction plan implemented Regression in the overall performance of the city 	<ul style="list-style-type: none"> MFMA sec 62, The Mayor is assessed as 'provides some assurance' as the commitments made in prior year remain in progress. The service delivery outcomes for CJMM is still not at the desired level and the collection period days and impairment of debtors of CJMM remains concerning. This further contributes to the stagnation in audit outcomes. Executive Mayor did not provide adequate leadership oversight over consequence management in relation to accountability for UIFW expenditure. 	<ul style="list-style-type: none"> MFMA sec 165 - The assessment of the internal audit function revealed that significant percentage of the audit work was not completed due to the emergence of the pandemic requiring special audit consideration and the inadequate staffing as evidenced by the high vacancy rate in the function. The chief audit executive reports to the head of Group Risk and Assurance Services (GRAS) instead of reporting directly to the City Manager which indicates the independence and objectivity of the Internal Audit function may be compromised as GRAS is technically management and Internal Audit is required to be structurally independent of management. Although the internal audit function performed the work in terms of the internal audit programme/ plan and advise management of the internal control deficiencies, the internal audit findings are not always addressed resulting in the control environment of the city not improving as it should. 	<ul style="list-style-type: none"> MFMA sec 166, The audit committee is well resourced and sufficiently supported by the municipality. The committee has had robust discussions on financial and performance matters by emphasizing the importance of the functionality of internal controls within the municipality. Given the repeat significant control deficiencies noted in the current year, there is an opportunity to improve the impact of the oversight provided by tracking repeat findings and control deficiencies, enforcing accountability at the administrative leadership level. 	<ul style="list-style-type: none"> Section 79 of the Municipal Structures Act , The biggest challenge facing the committee is the implementation of the resolutions of Council that are based on the recommendations for the committee which includes improving disciplinary processes to hold the executive accountable for non-performance. 	<ul style="list-style-type: none"> Per MFMA sec 165, Of the key responsibilities entrusted to council the reviewing of the IDP and the approving both the IDP and budget was done within the legislative timelines. However, the council needs to improve with driving the message of clean administration and good governance to improve the audit outcome of the municipality. <p>Treasury and Cogta</p> <ul style="list-style-type: none"> MFMA sec 5. (2) (1), Inadequate support and co-ordination by supporting departments in assisting the city to effectively implement the audit action plans to address the root causes of the prior year.



Senior Management	Accounting Officer	Mayor	Internal Audit	Audit Committee	MPAC	Council
<ul style="list-style-type: none"> • Although the controls are designed and in place, these have not been consistently and appropriately implemented. • Findings of the external auditors are not dealt with in such a way that root cause is permanently addressed, rather are dealt with just to avoid the negative audit outcome. • Senior management and oversight structures have not been able to hold senior management to account in ensuring that the overall control environment is improved to support the desired audit outcome • Vacancies in the senior management positions including the Group CFO may have had an impact due to instability. 	<p>Vacancy in the position of the city manager may have had an impact on decision making due to instability.</p> <p>Instability in council also kept the acting City manager busy with the administrative matters and less care was given to the day to day functions of the City Manager.</p>	<ul style="list-style-type: none"> • Multiparty government in the council of the City of Johannesburg has been unstable, hence taking focus on the executive mayor away from supporting the accounting officer and hold senior management accountable. 	<ul style="list-style-type: none"> • Findings of internal auditors are not taken serious resulting in the same findings being raised by the external auditors. 	<ul style="list-style-type: none"> • Audit and performance committees are not harsh enough to the management for not implementing the findings of the internal audit which subsequently are identified by external auditors. • Audit and performance committees are not harsh enough to the management for not implementing prior year's acting plan which results in the repeat external audit findings. 	<ul style="list-style-type: none"> • In as far as they have been active, they have not been harsh enough in holding accounting officer accountable on spot regarding transgression with regards to laws and regulations so to influence and then in turn hold senior management to account in ensuring that the overall control environment is improved to support the desired audit outcome. 	<ul style="list-style-type: none"> • Council did not take disciplinary processes to hold the accounting officer accountable on spot for non-performance . • The council did not ensure that the vacancies at key management level were filled. • Although the council approved the disciplinary board to deal with non-compliance with laws and regulations amongst the others, the board is taking long to be established. <p>Treasury and Cogta</p> <ul style="list-style-type: none"> • Although the OPCA initiative is active, Cogta does not have direct powers to hold the city accountable where the audit action plans are not implemented.



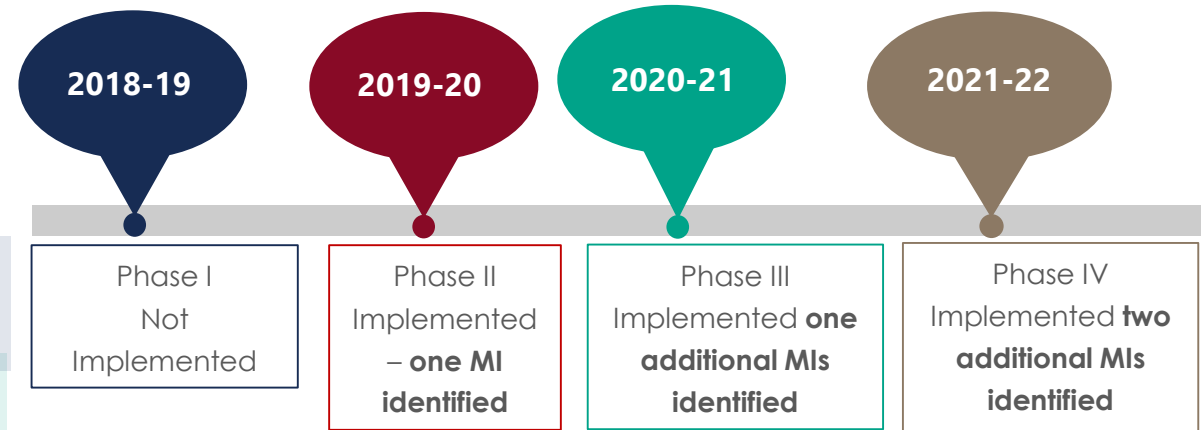
10. Material Irregularities

04 MIs unresolved with estimated financial loss of **R243,5 million**



30 Nov 2022

ASSET MANAGEMENT	Safeguarding of assets	0 MIs
FRUITLESS AND WASTEFUL	Payments not made in time or made in vain	4 MIs
REVENUE MANAGEMENT	Interest not billed on outstanding consumer debtors	0 MI
PAYMENTS	Payment to incorrect beneficiary	0 MI
ENVIRONMENT	Pollution of water resources not being prevented resulting in likely substantial harm to the general public.	0 MI



STATUS OF MIs



To improve the control environment the oversight structures should ensure that they shift the culture toward ensuring that service delivery is prioritized, needs of the citizens are prioritized, there is value to every rand spent.



Promoting accountability at the right level in order to strengthen the city to better serve the citizens



THANK YOU



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