Ekurhuleni
METROPOLITAN MUNICIPALITY

Public Expenditure and Financial Accountability Assessment for the Ekurhuleni Metropolitan Municipality

2015

Final Report

Schweizerische Eidgenossenschaft
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Final Report

The quality assurance process followed in the production of this report satisfies all the requirements of the PEFA Secretariat and hence receives the '**PEFA CHECK**'.

PEFA Secretariat
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Acronyms and Abbreviations

AccG	Accountant General
AGSA	Auditor-General of South Africa
AO	Accounting Officer
ASB	Accounting Standards Board
BBEEA	Broad based Black Economic Empowerment Act
BC	Budget Council
BO	Budget Office
CAE	Chief Audit Executive
COA	Chart of Accounts
COFOG	Classifications of Functions of Government
CPI	Consumer Price Index
DORA (B)	Division of Revenue Act (Bill)
FMIP	Financial Management Improvement Programme
FY	Fiscal Year
GDP	Gross Domestic Product
GFS	Government Financial Statistics
GNI	Gross National Income
GRAP	Generally Recognised Accounting Practice (as issued by the SA ASB)
IA	Internal Audit
ICT	Information & Communication Technology
IDP	Integrated Development Plan
IIA	Institute of Internal Auditors
INTOSAI	International Organisation of Supreme Audit Institutions
ISA	International Standards on Auditing
MFMA	Municipal Finance Management Act
MMC	Member of Mayoral Committee
MPAC	Municipal Public Accounts Committee
MTREB	Medium Term Revenue and Expenditure Budget
NT	National Treasury
ODA	Official Development Assistance
OMA	Offices, Ministries, Agencies
PAA	Public Audit Act
PE	Public Enterprise
PEFA	Public Expenditure and Financial Accountability
PETS	Public Expenditure Tracking Survey
PFM	Public Financial Management
PPP	Public Private Partnership
R	Rand, South African currency
SACN	South African Cities Network
SARB	South African Reserve Bank
SARS	South African Revenue Service
SCM	Supply Chain Management
SCOA	Standard Chart of Accounts
SDBIP	Service Delivery and Budget Implementation Plan
SOE	State Owned Enterprise
TSA	Treasury Single Account
VAT	Value Added Tax

The South African municipal financial year begins on 1 July, and 1 ZAR = 0.08 USD (July 2015)

Summary Assessment

This integrated summary assessment summarizes the performance of the public financial management systems operating in the Ekurhuleni Metropolitan Municipality (EMM) under the six key dimensions defined in the PEFA framework, and examines the implications of weaknesses for the three budgetary outcomes (aggregate fiscal discipline; strategic allocation of resources and efficient service delivery).

Credibility of the budget

Budget credibility is no more than reasonable, as the variances between original expenditure budgets and actual expenditure outcomes (PI-1) were between -7.9% and 5.5% in the years under review. There were also variances at the individual vote level (PI-2), although these may reflect in-year reprioritizations resulting from large variances between the budgeted and actual revenue outturn (PI-3), particularly in respect property rates, but also from an under-recovery of service charges: the latter may in part be explained by the global economic environment.

The stock of expenditure arrears as a percentage of annual expenditure shows a continuous increase over the period, and is well in excess of 10% over the period. Trade creditors have risen by over 1/3 in three years: such a large increase is usually only witnessed in situations of severe cash rationing.

Budget credibility can be undermined by extra-budgetary activities; however this is not the case in EMM as there is very little expenditure that is unreported.

Comprehensiveness and transparency

The budget documentation is comprehensive, although the classification system in place does not accord with GFS/COFOG standards: however, there is a (national) process to reform and standardize the municipal chart of accounts.

The Department of Finance oversees fiscal risks arising from the three municipal entities operated by EMM, and their financial performance is reported monthly to Council and the National Treasury.

The fiscal information available to citizens covers the entire budget cycle i.e. budget formulation and planning, budget execution, and external scrutiny and audit. Public access to key fiscal information in EMM is transparent, generally comprehensive, user-friendly and timely.

Policy-based budgeting

A clear annual budget calendar exists and is followed: it allows departments to meaningfully complete their detailed estimates of revenue and expenditure. There is also sufficient time for departments to re-programme approved bids (over and above the base line) after the approval by the Mayoral Committee of the bid allocations.

The Budget Office issues comprehensive and clear budget guidelines for an integrated recurrent and capital budget process. The Medium Term Revenue and Expenditure Budget (MTREB) allocations serve as firm budget allocation guidelines but may be subject to usually relatively minor adjustments through a bid process up and above these allocation guidelines. The Mayoral Committee approves allocations in time to allow departments almost a month to incorporate amendments.

In each of the three years reviewed in this assessment, the budget was approved by the EMM Council before the start of the fiscal year, as required by the MFMA. Forecasts of fiscal aggregates are prepared for three years, including the budget year. These forecasts are directly linked to subsequent budget ceilings and include functional/sector classifications. Sector strategies are prepared but delays in implementing capital projects reduce the usefulness of recurrent expenditure projections.

Predictability and control in budget execution

The transparency of taxpayer (ratepayer) obligations and liabilities is reasonable, and EMM has a comprehensive register of properties upon which assessment rates are levied, and the collection of rate payments appears fairly effective in that the percentage of arrears to the total debit is more or less constant, at around 8%.

The budget execution process provides each department with a spending horizon of twelve months for expenditure commitment. Cash flows are prepared and updated monthly, on a rolling basis. The preparation of procurement plans is a pre-requisite to cash flow preparation and budget releases. Departments are also required to prepare annual performance plans to guide their activities.

Controls in personnel and payroll administration are reasonable, and there are direct links between the post database, the personnel database and the payroll database, and there is a physical head count signed off by the head of each unit prior to payment of salaries. There are audit trails for any changes to personnel and payroll records, and the time for any changes to take effect and for records to be updated appears reasonable.

There are on-going reforms to Supply Chain Management (procurement). The Preferential Procurement Policy Framework Act provides the legal framework, supported by the Treasury Regulations, and fairness, equitable, transparent, competitive and cost-effective procurement practices are prescribed. Justification for the use of procurement methods other than open competition is the responsibility of the Accounting Officer.

Internal controls over non-salary expenditure are generally effective, although there are various instances recorded in both Internal Audit and Auditor-General reports of failures to adhere to the requirements with a consequent impact on the quality of financial data. The Chief Audit Executive prepares annual internal audit plans for approval by the Audit Committee and the Accounting Officer. Quarterly reports are distributed to the Municipal Manger and the Auditor-General: however, the Audit Committee has only recently been established, and the quality of the unit's work could not be ascertained (it may be noted that the Auditor-General does not rely on work of internal audit).

Accounting, recording and reporting

Reconciliation of all EMM bank accounts and suspense accounts as well as acquittal of cash advances to staff for official duties are timely (PI-22). The current Chart of Accounts provides adequate financial information on resources received (cash and kind) by front line service delivery units (PI-23). In-year budget execution reports ('S71') are produced and published in a timely manner, as are the annual financial statements. The AFS are submitted to the Auditor-General for annual audit within the prescribed timescales, although the A-G's annual audit reports note some decline in the quality of financial information over the fiscal years 2011/12 to 2013/14.

External scrutiny and audit

The Council reviews budget documents, and has three months to review all budget related documents submitted by the Executive, applying the rules (standing orders) governing Council procedure. These procedures apply equally during the main budget process from March to July, as well as the adjustment budget in December; the rules are well respected by both executive and the Council.

The Auditor-General has both complete administrative and financial independence, and audits are conducted in accordance with INTOSAI standards. The A-G's reports cover both financial, systems and performance audit, and remain timely, although management response to audit reports is not yet timely and systematic. Audited reports are submitted on time to the Council for scrutiny, which is undertaken in accordance with the timeframe prescribed in the MFMA.

Assessment of the impact of PFM weaknesses

1 Aggregate fiscal discipline

While fiscal discipline may be reasonable, there must be concerns around outturn variances (both in aggregate and at the vote level) resulting from the inability to collect budgeted revenues. Although the significant level of rate and customer arrears is managed to the extent that appropriate provisions have been made, projections of realizable revenue could be more accurate. Furthermore, despite the regulatory requirement that the Council does not approve a deficit budget, there appears to be a trend of negative balances.

The Council has adequate opportunity to scrutinize budget proposals, which are presented in various amounts of detail, ranging from a 'skeleton' format to make it easier to identify the key points for strategic review in terms of aggregate financial discipline. Budget execution is adequately supported by PFM systems: in-year reporting on budget execution is timely and data integrity and completeness are both reasonable.

2 Strategic allocation of resources

As for all municipalities, the strategic allocation of resources in EMM is theoretically guided by the 'Twelve Outcomes' defined by the National Planning Commission: however, spending patterns over the last three years do not appear to fully reflect these priorities, nor do the in-year re-allocations suggest that the budget is actually executed in line with stated Council policies.

3 Efficient service delivery

EMM's overall budget planning, accounting and reporting systems work reasonably well, and in particular, good quality management information on how resources have been used for service delivery is available in a timely manner: this should reduce the possibilities of leakages – provided the information is actually used by line managers.

Overall, internal control systems are sound, but weaknesses remain, as evidenced in audit reports. The ratings for procurement is poor, and – given the proportion of the budget that flows through this system – improvements would contribute to more efficient service delivery. A further impetus to improvement would be for the Council to respond more rapidly to the issues raised in the reports of the Auditor-General.

Table 1: Ekurhuleni Metropolitan Municipality: Summary of PEFA assessment scores, 2015

Performance Indicator		Scoring Method	Dimension Ratings				Overall Rating
			i.	ii.	iii.	iv.	
Credibility of the budget							
HLG-1	Predictability of transfer from Higher Level of Government	M1	A	C	A		**C+**
PI-1	Aggregate expenditure out-turn compared to original approved budget	M1	B				**B**
PI-2	Composition of expenditure out-turn compared to original approved budget	M1	B	A			**B+**
PI-3	Aggregate revenue out-turn compared to original approved budget	M1	C				**C**
PI-4	Stock and monitoring of expenditure payment arrears	M1	D	D			**D**
Comprehensiveness and Transparency							
PI-5	Classification of the budget	M1	D				**D**
PI-6	Comprehensiveness of information included in budget documentation	M1	A				**A**
PI-7	Extent of unreported government operations	M1	A	A			**A**
PI-8	Transparency of inter-governmental fiscal relations	M2	NA	NA	NA		**NA**
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	A	NA			**A**
PI-10	Public access to key fiscal information	M1	A				**A**
Policy-Based Budgeting							
PI-11	Orderliness and participation in the annual budget process	M2	A	A	A		**A**
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	M2	A	A	A	C	**B+**
Predictability and Control in Budget Execution							
PI-13	Transparency of taxpayer obligations and liabilities	M2	A	C	C		**B**
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	C	C	D		**D+**
PI-15	Effectiveness in collection of tax payments	M1	NR	A	A		**NR**
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	A	B	B		**B+**
PI-17	Recording and management of cash balances, debt and guarantees	M2	A	A	B		**A**
PI-18	Effectiveness of payroll controls	M1	B	B	B	A	**B+**
PI-19	Competition, value for money and controls in procurement	M2	B	D	C	D	**D+**
PI-20	Effectiveness of internal controls for non-salary expenditure	M1	A	B	B		**B+**
PI-21	Effectiveness of internal audit	M1	B	A	C		**C+**
Accounting, recording and reporting							
PI-22	Timeliness and regularity of accounts reconciliation	M2	A	A			**A**
PI-23	Availability of information on resources received by service delivery units	M1	A				**A**
PI-24	Quality and timeliness of in-year budget reports	M1	C	A	C		**C+**
PI-25	Quality and timeliness of annual financial statements	M1	A	A	A		**A**
External Scrutiny and Audit							
PI-26	Scope, nature and follow-up of external audit	M1	A	A	A		**A**
PI-27	Legislative scrutiny of the annual budget law	M1	A	A	A	A	**A**
PI-28	Legislative scrutiny of external audit reports	M1	A	A	B		**B+**

1. Introduction

Objective of the PFM-PR

This assessment of the Ekurhuleni Metropolitan Municipality (EMM) using the PEFA Performance Measurement Framework is one element of a project to provide an understanding of the operation of the PFM system in three metropolitan municipalities. The project has been designed to allow a better understanding of strengths and weaknesses of the local PFM system and help to identify those areas where attention is needed to strengthen the PFM framework. It will also improve the understanding of government officials at both, central and local level for the need of a well-functioning PFM system at the local level.

The global objectives of the project as stated in the Terms of Reference are to:

- "compile a comprehensive 'Public Financial Management – Performance Report' according to the 2011 PEFA methodology and the 2013 Supplementary Guidelines for the application of the PEFA Framework to Sub-National Governments, so as to provide an analysis of the overall performance of the PFM systems in three metropolitan municipalities;

- compile a systemisation report identifying structural PFM weaknesses at subnational level and their implications at national level;

- evaluate to what extent the institutional mechanisms set up by the partner country (national, provincial and local) contribute to planning and the implementation of the reforms of the public financial management".

The specific objective is to compile an objective assessment providing an overall evaluation of the performance of the public financial management of the Ekurhuleni Metropolitan Municipality using the PEFA Framework, which is the subject of this report.

Background

The Swiss State Secretariat for Economic Affairs (SECO), in partnership with the South African Cities Network (SACN), proposes to implement a program to support the strengthening of PFM capacities at subnational level in South Africa. Cumulatively, South Africa's nine largest cities account for 60% of national economic production and over 40% of the total population. Thus the manner in which urban areas are managed is of major importance to the national economy. The PEFA assessments will serve as an entry point by identifying the main PFM problems in three metropolitan municipalities. In a second phase, PFM reform plans will be elaborated and implemented, guided by the PEFA results.

The findings from the individual municipal PEFA assessments will furthermore allow the identification of structural PFM problems at subnational level and their implications at the national level. A systematization report highlighting these findings will provide advice to the national and local governments on areas for action to improve PFM at subnational level for consideration in a revised medium-term action plan.

SACN was responsible for the overall coordination of the assessment, and assisted the assessment team in communicating and coordinating with the municipal governments. This included the establishment of an Oversight Team (OT) (or Project Steering Committee) to oversee the assessment and enable the exchange of experiences. SACN will comment on the draft and final PEFA reports.

The OT was established to govern the whole assessment process, and was also responsible for gathering and sharing relevant reports and other PFM related data with the Assessment Team (AT) in preparation for the field mission. The OT comprised officials from the three municipalities, the National Treasury, and was jointly chaired by a representative of the lead agency (SECO) and SACN.

Terms of reference for the assessments were prepared by SECO in conjunction with the SACN, and were circulated to the three Metropolitan Municipalities, following a presentation made to officials about the PEFA methodology in July 2014. Each Municipality secured a Council resolution agreeing to participate in the exercise. An exit workshop to present the draft reports to a wider group of stakeholders involved in this assessment was held in September. Copies were also sent to the PEFA Secretariat for quality review.

Methodology and approach

The assessment was carried out between February and April 2015 by a team of consultants engaged by SECO[1]. The PEFA Framework, revised in January 2011, was utilized, together with the *"Guidelines for the application of the Framework to Sub-National Governments"* issued by the PEFA Secretariat at the end of 2012. The Framework involves the use of a series of indicators which are based on "generally accepted good practices" to assess the strength of the PFM system in operation. An effective PFM system should achieve:

- **aggregate fiscal discipline:** i.e. effective control of the budget totals and management of fiscal risks;
- **strategic allocation of resources:** i.e. planning and executing the budget in line with stated priorities to achieve declared objectives; and
- **efficient service delivery:** i.e. managing the use of budgeted resources to achieve value for money.

The assessment process required the:

- review of legal and regulatory documentation, budget documentation and financial and audit reports (see ***ANNEX A*** for documents consulted);
- assessment of PFM practice procedures and systems in Municipal governments (see ***ANNEX B*** for officials consulted);
- quantitative analysis of official financial and budgetary data; and,
- the application of professional judgment.

[1] The AT comprised Philip Sinnett, Jorge Shepherd and Gerhard Stoop, under contract to ACE International Consultants

An important consideration in the assessment is an appreciation of the quality, comprehensiveness and accuracy of data that is used to determine the budget credibility indicators. The reliability of the PEFA indicators can only be as good as the accuracy of the financial data upon which they were assessed.

A one-day capacity building workshop was organised by the Assessment Team on 4 February for officials (also listed in ***ANNEX B***) from the selected municipalities before the field mission/data collection phase. The main purpose of the workshop was to enable the officials to fully understand the methodology, indicators and requirements of the PEFA assessment, as well as the method of determining ratings and performance. It included exercises for participants to help them understand the application of the PEFA methodology (using training material provided by the PEFA Secretariat). The workshop also allowed the assessment team to obtain information and knowledge regarding the functioning of financial management arrangements in the municipalities, and to clarify the requirements in terms of stakeholders to be interviewed and information to be obtained. The AT used the workshop to come to an understanding with the municipalities on how they have to prepare for the field missions; in particular to understand the data required before the field missions – a template with these details was prepared and circulated.

A final dissemination workshop was organised by SACN on 3rd September 2015 in Johannesburg, attended by more than 40 participants.

Quality Assurance

A robust quality assurance has been put in place through the PEFA Secretariat PEFA CHECK system. The criteria for the PEFA Secretariat to give the PEFA CHECK endorsement are as follows:

1. A quality review of the Concept Note is obtained from the PEFA Secretariat and at least three other PFM institutions/experts before the assessment work starts, and, if necessary, the Concept Note is revised and forwarded to the reviewers.
2. The draft assessment report is submitted to all reviewers for their comments, following which the draft report is revised and forwarded to the reviewers with a table showing the assessment team's responses to all comments.
3. The management and quality assurance arrangements are described in the report, including the names and positions of the Oversight Team, the Assessment Manager, the Assessment Team, and reviewers (invited and actual), and dates of the draft and final Concept Notes, and of the reviewed draft report.

In addition to the PEFA Secretariat, the EU, SECO, SACN, and the Municipality reviewed the draft report.

2. Background information on the Ekurhuleni Metropolitan Municipality

2.1 Country Context

South Africa has a unitary, but decentralised system of government, comprising national, provincial and local spheres of government. The Constitution provides that the three spheres are *"distinctive, interdependent and interrelated".*[2]

There are nine[3] provinces in South Africa, which are divided into 278 of municipalities that make up the local sphere of government. Municipalities fall into one of three categories: Metropolitan; District; or Local Councils. In the Province of Gauteng, there are three Metropolitan Municipalities, Tshwane Johannesburg and Ekurhuleni, which is the subject of this assessment.

Ekurhuleni Metropolitan Municipality (EMM) is the metropolitan municipality that forms the local government of the East Rand region of Gauteng Province. EMM is one of the five municipalities within the Province of Gauteng, and one of the eight metropolitan areas in the Republic of South Africa. The seat of Ekurhuleni is Germiston. The largest language group among its 2,480,260 people is Zulu, according to the 2001 Census. O.R. Tambo International Airport is in the Kempton Park area of Ekurhuleni. An Integrated Transport Plan has been initiated to allow EMM to confidently develop a transport system within its area of responsibility over the next 5 years.

Following the 2016 municipal elections, EMM will include the area of the current Lesedi Local Municipality, which will be abolished, making EMM the local government of both the East Rand and the rest of south-eastern Gauteng.

2.2 Description of Budgetary Outcomes

a) The social and economic situation

EMM is a metropolitan (or Category A) municipality, and exercises legislative and executive authority within its area of jurisdiction as determined by the Constitution. It is a municipality in the Gauteng Province, a province with a total landmass of 16,548km². According to the 2011 Census data gathered from Statistics South Africa (Stats SA), Ekurhuleni covers 1,975km² – which translates to about 12% of the province – and houses 26% of Gauteng's population and 6% of South Africa's total population. The highest concentration of Ekurhuleni's population is in the previously disadvantaged areas of Daveyton, Tsakane, KwaThema, Thokoza, Katlehong, Tembisa, Vosloorus and Duduza. EMM is exceptionally densely populated with about 1,609.4 people per square km as compared to Gauteng (675.12 people per square km) and the national population (42.8 people per square km). Its average annual population growth rate presently stands at 2.47% and the population increased by 28% from 2.48-million in 2001 to 3.18 million in 2011.

[2] See Constitution of the Republic of South Africa (1996), Chapter 3.
[3] The provinces are: Eastern Cape, Free State, Gauteng, KwaZulu Natal, Mpumalanga, Northern Cape, Northern Province (renamed Limpopo), North West Province and the Western Cape.

EMM's population profile indicates, however, that there is an increase in the number of indigent households. This places significant demand on free basic services and the provision of indigent subsidies, which in turn strains efforts to reduce the backlog in the provision of key services, including human settlements, sanitation, water and electricity. Furthermore, the increase in the number of indigent households is detrimental to increasing the revenue of the municipality in that collecting revenue for key municipal services will be impacted negatively as there will be a high proportion of households from which revenue cannot be collected. This will have a further negative impact on the financial resources available for services. This can be leveraged for the development of industry-specific skills in order to effect job creation and provide a strong, skilled labour base necessary for growing the economy of the region.

According to EMM's financial authorities, 2014/2015 to 2016/2017 seeks to accelerate social, economic and infrastructure development. The adopted budget for FY2014/14 seeks to provide sustainable services to improve the quality and accelerate the broadening of services and ensure that EMM is a preferred destination for growth and development.

EMM's plans for the period ahead are anchored on transformation imperatives that would create work opportunities and build a more equal society. Those plans aim towards building the local economy to create employment and sustainable livelihoods, improving the performance of and broadening access to all services, building social cohesion for safer communities, promoting active public participation, and ensuring more effective and accountable local government. They also focus on improving infrastructure that is poorly located, inadequate and under-maintained, and reindustrialising the EMM's economy through revitalisation of the manufacturing sector.

While the EMM's economy has shown resilience to recent economic difficulties, it is not immune to the consequences of global instability. As with the rest of the country, Ekurhuleni's economy is still characterised by slow economic growth. Despite skills, job creation and economic empowerment initiatives, the unemployment rate remains a major concern, particularly the 36.9% rate of youth unemployment.

The EMM's authorities continue on their efforts to delivering flagship projects including the Aerotropolis, Digital City, Township Economies, Integrated Rapid Public Transport Network (IRPTN), Urban Regeneration and the Beautification of Lakes and Dams.

b) Fiscal policy and fiscal development

Over the medium term, EMM's fiscal performance deteriorated markedly, with growing operating expenses resulting in large budget deficits between FY 2011/12 and FY 2013/14. Noticeably, fiscal operations in EMM are led by a level of revenue far surpassed by expenditures in every year of the period under review – increases in property tax collections and in electricity and water tariffs have resulted in a rapid increase in operating revenues, but these are not sufficient to respond to the rising spending needs of the wage bill, bulk purchases, and repairs and maintenance services. These represent the three largest spending items, which grew by 16%, 20%, and 15% between FY 2011/12 and FY 2013/14 (Table 2.2). Increases in utility tariffs and improved collection of property tax resulted in operating revenues increasing by 2 per cent more than the increase in operating expenses.

The economic development agenda will continue to be triggered by the realization of a capital investment programme in support of the electricity and other strategic services sectors as well as in flagship investment initiatives such as Aerotropolis, Digital City, Township Economies, Integrated Rapid Public Transport Network, Urban Regeneration and the Beautification of Lakes and Dams. The EMM Council is committed to implement several key infrastructure projects in order to boost economic activity, with a view to becoming less reliant on government grants and subventions. EMM thus faces the task of spending more efficiently and restraining the growth of consumptive expenditure, whilst gradually exercising more strict enforcement in service and tax collections to compensate for shortages in revenue.

Table 2.2: Summary of Fiscal Operations, FY 2011/12 to FY 2013/2014
(In millions of Rands)

	2011/12	2012/13	2013/14	2011/14 % change
Total revenue and grants	**19,570**	**20,879**	**23,659**	**20.9%**
Own revenue 1/	16,247	17,497	19,725	21.4%
Of which:				
Property tax	*2,590*	*2,803*	*3,428*	*32.3%*
Electricity sales	*9,087*	*9,693*	*10,359*	*14.0%*
Water sales	*2,054*	*2,150*	*2,576*	*22.5%*
Government grants and subsidies	3,323	3,383	3,934	18.4%
Of which:				
Transfers recognised-operational	*2,050*	*2,274*	*2,418*	*17.9%*
Transfers recognised-capital	*1,272*	*1,108*	*1,516*	*19.2%*
Total expenditure	**22,559**	**24,320**	**26,740**	**18.5%**
Operating expenditure	20,558	21,949	24,128	17.4%
Of which:				
Employee-related costs	*4,110*	*4,298*	*4,765*	*15.9%*
Bulk purchases	*7,931*	*8,853*	*9,486*	*19.6%*
Repairs and maintenance	*1,737*	*1,840*	*2,002*	*15.2%*
Contracted services	*685*	*686*	*3,387*	*0.2%*
Financial costs 2/	*453*	*523*	*686*	*26.4%*
Debt impairment	*1,442*	*888*	*1,344*	*-6.8%*
Other operating costs	*1,789*	*1,823*	*2,298*	*28.5%*
Capital expenditure	2,001	2,370	2,612	30.5%
Overall Group balance (Including grants and special programs)	**(2,989)**	**(3,440)**	**(3,081)**	
Overall Group balance (Excluding grants and special programs)	**(6,312)**	**(6,823)**	**(7,015)**	

Sources: Consolidated AFS: Audited for FY 2011/12 and FY 2012/13; unaudited for FY 2013/14.

1/ Own revenue and transfers recognised combined equal the "Revenue by Source" utilized for this analysis in every financial year.

2/ Data include debt repayment and interest obligations.

c) Allocation of resources

Table 2.3 shows how the economic composition of expenditure remained practically constant over the medium term. Rigidities in the operating budget did not help to create more fiscal space to invest in new economic infrastructure as EMM aspires to do, according to its IDP goals. The share of operating expenses in the total fell by only one percentage point, to 90% in FY 2013/14, from 91% in FY 2011/12, thus resulting in capital expenditure to increase to 10% of total, from 9%.

Table 2.3: Allocation of budgetary resources, by economic category, FY 2011/12 to FY 2013/2014 (In % of total)

Category/type	2011/12	2012/13	2013/14
Total expenditure	100.0	100.0	100.0
Operating expenditure	91.1	90.3	90.2
Of which:			
Employee-related costs	18.2	17.7	17.8
Bulk purchases	35.2	36.4	35.5
Repairs and maintenance	7.7	7.6	7.5
Contracted services	3.0	2.8	2.6
Financial costs 1/	2.0	2.2	2.1
Debt impairment	6.4	3.7	5.0
Depreciation and asset impairment	8.8	8.5	7.1
Other operating costs	7.9	7.5	8.6
Capital expenditure	8.9	9.7	9.8

Source: Table 2.2.

Analysis of the functional composition of EMM expenditure (Table 2.4) shows that, in the total, the budget concentrates mainly within Trading Services (62%), Community and Public Safety (18%), and Economic and Environmental Services (11%). Within Community and Public Safety it is observed the participation of public safety in the budget remained unchanged in 5% of the total, surpassed largely by health and social welfare services – noticeably, sports and recreation surpassed spending in housing and human settlement. Most significant is the overcrowding of Trading Services in the budget, with a share increasing by three percentage points over the period of three years, most of it devoted to the electricity sector. Another salient feature is roads infrastructure representing only 9% of the total, a level equal to finance and corporate services.

Table 2.4: Allocation of budgetary resources, by function, FY 2011/12 to FY 2013/14 (In % of total)

Function/Sub-function	2011/12	2012/13	2013/14
Governance and Administration	16.5	14.6	10.1
Of which: Finance and corporate services 1/	12.9	11.7	8.5
Community and Public Safety	14.9	17.3	17.7
Of which:			
Public safety	4.7	5.0	5.4
Housing	1.4	1.5	3.1
Health	4.2	4.4	4.3
Community and social services	1.5	1.5	1.5
Sports and recreation	3.2	3.3	3.4
Economic and Environmental Services	9.7	10.8	10.5
Of which: Road transportation	8.7	9.6	9.0
Trading Services	58.5	58.8	61.6
Of which:			
Electricity	39.0	39.1	41.5
Water	12.1	13.3	12.8
Sanitation	7.4	6.4	7.3
Other	0.4	0.1	0.1
Total	**100.0**	**100.0**	**100.0**

Sources: Consolidated AFS: Audited for FY 2011/12 and FY 2012/13; unaudited for FY 2013/14.

1/ Includes Budget and Treasury Office and Corporate Services.

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In the totals, the budget allocation between operating and capital expenditure programs changed swiftly over the three financial years, particularly within the economic services and trading services budgets. The operation and maintenance expenses within the utilities departments rose to 65% of the total M&E expenditures of EMM in FY 2013/14, from 60% in FY 2011/12, thus resulting in an inverse change in capital expenditures over the medium term. In turn, the capital investment budget within roads infrastructure rose to 34% of the total, from 19% (Table 2.5). In spite of such a breakthrough in the budget composition favouring capital expenditure, the share of capital expenditure in the total remains quite modest, rising to only 11% of total expenditure in FY 2013/14, from 9% in FY 2011/12 (Table 2.6).

Table 2.5: Allocation of budgetary resources, by function and economic type, FY 2011/12 to FY 2013/14
(In % of total)

Function/Sub-function	2011/12			2012/13			2013/14		
	Oper.	Cap.	Total	Oper.	Cap.	Total	Oper.	Cap.	Total
Governance and Administration	16.8	13.9	16.5	14.7	13.1	14.6	10.0	11.4	10.1
Of which:									
Finance and corporate services	12.9	12.9	12.9	11.6	12.4	11.7	8.3	10.9	8.5
Community and Public Safety	14.4	19.9	14.9	15.1	21.2	15.7	17.2	21.8	17.7
Of which:									
Public safety	4.8	3.9	4.7	4.9	6.5	5.0	5.5	4.6	5.4
Housing	1.1	4.3	1.4	1.4	2.8	1.5	2.7	5.9	3.1
Health	4.0	5.8	4.2	4.4	4.5	4.4	2.7	3.2	4.3
Community and social services	1.1	4.6	1.5	1.1	4.6	1.5	1.2	4.8	1.5
Sports and recreation	3.4	1.3	3.2	3.4	2.9	3.3	3.4	3.3	3.4
Economic & Env'tal Services	8.5	21.2	9.7	8.7	28.9	10.8	7.4	35.8	10.5
Of which:									
Road transportation	7.6	19.3	8.7	7.7	26.8	9.6	6.0	33.8	9.0
Trading Services	59.8	44.8	58.5	61.3	36.2	58.8	65.4	30.4	61.6
Of which:									
Electricity	41.0	19.6	39.0	41.7	16.4	39.1	44.9	12.9	41.5
Water	12.4	8.3	12.1	13.7	9.7	13.3	13.4	8.0	12.8
Sanitation	6.4	16.9	7.4	5.9	10.1	6.4	7.0	9.4	7.3
Other	0.4	0.2	0.4	0.1	0.5	0.1	0.0	0.7	0.1
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Consolidated AFS: Audited for FY 2011/12 and FY 2012/13; unaudited for FY 2013/14.

Table 2.6: Allocation of budgetary resources, horizontally by function and economic category, FY 2011/12 to FY 2013/14
(In % of total)

Function/Sub-function	2011/12			2012/13			2013/14		
	Oper.	Cap.	Total	Oper.	Cap.	Total	Oper.	Cap.	Total
Governance and Administration	92.4	7.6	100.0	91.0	9.0	100.0	87.8	12.2	100.0
Of which:									
Finance and corporate services	90.9	9.1	100.0	89.4	10.6	100.0	86.2	13.8	100.0
Community and Public Safety	87.9	12.1	100.0	86.4	13.6	100.0	86.7	13.3	100.0
Of which:									
Public safety	92.5	7.5	100.0	87.1	12.9	100.0	90.8	9.2	100.0
Housing	72.5	27.5	100.0	81.6	18.4	100.0	79.1	20.9	100.0
Health	87.3	12.7	100.0	89.7	10.3	100.0	92.0	8.0	100.0
Community and social services	71.6	28.4	100.0	68.7	31.3	100.0	66.6	33.4	100.0
Sports and recreation	96.3	3.7	100.0	91.2	8.8	100.0	89.4	10.6	100.0
Economic & env'tal services	80.2	19.8	100.0	72.9	27.1	100.0	63.2	36.8	100.0
Of which:			100.0						

Function/Sub-function	2011/12 Oper.	2011/12 Cap.	2011/12 Total	2012/13 Oper.	2012/13 Cap.	2012/13 Total	2013/14 Oper.	2013/14 Cap.	2013/14 Total
Road transportation	79.8	20.2	100.0	72.0	28.0	100.0	59.3	40.7	100.0
Trading services	93.0	7.0	100.0	93.8	6.2	100.0	94.7	5.3	100.0
Of which:									
Electricity	95.5	4.5	100.0	95.8	4.2	100.0	96.6	3.4	100.0
Water	93.7	6.3	100.0	92.7	7.3	100.0	93.3	6.7	100.0
Sanitation	79.2	20.8	100.0	83.9	16.1	100.0	86.0	14.0	100.0
Other	95.4	4.6	100.0	53.8	46.2	100.0	38.0	62.0	100.0
Total	**90.9**	**9.1**	**100.0**	**89.9**	**10.1**	**100.0**	**89.2**	**10.8**	**100.0**

Source: Consolidated AFS: Audited for FY 2011/12 and FY 2012/13; unaudited for FY 2013/14.

In general, the allocation of budgetary resources does not appear to respond to the medium-term policy objectives set forth in EMM's Integrated Development Plan. Consequently, it is desirable that the Council seeks a more strategic allocation of budgetary resources to support investment in the flagship projects considered of utmost importance to the future of the Municipality.

2.3 Description of the legal and institutional framework for PFM

a) Existing legislation and regulations

The municipal system forming the local government sphere in South Africa has been restructured since the end of apartheid and the first free general election in 1994. New legislation changing the provisions for the determining boundaries, functions and powers, and other governance issues of municipalities have been established, and comprehensive local government reform drastically reduced the total number of local authorities from 843 to 278 (and also reduced the number of elected members).

The Constitution 1996

The Constitution *inter alia* defines the roles and responsibilities of each role player in public finance management, including provincial government and municipal authorities. It provides that the local sphere of government is comprised of municipalities, and that they have the right to manage the matters defined as being within their competence for their communities (subject to national and provincial legislation). The Constitution requires the three spheres to engage in cooperative governance, but also provides – with quite strict restrictions – for provincial intervention in the functions of municipalities. Core PFM issues are set out in Chapter 13 (Finance), Section 229 (Municipal Fiscal Powers and Functions)[4], while the foundations for fiscal policies and processes such as taxation, the consolidated fund, contingencies, remunerations, public debt, accounts and financial reporting, and external audit at the local level are also addressed.

Public Finance Management Act 1999

The PFMA (and its amendment) govern public financial management in South Africa, and outline the duties of national, provincial and municipal government in relation to the level of service provision required by each sphere of government. Financial reporting is a crucial part of effective PFM, and the Act makes provision for different types of reporting at specific intervals by national, provincial and municipal governments.

[4] For further reference, go to http://www.acts.co.za/constitution-of-the-republic-of-south-africa-act-1996/

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Municipal Finance Management Act (MFMA) 2003

The MFMA in many respects applies the provisions contained in the PFMA to the local sphere of government. The Act establishes a basis for improved financial management – essential to improve service delivery and sustain municipal services into the future – based on these underlying principles:

- promoting sound financial governance by clarifying roles,
- a more strategic approach to budgeting and financial management,
- modernization of financial management,
- promoting co-operative government, and
- promoting sustainability.

Chapter 2 of the MFMA segregates the general supervisory functions over local government financial management between the National and Provincial Treasuries. It also lays out the structure and defines the management and oversight processes for the Municipal Budget. Chapter 3 stipulates the process governing the cash management and custody of revenues, as well as other aspects of investment and asset management. Chapter 4 specifies the provisions for appropriation of funds and grants for operating and capital expenditure, and establishes the process to prepare and publish the annual and multi-annual budget, including consultation and approval within the executive and Councils, consultation on tabled budgets with civil society, and other matters including the municipal adjustment budget, shifting of funds between multi-year appropriations, unauthorized, irregular or fruitless and wasteful expenditure, among others. Chapter 6 covers debt management, including the conditions applying to short- and long-term debt, disclosure, municipal guarantees, and national and provincial guarantees. Chapters 8 and 9 define the various functions in financial management, including budget preparation and implementation, as well as the roles and responsibilities of the accounting officer, and the municipal budget and treasury offices. Chapter 10 deals wit similar issues for municipal entities.

Other Chapters in the MFMA deal with Supply Chain Management, General Reporting Requirements, and Financial Misconduct. The internal audit function is established in Chapter 14, Sections 165 and 166. The duties and responsibilities related to internal audit fall under the accounting officers, according to Section 62 (General financial management functions within line departments) and Section 95 (Municipal entities).

Division of Revenue Act (DORA) and Intergovernmental Fiscal Relations Act

Each year, parliament is required to enact a DORA in order to divide revenue from the national fiscus between the three spheres of government (including the provision of national allocations for each municipality for the next three years). The Intergovernmental Fiscal Relations Act provides the level of stakeholder consultation required prior to passing the DORA, via a National Budget forum chaired by the Minister of Finance, with representation from Provincial and Local Government, provincial members of the executive councils (MECs) for finance and the South African Local Government Association (SALGA).

Procurement Law and Regulations

The Preferential Procurement Policy Framework Act 2001 is the main procurement legislation. In addition the Treasury Regulations and the Revised Preferential Regulations of June 2011 provide the legal and regulatory regime for government procurement, as well as the Broad Based Black Economic

Empowerment Act (BBBEEA 2003), Supply Chain Management Regulations and Circulars. The PPPFA empowers the Accounting Officer as the sole authority for authorising procurement.

Public Audit Act 25 of 2004

The Public Audit Act 2004 establishes the office of the Auditor General and provides for the independence of the Auditor General and his/her staff and empowers him/her or his authorised representative to perform financial, systems, IT and performance audit of all government departments, agencies and public entities and report its findings to the National Assembly.

Other relevant financial legislation includes:

- **The Municipal Systems (Amendment) Act (No. 44 of 2003)—**as amended, it provides for new provisions regarding the assignment of functions or powers to municipalities, the submission of annual performance reports by municipalities, for the establishment of municipal entities, and other matters connected therewith;
- **The Municipal Property Rates Act (No. 6 of 2004)—**it contains further related provisions dealing with the adoption and contents of a rates policy, rate and tariff increases;
- **The Electricity Regulation (Amendment) Act (No. 4 of 2006)—**it contains provisions relating to electricity regulations, including aspects relating to licensing, and the sale and supply of electricity within municipalities and tariffs; and
- **The Water Services (Amendment) Act (No. 30 of 2004)—**it contains provisions relating to norms or standards, and the development of plans and tariff mechanisms.
- **The Local Government Municipal Structures (Amendment) Act (No. 1 of 2003)** establishes the administrative and functional structure of municipalities and the sharing of financial and other responsibilities amongst key municipal officials and units. It also provides that metropolitan municipalities (category A municipalities), which have exclusive executive and legislative authority in their area, can only be established in metropolitan areas[5]. At the moment there are eight metropolitan municipalities.[6] The Act provides that areas that are not eligible for metropolitan municipality status must have district municipalities (category C municipalities) and local municipalities (category B municipalities) within their area[7]. Therefore the non-metropolitan areas consist of district municipalities, which contain several local municipalities within their area. At the moment there are 44 district and 226 local municipalities in South Africa.
- The **Municipal and Budget Reporting Regulations (MBRR)** (2009) form the basis to secure sound and sustainable management of the budgeting and reporting practices of municipalities and municipal entities by establishing uniform norms and standards and other requirements for ensuring proper accountability and transparency of municipal operations and shared lines of responsibility of those institutions as required by the MFMA legislation.

According to National Treasury reports, the impact of these legal and regulatory reforms has been improvements in budgeting practices and accounting and reporting systems. Budgets are no longer incremental, the budgeting and planning processes appear to be linked through the Integrated Development Plan (IDP), budgets are no longer presented with considerable detail thus allowing for better understanding and control, revenue and capital estimates are more realistic on the aggregate,

[5] Local Government: Municipal Structures Act (2003), Section 2.
[6] The eight metros are: Buffalo City (East London), City of Cape Town, Ekurhuleni Metropolitan Municipality (East Rand), City of eThekwini (Durban), City of Johannesburg, Mangaung Municipality (Bloemfontein), Nelson Mandela Metropolitan Municipality (Port Elizabeth), City of Tshwane (Pretoria).
[7] Local Government Municipal Structures Act (2003), Section 3.

and financial reporting has resulted in more accurate and timely representation of the local public finances thus allowing for improved internal and external audit.

b) Institutional framework

Executive

The Executive is headed by the President (elected on a 5-year term) and comprises 38 National departments, 9 constitutional bodies, 9 provinces and 278 local authorities. Each province is headed by an elected premier, and each municipality by an elected Executive Mayor, who, assisted by the Mayoral Committee, is the executive arm of the EMM. The Executive Mayor has an overarching strategic and political responsibility. Each of the members of the Mayoral Committee chairs a portfolio committee, consisting of councilors from all the various political parties elected into the Metropolitan Council.

Legislative

The Metropolitan Council is the legislative arm of EMM. It is empowered to approve municipal by-laws, the EMM Budget and the Integrated Development Plan. It also has executive powers to deal with matters that have not been delegated to the Executive Mayor. The Council Speaker is elected from the councilors to be the chairperson of the Council.

Judiciary

The Constitution establishes the judiciary and guarantees its independence. It is made up of the constitutional court, the supreme court of appeals, high courts and magistrate courts.

Auditor-General

The office of the Auditor General is the Supreme Audit Institution of the Republic, established by Article 188 of the Constitution. The Public Audit Act provides specific powers and duties that the Auditor General (who is appointed by the President subject to Parliamentary approval) must perform, including auditing all state organs and public entities, at least annually. This includes the primary responsibility for auditing the annual financial statements of municipalities and their entities, and submitting an audit report to the accounting officer of the municipality or entity within three months of receipt of those statements (MFMA, Section 121).

Audit Committees

The MFMA and Treasury Regulations establish and detail the responsibilities of audit committees. The legal and regulatory framework, require that the committee must consist of at least three members, and be chaired by an independent private citizen. It is responsible for overseeing the activities of accounting officers in each department and ensuring the full implementation of all audit recommendations, whether from the internal audit unit, Auditor General or SCOPA.

The National Treasury

The National Treasury is the pivot of PFM in South Africa. It provides leadership in all matters relating to public finance management as enshrined in the PFMA and MFMA.

c) Key features of the PFM system

South Africa has two financial years: April 1 to March 31 for national and provincial governments, and July 1 to June 30 for municipalities. Policy development is the responsibility of national government.

Service delivery is the responsibility of provincial government and municipalities. The national government provides oversight for provinces, while each province supervises the activities of its municipalities, which are subdivided in accordance with the Constitution into three categories: Metropolitan, District and Local councils. There are currently 278 municipalities that make up the local sphere of government in South Africa.

The Constitution assigns a number of functional areas to Municipal governments, and these are set out in ***Annex C***: municipalities can also be assigned other matters by national or provincial legislation, by agreement with the municipal council. Within their areas of jurisdiction, and subject to national and provincial legislation, municipalities exercise full legislative and executive power: they are also guaranteed the necessary financial resources and capacity building support necessary to fulfil their new functions and powers.

In aggregate, the local sphere of government is largely self-financing, although there are differences in the ability of the richer and poorer municipalities to generate revenue. The legislation provides that the municipalities are entitled to resources commensurate to their responsibilities, but in many service sectors this is not realised in practice, as poverty is pervasive, especially in the rural areas.

The self-financing means that the bulk of their resources are raised from own revenue sources such as taxes (excluding income tax, value added tax, general sales tax or customs duty) and service charges: this right to levy taxes and impose charges is provided by the Constitution.

In the course of local government restructuring, municipalities were given not just constitutional protection, but also fiscal capability, which meant that they became responsible for raising the vast majority of their own revenues (in aggregate). This is still a challenge as capacities of different local authorities vary considerably, and many municipalities struggle to raise sufficient revenue: amounts raised locally vary between 67% per cent in the smaller authorities and 97% in the metropolitan authorities.[8]

In addition to self-collected revenue, municipalities in South Africa receive allocations from the national fiscus, and payments are made directly to the municipalities (not via provinces). One of the most important developments in intergovernmental fiscal transfers to the municipalities in recent years has been the adoption of the Municipal Infrastructure Grant (MIG), a conditional allocation, intended to provide capital finance for basic municipal infrastructure for poor households, micro enterprises and social institutions funded from municipal budgets.

The Constitution and national legislation provide that when municipalities are assigned new functions and powers, the necessary financial resources and capacity building measures have to be provided to them as well for the exercising of those functions and powers.

d) Structure of EMM

To perform the assigned functions, the EMM is composed of twenty-one departments and three municipal entities (see below). The departments are represented as budget heads (votes):

1. City Manager
2. City Planning

[8] For further reference go to http://www .clgf.org.uk/userfiles/CLGF/File/2008_Country_Files/SOUTH_AFRICA.pdf

3. Corporate Legal Services
4. Disaster and Emergency Management Services
5. Economic Development
6. Ekurhuleni Metropolitan Police Department
7. Energy
8. Environmental Resource Management
9. Executive Office
10. Finance Department
11. Fleet Management
12. Health and Social Development
13. Human Resources Management and Development Department
14. Human Settlements
15. Information, Communication and Technology
16. Legislature
17. Roads and Storm Water
18. Sports, Recreation, Arts and Culture
19. Transport Planning and Provision
20. Waste Management Department
21. Water and Sanitation

Municipal entities

The FY 2014/15 operating budget adopted by EMM amounted to R26,308 million, of which the Municipality represented 97% of the total and municipal-owned entities represented 3% (Table 2.7).

Table 2.7: Operations by Municipal Entities, FY 2014/15
(In millions of Rands)

Name	Operating	Capital	Total
1. Ekurhuleni Development Company SOC Ltd. (*)	55.1		
2. Pharoe Park Housing Company SOC Ltd.			
3. Germiston Phase II Company SOC Ltd.			
4. Lethabong Housing Institute NPC			
5. East Rand Water Care Company, NPC	626.2		
6. Brakpan Bus Company SOC Ltd.	30.7		
Total Municipal Entities	712.0		
Total CoE expenditure	26,307.8		
% of total budget	**2.7%**		

Source: Budget Adopted for FY 2014/15.

(*) The budget of EDC is a consolidation of four entities: Ekurhuleni Development Company SOC Ltd (Management Company), Pharoe Park Housing Company SOC Ltd., Germiston Phase II Company SOC, Ltd., and Lethabong Housing Institute NPC.

3. Assessment of PFM systems, processes and institutions

HLG-1: Predictability of transfer from Higher Level of Government

(i) Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the SN entity for inclusion in the latter's budget

Table 3.1 shows that National Treasury transfers to EMM, inclusive of operating and capital transfers and grants, deviated from the originally approved budget 3.7% in FY 2011/12, by 4% in FY 2012/13 and by 8.2% in FY 2013/14.

Table 3.1: Grants to EMM
(In millions of Rands, unless otherwise noted)

	2011/12		2012/13		2013/14	
	Budget	Actual	Budget	Actual	Budget	Actual
Unconditional grants[9]	1,644	1,644	1,825	1,825	1,918	1,918
Conditional grants	1,560	1,679	1,700	1,557	2,366	2,016
Total	3,204	3,323	3,525	3,383	4,284	3,934
Difference as % of budgeted revenue						
Of which: Unconditional grants		0.0%		0.0%		0.0%
Total		3.7%		-4.0%		-8.2%

Sources: Consolidated AFS: Audited for FY 2011/12 and FY 2012/13; unaudited for FY 2013/14.

Dimension rating = A

(ii) Annual variance between actual and estimated transfers of earmarked grants

The earmarked component of grants to EMM, composed of transfers and grants to specific projects, deviated from the originally approved budget by 8.7% in FY 2011/12, 12.2% in FY 2012/13 and 11.3% in FY 2013/14[10].

Dimension rating = C

(iii) In-year timeliness of transfers from HLG (compliance with timetables for in-year distribution of disbursements agreed within one month of the start of the SN fiscal year

Prior to the beginning of every financial year, the National Treasury and Gauteng Province (higher level of government) prepare a disbursement timetable for the release of the non-earmarked grants, i.e., Equitable Share, for the financial year and shares it with EMM Department of Finance (at the latest in May). It is agreed with EMM that the funds will be released on a quarterly basis and the schedule of payments show these were made at end of every quarter in almost the same amounts planned over the past three years. In all, delays in a large portion of actual disbursements have not exceeded 10% in more than one of the last three financial years.

[9] Includes the Equitable Share.
[10] Further detail on the variance composition is provided in ***ANNEX E***

Dimension rating = A

HLG-1			**Scoring Method M1**
Predictability of transfer from Higher Level of Government		**C+**	
(i)	Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the SN entity for inclusion in the latter's budget	A	In no more than one out of the three years under review have HLG transfers fallen short of the estimate by more than 5%
(ii)	Annual variance between actual and estimated transfers of earmarked grants	C	Variance in provision of earmarked grants did not exceed 10 percentage points in more than one of the three years under review.
(iii)	In-year timeliness of transfers from HLG (compliance with timetables for in-year distribution of disbursements agreed within one month of the start of the SN fiscal year	A	A disbursement timetable forms part of the agreement between the HLG and EMM and all stakeholders agree this before the beginning of the financial year. Actual disbursements delays (weighted) have not exceeded 10% in more than one of the last three years.

3.1 Budget credibility

EMM's budget is credible if it is largely implemented in accordance with the estimates approved by the Council before the beginning of the financial year. To ascertain the extent to which this is the case, the assessment examined the comparison of outturns against the original budget over the past three years (2011/14), and also on analysing the variance in the composition of primary expenditures across budget heads.

PI-1: Aggregate expenditure out-turn compared to original approved budget

(i) Difference between actual primary expenditure and originally budgeted primary expenditure

Actual expenditure deviated from the original budget appropriation by 5.5% in FY 2011/12, by 7.2% in FY 2012/13 and by 7.9% in FY 2013/14. The result is heavily influenced by budget under execution in purchases of goods and services, employee-related costs, and capital expenditure, the three largest items in the budget[11] – in the three years under review, purchases fell short of the original budget estimate by 1.8%, 3.4% and 4.6%, employee-related costs fell short of the original estimate by 3.4%, 7.2% and 6.1%, and capital expenditure fell short of the original estimate by 24.5%, 10.6% and 16.7%, respectively (Table 3.2).

[11] Employee-related costs, purchases of goods and services, and capital expenditure represented 47% of total primary expenditure, 18% and 10%, respectively. The shares remained practically unchanged in each of the three years under review.

Table 3.2: Comparison of original budget and actual expenditure
(In millions of Rands, unless otherwise noted)[12]

	2011/12		2012/13		2013/14	
	Budget	Actual	Budget	Actual	Budget	Actual
Recurrent expenditure	20,743	20,104	23,000	21,426	25,268	23,555
Of which:						
Employee-related costs[13]	4,252	4,110	4,632	4,298	5,075	4,765
Purchases of goods and services[14]	10,545	10,352	11,775	11,379	12,755	12,173
Debt impairment	1,573	1,442	1,257	888	1,145	1,344
Capital expenditure	2,651	2,001	2,651	2,370	3,137	2,612
Total primary expenditure	23,394	22,105	25,651	23,797	28,405	26,167
Difference as % of budgeted primary expenditure		**- 5.5%**		**-7.2%**		**-7.9%**

Sources: Consolidated AFS: Audited for FY 2011/12 and FY 2012/13; unaudited for FY 2013/14.

See ***Annex E*** for calculations.

PI-1		Scoring Method M1
Aggregate expenditure out-turn compared to original approved budget	**B**	In each of the three financial years has actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 5% but less than 10% of budgeted expenditure.

PI-2: Composition of expenditure out-turn compared to original approved budget

(i) Extent of the variance in expenditure composition of primary expenditure during the last three years, excluding contingency items

Variance in expenditure composition, excluding contingency items, exceeded 14.2% in 2011/12, 2.8% in 2012/13 and 7.9% in 2013/14 (Table 3.3).

Analysis of EMM budget outturns indicates that expenditure concentrated predominantly in new plant and equipment and repairs and maintenance at the departments of energy (42%), water and sanitation (16%), and roads and transportation infrastructure (9%). Mismatches in the allocation of budgetary resources are noticeable between the Police Department and others considered less of a priority, such as sports and culture, or the Council General. The variance composition is attributed to sharp budget under execution in practically all departments, especially in FY 2012/13 and FY 2013/14, with the three largest departments being shaved less than the others.

[12] Data exclude debt service obligations (referred to as finance costs in the budget classification), externally aided development expenditures do not apply.
[13] Data include (a) salaries and wages, (b) pension fund contribution, (c) travel, motorcar subsistence and other allowances, (d) medical aid contributions, and (e) overtime payments, among others.
[14] Data include bulk purchases, repairs and maintenance, and other materials and contracted services.

Table 3.3: Composition of budget execution by administrative vote, excluding contingency items
(In millions of Rands, unless otherwise indicated)[15]

Administrative vote	2011/12 Budget	2011/12 Actual	2012/13 Budget	2012/13 Actual	2013/14 Budget	2013/14 Actual
Office of the Executive	71	57	63	60	83	72
Office of the City Manager	26	27	27	21	30	17
Finance and CFO	472	497	387	210	772	389
Legislature	139	112	199	144	175	159
City Planning	143	130	155	137	220	164
Council General	480	490	449	344	361	380
Roads and Stormwater	1,477	1,606	2,059	1,951	2,202	1,894
Transport	646	296	344	316	688	549
Real Estate	515	534	728	709	673	818
Health and Social Development	645	717	786	740	896	781
Metropolitan Police Department	899	757	879	851	1,045	934
Sports, Recreation, Arts & Culture	539	585	692	639	844	838
Human Settlements	436	343	518	475	697	425
Energy	9,334	9,492	10,746	10,054	11,451	10,989
Waste Management	1,485	1,203	1,253	1,158	1,508	1,243
Water and Sanitation	3,444	3,624	4,108	3,940	4,437	4,275
Others[16]	2,645	1,636	2,259	2,047	2,324	2,242
Total allocated expenditure	**23,394**	**22,105**	**25,651**	**23,797**	**28,405**	**26,167**
Contingency expenditure	**0**	**0**	**0**	**0**	**0**	**0**
Composition variance (%)		**14.2%**		**2.8%**		**7.9%**

Sources: Consolidated AFS: Audited for FY 2011/12 and FY 2012/13; unaudited for FY 2013/14.

Dimension rating = B

(ii) The average amount of expenditure actually charged to the contingency vote over the last three years

There is no contingency vote in the Municipality's budget.
Dimension rating = NA

PI-2			**Scoring Method M1**
Composition of expenditure out-turn compared to original approved budget		**B+**	
(i)	Extent of the variance in expenditure composition of primary expenditure during the last three years, excluding	B	Variance in expenditure composition exceeded 5% (but was less than 15%) in two of the last three years.

[15] As note 11

[16] Data include Strategy and Corporate Planning; Risk Management; Chief Operating Officer: Delivery Coordination; Enterprise Project Management Office; Customs Relations Management; Fleet Management; Disaster and Emergency Management; Human Resources; Information, Communications and Technology; Corporate Legal; Economic Development; Environmental Resource Management; Communications and Branding; and Internal Audit.

PI-2			Scoring Method M1
	contingency items		
(ii)	The average amount of expenditure actually charged to the contingency vote over the last three years.	A	There is no contingency vote in EMM's budget.

PI-3: Aggregate revenue out-turn compared to original approved budget

The main sources of own revenue for EMM are property tax (17%), electricity fees and charges (53%) and water and sanitation services (18%), collected by the Group Finance and the respective utility departments.

(i) Actual domestic revenue compared to domestic revenue in the originally approved budget

Actual domestic revenue (as a percentage of originally budgeted revenue) was 96.0% in FY 2011/12, 91.9% in FY 2012/13 and 93.4% in FY 2013/14 (Table 3.4). The performance is suboptimal and generally attributed by low collection outturns in electricity fees and property taxes over the period under review.

Table 3.4: Comparison of budgeted and actual own revenue[17]
(In millions of Rands, unless otherwise indicated)

	2011/12			2012/13			2013/14		
Budget item	**Budget**	**Actual**	**%**	**Budget**	**Actual**	**%**	**Budget**	**Actual**	**%**
Tax revenue	2,836	2,590	91.4%	3,199	2,803	87.6%	3,795	3,428	90.3%
Non-tax revenue	14,091	13,657	96.9%	15,841	14,694	92.6%	17,333	16,297	93.7%
Of which:									
Electricity fees	9,414	9,087	96.5%	10,553	9,693	91.8%	11,510	10,359	90.0%
Water fees	2,116	2,054	97.0%	2,415	2,150	89.0%	2,607	2,576	98.8%
Total	**16,927**	**16,247**	**96.0%**	**19,040**	**17,497**	**91.9%**	**21,128**	**19,725**	**93.4%**

Sources: Consolidated AFS – Audited for FY 2011/12 and FY 2012/13; unaudited for FY 2013/14.

PI-3		Scoring Method M1
Actual domestic revenue compared to domestic revenue in the originally approved budget.	**C**	Actual own revenues varied between 92% and 94% of budgeted revenues in two of the three financial years under review.

PI-4: Stock and monitoring of expenditure payment arrears

(i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock)

[17] Excludes capital transfers.

Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA and consequently, EMM incurred arrears throughout the year.

The stock of expenditure payment arrears comprises various payables to trade creditors, civil contractors, and taxpayers to whom the EMM is liable – these are accounted for, among others, as "Trade creditors/payables", "Civil contracts" and "VAT debtors" and are reported in the annual financial statements. Through the accounting software, line departments record and monitor expenditure commitments (approved payments or "Releases") against available cash resources within the financial plans authorized for every department. Sections 48 and 140 of the MFMS specify that an expenditure payment is considered in arrears when an authorized payment is due more than 30 days. Table 3.5 shows the balances of unpaid bills to the private sector, which summarize all invoices overdue more than 30 days and accumulated over the last three years. The total overdue balance owed to trade suppliers and contractors rose to 16% in FY 2013/14, from 13% in FY 2011/12.

Table 3.5: Expenditure payment arrears, at end June, 2012, 2013 and 2014[18]
(In millions of Rands, unless otherwise indicated)

	2011/12	2012/13	2013/14
Trade payables	2,047	2,433	2,730
Civil contracts	-	149	134
VAT debtors	765	920	1,108
Other payables	-	72	135
Total	2,812	3,572	4,107
% of total expenditure	12.7%	15.0%	15.7%

Sources: Consolidated AFS: Audited for FY 2011/12 and FY 2012/13; and unaudited for FY 2013/14.

Dimension rating = D

(ii) Availability of data for monitoring the stock payment arrears

As noted above, all payment arrears in general are compiled manually on a creditor-by-creditor basis, not classified by department, comprising outstanding balances (from 31 to over 120 days). These consist of payments overdue by the Municipality to suppliers and contractors (grouped as trade creditors in the accounting system). Evidence could not be gathered on the existence a comprehensive analysis of arrears by end of June summarized by vendors and warning of unpaid invoices of more than 30, 60, 90 and 120 days accumulated over the year. The common practice is that unpaid invoices accumulating through end of June are cleared within the first sixty days after the end of the financial year, a process not allowing more invoices to be entered into the (old year's) system.

Dimension rating = D

PI-4			Scoring Method M1
Stock and monitoring of expenditure payment arrears		**D**	
(i)	Stock of expenditure payment arrears (as a	D	The stock of arrears exceeds 10% of total expenditure.

[18] Data excludes payments received in advance, retentions, and accrued leave pay, among others.

PI-4			Scoring Method M1
	percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock)		
(ii)	Availability of data for monitoring the stock payment arrears	D	There is no evidence suggesting one comprehensive ad hoc or routine exercise has been generated over the past two years, including an age analysis for all relevant payable categories.

3.2 Comprehensiveness and transparency

This group of indicators examines the extent to which the structure and presentation of information in the budget provide a comprehensive and clear picture of the municipal government's intentions with respect to the management of public financial resources for which it is accountable. In particular, these indicators describe the extent to which such information is: complete (i.e. comprises the totality of public finances); easy to understand; and made available to the general public in an accessible manner. The group covers important aspects of comprehensiveness and transparency in public finances such as the timely and clear flow of fiscal information between levels of government, and information on the activities of EMM and it's municipal entities. They look into whether information is available and sufficiently transparent to allow the management of potential fiscal risks for the public purse.

PI-5: Budget classification

The National Treasury has the responsibility for compiling national whole-of-government accounts, including consolidated local government information for national policy and other purposes. This information is obtained from all municipalities, each of which operates according to their own organisational structure. It is still necessary for National Treasury to specify a national standard for the collection of local government budget and financial information. One of the key benefits of getting municipalities to budget and report according to GFS categories is thus to inform national reporting, benchmarking in a wholly standardized code and to foster an improved understanding of the contribution of the local government sphere.

According to National Treasury, the budget formats prescribed in the Municipal Budget and Reporting Regulations go a long way in identifying the categories of municipal information required in developing their budgets. The next step is to ensure that the detailed information captured in the implementation of the budget is properly and credibly aligned. Although Local Government has its own peculiarities, the success achieved at the National and Provincial level from implementing the SCOA could be equally beneficial for Local Government in improving data quality, achieving a greater level of standardization and uniform data sets. These are critical for 'whole-of-government' reporting.

(i) The classification system used for formulation, execution and reporting on the government's budget

The initiative to standardize the chart of accounts of different spheres of government has been under way in the Republic of South Africa since 1999. The process has been consultative, with key stakeholders being included from the design and formulation stage, which included municipal and city governments in recent years. As a result, the first phase of developing the new chart was based strictly on GFS reporting standards and aimed mainly at the national level and more recently at certain Provinces, including Gauteng. A second phase includes the adoption of national accounting and reporting standards at local level, such as the IPSAS-compliant Generally Recognized Accounting Practice (GRAP), the latest of which became effective July 1, 2014.

In response to this reform plan and in pursuance with Section 216 of the Constitution both aimed at ensuring a uniform budget classification across municipalities, Municipal Regulations on the Standard Chart of Accounts (SCOA) was published in 22 April 2014 and its implementation is due on 1 July 2017. These will allow the EMM's budget classification to meet the GFS 2001 standards for purposes of budget formulation, execution and reporting on a gradual manner. According to EMM officials, a comprehensive management and capacity building process will be launched under the assistance of National Treasury to oversee and assist stakeholders, vendors and municipalities with the transition to the SCOA classification framework.

For now, the administrative and economic elements in the budget classification system do not comply with GFS 1986 standards. A program classification is also available but it is not yet compatible with COFOG standards: instead, a process of migrating to GFS classification by functions and sub-functions has begun for all municipalities on April 1, 2014.[19] Lack of a standard COA has resulted in recurring events of misclassification of financial transactions amongst departments reported by the Auditor-General every year.

PI-5		Scoring Method M1
The classification system used for formulation, execution and reporting on the government's budget	**D**	The budget formulation, execution and reporting is based on different economic, administrative and programmatic categories not compatible with Government Finance Statistics (GFS) 1986 and Classification of Government Functions (COFOG) standards.

PI-6: Budget documentation

(i) Share of listed information contained in the budgetary documentation most recently issued by EMM

The latest budget (Medium Term Revenue and Expenditure Framework or MTREF) presented to the CoE's Council is the budget for FY 2014/15, and comprises the following documents:

1. Overview of the annual budget process;
2. Overview of alignment of annual budget with the Integrated Development Plan (IDP);
3. Measurable performance objectives and indicators, comprising (a) Performance indicators and benchmarks, (b) Free Basic Services: Basic social services package for indigent households, and ;(c) Providing clean water and managing waste water;
4. Overview of budget-related policies;
5. Overview of budget assumptions, including (a) Inflation outlook and its impact on the municipal activities, (b) Interest rates for borrowing and investment of funds, (c) Increases in electricity and other utilities tariffs for revenue services, (d) Growth or decline in tax base of the municipality, (e)

[19] See Municipal Finance Management Act (No. 56 of 2003), Sections 48 and 140.

Salary increases, (f) Impact of national, provincial and local policies, and (g) Ability of the municipality to spend and deliver on the programmes;

6. Overview of budget funding;
7. Expenditure on grants and reconciliation of unspent funds;
8. Monthly targets for revenue, expenditure and cash flow;
9. Annual budgets and Service Delivery Budget Implementation Plans (SDBIPs) – Internal Departments;
10. Contracts having future budgetary implications;
11. Capital expenditure details;
12. Legislation compliance status;
13. Other supporting documents; and
14. Municipal Manager’s quality certificate.

Table 3.6: Information in Budget Documentation

Documentary Requirement	Fulfilled	Documents for Evaluation
1. Macroeconomic assumptions, including aggregate growth, inflation and interest rate estimates, at the very least.	**Yes**	Relevant macroeconomic assumptions and growth rates, including the consumer price index, the municipal cost index, key service tariffs, and salary increases, among others.
2. Fiscal deficit defined according to GFS or other internationally defined standards.	**Yes**	Fiscal deficit is presented in a form compatible to GFS standards.
3. Deficit financing, describing anticipated composition	**No**	Surplus is usually the norm in the presentation of budget summaries.
4. Debt stock, including details at least for the beginning of current year	**Yes**	The information forms part of the Section on EMM’s financial position (Table A6: Consolidated Budgeted Financial Position).
5. Financial Assets, including details at least for the beginning of the current year	**Yes**	The information forms part of the Section on EMM’ s financial position (Table A6: Consolidated Budgeted Financial Position, Table 8: Consolidated Cash backed reserves/accumulated surplus reconciliation, and Table 9: Consolidated Asset Management).
6. Prior year’s budget out-turns, presented in the same format as the budget proposal	**Yes**	Forms part of Table A2: Consolidated Budgeted Financial Performance (CBFP) (revenue and expenditure by standard classification), Table A3: CBFP (revenue and expenditure by municipal vote), Table A4: CBFP (revenue and expenditure), Table A5: Consolidated Budgeted Capital Expenditure by vote, standard classification and funding, and Table A7: Consolidated Budgeted Cash Flows.
7. Current year’s budget (either the revised budget or the estimated out-turn).	**Yes**	
8. Summarized budget data for both revenue and expenditure according to the main heads of the classifications used (ref. PI-5), including data for the current and previous year.	**Yes**	Forms part of Table A1: Consolidated Budget Summary.
9. Explanation of the budget implications of new policy initiatives with estimates of the budgetary impact of all major revenue policy changes.	**Yes**	Forms part of Statement of tariff setting, which includes property rates, electricity services, water and sewerage and sanitation services, and overall impact of tariffs on households.

PI-6			**Scoring Method M1**
	Share of listed information contained in	**A**	The existing budget documentation fulfils eight (8) of the nine (9) information benchmarks.

	the budgetary documentation most recently issued by the Council.		

PI-7: Extent of unreported Council operations

(i) Level of extra-budgetary expenditure (not including projects financed by donors) that is not declared – in other words that does not appear in fiscal reports.

There is no evidence of extra-budgetary activity from the EMM departments and/or municipal entities, as these report their financial operations to Group Finance on a regular basis.

As far as unauthorised expenditure – those operations resulting in expenditures made outside the authorised budget appropriations – is concerned, there has been no observations of such operations in the two latest available audited AFS for EMM (i.e., FY 2011/12 and FY 2012/13).

Dimension rating = A

(ii) Information on income and expenditure in relation to projects financed by donors included in the fiscal reports.

No project is funded by an external donor agency. There is evidence only on domestic donors and sponsorships for special events as well as donations in kind, all reported through by departments to Group Finance, and in total, these constitute an amount that is insignificant in budget terms.

Dimension rating = A

PI-7			**Scoring Method M1**
Extent of unreported Council operations		**A**	
(i)	Level of extra-budgetary expenditure (other than donors funded projects) which is unreported i.e. not included in fiscal reports.	A	There is no unreported extra-budgetary expenditure observed within the EMM.
(ii)	Information on income and expenditure in relation to projects financed by donors included in the fiscal reports.	A	Complete money and in-kind contributions from domestic donors are included in fiscal reports on an annual basis, there are no externally funded projects reported in the EMM's budget.

PI-8: Intergovernmental Fiscal Relations

As there are no sub-national elected governments in EMM, this indicator does not apply (NA).

(i) Transparent systems based on regulations governing horizontal allocations between sub-national governments of unconditional and conditional transfers from the (central) government (budgeted and real allocations) of EMM.

(ii) Timely provision of reliable information to sub-national governments on the allocations to be made to them by (central) government for the following year.

(iii) Degree to which consolidated general government fiscal data (at least on income and expenditure) is collected and made available, broken down by sectoral categories.

PI-8			Scoring Method M2
Intergovernmental Fiscal Relations		**NA**	
(i)	Transparent systems based on regulations governing horizontal allocations between sub-national governments of unconditional and conditional transfers from the (central) government (budgeted and real allocations) of EMM.	NA	
(ii)	Timely provision of reliable information to sub-national governments on the allocations to be made to them by (central) government for the following year.	NA	
(iii)	Degree to which consolidated general government fiscal data (at least on income and expenditure) is collected and made available, broken down by sectoral categories.	NA	

PI-9: Oversight of aggregate fiscal risk

(i) Extent of Council monitoring of municipal entities

There are several capacity challenges relating to accounting and reporting confronted by Municipal Entities (MEs) in general. They do, nonetheless, manage to report to the Department of Finance on a quarterly basis, according to a budgeting and financial reporting format agreed beforehand. The parent department monitors the activities of individual municipal entities on a quarterly basis, and the responsibility of consolidating the reports on an annual basis and monitoring the evolution of the overall financial situation resides with the Finance Department.

Dimension rating = A

(ii) Extent of Council monitoring of SN governments' fiscal position

Dimension (ii) is not applicable as there is no second tier of government in EMM.

Dimension rating = NA

PI-9			Scoring Method M1
Oversight of aggregate fiscal risk		**A**	
(i)	Extent of Council monitoring of municipal entities	A	All MEs submit financial reports, cash flow statements and annual audited accounts to EMM Department of Finance on a quarterly basis: this is consolidated annually.
(ii)	Extent of government monitoring of SN governments' fiscal	NA	

	position		

PI-10: Public Access to key fiscal data

Transparency will depend on whether information on fiscal plans, positions and performance of EMM is easily accessible to the general public, or at least to relevant interest groups. The MFMA provides for enhanced transparency of municipal financial information: for example, specific time frames are prescribed within which the audit of a municipality must be completed and the Auditor-General's Report tabled in the Gauteng Provincial Legislature. The annual financial statements, report on performance against the plan and Auditor-General's Report then become public information, to be published by the municipality, at least on its website.

The following table identifies the budget information that is made available to the public.

Table 3.7: Summary of Fiscal Information Accessible to the Public

Elements of fiscal documentation	Availability	Notes
Annual budget documentation: A complete[20] set of documents can be obtained by the public through appropriate means when it is submitted to the Council.	**Yes**	The existing budget documentation includes eight of the nine information benchmarks. The budget documentation is also uploaded on the EMM website.
In-year budget execution reports: The reports are routinely made available to the public through appropriate means within one month of their completion.	**Yes**	Within one month of their completion, IYMs are uploaded on the EMM website and forwarded for uploading in the NT's website.
Year-end financial statements: The statements are made available to the public through appropriate means within six months of completed audit.	**Yes**	Copies of the financial statements are made available to the public through the EMM website and in printed form at public places such as libraries.
External audit reports: All reports on Ekurhuleni's consolidated operations are made available to the public through appropriate means within six months of completed audit.	**Yes**	The report of the Auditor- General is made available to the public by AGSA as well as on the EMM website.
Contract awards: Awards of all contracts specific to Ekurhuleni and with value equivalent above approx. US$100,000 are published at least quarterly through appropriate means.	**Yes**	Contracts awarded are published on the EMM website, offices and at public places within the metro.
Resources available to primary service units: Information is publicised through appropriate means at least annually, or available upon request, for primary service units in at least two sectors (such as elementary schools, primary health clinics).	**No**	Reports/information on resources availed to primary service delivery units are integrated and included in EMM's Integrated Development Plan and Service Delivery Budget Implementation Plan, but not made available explicitly.
An element of information covering fees, charges and taxes (if any) that belong legally to the SN entity (collected locally or by the Central Tax office).	**Yes**	EMM's tariffs (taxes and fees) are approved with the annual budget and published on the website of the municipality and it is made available at public places such as libraries within the metro.

[20] 'Complete' means that the documents made publicly available contains all or most of the information listed under indicator PI-6, to the extent this information exists.

Elements of fiscal documentation	Availability	Notes
Because a SN entity is generally closer to users than at the Central Government, an element of public information should refer to services provided to the community such as potable water, sewage, illumination etc. This is particularly relevant for municipalities.	**Yes**	EMM makes available information on services provided to the community in at least the following public documents: - IDP - In-year reports - Annual reports These documents are available on EMM's website, regional service centres and other public places. The information is also translated into most of the local languages for the citizens.

PI-10		**Scoring Method M1**
Public Access to key fiscal data	**A**	EMM makes available to the public (in a complete form) 7 of the 8 listed types of information.

3.3 Policy-based budgeting

This group of indicators describes the extent to which the process for establishing budget allocations permits Council policy intentions to be adequately and appropriately articulated in a manner that is fiscally sustainable over at least the medium term.

PI-11: Orderliness and participation in the annual budget process

EMM's budget is produced through a reasonably orderly process that is well understood by all departments and support functions. They have sufficient time to prepare their formal submissions after the issue of the Budget Circular/Instruction and then for discussions with the Budget Office. The Council approves overall spending priorities, and sets ceilings for recurrent and investment spending by departments, before allocations are approved.

(i) Existence of, and adherence to, a fixed budget calendar

An annual budget calendar is established in accordance with the MFMA and NT Circulars, and provides for a comprehensive and clear budget preparation process, agreed on and followed through by all the departments and entities. The calendar runs over a eight-month period, and allows departments and entities to finalise plans and budgets, as well as time for all role players to deliberate (both internally and externally – National and Provincial Departments, Entities and NGOs), and ultimately for the Council to approve the budget before the fiscal year commences.

The general shape of an annual budget calendar has been established in compliance with the MFMA and NT Circulars. Section 68 of the MFMA prescribes that the Accounting Officer of the municipality must assist and support the Mayor to comply with the prescripts of Chapters 4 and 7 of the MFMA to prepare the municipality's budget.

The budget preparation process consists of the following phases:

- Phase 1: Tabling Budget for Consultation
- Phase 2: Publication of Budget Tabled for Consultation
- Phase 3: Submission of Tabled Budget
- Phase 4: Submission of Entities' Budget to Municipality

- Phase 5: Consideration of Budget for Approval
- Phase 6: Publication of Approved Budget
- Phase 7: Submission of Approved Budget
- Phase 8: Approval of Entities' Budget
- Phase 9: Submission and Publication of Entities' Budget

Ekurhuleni's budget preparation timetable (Table 3.8 below) covers in more detail each of these phases. Departments actively participate in this process and the ceilings are communicated during the process leading up to the approval of the budget. The Departmental ceilings are confirmed and communicated with the approval of the budget at least one month before the commencement of the new financial year.

Table 3.8: Critical dates for the 2014/15 Ekurhuleni Budget Process

Critical dates for the 2014/15 Ekurhuleni Budget Process	
Mayoral Lekgotla to set priorities for IDP/Budget Cycle	September to October 2013
Issuing of budget and tariffs guidelines (= Budget Circular)	November 2013
Budget Steering Committee meetings	Once a month from September 2013 to May 2014
Issuing of final indicatives	February 2014
Submission of final draft tariffs, budgets and business plans to Budget Office	27 February 2014
National Treasury Engagements (Mid-year)	March 2014
Tabling of draft Budget, tariffs and IDP reports to Mayoral Committee	March 2014
Tabling of the draft Budget, tariffs and IDP at Council	20 March 2014
Stakeholder consultation, including public participation	March to April 2014
Approval of final IDP and Budget by Joint Budget Steering Committee and	May 2014
Council approval of final Budget and IDP, and Budget Day	29 May 2014

Source: EMM 2014/15 Budget Book

Dimension rating = A

(ii) Clarity/comprehensiveness of and political involvement in guidance on the preparation of budget submissions

The Council is involved in the setting of overall ceilings for recurrent and capital expenditure through the Budget Policy process. The Council issues an indication of the objectives that should receive priority in the allocation of resources. Departments and Entities are given guidance on the shape of their submissions prior to the issuing of budget allocations, including ceilings for every major function or sector within which each department should work together the current and capital expenditure budgets and establish the various institutional linkages in the budget.

The Council approves expenditure ceilings by vote (departments) and approves the allocation of these funds within each vote. The MFMA recognises that during the course of the year there may be a need for a "virement" between programmes and economic categories, but sets limits to the discretion of the Accounting Officer and NT in this regard.

Dimension rating = A

(iii) Timely budget approval by the legislature within the last three years

The Council approved the annual Budget before the beginning of the year to which it relates in each of the past three fiscal years. See table below:

Dimension rating = A

Table 3.9: Dates of Budget Approvals by Ekurhuleni

Fiscal year	Budget Approval Date
2012/13	24 May 2012
2013/14	23 May 2013
2014/15	29 May 2014

Source: Council Resolutions

PI-11			**Scoring Method M1**
Orderliness and participation in the annual budget process		**A**	
(i)	Existence of, and adherence to, a fixed budget calendar	A	A clear annual budget calendar exists, is generally adhered to and allows departments five months from receipt of the budget circular to meaningfully complete their detailed estimates on time.
(ii)	Clarity/comprehensiveness of and political involvement in guidance on the preparation of budget submissions	A	The budget ceilings include both current and capital expenditure (or "payments for capital assets") approved by the Council, at administrative unit level, together with general guidance on expenditure priorities.
(iii)	Timely budget approval by the legislature within the last three years	A	The EMM Council has, during the past three fiscal years, approved the budget before the start of the fiscal year.

PI-12: Multi-year perspective in fiscal planning, expenditure policy and budgeting

Expenditure policy decisions have multi-year implications, and must be aligned with the availability of resources over a medium-term perspective. Therefore, multi-year fiscal forecasts of revenue, medium term expenditure aggregates for mandatory expenditure and potential deficit financing (including reviews of debt sustainability involving both external and domestic debt) should be the foundation for policy changes.

EMM is aware of the socio-economic challenges faced by the country, including the negative effects of unemployment, poverty, the need for housing and other basic human development and infrastructure needs. In response to these needs, the South African Government set out 5 key priorities, namely, (1) Education; (2) Job creation, (3) Health, (4) Crime Prevention, and (5) Rural Development and Land Reform.

EMM has allocated sizable domestic resources in its budget to address these challenges, firmly guided by the Outcome-based approach adopted at the national level since 2010/11. EMM reemphasized its commitment to ensure that its budget is informed and addresses government priorities as reflected in the New Growth Path, the 2014 Medium Term Strategic Framework and the

National Planning Commission's 'Twelve Outcomes' forming the basis of Government's strategic and policy priorities. This strategic framework comprises a range of output targets that form the basis for budget preparation. EMM departments and entities are expected to maintain a portfolio of evidence to show the extent of the achievement of performance targets: these will be presented for audit by the AGSA.

Table 3.10: Government's Twelve Outcomes

Government's Twelve Outcomes	
1	Improved quality of basic education
2	A long and healthy life for all South Africans
3	All people in South Africa are and feel safe
4	Decent employment through inclusive growth
5	A skilled and capable workforce to support an inclusive growth path
6	An efficient, competitive and responsive economic infrastructure network
7	Vibrant, equitable and sustainable rural communities with food security for all
8	Sustainable human settlements and improved quality of household life
9	A responsive accountable, effective and efficient local government system
10	Environmental assets and natural resources that are well protected and continually enhanced
11	Create a better South Africa and contribute to a better and safer Africa and World
12	An efficient, effective and development oriented public service and an empowered, fair and inclusive citizenship

Source: National Planning Commission

These outcomes involve responsibilities shared by several stakeholders, not only across the three spheres of government, but also business and NGOs within the municipal area, as well as the different departments and entities within EMM. Individual departments and entities are responsible for specific outputs, programmes and projects that contribute to these shared goals and objectives. The IDP, SDBIP and MTREF process is designed to achieve an allocation of fiscal resources between programmes that is consistent with a balanced and cost-effective promotion of these outcomes (see budget calendar above). Departments and entities are required to set out their roles and responsibilities relating to the outcomes as part of their SDBIP and budget submissions.

In preparing these plans and submissions, departments and public entities are expected to set out the outputs and performance indicators and targets relevant to programmes and sub-programmes (other than administrative programmes). This must be considered when reprioritising the budget in the preparation of revised MTREF baseline estimates. Departments must reflect their performance measures as agreed upon per sector and the performance targets set out in their SDBIP for the upcoming financial year. By means of the formal functional Committee on Municipal Accounts (COMA), agreement must be reached between departments and the Council on the relevant (non-financial) outputs, performance indicators and targets to be included in departmental and entity submissions.

Guidance on strategic and annual planning and on performance information is outlined in the *Local Government: Municipal Planning and Performance Management Regulations, 2001*.

(i) Multi-year fiscal forecasts and functional allocations

Annual budget ceilings are prepared for administrative, program and main economic categories, for the next budget year and a period of three years, on a rolling basis. The municipal budget process aligns the performance and structures of relevant programs and activities across strategic sectors in the resource envelope**.** The substantial amount of budget information available in the system eases the way towards a sector-wide approach. It enables intertwining the various budget items throughout the life of a capital formation project to the achievement of a result for the sector, regardless of the executing agencies and service delivery units involved.

Dimension rating = A

(ii) Scope and frequency of debt sustainability analysis

EMM for every year during the period under review conducted an extensive analysis of its financial position, financial performance and cash flow included with the annual financial statements and Auditor-General's report for each year. The analysis of financial position amongst things other focuses on the measurement of liquidity, liability and sustainability, while the cash flow analysis focuses on the measurement of cash and debt.

The analysis includes all the different ratios compared to the norm for local government. Where there are deviations from the norm it is explained in the City Manager's report. Furthermore, the notes to the annual financial statements include detail information on for example the different liabilities and financial instruments.

Dimension rating = A

(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure

EMM adopted 'Vision 2040', supported by a short-term implementation strategy. This is further complimented by the annual revision and update of the IDP, SDBIP and MTREF as per the budget calendar (PI-11 above). The IDP includes programmes (in effect, 'sector strategies', that cover all departments) that are further "unpacked" in the SDBIP where all the projects each department plans to implement to support the programmes are detailed. The resources for the implementation of these projects are largely funded in the annual budget.

The multi-year costing of recurrent and investment expenditure for the programmes is visible in the Medium Term Revenue and Expenditure Forecasts. There is costing of development plans which could determine the extent of financing and serve to determine and prioritise a medium- to long-term capital investment plan and guide the projection of the recurrent resources required across sectors and departments, as part of the MTREF and annual budgeting processes. There is costing of expenditure activities carried out between and within programmes. Cost estimates for each programme are the key information inputs into the budget process and is essential data both for analysis of budget submissions and, once approved, for populating the financial management systems through which transactions are recorded against approved allocations.

Dimension rating = A

(iv) Linkages between investment budgets and forward expenditure estimates

A SDBIP and a MTREF are prepared and reviewed annually by every department and entity responsible for the building and equipping of new economic and social infrastructure within EMM. Every department and entity attempts to link capital projects to the estimate of operating and maintenance expenses, but this process is cumbersome and inefficient, according to executing departments, and largely weakened due to deficient project and contract management.

The process is impaired by the departments and entities not being able to prevent and control capital projects from running into further delays in implementation, commonly attributed to local capacity constraints and deficient economic planning and technical design. This not only results in major cost overruns to the budget but in significant imprecision as to the amount of staffing and other resources required to operate those new public assets as part of the calculation of forward estimates in the MTREF process.

Dimension rating = C

PI-12			Scoring Method M2
Multi-year perspective in fiscal planning, expenditure policy and budgeting		**B+**	
(i)	Multi-year fiscal forecasts and functional allocations	A	Annual budget ceilings are prepared for administrative, program and main economic categories, and for the next budget year and a period of three years on a rolling basis. Programmatic structures in the budget represent the functional allocations.
(ii)	Scope and frequency of debt sustainability analysis	A	Each year, EMM conducts an extensive analysis of its financial position, including the measurement of cash and debt. Any deviations from established norms are explained in the CFO's report.
(iii)	Existence of sector strategies with multi-year costing of recurrent and investment expenditure	A	Development plans are costed, and can determine the extent of financing and prioritise a medium- to long-term capital investment plan and guide the projection of the recurrent resources required across sectors and departments, as part of the MTREF and annual budgeting processes.
(iv)	Linkages between investment budgets and forward expenditure estimates	C	Public works and infrastructure plans exist for the responsible line departments and a budget is allocated for the provision of operating and maintenance. The problem for the most part lies on the capital projects planned for delivery being loosely tied to the forward operating and maintenance expenditure estimates.

3.4 Predictability and control in budget execution

This group of indicators considers the extent to which managers of budget agencies are able, in practice, to collect revenue as well as commit and make expenditures consistent with their budget allocations and agreed cash flow projections. The extent to which revenue collection and expenditure control arrangements are effective without unnecessarily constraining the effectiveness of service delivery are also assessed.

Among other things, the group covers two critical aspects of PFM systems: payroll and procurement controls. Since compensation of employees represents a large portion of EMM's budget, it is imperative that effective and efficient payroll controls are in place. Likewise, since a major component of expenditure relies on procurement arrangements, it is imperative that procurement arrangements are clear, fair and transparent and that they facilitate efficient expenditures rather than hinder them. Both the payroll and procurement systems are potential sources of corruption if control arrangements are weak or poorly managed.

PI-13: Transparency of Taxpayer Obligations and Liabilities

The only form of taxation available to EMM is property rates, which comprise approximately 18% of total own revenue: see Table 3.10 below.

Table 3.11: Composition of EMM's Own Revenue, including taxes (Property Rates)

Revenue source	R million			% of total		
	2011/12	2012/13	2013/14	2011/12	2012/13	2013/14
Property rates	2,590	2,803	3,428	15.9%	16.0%	17.4%
Service charges - electricity revenue	9,087	9,693	10,359	55.9%	55.4%	52.5%
Service charges - water revenue	2,054	2,150	2,576	12.6%	12.3%	13.1%
Service charges - sanitation revenue	716	745	895	4.4%	4.3%	4.5%
Service charges - refuse revenue	726	846	963	4.5%	4.8%	4.9%
Service charges - other	58	66	68	0.4%	0.4%	0.3%
Rental of facilities and equipment	49	50	56	0.3%	0.3%	0.3%
Interest earned - external investments	154	240	370	0.9%	1.4%	1.9%
Interest earned - outstanding debtors	200	258	362	1.2%	1.5%	1.8%
Fines	210	173	168	1.3%	1.0%	0.9%
Licences and permits	34	35	41	0.2%	0.2%	0.2%
Other revenue	369	438	439	2.3%	2.5%	2.2%
Total	16,247	17,497	19,725	100.0%	100.0%	100.0%

Sources: Annual Financial Statements FY2011/12 to FY2013/14.

(i) Clarity and comprehensiveness of tax liabilities

The Municipal Property Rates Act (No. 6 of 2004) empowers municipalities to raise taxes on designated properties within their boundaries. This Act allows EMM very limited discretion on its taxing powers, as it provides the formulas according to which property rates are calculated. In addition, the MFMA requires the EMM to have it tariffs approved as part of the annual budget process which is subject to public participation. Tax rates for different types of properties are included in EMM's tariff policy, which is approved annually with the budget and is publicly available on the municipality's website and at public places such as regional community centres and libraries. Individual ratepayers are notified of their liability and receive monthly accounts.

Dimension rating = A

(ii) Taxpayer access to information on tax liabilities and administrative procedures

Arrangements about procedures, liability for and appeals against property rates are detailed in the Municipal Property Rates Act and the City's annual tariff policy, which is available from EMM's website as well as public offices around the city, regional service centres and libraries.

The administrative procedures for some tax liabilities are not regularly available and generally lack the detailed steps that must be followed. The procedures do not include a complete list of all the supporting documents that ratepayers are required to submit when registering for their tax liabilities.

Dimension rating = C

(iii) Existence and functioning of a tax appeals mechanism

Once Council approves EMM's tariff policy (with the annual budget), the tariffs are captured on the account billing system. Given the large volume of accounts and huge number of possible exceptions, the billing system cannot cater for the exceptions. This causes erroneous charges on ratepayers' accounts and because they are incorrect, the ratepayers involved do not pay. This often leads to incorrect actions such as disconnections and legal action.

Ratepayer appeals must be presented to EMM's customer services unit and only as a last resort may be directed to the relevant line department for investigation and correction.
Dimension rating = C

PI-13			Scoring Method M2
	Transparency of Taxpayer Obligations and Liabilities	**B**	
(i)	Clarity and comprehensiveness of tax liabilities	A	Legislation and policy for the property rates are comprehensive and clear. In general, these obligations and liabilities are published to the general public.
(ii)	Taxpayer access to information on tax liabilities and administrative procedures	C	The availability and comprehensiveness of the administrative procedures for property rates are limited.
(iii)	Existence and functioning of a tax appeals mechanism	C	A tax appeal system of administrative procedures exists, but needs substantial redesign to be fair, transparent and effective.

PI-14: Effectiveness of measures for taxpayer registration and tax assessment

(i) Controls in the taxpayer registration system

EMM's tax receipts are in the form of property rates (PI-13 above). The owner of a property (business or residential) is liable to pay rates on the property, and, as the registration process does not automatically coincide with an application for water and electricity services, there is no control measure built into the system that requires the system operator to double check whether the applicant for these services has to register for property tax as well. A clearance certificate is issued when a property is sold, but there is no follow-up to ensure that the new owner actually registers for property rates. Registration for sanitation services and refuse removal are linked to the registration for property rates. Should a new owner not register for property rates, sanitation and refuse removal services generally continue, thus contributing to the accumulation of debt. EMM inspectors occasionally perform checks on ratepayers' accounts, including verification of ownership when discrepancies are identified, and conduct surveys. The outcome of this is then followed-up and necessary corrections made to the ratepayers' account.
Dimension rating = C

(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations

In terms of the Municipality's by-laws, tariff policy as well as credit control and debt collection policy, penalties may be charged for failure to honour tax liabilities. The penalties are incurred automatically from the date of non-compliance and remain on the billing system until settled. The amount of such penalties is based on a formula and is considered to be high enough to serve as a deterrent. EMM however has limited capacity to follow-up on defaulters and it is only occasional checks on ratepayers' accounts that result in compliance.
Dimension rating = C

(iii) Planning and monitoring of tax audit and fraud investigation programmes

EMM's Internal Audit Unit prepares risk-based audit plans. Except for the periodic checks on ratepayers' accounts for compliance to tax liabilities, there has not been a tax audit or fraud prevention investigation during the three years under review.

Dimension rating = D

PI-14			Scoring Method M2
	Effectiveness of measures for taxpayer registration and tax assessment	**D+**	
(i)	Controls in the taxpayer registration system	C	Ratepayers are registered in a database system for individual purposes, which are not fully and consistently linked. There are no linkages between the various registration functions, but are supplemented by occasional surveys of potential ratepayers.
(ii)	Effectiveness of penalties for non-compliance with registration and declaration obligations	C	The provision for penalties against possible defaulters for rates and taxes and financial rules exist, but effectiveness is generally lacking due to weak administrative and internal control systems.
(iii)	Planning and monitoring of tax audit and fraud investigation programmes	D	An audit of rates and taxes has not taken place during the period under review.

PI-15: Effectiveness in collection of tax payments

(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years)

The Annual report for 2013/14 contains the (Audited) Consolidated Financial Statements and notes that: *"The collection rate for the 2013/14 financial year is 90.14%, which is significantly lower than the collection rate target of 93%. Therefore, it resulted in an increase on the outstanding debtors".* However, the data in Note 16 to the AFS does not allow the calculation required by this dimension to be completed.

Dimension rating = NR

(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration

EMM endeavours to make the payment of rates as convenient as possible for ratepayers, and has partnered with various credible institutions that have large footprints across the Municipality to receive tax revenues on its behalf. These revenues received by other institutions are paid over into EMM's bank accounts on a daily basis. Ratepayers may also pay rates and taxes by means of electronic funds transfer directly into EMM's accounts at all the major commercial banks.

Dimension rating = A

(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury

EMM uses multiple 'heritage' system for its billing, some of which are "stand-alone" systems, which may result in payments made by ratepayers not being credited to their accounts automatically. The Department of Finance has implemented a procedure whereby an electronic file from the daily receipts in each bank account is prepared and the information transferred into the accounting system on a daily basis. This electronic file and interface makes provision for exception reports e.g. a payment reference that cannot be matched electronically to a unique account. The exceptions are then investigated and resolved to ensure the payment is allocated to the correct account. EMM's credit control and debt collection policy stipulates that any payments received will first be utilised for amounts in any arrears, beginning with the oldest. The EMM Department of Finance provided evidence of monthly complete accounts reconciliations.

Dimension rating = A

PI-15			**Scoring Method M2**
Effectiveness in collection of tax payments		**NR**	
(i)	Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years)	NR	The data does not allow the calculation required by this dimension to be completed.
(ii)	Effectiveness of transfer of tax collections to the Treasury by the revenue administration	A	All tax revenue is transferred to the Treasury daily.
(iii)	Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	A	Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place monthly.

PI-16: Predictability in the availability of funds for commitment of expenditures

The cash flow planning and monitoring functions are essentially the responsibility of the Treasury (within the Department of Finance), with major inputs from the various revenue units. The availability of funds committed to departments and entities is warranted by Council Resolution (as part of the approval of the annual budget), and cash resources are disbursed through and charged against

EMM's "sweeping" bank account and accounted for. The amount of domestic funding authorised for the year is based on the annual cash flow projections submitted to the Budget Office.

The annual cash forecasts for the equitable share and conditional grants and a drawdown schedule of monthly tranches across beneficiary departments and programs is compiled. Usually, the equitable share is forecast to flow evenly into EMM's bank account by fixed monthly and quarterly tranches at the level of voted heads and programs. The schedule for conditional grants varies in the forecast according to the nature of spending projects.

In addition, revenue-generating departments prepare cash flow projections that form part of the annual budget submission for approval by the Council. The sum of own revenues, equitable share and conditional grants constitute the annual funding for EMM, and over the past three financial years this has been forecast with a high degree of predictability and certainty.

(i) Extent to which cash flows are forecast and monitored

There is a high degree of predictability in the availability of funds because the EMM Treasury monitors cash flow on a daily basis. Various different formats of cash flow statements are prepared and presented to management. It is only the national grants apportioned that will not change in the total for the year by any significant amount (see HLG-1 above). As a rule, the funds granted monthly to the budget from the NT will equate to the total amount fixed for the year in an agreement with the NT. The issue is on how to best re-estimate and re-schedule the City's cash outflows throughout the year, particularly those aimed towards the funding of non-salary commitments.

For the purposes of enhancing the predictability of own domestic funding to support budget execution, the EMM Treasury considers revised cash needs by departments on a monthly basis. Hence a revised cashflow forecast is produced on the consolidated position and a re-estimation/re-scheduling of future cashflows each month. The process starts from a weekly review of daily cashflows and the cash position at the beginning of every week, and followed by a forecast of cash available, based on historical trends and projected liquidity in EMM bank accounts for the remainder of the year, on one hand, and on the salary and non-salary obligations of departments and entities, on the other.

Dimension rating = A

(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment

As noted in PI-11 above, ceilings for expenditure are made with the annual budget guidelines. The budget guidelines does not only include the ceilings per department and entity, but also the ceilings for different strategies and programmes that cut across departments and entities to ensure that the overall budget is aligned to the priorities of government and the needs of the city's people. Departments and entities are assured that funds will be available to meet commitments that are in the budget.

Although the approval of the annual budget by the Council provides departments and entities with assurance that funds will be available to meet commitments, unforeseen and unavoidable expenditure, and under collection of revenue, may cause EMM to shift funds and adjust budgets during the financial year: however, departments are provided reliable information on budget ceilings at least quarterly in advance.

Dimension rating = B

(iii) Frequency and transparency of adjustments to budget allocations which are decided above the level of management of MDAs

In-year adjustments to the budget allocations, according to the MFMA broadly comprise of four categories: virements, request for rollover, transfer of functions between votes, and additional funds for unforeseeable and unavoidable expenditure through an adjustment process, which requires authorisation by Council. EMM complies with the MFMA in ensuring that in-year adjustments to budget allocations take place not more than twice, and are done in a transparent and predictable way above the level of management of Departments. Additionally, reallocations within each department's budget vote are authorised by the Accounting Officer through internal resolutions during the financial year – this is the commonly accepted way of adjusting the budget during the financial year, even from the beginning of the year.

As the data presented in relation to PI-2 confirm, reallocations of expenditure between votes, virements and authorisations of additional expenditure through the adjustments budget do take place.

Dimension rating = B

PI-16			Scoring Method M1
Predictability in the availability of funds for commitment of expenditures		**B+**	
(i)	Extent to which cash flows are forecast and monitored	A	A cash flow forecast is prepared for the fiscal year, and are updated monthly on the basis of actual cash inflows and outflows.
(ii)	Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	B	Departments and entities are provided reliable in-year information on ceilings for expenditure commitment ceilings for at least one quarter in advance through the close monitoring of the cash flow situation by the Treasury. In-year adjustments in budget allocations often vary as the forecasts are adjusted for the remainder of the year.
(iii)	Frequency and transparency of adjustments to budget allocations which are decided above the level of management of MDAs	B	In-year budget adjustments take place only once every year and are done in a fairly transparent manner. The arrangement of adjusting the budget is a pre-established process set out in the MFMA and a relatively well informed adjustment on budget ceilings process to commit expenditure within the limits set by the expenditure provision on each major budget line. Adjustments vary often ostensibly across departments.

PI-17: Recording and management of cash balances, debt and guarantees

Municipalities are allowed to contract loans to finance its programmes and projects in line with IDPs, the SDBIP and the MTREF. This contracting of loans must be in line with the overall financial position and based on sound financial management.

EMM's approach is to present the overall financial position of the Municipality to Council on a monthly basis, and the option of contracting loans is considered only once a year with a holistic view of the City's financial position. The City's policy is not to provide guarantees.

(i) Quality of debt data recording and reporting

In line with Chapter 6 of the MFMA the EMM does not incur debt without a Council Resolution signed by the Mayor. Once the debt agreement (in accordance with the resolution) has been approved, the debt is recorded in a register. The information in the register enables EMM to comply with all the monthly financial reporting requirements prescribed by the MFMA, and disclosure in the AFS in accordance with GRAP.

Dimension rating = A

(ii) Extent of consolidation of the government's cash balances

The availability of funds committed to departments and entities is included in the approved budget and cash resources are disbursed through and charged against EMM's "sweeping" bank account and then accounted for. The revenues received by other institutions (PI-15) are paid over into Ekurhuleni's bank accounts on a daily basis. Ratepayers may also pay rates and taxes by means of electronic funds transfer directly into EMM's bank accounts with all major commercial banks. These bank accounts are consolidated on a daily basis.

Dimension rating = A

(iii) Systems for contracting loans and issuance of guarantees

EMM has taken a policy decision not to issue guarantees. Council approval for contracting loans, considering the overall financial position of the municipality, is sought only once a year and covers the limits of total debt.

Dimension rating = B

PI-17			**Scoring Method M2**
Recording and management of cash balances, debt and guarantees		**A**	
(i)	Quality of debt data recording and reporting	A	Debt records are complete, updated and reconciled on a monthly basis with data considered of high integrity. Comprehensive management and statistical reports are produced monthly.
(ii)	Extent of consolidation of the government's cash balances	A	All cash balances are calculated daily and consolidated.
(iii)	Systems for contracting loans and issuance of guarantees	B	EMM doesn't issue guarantees and its contracting of loans are made within limits for total debt, and always approved by Council.

PI-18: Effectiveness of payroll controls

Except for the bulk purchases, personnel costs account for the largest component of operating expenditure in municipalities in the Republic of South Africa. At an aggregate level, about 30 per cent of the total municipal operating budget gets spent on the remuneration of personnel. This rate varies among municipalities, depending on the extent to which they may have outsourced some of their service delivery functions, or whether they are responsible for the large revenue generating functions or not. In EMM, the remuneration of personnel averaged 19,75 per cent of the total operating budget (see Table 2.2), which is below the ceiling set by the Restructuring Grant. The personnel cost as a percentage of the total operating expenditure has also gradually come down over the past three financial years.

However, the extent to which this expenditure represents value for money for the communities municipalities serve remains in question. This is why measuring and managing the performance of municipalities, and by implication, the performance of municipal employees, is critical. The Municipal Systems Amendment Act (2011) came into effect on 5 July 2011. This Act seeks to address the appointment and competencies of municipal managers and managers directly accountable to the municipal manager (S57 managers), regulating the employment of municipal employees who have been dismissed or are subject to disciplinary processes by other municipalities, regulating the duties, remuneration, benefits and other terms and conditions of employment for municipal managers and S57 managers.

(i) Degree of integration and reconciliation between personnel records and payroll data

EMM maintains an electronic database of all employees, which is reconciled monthly with the (electronic) HR system before the payroll can be updated. Payroll records are updated monthly upon completion of timesheets: without a timesheet authorized by management, no payment will be made to the employee. When an employee's timesheet is processed an indicator in the payroll system is set, which feeds into an exception report for those employees whose timesheet has not been received for payroll to follow up: the employee's salary will be deactivated. However, data regarding the percentage of transactions not conforming to these 'norms' was not available.

Dimension rating = B

(ii) Timeliness of changes to personnel records and the payroll

HR Support Managers in departments maintain personnel records, and before a new employee can be created on the payroll the employment contract must be verified. On promotion, an employee's salary is deactivated on the payroll (notch set to zero) and the new salary only activated once the supporting documentation has been received and scrutinized for correctness. Although monthly reports are printed for new employees, and terminations and promotions and are verified by pay offices, precise data about the volume of retroactive adjustments was not available, but these are believed to be relatively rare.

Dimension rating = B

(iii) Internal control of changes to personnel records and the payroll

Changes to personnel records are captured at departmental HR units. All records are subjected to various checks before being applied to the payroll, and an error reports is sent back to HR. An employee's banking details will only be changed on presentation of a valid Identity Document and relevant banking details in person at the pay office. Employees can only be created by HR then interfaced to payroll with zero salary. The Corporate Pay office verifies appointment letters and contracts for new employees and assigns a pay office, which then activates the employee's salary and verifies monthly timesheets signed by manager before paying. For a ghost employee to appear, these processes must fail.

Monthly reports are printed for new employees, terminations and promotions and verified by pay offices. A duplicate ID Number report, and a duplicate bank account report is verified monthly. Exceptions reports are printed monthly and verified. Hence an audit trial is available for any changes to payroll and or personal data changes applied by HR, although it is not clear to what extent there may be 'overrides' in the system.

Dimension rating = B

(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers

The City's salary bill for the past three fiscal years represents on average 19.75% of total expenditure and no payroll audits have been undertaken during this period, although all departments make use of a monthly payroll certification that is reported to the head office. However, the OAG also conducts a complete Payroll Audit each year and no adverse comments were included in the report. Attendance of personnel is for the most part subject to improvement although management information on this could not be provided.

Dimension rating = A

PI-18			**Scoring Method M1**
Effectiveness of payroll controls		**B+**	
(i)	Degree of integration and reconciliation between personnel records and payroll data	B	Integrity of the payroll is maintained by monthly reconciliations between the payroll and the personnel database.
(ii)	Timeliness of changes to personnel records and the payroll	B	Delays in processing changes to payroll and nominal roll are normally updated monthly, although the extent of retroactive adjustments could not be determined.
(iii)	Internal control of changes to personnel records and the payroll	B	The controls in place may be adequate but the extent of 'overrides' in the system is not clear.
(iv)	Existence of payroll audits to identify control weaknesses and/or ghost workers	A	An annual payroll audit is undertaken (by the OAG).

PI-19: Competition, value for money, and controls in procurement

Section 217 of the Constitution requires procurement to be fair, equitable, transparent, competitive and cost-effective. Aligned with this the MFMA, the PPPF Act and Regulations as well as the NT Practice Notes provide the framework within which EMM develops its procurement policies and procedures. The NT also prescribes procurement thresholds for all public sector institutions, including municipalities and entities. Section 3 of the MFMA stipulates that the MFMA prevails in the event of inconsistency with any other legislation pertaining to fiscal and financial affairs of municipalities and entities (except the Constitution).

Financial delegations issued by the Accounting Officer in terms of Section 79 of the MFMA, though very limited, determine the authorisation of procurement transactions. The regulatory framework does make provision for deviations/exemptions subject to specific provisions.

(i) Transparency, comprehensiveness and competition in the legal and regulatory framework

EMM is obliged to use the regulatory framework described above, the requirements of which are summarised in the table below:

Table 3.12: Requirements on the Legal and Regulatory Framework for Procurement

Requirement on the legal and regulatory framework	Justification
Be organised hierarchically and precedence is clearly established	Yes, the introductory paragraph to this indicator describes how the regulatory framework is hierarchically structured and indicates the precedence. EMM has a Supply Chain Management Unit that is the custodians of the regulatory framework, perform monitoring functions, and prepare policies and procedures for Council approval.
Be freely and easily accessible to the public through appropriate means	Yes, all the different pieces of legislation, including institutional policies are publicly available through EMM's website and at public places such as regional customer service centres.
Apply to all procurement undertaken using government funds	Yes, the regulatory framework described above applies to all procurement where public funds are used. This regulatory framework also comes under scrutiny when EMM is audited every year.
Make open competitive procurement the default method of procurement and define clearly the situations in which other methods can be used and how this is to be justified	Yes. The regulatory framework provides clear and specific thresholds that apply to different open methods of procurement and include specific prescripts and control measures where deviations from the legislation are justified to be approved by Accounting Officers, reported and disclosed. Considering the AGSA's report for the three years under review the amount of transactions that result is irregular expenditure is a real cause for concern.
Provide for public access to all of the following procurement information: government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints	No, bidding opportunities and contracts awarded are advertised in the local media and on EMM's website. Although departments prepare procurement plans before the start of every financial year, these plans are not made available publicly.
Provide for an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature	No, EMM does not have an independent procurement complaints body. No no-contract signing period is prescribed between award and signature. Applications for access to information are generally dealt with outside of the procurement process, unless flaws are dealt with through the judicial system.

EMM generally has a decentralised approach to procurement and the system of financial delegation generally requires improved internal control. This leads to a lack of transparency, especially within the entities that filters down to projects and cost centres, and ultimately to suppliers. In turn it affects the competition and the figures in support of large amounts of irregular expenditure emphasise this.
Dimension rating = B

(ii) Use of competitive procurement methods

Sizeable amounts of irregular expenditure appear in the Auditor-General's Reports for each of the last three fiscal years. Yet EMM could not provide information on the justification for deviating from

competitive procurement methods. There is no established process and/or system to record cases where departments deviated from the procurement policy and process.
Dimension rating = D

(iii) Public access to complete, reliable and timely procurement information
EMM does not make procurement plans available to the general public. Only open tenders above the threshold of R30,000 are advertised. The local media, Ekurhuleni website and public places are used as the recognised media of communication. Contract awards are also advertised on the website.
Dimension rating = C

(iv) Existence of an independent administrative procurement complaints system
Officials in EMM's Supply Chain Management Unit handles all queries related to procurement. These officials, however, do not necessarily have knowledge and experience of the regulatory framework and challenges that the different departments face. Further, they are not independent and do not have any authority to suspend the procurement process or issue decisions that are binding on all parties.
Dimension rating = D

PI-19			**Scoring Method M2**
Competition, value for money, and controls in procurement		**D+**	
(i)	Transparency, comprehensiveness and competition in the legal and regulatory framework	B	EMM meets four of the six criteria for the legal and regulatory framework for procurement.
(ii)	Use of competitive procurement methods	D	Reliable data on deviations with reasons, from open competition, could not be provided.
(iii)	Public access to complete, reliable and timely procurement information	C	Bidding opportunities and contracts awarded are made public by EMM.
(iv)	Existence of an independent administrative procurement complaints system	D	EMM does not have an independent procurement complaints review body.

PI-20: Effectiveness of internal controls for non-salary expenditure

Various sections of the MFMA and the Treasury Regulations provide the framework for internal controls over expenditure and cash management, and Section 60 stipulates that the Municipal Manager is to be the Accounting Officer: she/he is responsible for ensuring that expenditure is appropriately incurred, paid for, accurately reported and recorded.

(i) Effectiveness of expenditure commitment controls
Commitment ceilings apply for the whole year, and each department is required to submit an annual pro-forma cash flow statement. Procurement plans are also produced, but these are not precisely linked to cash flow projections. As noted in PI-16, departments are provided reliable information on budget ceilings at least quarterly in advance, and the cash flow is monitored on a daily basis: there has been no cash rationing in the period under review. Expenditure commitment begins with the issuance of a purchase order by the head of unit within a department, which is then approved by the

Accounting Officer: this can only happen after the Council has approved the annual budget and it has been loaded into the accounting system, which has an in-built control mechanism that limits commitments to the approved budget: however, each year the AFS record *"Unauthorised, Fruitless, Wasteful and Irregular Expenditure"* in 2013/14 this amounted to R244m, slightly less than 1% of budgeted expenditure.
Dimension rating = A

(ii) Comprehensiveness, relevance and understanding of other internal control rules/ procedures
Apart from the MFMA, a number of prescripts have been issued by the National Treasury to guide Accounting Officers to ensure effective and efficient expenditure and cash management: these include the Treasury Regulations; *Guide for Accounting Officers*; *Guide on In-Year Management Monitoring and Reporting*.

As noted above, the AFS record expenditure deemed to be 'unauthorised', 'irregular' and 'fruitless and wasteful', but these three elements combined amount to a very small percentage of expenditure and represent very few transactions – suggesting that internal rules are followed in the vast majority of instances: this is supported by the comment in the Auditor-General's report that *"I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. I did not identify any significant deficiencies in internal control".*
Dimension rating = B

(iii) Degree of compliance with rules for processing and recording transactions
While these regulations are comprehensive and provide adequate guidance for expenditure commitment, occasional failures to adhere to the various requirements are recorded in both Internal Audit and Auditor-General reports, with a minimal impact on the quality of financial data. This may be due to the pace of reforms, staff turnover, vacancies, and/or a reduction in staff discipline where management supervision is limited.
Dimension rating = B

PI-20			**Scoring Method M1**
Effectiveness of internal controls for non-salary expenditure		**B+**	
(i)	Effectiveness of expenditure commitment controls	A	The accounting system has in-built commitment control mechanisms, and only very small amounts of unauthorised expenditure are noted in the Auditor-General's reports.
(ii)	Comprehensiveness, relevance and understanding of other internal control rules/ procedures	B	Internal controls are comprehensive and clearly spelt out in the MFMA, Treasury Regulations, Municipal accounting and in internal control manuals: the Auditor-General did not identify any significant weaknesses.
(iii)	Degree of compliance with rules for processing and recording transactions	B	There is general compliance in the majority of transactions.

PI-21: Effectiveness of internal audit

Each Municipal Accounting Officer is responsible for ensuring that an internal audit unit is established and functioning efficiently with qualified staff. The AccG has the overall responsibility for the strategic direction of internal audit functions across government, and issues appropriate regulations and guidance, including a revised internal audit framework (March 2009) that is consistent with the Institute of Internal Auditors standards.

(i) Coverage and quality of the internal audit function

The Chief Audit Executive (CAE) in EMM heads a unit with a compliment of 52 staff (although there are currently 5 vacancies), several of who are qualified. Risk-based audit plans which focus on systemic issues for the majority of staff time are prepared and submitted to the Accounting Officer for approval. Up to the last FY, a contracted audit firm supported the unit: overall the control environment was rated as 'weak.'

Dimension rating = B

(ii) Frequency and distribution of reports

Sections 60 and 61 of the MFMA define the general responsibilities of an Accounting Officer, and state that she/he is responsible for ensuring that all internal controls and internal audit systems are in place in order to provide an environment of efficient, effective and transparent management of financial risks.

The internal audit unit produces quarterly reports within two weeks of the end of each quarter, and these are distributed to the head of the units that have been audited, the CFO, the Risk Management Officer, the Accounting Officer, the Auditor-General and the Audit Committee. The quarterly reports include a tracking tool to follow the resolution of matters previously raised.

Dimension rating = A

(iii) Extent of management response to internal audit findings

Sections 165 and 166 of the MFMA require that an Audit Committee be established, with at least three members, the majority of whom should be from the private sector including the chairperson: this is designed to ensure that audit findings and recommendations are implemented. In EMM, an Audit Committee is being put in place. A chairperson from the private sector has been appointed, and the Auditor-General will be represented. Available evidence from the Auditor-General's annual report reflects a slow management response to audit findings and recommendations.

Dimension rating = C

PI-21			**Scoring Method M1**
Effectiveness of internal audit		**C+**	
(i)	Coverage and quality of the internal audit function	B	Internal audit is operational, and takes a risk-based approach: manuals and procedures follow IIA standards, and in 2014, the control environment was deemed to be 'weak',
(ii)	Frequency and distribution of reports	A	A quarterly report is prepared for the Audit Committee, the Municipal Manager, the CFO, auditees, and the Auditor-General.
(iii)	Extent of management response to internal audit findings	C	Management response to audit findings is limited, and not all managers respond to queries raised.

3.5 Accounting, recording and reporting

The indicators in this group deal with a number of accounting issues, all of which are closely prescribed in the MFMA and associated regulations: the evidence gathered demonstrates that the various prescriptions are followed.

PI-22: Timeliness and regularity of accounts reconciliation

(i) Regularity of bank reconciliations

Section 7 of the MFMA provides the legal framework for the banking arrangements of Municipalities, and these are supplemented by Treasury Regulations that include a requirement that each Accounting Officer ensures a daily reconciliation of movement in cash and bank balances.

As part of the 'Section 71' Reports required by the MFMA, the National Treasury prepares and publishes a statement of national revenue and expenditure as well as that of loans, extraordinary payments & receipts and closing cash balance.

EMM maintains 34 Bank accounts, (22 for collections; one each fro Payroll and creditor payments; the others for specific grants received from the NT). Balances are 'swept' to provide a consolidated cash position, allowing for the investment of the considerable surpluses that EMM currently enjoys.
Dimension rating = A

(ii) Regularity of reconciliation and clearance of suspense accounts and advances

Suspense accounts mainly result from advances to employees for official travel or to carry out official duties, and according to S17.1 of the Treasury Regulations the Accounting Officer is to ensure that all advances are acquitted and reconciled monthly to allow for the preparation of monthly financial statements, by way of proper allocation of each element to the proper cost centre.

Suspense accounts also arise when the nature of a transaction cannot immediately be identified: again, such items are to be reconciled monthly, but there will be rollover balances when information to allow the correct posting is still awaited. However, the majority of suspense accounts are cleared within a month after the end of the financial year.
Dimension rating = A

PI-22			**Scoring Method M2**
Timeliness and regularity of accounts reconciliation		**A**	
(i)	Regularity of Bank reconciliations	A	All Municipal bank accounts are reconciled daily.
(ii)	Regularity of reconciliation and clearance of suspense accounts and advances	A	Cash advance to staff are acquitted monthly. Suspense accounts are reconciled each month. At the end of the financial year, all departmental suspense accounts are reconciled 30 days after the end of the fiscal year to allow for preparation of annual financial statements.

PI-23: Availability of information on resources received by service delivery units

The chart of accounts is capable of capturing financial information on resources in both cash and kind to the level of service delivery units such as primary health clinics, and this is actually done, as the information is required for reporting progress against the SDBIP (in the Annual Report).

In addition, the monthly, quarterly and annual financial and performance evaluation reports prepared by Provinces – which include data from their Municipalities – are submitted electronically to the NT and consolidated into reports (*"Provincial Budgets and Expenditure Reports"*) that detail the resources received and expended by primary service delivery units.

PI-23		Scoring Method M1
Availability of information on resources received by service delivery units	**A**	The chart of accounts allows financial information on resources in cash and in-kind, to be captured at the level of, for example, primary health clinics and this data is included in the Annual Report.

PI-24: Quality and timeliness of in-year budget reports

The regulatory framework governing in-year budget execution reports is specified in Section 71 of the MFMA. Each Municipality must furnish these reports to the Provincial Treasury within 10 days of the close of the preceding month: these reports are then published in the *Government Gazette*. The reports provide information on the current period and year to date, and compare budgets to actuals showing variations, in a standardised reporting format prescribed by the National Treasury.

(i) Scope of reports in terms of coverage and compatibility with budget estimates

Ideally, an accounting system should be able to produce accurate and comprehensive reports that are consistent with the budget at both the commitment and payment stages: however, the accounting system used in EMM does not include expenditure commitments in these reports.
Dimension rating = C

(ii) Timeliness of the issue of reports

Over the assessment period, the monthly and quarterly in-year budget execution reports produced by EMM all met the reporting deadline set out in the MFMA: i.e. they were submitted to the Provincial Treasury within 10 days of the end of each period.
Dimension rating = A

(iii) Quality of information

Reconciliation of cashbooks and general ledger entries to the bank statements is evidenced and a fundamental part of the process for preparing monthly and quarterly financial reports. The 'Venus' application facilitates the recording and reconciliation of expenditure data. However, the revenue side is more complicated as each of the nine entities that were amalgamated to form EMM used and still uses – a different database for revenue transactions: this complicates the preparation of the AFS.
Dimension rating = C

PI-24			**Scoring Method M1**
Quality and timeliness of in-year budget reports		**C+**	
(i)	Scope of reports in terms of coverage and compatibility with budget estimates	C	In-year budget execution reports ('S71') are prepared in accordance with the standardised reporting format specified in the MFMA and allow for easy budget analysis; however, the only payments are captured, not commitments.

(ii)	Timeliness of the issue of reports	A	In-year budget reports are prepared on a monthly basis in accordance with the MFMA and submitted within 10 working days of the month end to the Executive Mayor, the National Treasury (in electronic format), and on a quarterly basis to Council: they are also published on the website.
(iii)	Quality of information	C	The complexity of amalgamating revenue data from nine different systems causes difficulties; however, the Auditor-General has not qualified the AFSs.

PI-25: Quality and timeliness of annual financial statements

Accounting and reporting arrangements are governed by the MFMA, the Treasury Regulations 2005, the Guidelines for Implementing the Economic Reporting Format (ERF), the Departmental Financial Reporting Framework Guide (2012) and annual Report Guides. The Office of the AccG prescribes government accounting policies and practices to ensure compliance with the standards of Generally Recognized Accounting Practice (GRAP), issued by the Accounting Standards Board.

The latest annual financial statements are for FY 2013/14, and include an executive summary, a review of operating results, the report of the Auditor-General, consolidated statements of financial performance, financial position, changes in net assets, and cash flow, plus accounting policies, and notes to the accounts: the statements are prepared on an accrual-basis.

(i) Completeness of the financial statements
The EMM accounts show revenue and expenditure in the same detail as in the budget, and assets and liabilities. Comparisons are made with the previous year, and previous year data are adjusted for changes in responsibilities. Both original budgets and mid-year adjusted budgets are shown.
Dimension rating = A

(ii) Timeliness of submission of financial statements
The Chief Financial Officer prepares the financial statements and these are submitted to the Auditor General within two months of the year end as required by the MFMA: i.e. by 31 August.
Dimension rating = A

(iii) Accounting Standards used
The Financial Statements of EMM are produced in accordance with the various standards issued by the Accounting Standards Board and approved for implementation by the Minister of Finance: any deviations from these requirements are disclosed in the AFS.
Dimension rating = A

PI-25			**Scoring Method M1**
Quality and timeliness of annual financial statements		**A**	
(i)	Completeness of the financial statements	A	The annual Consolidated Financial Statements include full information on revenue, expenditure, financial assets, and liabilities.
(ii)	Timeliness of submission of the financial statements	A	Consolidated Financial Statements are submitted to the Auditor General within 2 months of the end of the fiscal year, in accordance with the MFMA.
(iii)	Accounting standards	A	EMM's AFS disclose and observe the financial

	used		reporting standards of the Accounting Standards Board of South Africa, based on IPSAS.

3.6 External scrutiny and audit

The indicators in this group are concerned with the extent to which the oversight arrangements – mostly at the end of the budget cycle – are in place and effective.

PI-26: Scope, nature and follow-up of external audit

The Office of the Auditor-General of South Africa (AGSA) derives its independence, powers and mandate from the Constitution (Section 188) and the Public Audit Act 2004 (PAA), and is required to audit all thee spheres of government. In the case of Municipalities, the Auditor-General audits and reports on their financial and performance statements, as well as majority-owned companies receiving funds from the Municipal budget: audit reports are submitted to the Municipal Council.

(i) Scope and nature of audit performed, including adherence to audit standards
AGSA has a responsibility to express an opinion on the AFS, based on audit work conducted in accordance with the PAA and International Standards on Auditing (ISAs): the audit methodology uses a sampling approach to test 100% of total expenditure. The work involves both the audit of transactions and balances, as well as the examination of internal control and the controls within information system, performed in accordance with ISAs, the International Standards of Supreme Audit Institutions (ISSAIs, which AGSA played a strong role in developing) and the INTOSAI Guidance for Good Governance (INTOSAI GOVs).

AGSA utilizes an integrated audit approach, which means that an audit team will include specialists from different units (such as forensic audit, IT audit and environmental audit) as necessary. A full range of audits is performed, including systems audits, financial and compliance audits, procurement, payroll, IT, as well as auditing the annual performance reports (that measure service delivery against predetermined objectives set for each performance area), to determine whether the information is useful and reliable.
Dimension rating = A

(ii) Timeliness of submission of audit reports
Audit reports along with the audited financial statements are submitted to the Council within five months from the end of the fiscal year, which is within three months of submission to the A-G. For the last three years, the audit reports on financial statements have been submitted on 30 September. The finding of audit reports can therefore feed into preparation of departmental plans and budgets for the second year after the audited year.
Dimension rating = A

(iii) Follow up on audit recommendations
This dimension is concerned with management response to management letters and audit reports. The MPAC uses the AG's report to recommend scrutiny and investigations of findings relating to unauthorised, fruitless or wasteful expenditure as disclosed in the AFS and identified during the audit process. These are documented and kept on record for follow up on audit queries, hence providing evidence of timely and systematic follow up on these recommendations, supported by reports from Internal Audit, which show that findings by AGSA are being followed up and addressed. The internal audit unit perform regularly audits to confirm if management is following up and addressing AG's findings, and tracking of findings raised in the prior year is part of the external audit process.
Dimension rating = A

PI-26			Scoring Method M1
Scope, nature and follow-up of external audit		**A**	
(i)	Scope/nature of audit performed (incl. adherence to auditing standards)	A	EMM is audited annually, covering revenue, expenditure, assets and liabilities. Financial and performance audits are integrated, follow international standards, and focus on systemic issues.
(ii)	Timeliness of submission of audit reports to the legislature	A	An audit report was submitted to the Council by 30 September each year, as required by the Act.
(iii)	Evidence of follow-up on audit recommendations	A	Reports from Internal Audit show that findings by AGSA are followed up and addressed.

PI-27: Legislative (Council) scrutiny of the annual budget law

(i) Scope of the legislature's (Council's) scrutiny

The combined time available to the Council for the review of all aspects of the budget is approximately two months, although this does not include the much longer (preparatory) period during which the Technical committee and the 'Special Mayoral Committee' are shaping the budget and interacting with spending departments. The review covers the details of revenue and expenditure estimates, the medium-term expenditure framework, fiscal policies including the impact of the changes in new tax policy proposals. The debates in Council are public and reported by the media.

Dimension rating = A

(ii) Extent to which the legislature's procedures are well-established and respected

The EMM Council has clear organisation and set of rules (standing orders) that are adhered to, and the time available firstly for committee reports and stakeholder comments, then for the full Council review, allow for meaningful inputs to be made in the debates, which are public and the media report on them.

Dimension rating = A

(iii) Adequacy of time for the legislature to provide a response to budget proposals

The MMC for Finance tables the main original budget estimates in March each year. These estimates are reviewed, and the head of each department is invited to provide clarifications where necessary. The approved submissions are finally presented as Appropriations, which are subject to a period of public consultation before Council is requested to approve them in May, before the start of the financial year – which means that the Council has a period of at least two months to review the budget documents and expenditure estimates.

Dimension rating = A

(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature (Council)

Clear rules exist for in-year amendments to the budget without the ex-ante approval of the Council are defined in the MFMA and the Auditor-General notes that these are respected. Any adjustments are formally presented in January to the Council.

Dimension rating = A

PI-27			Scoring Method M1
Legislative scrutiny of the annual budget law		**A**	
(i)	Scope of the Council's scrutiny	A	The Council review covers the details of revenue and expenditure estimates, a medium term expenditure framework, fiscal policies including the impact of the changes in new tax policy proposals.
(ii)	Extent to which the Council's procedures are well-established and respected	A	The Council's powers are set out in the MFMA. The Standing Orders are adhered to.
(iii)	Adequacy of time for the Council to provide a response to budget proposals (time allowed in practice for all stages combined)	A	The Council is involved both at the beginning and at the end of the budget preparation. The combined time available to review the budget documentation is over two months.
(iv)	Rules for in-year amendments to the budget without ex-ante approval by the Council	A	Clear rules exist for in-year amendments without ex-ante approval. Excessive virements and expenditure over budget ceiling require the approval of the Council in the Adjustment Budget.

PI-28: Legislative (Council) scrutiny of external audit reports

Sections 126-132 of the MFMA deal with the preparation and treatment of the municipality's Annual report. The Municipal Manager, as Accounting Officer, is required to prepare consolidated (i.e. including any municipal entities) AFS within three months after the end of the financial year and submit them to the Auditor-General for auditing. The Auditor-General then has three months to audit the AFS and submit an audit report to the Accounting Officer.

The Municipal Mayor must, within seven months after the end of a financial year, table in the Council the annual report (including any municipal entity under it's control). Immediately after an annual report is tabled in the council, the Accounting Officer must (in accordance with section 21A of the Municipal Systems Act) make public the annual report and invite the local community to submit representations. The annual report must also be submitted to the Auditor-General, the relevant provincial treasury and the provincial department responsible for local government in the province.

Section 129 requires that the Council must consider the annual report (including any municipal entities) and that the Accounting Officer must attend these Council (and committee) meetings to respond to questions. Council meetings at which an annual report is to be discussed or decisions are to be taken must be open to the public, and a reasonable time must be allowed for discussion of any written submission or for members of the local community to address the council. Then, within two months, an oversight report containing the Council's comments on the annual report – including a statement as to whether the Council has approved, rejected, or referred the annual report back for revision – must be adopted: finally, the Accounting Officer must make the oversight report public – and also submit it to the provincial legislature – within seven days of its adoption. The Municipal Mayor is responsible for ensuring that any issues raised by the Auditor-General in an audit report are addressed.

(i) Timeliness of examination of audit reports by the Council

The Council prepares an Annual Report that contain sections on their policy, medium term perspective, audited financial statements, Auditor-General's opinion and Management Letter including recommendations. In each of the three years under review, the process was completed and an oversight report produced within the two-month period prescribed – this was confirmed by the AGSA.

Dimension rating = A

(ii) Extent of hearings on key findings undertaken by the Council

The examination process is subject to specific rules and procedures, which are documented. The scrutiny process starts with MPAC discussing the audit report with management. During MPAC meetings, members of the executive are required to answer questions and provide evidence as required. The MPAC has support from AGSA (to the extent that it does not impact independence) and also researchers capable of analysing reports before they are presented. MPAC meetings are held quarterly where in-depth hearings on key audit findings take place where reports need to be provided on key findings and key investigations by the municipality as well as the municipal entities, with the responsible officers in attendance.

MPAC ultimately reports to Council on all follow-up and investigations, and the Council meetings are attended by the Auditor-General's representatives and are open to the public and media.

Dimension rating = A

(iii) Issuance of recommended actions by the Council and implementation by the executive

The Mayor is responsible for ensuring that a department implements corrective measures, and that progress is reported to the Audit Committee. The MFMA requires specific actions in cases of 'fruitless and wasteful expenditure', and the Auditor-General notes that recommendations are acted on by the executive: for example, instances have been noted were action was taken against aberrant officials; and there is also evidence in the form of improved audit outcomes.

Dimension rating = B

PI-28			**Scoring Method M1**
Legislative scrutiny of external audit reports		**B+**	
(i)	Timeliness of examination of audit reports by Council (for reports received within the last three years)	A	The timescale prescribed in the MFMA (two months) has been complied with in each of the last three years.
(ii)	Extent of hearings on key findings undertaken by legislature	A	MPAC hearings call the relevant HOD to account, and the Accounting Officer is required to attend Council meetings and answer questions on the audit findings, in public hearings.
(iii)	Issuance of recommended actions by the legislature and implementation by the executive	B	The Auditor-General notes that the executive acts upon audit recommendations, and that progress is reported to the Audit Committee.

4. Government reform process

Introduction

The Government of South Africa has a continuing agenda of PFM reform. Current programmes are focused on areas of weakness that have been identified by the National Treasury and development partners. Major objectives are to: (1) improve procurement and human resource management processes, internal controls, and systems; (2) better integrate cash planning to procurement and performance plans, and cash and debt management to a commitments calendar and contractor management and deliverables; (3) adoption of a comprehensive commitment control framework, so as to enable departments and service delivery units non-salary expenditures to better align within the available budget resources allocated for the remainder of the year; (4) consolidate and strengthen the country's public procurement system; and (5) overall capacity building and training programmes targeting both finance officials and line managers.

Section 6(2) of the PFMA prescribes that the National Treasury must determine uniform treasury norms and standards. To this end the reforms implemented by the EMM mainly consist of

- reforms that are designed and planned on a national basis for implementation across all spheres of government; and
- EMM-specific reforms that are, in line with the National Treasury reforms, designed, planned and implemented by the EMM itself.

The South African PFM reform programme

The EMM has bought into and participates in the PFM reforms formulated, inducted and overseen by the NT. Broadly speaking, the South African PFM reform programme consists of the following pillars:

a) **Safer financial sector.** The NT issued a policy document that aims to improve the regulation and stability of the financial sector in South Africa. This is believed to serve as an enabler of economic growth, job creation, infrastructure development and sustainable development. The policy document focuses on four priorities, namely, financial stability; consumer protection and market conduct; expanding access through financial inclusion; and combating financial crime.

b) **Refining the Medium Term Expenditure Framework (MTEF) Guidelines.** The NT continuously refines the MTEF guidelines. Although they are guidelines for the medium term, they are issued annually for each new MTEF. The EMM uses these MTEF guidelines to align its own priorities before departments are requested to make their budget inputs.

c) **Framework for Strategic Plans and Annual Performance Plans.** In August 2010, the NT issued a framework for strategic plans and annual performance plans for national and provincial government. This framework, amongst other things, requires national and provincial governments to align their new infrastructure plans with local government IDPs. The EMM in its IDP and budget preparation process ensures that national and provincial government are consulted to align the programmes and projects of the different spheres (see budget calendar in PI-11).

The increased emphasis on the reporting on performance against the plan, including the auditing thereof since 2011/12, has resulted in the NT more closely scrutinising performance reports.

d) **Uniform Programme and Budget Structures.** The Guide for the Format of the Estimates of Revenue and Expenditure is updated annually and forms the basis for communicating an institution's budget to a wide range of stakeholders, which include the citizens of EMM, the general public of the country, researchers and the international community. It further provides valuable insight into the priority areas of EMM, focuses on resource allocation and attempts to capture the main outputs these funds are buying. The standardised format provides a basis to compare information. It aims to establish a degree of stability, while at the same time focusing on improving the quality and consistency of budget documents across government.

The format gives a snapshot of the socio-economic and demographic profile EMM in the context of government priorities. It provides an overview of EMM budget, budget process and discusses current and anticipated medium term budget trends. The overview of Revenue and Expenditure offers a detailed analysis of EMM's receipt and payment performance, covering infrastructure and transfers to municipal entities.

Estimates of Revenue and Expenditure allows departments to compile and communicate their budgets, provides current and anticipated medium term budget trends, provides an overview of departmental estimates based on the standardised budget and programme structures for a particular sector, focuses on strategic service delivery and gives a high level overview of performance measures and targets.

e) **Standard Chart of Accounts.** In line with section 216 of the Constitution, as well as the MFMA, that prescribes generally recognized accounting practice and uniform expenditure classifications and to enable the NT to, in accordance with the PFMA, compile national accounts incorporating all three spheres of government, the NT in 2013 initiated a project for a standard chart of accounts to ensure uniformity and quality of information. The EMM actively participates in this project.

Public sector capacity building

The NT has embarked on a comprehensive public sector capacity building exercise that consists of various initiatives. The three initiatives described below are relevant to the EMM:

a) **Municipal Finance Management Technical Assistance Programme.** The Municipal Finance Management Technical Assistance Programme (MFMTAP) seeks to assist in the strengthening of operational capacity in municipalities. It provides technical assistance in implementing municipal financial management reforms. Through the programme, advisors are placed in municipalities. Additionally, roving advisors are allocated to provincial treasuries to assist provinces in performing their role in respect of the MFMA. Currently the area of supply chain management is being targeted while expert consultants are placed in municipalities to update policies and streamline processes, not only to ensure compliance to legislation, but also to ensure that the supply chain management process does not impact negatively on service delivery.

b) **Financial Management Improvement Programme III.** FMIP III provides a national perspective to address financial management capacity constraints in the public sector. The challenges include scarce skills; high levels of vacancies and staff turnover; a lack of suitable education, training and development programmes; limited knowledge management; ineffective performance management; non-adherence to legislation; poor audit results; and an absence of effective partnerships. The strategy sets out the four strategic objectives listed below to address these challenges:

- Support the development of an enabling environment;
- Enhance organisational capacity;
- Develop and empower a corps of competent and committed high-performance employees;
- Create an environment that enables and sustains mutually beneficial stakeholder relationships.

This capacity development programme is essentially geared towards building financial management capacity. It draws on the successes and lessons learnt from FMIP II, as well as the conceptual tools that emanated from the feasibility study for this continuous capacity development programme for PFM and focuses on six areas, namely:

- An enabling PFM institutional environment developed and maintained within the three spheres of government.
- Enhanced organisational PFM capacity developed within the three spheres of government.
- An empowered and sustained PFM corps of competent and committed employees throughout the three spheres of government.
- An environment to sustain mutually beneficial stakeholder relationships within the PFM domain.
- Increased PFM capacity within Provincial Governments.
- Increased PFM capacity within Local Governments.

c) **Municipal Finance Management Programme.** The Minister of Finance issued a regulation in 2007 that prescribes minimum competency levels for accounting officers, chief financial officers, senior managers in line departments, finance officials and supply chain management officials within local government. This is the basis of the MFMP that aims to build capacity and assist these managers and officials to meet these minimum competency levels. To date approximately 7,500 managers and officials have successfully completed the programme.

Institutional reforms in EMM

EMM is in the process of reviewing its organisational structure in line with updated processes and procedures, including those affecting financial management.

Annexes

ANNEX A ***Documents consulted***

ANNEX B ***People interviewed & workshop attendees***

ANNEX C ***Responsibilities assigned to Municipalities by the Constitution***

ANNEX D ***Calculations for PI-1 & 2***

ANNEX E ***Summary of ratings***

ANNEX A

DOCUMENTS CONSULTED

1 Legislation and Regulations

Acts

Constitution of the Republic 1996
Public Finance Management Act 1999, and Amendment Act 1999
Municipal Finance Management Act 2003
Intergovernmental Fiscal Relations Act 1997
Municipal Structures Act 1998, and Amendment Act, 2003
Municipal Systems Act 2000, and Amendment Act 2003
Municipal Property Rates Act 2004
Intergovernmental Relations Framework Act 2005
Municipal Fiscal Powers and Functions Act 2007
Division of Revenue Act 2014

Regulations

Municipal Regulations on SCOA 2014
Municipal Regulations on SCM 2005
Municipal Regulations on Debt Disclosure 2007
Municipal Investment Regulations 2005
DORA Schedules (various)

Circulars issued under MFMA

– 1, 2, 13, 54, 55, 56, 57, 58, 60, 61, 62, 63, 65, 66, 67, 68, 69, 70, 71, 72, 73, 74

2 Ekurhuleni Metropolitan Municipality

AFS:- 2011-12 & 2012-13 audited; 2013-14 (unaudited)
Consolidated AFS:- 2011-12 & 2012-13 audited; 2013-14 (unaudited)
Annual Report:- 2011-12; 2012-13
Adopted Budget:- 2011-12; 2012-13; 2013-14; 2014-15
IPD:- 2012-13; 2014-15
'Section 71' reports (various)
Accounting Policies
SDBIP:- 2011-12; 2012-13; 2013-14; 2014-15

3 Office of the Auditor General

Audit reports on Ekurhuleni Metropolitan Municipality:- 2011-12; 2012-13

4 Other

Review Of The Local Government Equitable Share Formula (presentation and report to Parliament, 19 February 2013)

OFFICIALS INTERVIEWED

Division	Name
Revenue	Otsile Maseng
Supply Chain Management	Molebedi Sisi Toekie Tieghi
Treasury and Support Services	Vusi Mashicila Mohammed Karnie Vumile Mjoli Dries van den Berg
Expenditure	Kagiso Lerutla
Governance and Compliance	Kagiso Lerutla
Management Information Systems	Tebogo Mokone
Financial Reporting	Willie Valentin Corrie du Plooy
Risk Management	Karabo Chadi
Internal Audit	Lesley Vilakazi
Budget	Hannes Dednam Magdeline Sephesu

ANNEX C

Responsibilities assigned to Municipalities by the Constitution

- Air pollution
- Building regulations
- Child care facilities
- Electricity and gas reticulation
- Fire-fighting services
- Local tourism
- Municipal airports
- Municipal planning
- Municipal health services
- Municipal public transport
- Municipal public works only in respect of the needs of municipalities in the discharge of their responsibilities to administer functions specifically assigned to them under this Constitution or any other law
- Pontoons, ferries, jetties, piers and harbours, excluding the regulation of international and national shipping and matters related thereto
- Storm water management systems in built-up areas
- Trading regulations
- Water and sanitation services limited to potable water supply systems and domestic waste-water and sewage disposal systems
- Beaches and amusement facilities
- Billboards and the display of advertisements in public places
- Cemeteries, funeral parlours and crematoria
- Cleansing
- Control of public nuisances
- Control of undertakings that sell liquor to the public
- Facilities for the accommodation, care and burial of animals
- Fencing and fences
- Licensing of dogs
- Licensing and control of undertakings that sell food to the public
- Local amenities
- Local sport facilities
- Markets
- Municipal abattoirs
- Municipal parks and recreation
- Municipal roads
- Noise pollution
- Pounds
- Public places
- Refuse removal, refuse dumps and solid waste disposal
- Street trading
- Street lighting
- Traffic and parking

ANNEX D

CALCULATIONS FOR HLG-1, PI-1 & 2

Calculations for HLG-1 dim (ii)

Variance between actual and estimated transfers of earmarked grants, FY 2011/12
(In millions of Rands, unless otherwise indicated)

	budget	**actual**	adjusted budget	deviation	absolute deviation	percent
Chief Operating Officer	-	-	-	-	-	-
City Planning	-	-	-	-	-	-
Finance	1.2	1.3	1.3	0.0	0.0	3.6%
Human Settlement	-	64.0	-	64.0	64.0	-
Energy	1,171.3	1,190.5	1,214.7	(24.3)	24.3	2.0%
Waste Management	-	-	-	-	-	-
Water and Sanitation	50.0	50.0	51.9	(1.9)	1.9	3.6%
Real Estate	-	-	-	-	-	-
Health and Social Development	112.6	141.6	116.7	24.8	24.8	21.3%
Economic Development	8.3	1.1	8.6	(7.4)	7.4	86.7%
Transport	75.0	34.4	77.8	(43.4)	43.4	55.8%
Roads and Stormwater	0.4	1.3	0.4	0.9	0.9	247.2%
Human Resources	17.7	23.5	18.4	5.1	5.1	28.0%
Sports, Recreation, Arts and Culture	13.0	7.4	13.5	(6.1)	6.1	45.1%
Environmental Resource Management	-	0.5	-	0.5	0.5	-
Disaster and Emergency Management	110.3	163.2	114.4	48.8	48.8	42.6%
Non-earmarked transfers	1,644.1	1,644.1	1,705.2	(61.1)	61.1	3.6%
Allocated expenditure	3,203.8	3,322.8	3,322.8	0.0	288.3	
Contingency	-	-				
Total expenditure	3,203.4	3,322.8				
Overall (PI-1) variance						3.7%
Composition (PI-2) variance						8.7%
Contingency share of budget						0.0%

Variance between actual and estimated transfers of earmarked grants, FY 2012/13
(In millions of Rands, unless otherwise indicated)

	budget	**actual**	adjusted budget	deviation	absolute deviation	percent
Chief Operating Officer	-	7.1	.	7.1	7.1	-
City Planning	-	-	-	-	-	-
Finance	1.3	1.3	1.2	0.1	0.1	4,2%
Human Settlement	49.7	2.7	47.7	(45.0)	45.0	94.4%
Energy	1,247.6	1,029.4	1,197.1	(167.8)	167.8	14.0%

	budget	actual	adjusted budget	deviation	absolute deviation	percent
Waste Management	-	-	-	-	-	-
Water and Sanitation	50.0	198.3	48.0	150.4	150.4	313.4%
Real Estate	-	-	-	-	-	-
Health and Social Development	116.1	99.4	111.4	(11.9)	11.9	10.7%
Economic Development	2.1	7.0	2.0	5.0	5.0	255.3%
Transport	50.0	40.8	48.0	(7.1)	7.1	14.9%
Roads and Stormwater	2.1	6.6	2.0	4.6	4.6	233.9%
Human Resources	19.1	18.7	18.4	0.3	0.3	1.7%
Sports, Recreation, Arts and Culture	42.8	26.7	41.0	(14.3)	14.3	34.9%
Environmental Resource Management	-	0.2	-	0.2	0.2	-
Disaster and Emergency Management	119.2	119.2	114.4	4.8	4.8	4.2%
Non-earmarked transfers	1,825.3	1,825.3	1,751.6	73.8	73.8	4.2%
Allocated expenditure	3,525.1	3,382.6	3,382.6	0.0	413.6	
Contingency	-	-				
Total expenditure	3,525.1	3,382.6				
Overall (PI-1) variance						4.0%
Composition (PI-2) variance						12.2%
Contingency share of budget						0.0%

Variance between actual and estimated transfers of earmarked grants, FY 2013/14
(In millions of Rands, unless otherwise indicated)

	budget	actual	adjusted budget	deviation	absolute deviation	Percent
Chief Operating Officer	-	-	-	-	-	-
City Planning	8.8	0.8	8.1	(7.3)	7.3	90.7%
Finance	1.3	1.3	1.1	0.1	0.1	8.9%
Human Settlement	235.9	34.2	216.7	(182.4)	182.4	84.2%
Energy	1,380.0	1,289.0	1,267.3	21.8	21.8	1.7%
Waste Management	-	-	-	-	-	-
Water and Sanitation	225.9	211.1	207.5	3.6	3.6	1,7%
Real Estate	0.0	1.1	0.0	1.1	1.1	-
Health and Social Development	114.9	117.6	105.5	12.1	12.1	11.5%
Economic Development	0.0	12.4	0.0	12.4	12.4	-
Transport	243.5	208.1	223.6	(15.6)	15.6	7.0%
Roads and Stormwater	1.8	1.7	1.7	0.0	0.0	1.2%
Human Resources	21.0	3.3	19.3	(16.0)	16.0	82.9%
Sports, Recreation, Arts and Culture	3.7	6.1	3.4	2.7	2.7	78.6%
Environmental Resource Management	0.0	0.3	0.0	0.3	0.3	-
Disaster and Emergency Management	129.0	129.0	118.5	10.5	10.5	8.9%
Non-earmarked transfers	1,918.0	1,918.0	1,761.3	156.7	156.7	8.9%

Allocated expenditure	4,283.8	3,933.9	3,933.9	0.0	442.7	
Contingency	0.0	0.0				
Total expenditure	4,283.8	3,933.9				
Overall (PI-1) variance						8.2%
Composition (PI-2) variance						11.3%
Contingency share of budget						0.0%

Calculations for PI 1-2

Budgeted and actual expenditures, FY 2011/12 to FY 2013/14
(In thousands of Rands, unless otherwise indicated)

Description	2011/12		2012/13		2013/14	
	Budget	**Actual**	**Budget**	**Actual**	**Budget**	**Actual**
Employee related costs	4,252.2	4,109.5	4,631.8	4,297.7	5,075.4	4,764.5
Remuneration of councillors	79.4	79.4	103.3	88.0	100.3	94.1
Bad debt	1,573.3	1,442.0	1,256.9	887.7	1,144.6	1,343.8
Collection costs	140.6	131.9	151.7	114.3	166.0	153.3
Depreciation	2,145.4	1,980.0	2,194.2	2,076.1	2,282.0	1,910.7
Amortisation of intangible assets	6.2	4.7	6.5	10.1	6.8	13.2
Repair and maintenance of municipal assets	1,875.4	1,737.2	1,974.0	1,840.0	2,224.1	2,001.7
External borrowings	461.5	453.4	582.6	522.9	673.8	573.0
Bulk purchases	7,948.3	7,930.5	8,999.1	8,852.9	9,693.4	9,485.7
Impairment loss	-	-	-	41.6	-	55.1
Contracted services	721.1	684.7	801.5	686.0	837.0	685.9
Grants and subsidies	386.7	359.5	997.4	737.9	987.2	803.1
Operating grants – external	85.2	72.4	287.9	225.0	508.4	261.3
Internal charges	346.6	491.7	406.1	688.3	607.0	919.4
General expenses – other	1,182.8	1,059.8	1,164.7	865.3	1,610.3	1,062.2
Loss on sale of assets	-	21.0	25.0	15.3	25.0	0.7
Total operating	**21,204.7**	**20,557.7**	**23,582.7**	**21,949.1**	**25,941.3**	**24,127.7**
Capital expenditure	2,650.6	2,001.0	2,650.7	2,370.4	3,137.1	2,612.3
Total, excluding financial costs	**23,393.8**	**22,105.3**	**25,650.8**	**23,796.6**	**28,404.6**	**26,167.0**

Composition of budget execution by administrative vote, FY 2011/12
(In millions of Rands, unless otherwise indicated)

	budget	**actual**	adjusted budget	deviation	absolute deviation	percent
Executive Office	71.0	57.0	67.1	(10.1)	10.1	15.1%
Legislature	138.8	111.7	131.2	(19.5)	19.5	14.8%
City Manager	25.5	27.1	24.1	3.0	3.0	12.5%
City Planning	142.8	130.1	134.9	(4.8)	4.8	3.6%
Council General	480.2	489.7	453.8	35.9	35.9	7.9%
Roads and Stormwater	1,477.2	1,605.6	1,395.8	209.8	209.8	15.0%
Transport	646.4	296.3	610.8	(314.5)	314.5	51.5%
Real Estate	515.2	533.5	486.8	46.7	46.7	9.6%
Health and Social Development	644.6	717.4	609.1	108.3	108.3	17.8%
Metro Police Department	899.4	757.2	849.9	(92.7)	92.7	10.9%
Sports, Recreation, Arts and Culture	538.8	585.0	509.1	75.9	75.9	14.9%
Human Settlements	435.5	342.9	411.5	(68.7)	68.7	16.7%
Finance and CEO	471.6	497.3	445.6	51.6	51.6	11.6%

	budget	actual	adjusted budget	deviation	absolute deviation	percent
Energy	9,333.8	9,492.4	8,819.8	672.6	672.6	7.6%
Waste Management	1,484.7	1,202.6	1,402.9	(200.3)	200.3	14.3%
Water and Sanitation	3,443.5	3,623.9	3,253.9	370.1	370.1	11.4%
Others	2,644.7	1,635.7	2,499.1	(863.4)	863.4	34.5%
Allocated expenditure	23,393.7	22,105.3	22,105.3	0.0	3,148.0	
Contingency	-	-				
Total expenditure	23,393.7	22,105.3				
Overall (PI-1) variance						5.5%
Composition (PI-2) variance						14.2%
Contingency share of budget						0.0%

Composition of budget execution by administrative vote, FY 2012/13
(In millions of Rands, unless otherwise indicated)

	budget	actual	adjusted budget	deviation	absolute deviation	percent
Executive Office	62.7	59.7	58.2	1.5	1.5	2.5%
Legislature	199.3	144.0	184.9	(40.9)	40.9	22.1%
City Manager	27.0	21.3	25.1	(3.8)	3.8	15.1%
City Planning	155.2	136.9	143.9	(7.1)	7.1	4.9%
Council General	449.3	344.1	416.8	(72.7)	72.7	17.4%
Roads and Stormwater	2,058.7	1,950.9	1,909.9	41.1	41.1	2.1%
Transport	344.4	316.3	319.5	(3.2)	3.2	1.0%
Real Estate	727.8	709.3	675.2	34.1	34.1	5.0%
Health and Social Development	785.7	740.1	728.9	11.3	11.3	1.5%
Metro Police Department	878.9	851.4	815.4	36.0	36.0	4.4%
Sports, Recreation, Arts and Culture	691.6	639.3	641.6	(2.2)	2.2	0.3%
Human Settlements	517.8	474.8	480.4	(5.6)	5.6	1.2%
Finance and CEO	386.7	210.2	358.8	(148.6)	148.6	41.4%
Energy	10,745.5	10,054.2	9,968.7	85.5	85.5	0.9%
Waste Management	1,253.2	1,157.5	1,162.6	(5.1)	5.1	0.4%
Water and Sanitation	4,108.1	3,939.9	3,811.1	128.7	128.7	3.4%
Others	2,258.9	2,046.7	2,095.6	(48.9)	48.9	2.3%
Allocated expenditure	25,650.8	23,796.5	23,796.5	0.0	676.2	
Contingency	-	-				
Total expenditure	25,650.8	23,796.5				
Overall (PI-1) variance						7.2%
Composition (PI-2) variance						2.8%
Contingency share of budget						0.0%

Composition of budget execution by administrative vote, FY 2013/14
(In millions of Rands, unless otherwise indicated)

	budget	actual	adjusted budget	deviation	absolute deviation	percent
Executive Office	82.8	72.4	76.3	-3.9	3.9	5.1%
Legislature	174.7	158.5	160.9	-2.4	2.4	1.5%
City Manager	29.8	16.8	27.5	-10.7	10.7	38.8%
City Planning	219.7	164.2	202.4	-38.2	38.2	18.9%
Council General	361.1	379.5	332.7	46.8	46.8	14.1%
Roads and Stormwater	2202.1	1893.6	2028.6	-135.0	135.0	6.7%
Transport	687.7	548.7	633.6	-84.8	84.8	13.4%
Real Estate	673.0	818.1	620.0	198.1	198.1	32.0%

	budget	actual	adjusted budget	deviation	absolute deviation	percent
Health and Social Development	895.8	780.8	825.2	-44.5	44.5	5.4%
Metro Police Department	1044.9	934.2	962.6	-28.4	28.4	2.9%
Sports, Recreation, Arts and Culture	843.8	838.2	777.3	60.9	60.9	7.8%
Human Settlements	697.0	424.5	642.1	-217.6	217.6	33.9%
Finance and CEO	772.4	388.9	711.6	-322.7	322.7	45.3%
Energy	11450.6	10988.5	10548.4	440.1	440.1	4.2%
Waste Management	1508.1	1243.0	1389.3	-146.3	146.3	10.5%
Water and Sanitation	4437.3	4275.0	4087.7	187.3	187.3	4.6%
Others	2323.8	2241.9	2140.7	101.2	101.2	4.7%
Allocated expenditure	28404.6	26166.8	26166.8	0.0	2069.0	
Contingency	0.0	0.0				
Total expenditure	28404.6	26166.8				
Overall (PI-1) variance						7.9%
Composition (PI-2) variance						7.9%
Contingency share of budget						0.0%

ANNEX E

SUMMARY OF RATINGS

PI		Score	Justification
HLG 1	**Predictability of transfer from Higher Level of Government**	**C+**	
(i)	Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the SN entity for inclusion in the latter's budget	A	In no more than one of the last three years have HLG transfers fallen short of the estimate by more than 15%
(ii)	Annual variance between actual and estimated transfers of earmarked grants	C	Variance in provision of earmarked grants exceeded overall deviation in transfers by more than 10% in each of the last three years.
(iii)	In-year timeliness of transfers from HLG (compliance with timetables for in-year distribution of disbursements agreed within one month of the start of the SN fiscal year	A	A disbursement timetable forms part of the agreement between the HLG and EMM and all stakeholders agree this before the beginning of the financial year. Actual disbursements delays (weighted) have not exceeded 25% in one of the last three years.
PI-1	**Aggregate expenditure out-turn compared to original approved budget**	**B**	In none of the three financial years has the actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 5% of budgeted expenditure.
PI-2	**Composition of expenditure out- turn compared to original approved budget**	**B+**	
(i)	Extent of the variance in expenditure composition of primary expenditure during the last three years, excluding contingency items	B	Variance in expenditure composition exceeded 5% (but was less than 10%) in two of the last three years.
(ii)	The average amount of expenditure actually charged to the contingency vote over the last three years.	A	There is no contingency vote in the Municipality's budget.
PI-3	**Actual domestic revenue compared to domestic revenue in the originally approved budget.**	**C**	Actual own revenues varied between 97% and 107% of budgeted revenues over the last three financial years.
PI-4	**Stock and monitoring of expenditure payment arrears**	**D**	
(i)	Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock)	D	The stock of arrears exceeds 10% of total expenditure.
(ii)	Availability of data for monitoring the stock payment arrears	D	There is no evidence suggesting one comprehensive ad hoc or routine exercise has been generated over the past two years, including an age analysis for all relevant payable categories.
PI-5	**The classification system used for formulation, execution and reporting on the government's budget**	**D**	The budget formulation, execution and reporting is based on different economic, administrative and programmatic categories not compatible with either Government Finance Statistics (GFS) 1986 or Classification of Government Functions standards.
PI-6	**Share of listed information contained in the budgetary documentation most recently issued by the Council.**	**A**	The existing budget documentation fulfils eight (8) of the nine (9) information benchmarks.
PI-7	**Extent of unreported Council**	**A**	

	operations		
(i)	Level of extra-budgetary expenditure (other than donors funded projects) which is unreported i.e. not included in fiscal reports.	A	The level of unreported extra-budgetary expenditure (other than donor-funded projects) is less than 1% of total expenditure.
(ii)	Information on income and expenditure in relation to projects financed by donors included in the fiscal reports.	A	Complete money and in-kind contributions from domestic donors are included in fiscal reports on an annual basis, there are no externally funded projects reported in the EMM's budget.
PI-8	**Intergovernmental Fiscal Relations**	**NA**	
PI-9	**Oversight of aggregate fiscal risk**	**A**	
(i)	Extent of Council monitoring of municipal entities	A	All MEs submit financial reports, cashflow statements and annual audited accounts to EMM Finance on a quarterly basis: this is consolidated annually.
(ii)	Extent of government monitoring of SN governments' fiscal position	NA	
PI-10	**Public Access to key fiscal data**	**A**	EMM makes available to the public (in a complete form) 7 of the 8 listed types of information
PI-11	**Orderliness and participation in the annual budget process**	**A**	
(i)	Existence of, and adherence to, a fixed budget calendar	A	A clear annual budget calendar exists, is generally adhered to and allows Departments five months from receipt of the budget circular to meaningfully complete their detailed estimates on time.
(ii)	Clarity/comprehensiveness of and political involvement in guidance on the preparation of budget submissions	A	The budget ceilings include both current and "payments for capital assets" approved by the Council, at administrative unit level, together with general guidance on expenditure priorities.
(iii)	Timely budget approval by the legislature within the last three years	A	The EMM Council has, during the past three fiscal years, approved the budget before the start of the fiscal year.
PI-12	**Multi-year perspective in fiscal planning, expenditure policy and budgeting**	**B+**	
(i)	Multi-year fiscal forecasts and functional allocations	A	Annual budget ceilings are prepared for administrative, program and main economic categories, and for the next budget year and a period of three years on a rolling basis. Programmatic structures in the budget represent the functional allocations.
(ii)	Scope and frequency of debt sustainability analysis	A	Each year, EMM conducts an extensive analysis of its financial position, including the measurement of cash and debt. Any deviations from established norms are explained in the CFO's report.
(iii)	Existence of sector strategies with multi-year costing of recurrent and investment expenditure	A	The IDP includes programmes (sector strategies) that are further "unpacked" in the SDBIP where all the projects each department plans to implement to support the programmes are detailed.
(iv)	Linkages between investment budgets and forward expenditure estimates	C	Public works and infrastructure plans exist for the responsible line departments and a budget is allocated for the provision of operating and maintenance. The problem for the most part lies on the capital projects planned for delivery being loosely tied to the forward operating and maintenance expenditure estimates.
PI-13	**Transparency of Taxpayer Obligations and Liabilities**	**B**	
(i)	Clarity and comprehensiveness of tax liabilities	A	Legislation and policy for the property rates are comprehensive and clear. In general, these obligations and liabilities are published to the general public.
(ii)	Taxpayer access to information on	C	The availability and comprehensiveness of the

	tax liabilities and administrative procedures		administrative procedures for property rates are limited.
(iii)	Existence and functioning of a tax appeals mechanism	C	A tax appeal system of administrative procedures exists, but needs substantial redesign to be fair, transparent and effective.
PI-14	**Effectiveness of measures for taxpayer registration and tax assessment**	**D+**	
(i)	Controls in the taxpayer registration system	C	Ratepayers are registered in a database system for individual purposes, which are not fully and consistently linked. There are no linkages between the various registration functions, but are supplemented by occasional surveys of potential ratepayers.
(ii)	Effectiveness of penalties for non-compliance with registration and declaration obligations	C	The provision for penalties against possible defaulters for rates and taxes and financial rules exist, but effectiveness is generally lacking due to weak administrative and internal control systems.
(iii)	Planning and monitoring of tax audit and fraud investigation programmes	D	An audit of rates and taxes has not taken place during the period under review.
PI-15	**Effectiveness in collection of tax payments**	**NR**	
(i)	Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years)	NR	The data does not allow the calculation required by this dimension to be completed.
(ii)	Effectiveness of transfer of tax collections to the Treasury by the revenue administration	A	All tax revenue is transferred to the Treasury daily.
(iii)	Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	A	Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place daily.
PI-16	**Predictability in the availability of funds for commitment of expenditures**	**B+**	
(i)	Extent to which cash flows are forecast and monitored	A	A cash flow forecast is prepared for the fiscal year, and are updated monthly on the basis of actual cash inflows and outflows.
(ii)	Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	B	Departments and entities are provided reliable in-year information on ceilings for expenditure commitment ceilings for at least one quarter in advance through the close monitoring of the cash flow situation by the Treasury. In-year adjustments in budget allocations often vary as the forecasts are adjusted for the remainder of the year.
(iii)	Frequency and transparency of adjustments to budget allocations which are decided above the level of management of MDAs	B	In-year budget adjustments take place only once every year and are done in a fairly transparent manner. The arrangement of adjusting the budget is a pre-established process set out in the MFMA and a relatively well informed adjustment on budget ceilings process to commit expenditure within the limits set by the expenditure provision on each major budget line. Adjustments vary often ostensibly across departments.
PI-17	**Recording and management of cash balances, debt and guarantees**	**A**	
(i)	Quality of debt data recording and	A	Debt records are complete, updated and reconciled

	reporting		on a monthly basis with data considered of high integrity. Comprehensive management and statistical reports are produced monthly.
(ii)	Extent of consolidation of the government's cash balances	A	All cash balances are calculated daily and consolidated.
(iii)	Systems for contracting loans and issuance of guarantees	B	EMM doesn't issue guarantees and its contracting of loans are made within limits for total debt, and always approved by Council.
PI-18	**Effectiveness of payroll controls**	**B+**	
(i)	Degree of integration and reconciliation between personnel records and payroll data	B	Integrity of the payroll is maintained by monthly reconciliations between the payroll and the personnel database.
(ii)	Timeliness of changes to personnel records and the payroll	B	Delays in processing changes to payroll and nominal roll are normally updated monthly, although the extent of retroactive adjustments could not be determined.
(iii)	Internal control of changes to personnel records and the payroll	B	The controls in place may be adequate but the extent of 'overrides' in the system is not clear.
(iv)	Existence of payroll audits to identify control weaknesses and/or ghost workers	A	An annual payroll audit is undertaken (by the OAG).
PI-19	**Competition, value for money, and controls in procurement**	**D+**	
(i)	Transparency, comprehensiveness and competition in the legal and regulatory framework	B	EMM meets four of the six criteria for the legal and regulatory framework for procurement.
(ii)	Use of competitive procurement methods	D	Reliable data on deviations with reasons, from open competition, could not be provided.
(iii)	Public access to complete, reliable and timely procurement information	C	Bidding opportunities and contracts awarded are made public by the EMM.
(iv)	Existence of an independent administrative procurement complaints system	D	EMM does not have an independent procurement complaints review body.
PI-20	**Effectiveness of internal controls for non-salary expenditure**	**B+**	
(i)	Effectiveness of expenditure commitment controls	A	Although SAP has in-built commitment control mechanisms, very small amounts of unauthorised expenditure are noted in the AG's reports.
(ii)	Comprehensiveness, relevance and understanding of other internal control rules/ procedures	B	Internal controls are comprehensive and clearly spelt out in the MFMA, Treasury Regulations, Municipal accounting and internal control manuals.
(iii)	Degree of compliance with rules for processing and recording transactions	B	The A-G's reports note concerns over the level of compliance with rules and procedures: however, there is general compliance in the majority of transactions.
PI-21	**Effectiveness of internal audit**	**C+**	
(i)	Coverage and quality of the internal audit function	B	Internal audit is operational, and focuses on processes. Internal audit manuals and procedures follow Institute of Internal Audit (IIA) standards.
(ii)	Frequency and distribution of reports	A	A quarterly report is prepared for the Audit Committee, the Municipal Manager, the CFO, auditees, and the Auditor-General.
(iii)	Extent of management response to internal audit findings	C	Management response to audit findings is limited, and not all managers respond to queries raised.
PI-22	**Timeliness and regularity of accounts reconciliation**	**A**	
(i)	Regularity of Bank reconciliations	A	All Municipal bank accounts are reconciled daily.
(ii)	Regularity of reconciliation and clearance of suspense accounts	A	Cash advance to staff are acquitted monthly. Suspense accounts are reconciled each month. At the

	and advances		end of the financial year, all departmental suspense accounts are reconciled 30 days after the end of the fiscal year to allow for preparation of annual financial statements.
PI-23	**Availability of information on resources received by service delivery units**	**A**	The chart of accounts allows financial information on resources in cash and in-kind, to be captured at the level of, for example, primary health clinics and this data is included in the Annual Report.
PI-24	**Quality and timeliness of in-year budget reports**	**C+**	
(i)	Scope of reports in terms of coverage and compatibility with budget estimates	C	In-year budget execution reports ('S71') are prepared in accordance with the standardised reporting format specified in the MFMA and allow for easy budget analysis; however, the only payments are captured, not commitments.
(ii)	Timeliness of the issue of reports	A	In-year budget reports are prepared on a monthly basis in accordance with the MFMA and submitted within 10 working days of the month end to the Executive Mayor, the National Treasury (in electronic format), and on a quarterly basis to Council: they are also published on the website.
(iii)	Quality of information	C	The complexity of amalgamating revenue data from nine different systems causes difficulties; however, the Auditor-General has not qualified the AFSs.
PI-25	**Quality and timeliness of annual financial statements**	**A**	
(i)	Completeness of the financial statements	A	The annual Consolidated Financial Statements include full information on revenue, expenditure, financial assets, and liabilities.
(ii)	Timeliness of submission of the financial statements	A	Consolidated Financial Statements are submitted to the Auditor-General within 2 months of the end of the fiscal year, in accordance with the MFMA.
(iii)	Accounting standards used	A	EMM's AFS disclose and observe the financial reporting standards of the Accounting Standards Board of South Africa, based on IPSAS.
PI-26	**Scope, nature and follow-up of external audit**	**A**	
(i)	Scope/nature of audit performed (incl. adherence to auditing standards)	A	EMM is audited annually, covering revenue, expenditure, assets and liabilities. Financial and performance audits are integrated. Financial and compliance audits follow international standards, and focus on systemic issues.
(ii)	Timeliness of submission of audit reports to the legislature	A	An audit report was submitted to the Council by 30 September each year, as required by the Act.
(iii)	Evidence of follow-up on audit recommendations	A	Reports from Internal Audit show that findings by AGSA are followed up and addressed.
PI-27	**Legislative scrutiny of the annual budget law**	**A**	
(i)	Scope of the Council's scrutiny	A	The Council review covers the details of revenue and expenditure estimates, a medium term expenditure framework, a medium term sector and fiscal policies including the impact of the changes in the new tax policy proposals.
(ii)	Extent to which the Council's procedures are well-established and respected	A	The Council's powers are set out in the MFMA. The Standing Orders are adhered to.
(iii)	Adequacy of time for the Council to provide a response to budget proposals (time allowed in practice for all stages combined)	A	The Council is involved both at the beginning and at the end of the budget preparation. The combined time available to review the budget documentation is three months.
(iv)	Rules for in-year amendments to the budget without ex-ante	A	Clear rules exist for in-year amendments without ex-ante approval. Excessive virements and expenditure

	approval by the Council		over budget ceiling require the approval of the Council in the Adjustment Budget.
PI-28	**Legislative scrutiny of external audit reports**	**B+**	
(i)	Timeliness of examination of audit reports by Council (for reports received within the last three years)	A	The timescale prescribed in the MFMA (two months) has been complied with in each of the last three years.
(ii)	Extent of hearings on key findings undertaken by legislature	A	The Accounting Officer is required to attend Council meetings and answer questions on the audit findings, in public hearings.
(iii)	Issuance of recommended actions by the legislature and implementation by the executive	B	The Auditor-General notes that the executive acts upon audit recommendations, and that progress is reported to the Audit Committee.