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Public Expenditure and Financial Accountability Assessment for the City of Johannesburg

2015

Final Report

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Public Expenditure and Financial Accountability Assessment for the City of Johannesburg Metropolitan Municipality, Republic of South Africa

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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
November 3, 2015

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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 City of Johannesburg Metropolitan Council (CoJ) 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 appears good, as the variances are small both at the aggregate and individual vote levels. Original expenditure budgets and actual expenditure outcomes (PI-1) were between -2.3% and 3.3%, in the three years under review – 2011/2012, 2012/2013, 2013/2014, and final budget outturns did not vary significantly from the original estimates at the individual vote level (PI-2), suggesting that expenditure budgets are realistic and that budget discipline is good, reflecting a strong link between budget formulation and execution. On the revenue side, there is a modest variance between original budgeted and actual revenue outturns (PI-3), mostly in respect of an under-recovery of service charges – which may in part explained by the global economic environment.

Although the stock of expenditure arrears shows a slight reduction as a percentage of annual expenditure in 2013/14, it remains well in excess of 10% over the period, and trade creditors have risen by almost 1/3 since the previous year: 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 CoJ 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.

Group Finance oversees fiscal risks arising from the eleven municipal entities operated by CoJ, 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 CoJ 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 the three years reviewed under this assessment, the budget was approved by the CoJ 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 CoJ has a comprehensive register of properties upon which assessment rates are levied. However, while the collection of rate payments appears fairly effective in that the percentage of arrears to the total debit is more or less constant, arrears exceed 10%.

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 weak (despite the direct links between the post database, the personnel database and the payroll database) in that the manual reconciliation process is a cause for concern, although 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, although the time for any changes to take effect and for records to be updated is unduly long.

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 – despite the fact that these may be adequately documented – with a consequent impact on the quality of financial data. The Chief Audit Executive prepares annual internal audit plans (with detailed time budgets per CoJ core activities) for approval by the Audit Committee and the Accounting Officer: overall, more than half of staff time is spent on ensuring that systems are functional. Quarterly reports are distributed to the Audit Committee, the Accounting Officer, and the Auditor-General: however, the quality of audit work could not be ascertained and it should be noted that the Auditor-General does not rely on work of internal audit.

Accounting, recording and reporting

Reconciliation of all CoJ bank accounts and suspense accounts as well as acquittal of cash advances to staff for official duties are resolute and 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 AG'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 AG'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

Overall, fiscal discipline is reasonable, with relatively minor concerns around outturn variances. However, despite the regulatory requirement that the Council does not approve a deficit budget, there appears to be a trend of negative balances. The significant level of rate and customer arrears is managed to the extent that appropriate provisions have been made, although projections of realizable revenue could be more accurate particularly for service charges.

The Council has adequate opportunity to scrutinize budget proposals, which are presented in considerable detail, although this detail may make it difficult 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 CoJ 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. On the other hand, there does seem to be a significant shift towards capital expenditure over this period, and in-year re-allocations have been relatively minor, suggesting that the budget is actually executed in line with stated Council policies.

3 Efficient service delivery

CoJ'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 and the payroll system are poor, and – given the proportion of the budget that flows through these systems – 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: City of Johannesburg: Summary of PEFA assessment scores, 2015

Performance Indicator		Scoring Method	Dimension Ratings i.	ii.	iii.	iv.	Overall Rating
Credibility of the budget							
HLG-1	Predictability of transfer from Higher Level of Government	M1	C	D	A		**D+**
PI-1	Aggregate expenditure out-turn compared to original approved budget	M1	A				**A**
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	B				**B**
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	C	D	C	A	**D+**
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	B	B	C		**C+**
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	B		**B+**
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 City of Johannesburg Metropolitan Council (CoJ) 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 City of Johannesburg Municipality using the PEFA Framework: 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.

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.

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

A one-day capacity building workshop was organised by the Assessment Team on 4 February for officials 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 City of Johannesburg

2.1 Economic 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]

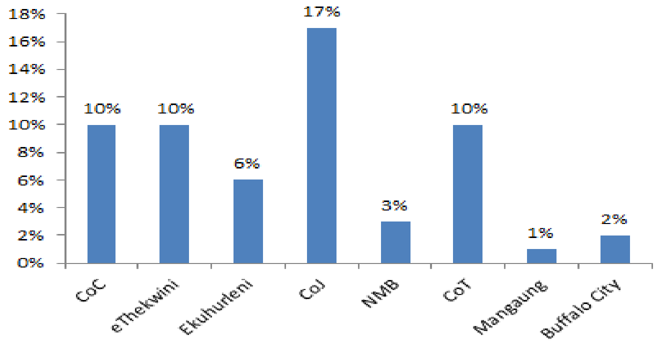
There are nine[3] provinces in South Africa, which are divided into 278 of municipalities that make up the local sphere of government. Municipalities fall into one of three categories: Metropolitan; District; or Local Councils. In the Province of Gauteng, there are three Metropolitan Municipalities,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

According to the 2011 Census Municipal Report for Gauteng Province, Johannesburg is the largest city in the Republic of South Africa. The CoJ covers an area of 1,645 square kilometres, and has a population of 4.4-million, although the Greater Johannesburg Metropolitan Area, which includes the surrounding areas of East Rand and West Rand, has a total population of 7.2 million. CoJ has a mayoral executive system combined with a ward participatory system. It has 130 Wards and 260 councillors, and is divided into seven regions (Regions A to G). It is the provincial capital of Gauteng, the country's wealthiest province, and has the largest economy of any metropolitan region in Sub-Saharan Africa.[4] The city is the source of a large-scale gold and diamond trade, due to its location on the mineral-rich Witwatersrand range of hills. According to recent statistics, the CoJ has a global GDP calculated in US$83.9 billion and a GDP per capita of US$16,370.[5]

Johannesburg plays a significant role in both the provincial and national economies. With a GDP of R569 billion in 2013, up from R206 billion in 2003, the CoJ contributes 47% to Gauteng's GDP. This is approximately 17% of the GDP of South Africa, which stood at R3.3 trillion at current prices in 2013. When compared to other Metros, CoJ remains the greatest contributor to the national economic output (Figure 2.1), according to the CoJ's Annual Economic Review of 2014.

[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.
[4] For further details see www.fasken.com/johannesburg
[5] Brookings Institution, Global Metro Monitor, 2013-2014.

Figure 2.1: Metropolitan Municipalities shares of the 2013 National GDP



Source: IHS Global Insight Regional Explorer (ReX).

About 78% of the CoJ's output is accounted for by the tertiary sector. This makes up roughly 19% of the overall tertiary sector output in the country. Although there is not much of the secondary and primary output, the CoJ does contribute significantly (17.4%) to the national secondary sector output

In terms of the nine broad sectors in the Standard industry Classification (SIC), Table 2.1 indicates that the economy of CoJ is dominated by Finance and Business services, Community services, Trade and Manufacturing. The Finance and Business services sector accounts for more than 30% of CoJ's total output. This makes up about 55% and 24% of the provincial and national Finance and Business services sector output respectively. The Community services sector contributes the second most (21%) to CoJ's output, followed by the Trade sector (19%) and the Manufacturing sector (12%).

Table 2.1: CoJ's Gross Value Added by broad economic sectors, 2013
(In billions of Rands, unless otherwise noted)

Sector	National total	Gauteng	CoJ	CoJ as % of Gauteng	CoJ as % of National
Agriculture	72.4	4.3	1.4	31%	2%
Mining	279.7	33.8	14.2	42%	5%
Manufacturing	350.3	144.8	59.1	41%	17%
Electricity	92.2	31.9	15.4	48%	17%
Construction	113.6	51.0	23.4	46%	21%
Trade	502.4	180.8	96.6	53%	19%
Transport	268.8	96.4	41.0	43%	15%
Finance	652.2	282.6	155.5	55%	24%
Community Services	698.7	256.4	109.1	43%	16%
Total	3,030.3	1,082.0	515.8	48%	17%

Sources: National Treasury and IHS Global Insight data.

2.2 Development and Reforms

a) The social and economic situation

Johannesburg is one of the world's leading financial centres[6] and it is the economic and financial hub of South Africa, producing 16% of South Africa's gross domestic product, and accounts for almost half of Gauteng's economic activity. In a 2008 survey conducted by *Mastercard*, Johannesburg ranked 47 out of 50 top cities in the world as a worldwide centre of commerce (the only city in Africa).[7]

Mining was the foundation of the Witwatersrand's economy, but its importance is gradually declining due to dwindling reserves, and service and manufacturing industries have become more significant to the city's economy. While gold mining no longer takes place within the city limits, most mining companies still have their headquarters in Johannesburg. As a result, CoJ has a comparative advantage in the Finance and Business sector, Construction and Trade, but conversely, a comparatively large disadvantage in Agriculture and Mining compared to South Africa as a whole.

CoJ's manufacturing industries extend across a range of areas, and there is still a reliance on heavy industries including steel and cement plants. The service and other industries include banking, IT, real estate, transport, broadcast and print media, private health care, transport and a vibrant leisure and consumer retail market. Johannesburg has Africa's largest stock exchange, the JSE, although it has moved out of the central business district. Due to its commercial role, the city is the seat of the Gauteng Provincial government and the site of a number of National government branch offices, as well as consular offices and other institutions.

There is also a significant informal economy, comprising cash-only street traders and vendors, which accounts for 13% of CoJ's total employment and of this, the largest share is taken up by the Trade sector, according to Global Insight data. The City's informal employment is estimated to have increased significantly from 160,952 in 2003 to 248,124 in 2013.

As with other Metros, CoJ faces economic challenges. The CoJ environment is economically stressed by high and persistent unemployment and poverty. CoJ accounts for about 36% of Gauteng's unemployed persons and approximately 12% of the country's unemployed residents. The number of unemployed residents has grown at an annual average rate of 2.96% over the years. CoJ is perceived to have more career enhancing opportunities than other Metros, hence it continues to attract the unemployed, according to CoJ's 2014 Economic Review.

The unemployment rate in CoJ is currently estimated to be 22.7%, which is about 6.3 percentage points less from 2003, according to CoJ's 2014 Economic Review. Noticeably, the unemployment rate is lower than that of Gauteng Province and the national average. The economic trends noted in the City's latest economic review indicate that unemployment declined consistently over the period 2003-2007, and only started increasing from 2008, perhaps as the global economic downturn became effective.

[6] http://www.assr.nl/conferences/documents/StaffsempaperBourgouinnov.2008.pdf
[7] http://www.mastercard.com/us/company/en/wcoc/pdf/WCoC_Brochure_FINAL.pdf

Despite the unemployment burden and significant increases in the population, CoJ has continued to provide basic service delivery to residents. The sanitation backlog has decreased at a consistent annual decrease rate of about at -2.7% from 2002 to 2012. Currently, more than 95% of households have access to hygienic toilets, piped water and formal refuse removal.

Still, there are about 1.4 million people living in poverty, according to the CoJ's 2014 Annual Economic Review, which is approximately 465,478 more people than in 2003. The annual estimates of people in living poverty have increased consistently from 2003 to 2013, with a slight decrease observed in 2007 and 2012. The percentage of CoJ residents living in poverty increased from 30% in 2003 to 32.2% in 2013. This is attributed to the City having the fastest growth in population compared to other Metros – the City's population is estimated to have grown by 3.1% on average over the period 1996-2013 while the Gauteng and South African population have had an average growth of 2.6% and 1.3%, respectively. This suggests that the City suffers from a large inward migration of economically active population from other parts of the Province and the country. Research has shown that rapid population growth poses enormous costs and financial stresses on a City attempting to respond to overcrowding and other welfare and service delivery-related problems, especially if the rate of economic growth is low.

Johannesburg's income inequality is on a declining trend. According to IHS Global Insight, both the country and CoJ experienced increased income inequality from 2003 to 2005, while Gauteng province experienced a decline from 2003 onwards. The income inequality trend has generally been downward at all levels of the economy, however, CoJ's inequality has since remained relatively higher than that of Gauteng and the country, hovering around 0.67 and now at approximately 0.64.

b) Fiscal policy and fiscal development

Over the medium term, CoJ's fiscal performance deteriorated markedly, attributed to a rapid growth in spending thus resulting in the overall balance changing from a surplus in FY 2011/12 to rising deficits in FY 2012/13 and FY 2013/14. In general, spending growth surpassed revenue mobilization efforts and government grants and subsidies together – spending grew in nominal terms by 27% between FY 2011/12 and FY 2013/14, whereas total revenue grew by only 9% (own revenues grew by 14% whereas government grants and subsidies fell by 10%).

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. The CoJ government 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. The COJ thus faces the task of spending more efficiently and restraining the growth of consumptive expenditure, whilst gradually exercising more strict control 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	**34,147**	**34,990**	**37,181**	**8.9%**
Own revenue[8]	26,607	28,161	30,379	14.2%
Of which:				
Property tax	*5,413*	*6,035*	*6,545*	*20.9%*
Electricity sales	*11,957*	*12,222*	*12,396*	*3.7%*
Water sales	*3,168*	*4,000*	*4,242*	*33.9%*
Government grants and subsidies	7,540	6,829	6,802	-9.8%
Of which:				
Transfers recognised-operational	*5,098*	*4,847*	*5,740*	*12.6%*
Transfers recognised-capital	*2,442*	*1,982*	*1,062*	*-56.5%*
Total expenditure	**33,379**	**35,695**	**42,423**	**27.1%**
Operating expenditure	29,773	31,551	34,772	16.6%
Of which:				
Employee-related costs	*6,876*	*7,451*	*8,207*	*19.4%*
Bulk purchases	*10,159*	*11,114*	*11,635*	*14.5%*
Other materials	*38*	*40*	*--*	*--*
Contracted services	*1,979*	*1,883*	*3,387*	*71.2%*
Financial costs[9]	*1,598*	*1,478*	*1,316*	*-17.6%*
Debt impairment	*2,192*	*2,851*	*1,685*	*-23.1%*
Other operating costs	*4,900*	*4,451*	*5,566*	*13.6%*
Capital expenditure	3,606	4,143	7,700	113.5%
Overall Group balance (Including grants and special programs)	**768**	**(705)**	**(5,242)**	
Overall Group balance (Excluding grants and special programs)	**(6,772)**	**(7,534)**	**(12,044)**	

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

c) Allocation of resources

Table 2.3 shows how the economic composition of expenditure changed rapidly in the medium term. The share of operating expenses in the total fell to 82% in FY 2013/14, from 89% in FY 2011/12, thus resulting in a sharp increase in capital expenditure, funded mainly by own revenues. Notably, employee-related costs, debt impairment, financial costs, and purchases of goods and services fell each one by at least one percentage point thus denoting the commitment of CoJ authorities to upgrading the transportation and urban infrastructure and meeting the capital needs within the City.

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

[8] Own revenue and transfers recognised combined equal the "Revenue by Source" utilized for this analysis in every financial year, which exclude "Capital transfers and contributions". The analysis observed a discrepancy in the operating revenue due to the basis used by the Group Chief Financial Officer in the annual financial statements to explain the overall operating results, namely, the "Revenue by Vote" (which equals additional revenues in about 1.38% not identified by the PEFA assessors).

[9] Data include debt repayment and interest obligations.

Category/type	2011/12	2012/13	2013/14
Operating expenditure	89.2	88.4	81.8
Of which:			
Employee-related costs	20.6	20.9	19.3
Bulk purchases	30.4	31.1	27.4
Other materials	0.1	0.1	0.0
Contracted services	5.9	5.3	8.0
Financial costs 1/	4.8	4.1	3.1
Debt impairment	6.6	8.0	4.0
Depreciation and asset impairment	5.4	5.7	5.5
Other operating costs	14.7	12.5	13.1
Capital expenditure	10.8	11.6	18.2

Source: Table 2.2.

Analysis of the functional composition of CoJ expenditure (Table 2.4) shows that the budget concentrates mainly within Trading Services (52%), Community and Public Safety (17%), and Governance and Administration (16%). In order of priority, the budget resources are allocated within Economic and Environmental Services, including road transportation, equivalent of 15% of the total. Certain shifts in expenditure took place within the largest spending sectors; for example, within Community and Public Safety the City favoured additional support for housing and human settlement and community services at the expense of public safety. Spending within the utilities departments declined to 52% of total in FY 2013/14, from 54% in FY 2011/12 – this is attributed to the decline in total spending within City Power total to 32% from 34%, and spending within water and sanitation services remained unchanged over the three years under review. The share of road transportation in the budget rose, but modestly to 10% from 9%.

Table 2.4: Allocation of CoJ 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	17.7	15.3	15.6
Of which: Finance and corporate services[10]	15.2	13.1	12.9
Community and Public Safety	16.7	17.3	17.3
Of which:			
Public safety	6.7	6.9	5.9
Housing	3.5	3.9	4.8
Health	1.6	1.6	1.6
Community and social services	2.8	3.1	3.1
Sports and recreation	2.1	1.8	1.9
Economic and Environmental Services	11.5	11.8	15.1
Of which: Road transportation	8.5	9.4	10.2
Trading Services	54.2	55.6	52.0
Of which:			
Electricity	34.3	34.4	32.3
Water	9.6	10.3	9.3
Sanitation	10.3	11.0	10.3
Other	0.0	0.0	0.0
Total	**100.0**	**100.0**	**100.0**

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

[10] Includes Budget and Treasury Office and Corporate Services.

In aggregate, the budget allocation between operating and capital expenditure programs changed swiftly over the three financial years, towards the latter in every sector (Table 2.5). Still, in sectors which are predominantly capital-intensive, such as electricity, water and sanitation, the share of operating expenses in the budget remains large, averaging 90%, attributed mainly to substantial employee-related and pensions costs. In other sectors, such as public safety, the operating content remains very large.

A salient feature in the capital budget is the uneven distribution amongst key sectors. Notably, the finance and corporate services attracted more in capital (its capital expenditure rose to 11% of the total for CoJ in 2013/14, from 7% in FY 2011/12) than the Metropolitan Police, as much as four times over a three-year period. Moreover, neither the community and social services budget or the sports and recreation budget surpassed that of the Metro Police during the first two years to equate or narrow the gap only in the third year (Tables 2.5 and 2.6).

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

	2011/12			2012/13			2013/14		
Function/Sub-function	**Oper.**	**Cap.**	**Total**	**Oper.**	**Cap.**	**Total**	**Oper.**	**Cap.**	**Total**
Governance and Administration	18.8	8.4	17.7	16.5	6.5	15.3	16.4	12.4	15.6
Of which:									
Finance and corporate services	16.1	7.0	15.2	14.0	6.4	12.1	13.2	11.4	12.9
Community and Public Safety	16.1	21.2	16.6	16.9	20.6	17.3	16.9	19.1	17.3
Of which:									
Public safety	7.4	0.4	6.7	7.8	0.3	6.9	6.8	2.1	5.9
Housing	1.8	17.0	3.5	2.2	16.6	3.9	3.0	13.1	4.8
Health	1.7	0.5	1.6	1.7	0.7	1.6	1.8	0.6	1.6
Community and social services	3.0	1.6	2.8	3.4	1.4	3.1	3.3	2.0	3.1
Sports and recreation	2.2	1.7	2.1	1.8	1.6	1.8	2.0	1.3	1.9
Economic & Environmental Services	9.0	32.7	11.5	10.3	23.0	11.8	11.7	30.4	15.1
Of which:									
Road transportation	6.3	27.2	8.5	8.2	18.6	9.4	7.5	22.3	10.2
Trading Services	56.1	37.7	54.2	56.4	50.0	55.6	55.1	38.0	52.0
Of which:									
Electricity	35.8	21.4	34.3	34.8	31.1	34.4	34.5	22.4	32.3
Water	9.6	9.0	9.6	10.3	10.7	10.3	9.6	7.9	9.3
Sanitation	10.6	7.4	10.3	11.3	8.2	11.0	10.9	7.7	10.3
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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	94.9	5.1	100.0	95.1	4.9	100.0	85.6	14.4	100.0
Of which:									
Finance and corporate services	95.1	4.9	100.0	94.3	5.7	100.0	84.0	16.0	100.0
Community and Public Safety	86.4	13.6	100.0	86.2	13.8	100.0	79.9	20.1	100.0
Of which:									
Public safety	99.4	0.6	100.0	99.5	1.5	100.0	93.4	6.6	100.0
Housing	47.4	52.6	100.0	50.3	49.7	100.0	50.6	49.4	100.0
Health	96.8	3.2	100.0	95.3	4.7	100.0	93.2	6.8	100.0
Community and social services	93.8	6.2	100.0	94.7	5.3	100.0	88.4	11.6	100.0
Sports and recreation	91.5	8.5	100.0	89.7	10.3	100.0	87.2	12.8	100.0
Economic & environmental services	69.6	31.4	100.0	77.4	22.6	100.0	63.4	36.6	100.0
Of which:			100.0						
Road transportation	65.9	34.1	100.0	77.1	22.9	100.0	60.1	39.9	100.0
Trading services	92.6	7.4	100.0	89.6	10.4	100.0	86.7	13.3	100.0
Of which:									
Electricity	93.3	6.7	100.0	89.5	10.5	100.0	87.4	12.6	100.0
Water	90.0	10.0	100.0	87.9	12.1	100.0	85.5	14.5	100.0
Sanitation	92.4	7.6	100.0	91.4	8.6	100.0	86.6	13.4	100.0
Other	0.0	0.0	100.0	0.0	0.0	100.0	0.0	0.0	100.0
Total	**89.3**	**10.7**	**100.0**	**88.4**	**11.6**	**100.0**	**81.8**	**18.2**	**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 and spending priorities set forth in CoJ's Integrated Development Plan. Consequently, it is desirable that the Council seek a more strategic allocation of budgetary resources to support a more enabling business environment and a 'safe City' that is more conducive for creating more small businesses and more economic opportunities and formal jobs, while reducing poverty and crime within CoJ's boundaries.

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)[11], 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.

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

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

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[12]. At the moment there are eight metropolitan municipalities.[13] 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[14]. 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

[12] Local Government: Municipal Structures Act (2003), Section 2.
[13] 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).
[14] Local Government Municipal Structures Act (2003), Section 3.

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, 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 CoJ. 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 the CoJ. It is empowered to approve municipal by-laws, the CoJ 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 260 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.[15]

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.

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

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 CoJ

To perform the assigned functions, the CoJ is composed of fifteen (15) departments and eleven (11) municipal entities (see below). The departments are represented as budget heads (votes):

1. Office of the Executive Mayor
2. Office of the Speaker
3. Group Finance
4. Office of Corporate and Shared Services
5. Department of Economic Development
6. Department of Development Planning and Urban Management
7. Department of Environment and Infrastructure Services
8. Department of Transportation
9. Department of Community Development
10. Department of Health
11. Department of Social Development
12. Department of Housing
13. Emergency Management Services
14. Metropolitan Police Department
15. Municipal Entities Accounts

Group Finance

This department essentially coordinates CoJ's efforts to bring about sustained financial health and good governance in the provision of appropriate, equitable and affordable services to residents through the formulation and enforcement of policies, rules and regulations. It has the following roles and responsibilities:

- To create a financial balance between the municipal entities and core administration;
- To ensure compliance with relevant legislation, regulations and governance practices;
- To ensure the implementation of the Municipal Finance Management Act (MFMA);
- To achieve unqualified audits for itself and its entities from the Auditor General, through re-establishing the financial control environment;
- To improve monthly financial management reporting;
- To create a comprehensive Generally Accepted Municipal Accounting Practice (GAMAP) compliant asset register; and
- To address various accounting difficulties in revenue, particularly in correctly allocating billed revenues and collected cash among utilities.

Group Finance comprises two Units: the Financial Compliance Unit and the Financial Management Support Unit. The former is responsible for the City's compliance with all relevant legislation, regulation, government practices and the implementation of the Municipal Finance Management Act (MFMA). Compliance with its own financial strategy, financial plan and funding plan is also enforced to ensure that the financial management support unit continues to achieve clean audits. The Financial Management Support Unit provides strategic guidance to the CoJ's group Chief Financial Officer. It also has the following Directorates:

i) **Treasury office**

This unit is responsible for managing centralised treasury functions. It acts as CoJ's central banker, managing the primary bank accounts, borrowings, investments and financial risk management for the City and its entities. It is also responsible for managing and co-ordinating financial planning and monitoring and reporting on expenditure trends and activities as well as for improving compliance with legislative requirements.

Four units fall under the Treasury Office, namely, the Investor Relations Unit, Risk Management Unit, Operations Unit, and Dealing Unit.

ii) **Valuations Office**

The valuations unit is responsible for the development and implementation of CoJ's general and supplementary valuation rolls, in terms of relevant legislation.

Property rates are based on the market value of a property – the value of the land and all improvements – as stipulated by the Municipal Property Rates Act (MPRA).

iii) **Rates and taxes**

Rates and taxes is responsible for developing and reviewing CoJ's Rates Policy and for ensuring effective billing of rates; compliance with the MFMA; and overseeing the application, monitoring, and evaluation and maintenance of uniform standards across the revenue value chain work streams.

All property owners – both those who own freehold properties and sectional titleholders – must pay property rates.

iv) Group financial accounting

The directorate enables an effective environment to ensure compliance with acceptable financial and accounting practices; to ensure that the CoJ maintains an effective, efficient and transparent financial and risk management and internal control systems; to provide financial administration functions; and to provide group financial reporting.

v) **Budget office**

The budget office endeavours to develop a budget that is in line with CoJ's developmental needs and the challenges it needs to address. It manages and co-ordinates financial planning and monitors expenditure. It also looks at and reports on expenditure trends and improves compliance through legislative requirements.

vi) **Supply chain management**

The Supply Chain Management Unit plays a pivotal role in the way the CoJ uses its resources to achieve its objectives. The unit ensures that goods and services are procured and, where necessary, disposed of in a fair, equitable, transparent, competitive and cost-effective manner.

vii) Shareholder unit

The shareholder unit's mandate is to monitor the governance of the municipal-owned entities with a view to maximise shareholder value in the interest of the CoJ community. This is done through the maintenance and development of infrastructure while financial viability and sustainability is optimised through the use of assets. It focuses on financial evaluation and monitoring, governance, strategy formulation, business planning, stakeholder management, stakeholder value optimisation and other related portfolio management services.

Municipal entities

The FY 2014/15 budget adopted by CoJ amounted to R47,658 million, of which the City Municipality represented 31% of the total and municipal-owned entities represented 69% (Table 2.7).

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

Name	Operating	Capital	Total
1. City Power	14,267	2,222	16,489
2. Johannesburg Water and Sewerage	7,191	1,092	8,283
3. Pikitup	1,940	201	2,141
4. Johannesburg Road Agency	872	1,297	2,169
5. Metrobus	551	200	751
6. Johannesburg City Parks and Zoo	778	166	944
7. Johannesburg Development Agency	86	235	321
8. Johannesburg Property Company	456	125	581
9. Johannesburg Market	391	208	599
10. Johannesburg Social and Housing Company	146	530	676
11. Johannesburg City Theatres	132	8	140
Total Municipal Entities	26,810	6,284	33,094
Total CoJ expenditure	36,783	10,875	47,658
% of total budget	**72.9%**	**57.8%**	**69.4%**

Source: Budget Adopted for FY 2014/15.

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 CoJ, inclusive of operating and capital transfers and grants, deviated from the originally approved budget by 10.4% in FY 2011/12, by 4.5% in FY 2012/13 and by 11.3% in FY 2013/14.

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

	2011/12		2012/13		2013/14	
	Budget	Actual	Budget	Actual	Budget	Actual
Unconditional grants[16]	4,190	4,190	4,085	4,082	4,452	4,040
Conditional grants	2,641	3,351	3,065	2,747	3,219	2,762
Total	6,831	7,540	7,150	6,829	7,671	6,802
Difference as % of budgeted revenue						
Of which: Unconditional grants		0.0%		-0.1%		-9.3%
Total		10.4%		-4.5%		-11.3%

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

Dimension rating = C

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

The earmarked component of grants to CoJ, composed of transfers and grants to specific projects, deviated from the originally approved budget by 16.6% in FY 2011/12, 15.0% in FY 2012/13 and 8.6% in FY 2013/14[17].

Dimension rating = D

(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 both the recurrent and capital grants for the financial year and shares it with CoJ Group Finance (at the latest in May). Furthermore, delays in a large portion of actual disbursements (which come from the NT) have not exceeded 25% in more than one of the last three financial years according to plan. Most payments agreed with local authorities had been released on a timely basis (Table 3.2):

[16] Includes the Equitable Share and Fuel Levy.
[17] Further detail on the variance composition is provided in ***Annex D***, & also for PI-1 & PI-2.

Table 3.2: Timetable of Grants to CoJ, Planned and Actual
(In millions of Rands)

Grants to CoJ: Amounts and dates received						
FY 2012/13		Jul 6 2012	Nov 30 2012	Mar 22 2013		Total
	Equitable Share					
	Forecast	885.6	708.5	531.4		2,125.5
	Received	885.6	705.4	531.4		2,122.5
		Aug 20 2012	Dec 7 2012	Mar 7 2013		Total
	Fuel levy					
	Forecast	653.2	653.2	653.2		1,959.5
	Received	653.2	653.2	653.2		1,959.5
FY 2013/14		Jul 5 2013	Nov 29 2013	Dec 3 2013	Mar 21 2014	Total
	Equitable Share					
	Forecast	955.3	764.4	-	573.3	2,293.0
	Received	955.3	-	352.4	573.3	1,881.0
		Aug 19 2013	Dec 9 2013	Mar 7 2014		Total
	Fuel levy					
	Forecast	719.7	719.7	719.7		2,159.0
	Received	719.7	719.7	719.7		2,159.0

Source: Group Finance.

Dimension rating = A

HLG-1			**Scoring Method M1**
Predictability of transfer from Higher Level of Government		**D+**	
(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	C	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	D	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 CoT 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.

3.1 Budget credibility

CoJ'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 3.3% in FY 2011/12, by 2.3% in FY 2012/13 and by 1.0% in FY 2013/14. The result is heavily influenced by fluctuations in purchases of goods and services, employee-related costs, capital expenditure and debt impairment, the four largest items in the budget – in the three years, purchases fell short of the original budget estimate by 6%, 12% and 4% and capital expenditure fell below the original budget by 3.1% and 2.8% and exceeded only marginally in the third year; whereas debt impairment grew by 27%, 39% and 16% (Table 3.3).

Table 3.3: Comparison of original budget and actual expenditure
(In millions of Rands, unless otherwise noted)[18]

	2011/12		2012/13		2013/14	
	Budget	**Actual**	**Budget**	**Actual**	**Budget**	**Actual**
Recurrent expenditure	27,038	28,175	30,766	30,074	33,108	33,406
Of which:						
Employee-related costs[19]	6,869	6,876	7,598	7,451	8,156	8,207
Purchases of goods and services[20]	12,908	12,176	14,735	13,036	15,573	15,022
Capital expenditure	3,722	3,606	4,262	4,143	7,595	7,700
Total primary expenditure	30,761	31,781	35,027	34,217	40,704	41,106
Difference as % of budgeted primary expenditure		**3.3%**		**-2.3%**		**1.0%**

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

See ***Annex D*** for calculations.

PI-1		**Scoring Method M1**
Aggregate expenditure out-turn compared to original approved budget	**A**	In none of the three financial years has 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

Analysis of CoJ budget outturns indicates that expenditure in new plant and equipment and repairs and maintenance by City Power and Water and Pikitup Departments retained the largest share in the budget. Budget execution nonetheless fluctuated over the last three years in the two departments, especially the former spending less than budgeted. The budget outturns grew rapidly for the maintenance of urban roads and transportation infrastructure. The Metro Police Department spent more but only marginally and so has the Health and Social Development Department, thus reflecting the inability to meet the growing internal security and social service demands, especially within the City's fastest populated locations.

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

(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 8.8% in 2011/12, 8.1% in 2012/13 and 4.5% in 2013/14 (Table 3.4).

Table 3.4: Composition of budget execution by administrative vote, excluding contingency items

(In millions of Rands, unless otherwise indicated)[21]

Administrative vote	2011/12		2012/13		2013/14	
	Budget	Actual	Budget	Actual	Budget	Actual
Office of the Executive Mayor	690	201	704	559	833	879
Office of the Speaker	215	216	251	248	271	271
Corporate and Shared Services	420	1,267	990	1,017	1,545	1,557
Finance and Revenue	1,638	1,775	2,132	1,906	1,449	1,584
Health and Social Development	538	628	706	685	838	843
Metropolitan Police Department	1,523	1,605	1,647	1,823	1,676	1,677
City Power	11,508	11,505	12,973	12,265	14,398	13,710
Water and Pikitup	6,355	6,705	7,247	7,595	8,145	8,337
Transportation	1,426	1,354	1,848	1,238	1,941	2,189
Roads Agency	754	939	801	841	1,449	1,497
Metrobus	425	444	437	471	479	479
City Parks and Zoo	677	690	750	638	767	774
Municipal Entities	667	760	686	802	1,378	1,335
Others[22]	3,924	3,693	3,854	4,131	5,536	5,975
Total allocated expenditure	**30,761**	**31,781**	**35,027**	**34,217**	**40,704**	**41,106**
Contingency expenditure	**0**	**0**	**0**	**0**	**0**	**0**
Composition variance (%)		**8.8%**		**8.1%**		**4.5%**

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 contingency items	B	Variance in expenditure composition exceeded 5% (but was less than 10%) in two of the last three years.

[21] Data exclude debt service obligations (referred to as finance costs in the budget classification), externally aided development expenditures do not apply.

[22] Data include the following Units: Economic Development; Environment and Infrastructure Services; Community Development; Housing; Development Planning and Urban Management; Emergency Management Services; Development Agency; Property Company; J'burg Market; Metro Trading Company; Tourism Company; and City Theatres.

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

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

The main sources of own revenue for CoJ are property tax (22%) as well as electricity sales (41%) and water and sanitation services (22%), 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 107.3% in FY 2011/12, 98.1% in FY 2012/13 and 97.4% in FY 2013/14 (Table 3.5). The performance is considered in general satisfactory, which is attributed to fairly accurate revenue projections and effective revenue collection systems, of both property taxes and electricity and water charges.

Table 3.5: Comparison of budgeted and actual own revenue[23]
(In millions of Rands, unless otherwise indicated)

Budget item	2011/12			2012/13			2013/14		
	Budget	Actual	%	Budget	Actual	%	Budget	Actual	%
Tax revenue	4,980	5,413	108.7%	5,876	6,035	102.7%	6,395	6,545	99.3%
Non-tax revenue	19,820	21,194	106.9%	22,843	22,126	96.9%	24,780	23,833	94.5%
Of which:									
Electricity fees	11,386	11,957	105.0%	12,634	12,222	96.7%	13,276	12,396	93.2%
Water fees	5,303	3,168	54.7%	3,643	4,000	109.8%	4,241	4,242	93.9%
Total	**24,800**	**26,607**	**107.3%**	**28,719**	**28,161**	**98.1%**	**31,175**	**30,379**	**97.4%**

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.	**B**	Actual own revenues varied between 95% and 107% of budgeted revenues in the last three financial years.

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)

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, CoJ incurred arrears throughout the year.

The stock of expenditure payment arrears comprises various payables to trade creditors and taxpayers—these are accounted for, among others, as "Trade creditors/payables", "Debtors with

23 Excludes capital transfers.

credit balances" and "Other creditors" and are reported in the annual financial statements. Through the SAP accounting software, the line departments do 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 be considered in arrears when an authorized payment is due more than 30 days. Table 3.6 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.

Table 3.6: Expenditure payment arrears, at end June, 2012, 2013 and 2014[24]
(In millions of Rands, unless otherwise indicated)

	2011/12	2012/13	2013/14
Trade payables	2,933	4,199	5,574
Credit balance in consumer debtors	1,310	2,188	1,627
Other creditors	968	1,257	1,397
VAT debtors	124	529	413
Engineering fees	71	78	92
Total	5,406	8,251	9,103
% of total expenditure	16.2%	23.1%	21.5%

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 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.

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

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 CoJ 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 (Council'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) were published on 22 April 2014 and its implementation is due on 1 July 2017. These will allow the CoJ's budget classification to meet the GFS 2001 standards for purposes of budget formulation, execution and reporting on a gradual manner. According to CoJ 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.[25] Lack of a standard COA has resulted in recurring events of misclassification of financial transactions amongst departments reported by the AG every year.

Dimension rating = D

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 CoJ

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

1. The annual budget for CoJ and multi-year and single-year capital appropriations;
2. An overview of alignment of annual budget with the Integrated Development Plan (IDP);
3. Measurable performance objectives and indicators;
4. Budget related policies;
5. Overview of budget assumptions, including new electricity and other utilities tariffs;
6. Overview of budget funding;
7. Expenditure on grants;
8. Monthly targets for revenue, expenditure and cash flow;
9. Legislation compliance status; and
10. Medium-term budget per Cluster, Department and Municipal Entity.

Table 3.7: Information in Budget Documentation

Documentary Requirement	Fulfilled	Documents for Evaluation

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

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 budget summary.
4. Debt stock, including details at least for the beginning of current year	**Yes**	The information forms part of the Section on CoJ'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 CoJ'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 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 Municipal operations

(i) The level of extra-budgetary expenditure (other than donor funded projects) which is unreported i.e. not included in fiscal reports.

There is no evidence of extra-budgetary activity from the municipal entities, as these report their financial operations to Group Finance on a regular basis. Other special funds such as the Housing Development Fund or the sinking fund also report on a regular basis.

As far as unauthorised expenditure – those operations resulting in expenditures made outside the authorised budget appropriations – is concerned, this constitutes only a small portion of the CoJ expenditure. The latest AFS for FY 2013/14 show that unauthorised expenditure amounted to R3.9 million (caused by Johannesburg Development Agency SOC Limited) which represented 0.2% of total expenditure in FY 2013/14.

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	The level of unreported extra-budgetary expenditure (other than donor-funded projects) is insignificant (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 CoJ's budget.

PI-8: Intergovernmental Fiscal Relations

As there are no sub-national elected governments in CoJ, 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 CoJ.

(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 SNGs of unconditional and conditional transfers from (central) government (budgeted and real allocations) of CoJ.	NA	
(ii)	Timely provision of reliable information to SNGs 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	NA	

PI-8			Scoring Method M2
	made available, broken down by sectoral categories.		

PI-9: Oversight of aggregate fiscal risk

(i) Extent of CoJ monitoring of municipal entities

There are many capacity challenges relating to accounting and reporting confronted by Municipal Entities (MEs): however, they do manage to report to Group Finance on a quarterly basis, according to a budgeting and financial reporting format agreed beforehand. The Shareholder Unit within Group Finance monitors the activities of individual municipal entities on a quarterly basis and consolidates the reports annually in order to monitor the overall financial situation as it evolves.

Dimension rating = A

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

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

Dimension rating = NA

PI-9			Scoring Method M1
Oversight of aggregate fiscal risk		**A**	
(i)	Extent of CoJ monitoring of municipal entities	A	All MEs submit financial reports, cashflow statements and annual audited accounts to CoJ Group 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

Transparency will depend on whether information on fiscal plans, positions and performance of the CoJ 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 of 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 3.8: Summary of Fiscal Information Accessible to the Public

Elements of fiscal documentation	Availability	Notes

Annual budget documentation: A complete[26] set of documents can be obtained by the public through appropriate means when it is submitted to the Council.	**Yes, but partially**	The existing budget documentation includes seven (7) of the eight (8) information benchmarks. The budget documentation is also uploaded on the CoJ 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 CoJ 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 CoJ website and in printed form at public places such as libraries.
External audit reports: All reports on CoJ'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 CoJ website.
Contract awards: Awards of all contracts specific to the CoJ and with value equivalent above approx. US$100,000 are published at least quarterly through appropriate means.	**Yes**	Contracts awarded are published on the CoJ website and notice boards at public places within the city.
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 the City'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**	The CoJ's tariffs (taxes and fees) are approved with the annual budget and published on the website of the municipality as well as made available at public places such as libraries within the city.
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**	The CoJ 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 the CoJ's website, regional service centres and public places. The information is also translated into the local languages and distributed to the citizens.

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

[26] '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.

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

The CoJ 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 seven-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

CoJ's budget preparation timetable covers in more detail each of these phases:

Table 3.9: Critical dates for the 2014/15 CoJ Budget Process

Critical dates for the 2014/15 CoJ Budget Process	
Mayoral Lekgotla 1	29 to 31 October 2013
Issuing of budget and tariffs guidelines	November 2013
Presentation of budget proposals to Technical Budget Steering Committee	4 to 12 December 2013
Budget Steering Committee meetings	28 to 30 January 2014
Budget Lekgotla 2	17 to 19 February 2014
Issuing of final indicatives	February 2014

Critical dates for the 2014/15 CoJ Budget Process	
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 Special Mayoral Committee	March 2014
Tabling of the draft Budget, tariffs and IDP at Council	20 March 2014
Public participation period is 30 days	21 March to 25 April 2014
Approval of final IDP and Budget by Special Mayoral Committee	14 May 2014
Council approval of final Budget and IDP, and Budget Day	23 May 2014

Source: CoJ 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 recognizes 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 both the Accounting Officer and the NT.

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.

Table 3.10: Dates of Budget Approvals by CoJ

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

Source: CoJ Council Resolutions

Dimension rating = A

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 circular to meaningfully complete their detailed estimates on time.
(ii)	Clarity/comprehensiveness of and political	A	The budget ceilings include both current and "payments for capital assets" approved by the

PI-11			Scoring Method M1
	involvement in guidance on the preparation of budget submissions		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 CoJ Council has, during the past 3 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.

CoJ 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.

CoJ 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. CoJ 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. CoJ 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 3.11: 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 within CoJ. Cluster committees are responsible for coordination and collaboration, and for monitoring implementation. 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 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: this 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

In every year during the period reviewed, CoJ conducted an extensive analysis of its financial position, financial performance and cashflow included with the annual financial statements and Auditor-General's report. The analysis of financial position focuses on the measurement of liquidity, liability and sustainability, while the cashflow 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

The CoJ 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. The IDP includes programmes (in effect, 'sector strategies') 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 programmes is visible in the "budget book". 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 also 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 are 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 CoJ. 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.

This process is impaired by the departments and entities not being able to prevent and control capital projects from running into 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, CoJ 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.

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 the CoJ'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 these 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 CoJ's is property rates, which comprise approximately 18% of total own revenue: see Table 3.12 below.

Table 3.12: Composition of CoJ's Own Revenue, including taxes (Property Rates)

Revenue Source	2011/12	2012/13	2013/14	2011/12	2012/13	2013/14
	R million			% of total		
Property rates	5,413	6,035	6,545	17.8%	19.9%	21.5%
Service charges - electricity revenue	11,957	12,222	12,396	39.4%	40.2%	40.8%
Service charges - water revenue	3,168	4,000	4,242	10.4%	13.2%	14.0%
Service charges - sanitation revenue	2,001	1,898	2,491	6.6%	6.2%	8.2%
Service charges - refuse revenue	893	966	987	2.9%	3.2%	3.2%
Service charges – other	117	134	438	0.4%	0.4%	1.4%
Rental of facilities and equipment	195	220	264	0.6%	0.7%	0.9%
Interest earned - external investments	302	385	305	1.0%	1.3%	1.0%
Interest earned - outstanding debtors	54	65	113	0.2%	0.2%	0.4%
Fines	435	320	324	1.4%	1.1%	1.1%
Licences and permits	1	1	1	0.0%	0.1%	0.0%
Other revenue	2,072	1,915	2,274	6.8%	6.3%	7.5%
Total	**26,607**	**28,161**	**30,379**	**100.0%**	**100.0%**	**100.0%**

Sources: CoJ's 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. Tax rates for different types of properties are included in CoJ'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 CoJ'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 rate payers 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 CoJ'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 it is incorrect, the ratepayers involved often do not pay. This often leads to incorrect actions such as disconnections and legal action.

Rate payers' tax appeals must be presented to the City'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

The CoJ'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.

The CoJ occasionally performs checks on ratepayers' accounts, including verification of ownership when discrepancies are identified, followed-up and corrected.
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. The CoJ 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
CoJ'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 there are 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)
Note 10 to the (Audited) Consolidated Financial Statements for 2013/14 provides data on customer debtors, which show that rate arrears have increased by almost R1B during the year, while the (increased) allowance for impairment means that the carrying value has only increased by approximately R250m. However, the data 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
The CoJ 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 the CoJ's

bank accounts on a daily basis. Ratepayers may also pay rates and taxes by means of electronic funds transfer directly into the CoJ'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

Although CoJ uses the SAP system for billing, not all the Modules have been implemented, which results in payments made by ratepayers not being credited to their accounts automatically. The Treasury has implemented a procedure whereby an electronic file from the daily receipts in each bank account is prepared and the information transferred to SAP on a daily basis. This electronic file and interface makes provision for exception reports e.g. a payment reference that cannot be matched with the SAP unique account electronically. The exceptions are then investigated and resolved to ensure the payment is allocated to the correct account. The CoJ'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 CoJ Treasury has allocated the function of accounts reconciliations between tax assessments, collections, arrears records and receipts at least on a monthly basis to a dedicated team of officials.
Dimension rating = A

PI-15			**Scoring Method M1**
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

The cash flow planning and monitoring functions are essentially the responsibility of the Treasury (within Group 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 the CoJ "sweeping" bank account and accounted for on SAP. The amount of domestic funding authorised for the year is based on the annual cash flow projections submitted to the Budget Office.

Annual cash forecasts of both the equitable share and conditional grants are compiled together with a drawdown schedule of monthly tranches across beneficiary departments and programs. Usually, the equitable share is forecast to flow evenly into CoJ'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 CoJ, 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 CoJ's 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 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, CoJ's 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 CoJ 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 assurance that funds will be available to meet commitments, unforeseen and unavoidable expenditure, and under collection of revenue, may cause the CoJ 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. The CoJ complies with the MFMA in that there are no more than two in-year adjustments to budget allocations, and that these are done in a transparent and predictable manner, 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.

The CoJ'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 CoJ 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 the CoJ to comply with all the monthly financial reporting requirements of the MFMA, including GRAP, and disclosure in the AFS.
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 the CoJ "sweeping" bank account and accounted for on SAP. The revenues received by other institutions (PI-15) are paid over into CoJ's bank accounts on a daily basis. Ratepayers may also pay rates and taxes by means of electronic funds transfer directly into the CoJ'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

The CoJ 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	CoJ 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

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 is 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 CoJ the remuneration of personnel averaged 23.4% of the total operating budget (see Table 2.3), which is below the ceiling set by the Restructuring Grant.

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

CoJ uses a manual system whereby HR Support Managers placed within the departments maintain personnel records for dispatch to the Group Human Capital division where the personnel database is updated before the payroll can be updated. To compensate for the possible lack of integration that the manual system may cause, various interventions to ensure the integration and reconciliation of the personnel records and the payroll have been implemented. A "Master Data Verification Exercise" whereby employees are required to verify their details on the payroll is regularly undertaken. The bi-annual verification and reconciliation of leave records and employees' overtime payments overlap with payroll audits also to ensure accurate payroll data.

Dimension rating = C

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

CoJ uses a manual system to update personnel records and the payroll. While it is clear that there are large numbers of retroactive transactions on the payroll, it is very difficult to measure how long it takes for these records to be updated.

Dimension rating = D

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

The integrity of the data on the payroll is compromised by the manual system. Due to the inherent delays in a manual system causes, officials skip channels of communications and approach the corporate HR division directly for changes to their personnel records to be effected and updated on the payroll. While this may create gaps in the audit trail, controls do exist and are implemented: for example, the CoJ Talent Acquisition Policy does not allow for 'automatic' promotions: all employees must go through a competitive application process when a position is circulated or advertised (and the job requirements for the position are included and only eligible applicants are shortlisted).

Dimension rating = C

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

CoJ's salary bill for the past three fiscal years represents on average 23% of total expenditure and in addition to the monthly payroll certification by all departments, a "Master Data Verification Exercise" is completed for all employees regularly. The Group Human Capital Division verifies and reconciles all leave records and employees' overtime payments. In the period under review there has been a complete Payroll Audit, at least two Employee Verifications Exercises on a sample basis and several other Payroll Process Audits which included Audits performed on Leave and Overtime. The OAG also conducts a complete Payroll Audit each year and no adverse comments were included in the report.

Dimension rating = A

PI-18			**Scoring Method M1**
Effectiveness of payroll controls		**D+**	
(i)	Degree of integration and reconciliation between personnel records and payroll data	C	Reconciliation of the payroll with personnel records takes place at least every six months.
(ii)	Timeliness of changes to personnel records and the payroll	D	Delays in processing changes to payroll and nominal roll are often significantly longer than three months and require widespread retroactive adjustments.
(iii)	Internal control of changes to personnel records and the payroll	C	Controls exist, but are not adequate to ensure full integrity of the data
(iv)	Existence of payroll audits to identify control	A	A strong system of annual payroll audits exists to identify control weaknesses and/or ghost workers.

PI-18		Scoring Method M1	
	weaknesses and/or ghost workers		

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 the CoJ 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

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

Table 3.13: Requirements in the Legal and Regulatory Framework for Procurement

Requirement in 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. The CoJ has a Supply Chain Management Unit that is the custodian 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 the CoJ'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 CoJ 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 the CoJ's website. Although departments prepare procurement plans before the start of every financial year, these plans are not made available publicly.

Requirement in the legal and regulatory framework	Justification
Provide for an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature	No, CoJ 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.

CoJ 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 large amounts of irregular expenditure emphasise this.
Dimension rating = B

(ii) Use of competitive procurement methods

The Assessment Team was informed that *"All procurement undertaken utilising methods other than competitive bidding are properly documented in the relevant reports, articulating clearly the reasons and recommendations for not following a competitive bidding process, which are tabled before the Executive Adjudication committee for approval. A register for all such procurement is kept and available for inspection at request, and upon sample request from the register, detailed reports can be provided for each individual procurement undertaken".* However, appropriate documentation to determine: firstly, the value of contracts awarded other than by open competition; and, secondly, the percentage of these that were legally justified; was not available.
Dimension rating = D

(iii) Public access to complete, reliable and timely procurement information

CoJ does not make procurement plans available to the general public. Only open tenders above the threshold of R30,000 are advertised. The local media, CoJ 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 CoJ's Supply Chain Management Unit handles all queries related to procurement. However these officials 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	CoJ 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	CoJ makes public bidding opportunities and contracts awarded.
(iv)	Existence of an independent procurement complaints system	D	CoJ 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 cashflow statement. Procurement plans are also produced, but these are not precisely linked to cashflow 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: cash rationing has not been experienced 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. The SAP software used across the Municipality has an in-built control mechanism that limits commitments to the approved budget: however, however, each year the Council is requested to approve small amounts of unauthorised expenditure (2013/14 R52m, less than 1% of budgeted expenditure).

Dimension rating = B

(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*. Both Internal and External audit reports suggest that theses rules are in the main followed.

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, 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. 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 = C

PI-20			**Scoring Method M1**
Effectiveness of internal controls for non-salary expenditure		**C+**	
(i)	Effectiveness of expenditure commitment controls	B	Although SAP has in-built commitment control mechanisms, 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, and audit reports suggest they are largely respected.
(iii)	Degree of compliance with rules for processing and	C	The AG's reports note concerns over the level of compliance with rules and procedures: however,

PI-20			Scoring Method M1
	recording transactions		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 Accountant General has the overall responsibility for the strategic direction of internal audit functions across government, and issues appropriate regulations and guidance. In March 2009, the NT issued a revised internal audit framework consistent with the Institute of Internal Auditors (IIA) standards as part of measures to streamline internal audit functions and ensure optimum efficiency. 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.

(i) Coverage and quality of the internal audit function

The Chief Audit Executive (CAE: the head of the internal audit unit, and one of only two qualified staff) prepares risk-based audit plans that are approved by the Audit Committee and the Accounting Officer. These plans follow Institute of Internal Audit (IIA) standards and cover a wide range of internal audit issues and follow a 'risk-based' approach, focused on processes. However, the draft three-year plan shows budgeted hours across the CoJ core activities, and that the majority are focussed on systemic issues.

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 financial risk management.

The internal audit unit produces quarterly internal audit reports within two weeks of the end of each quarter, and these are distributed to the Audit Committee, the Accounting Officer, the head of the relevant department and the Auditor-General (who is represented on the Audit Committee). The quarterly reports raises issues of concern and note the resolution of matters previously raised.

Dimension rating = A

(iii) Extent of management response to internal audit findings

The establishment of an Audit Committee is designed to ensure that audit findings and recommendations are implemented (S166 of the MFMA). In CoJ, an Audit Committee is in place and the chairperson is from the private sector. 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 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,

PI-21			Scoring Method M1
			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: these requirements are routinely followed.

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.

The CoJ maintains 84 Bank accounts. Apart from those that are 'ring-fenced' (for e.g. specific grants received from the NT: balances are 'swept' to provide a consolidated cash position at the end of each day, thus minimizing any interest charges, or alternatively, allowing for the investment of any surpluses.

Dimension rating = A

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

In order to prevent or reduce abuse the use of suspense accounts and advances to staff to the barest minimum such abuses, strict legal and regulatory measures are enacted. Section 17.1 of the Treasury Regulations require the Accounting Officer to ensure that all advances and suspense accounts are respectively acquitted and reconciled monthly to allow for the preparation of monthly financial statements, by way of proper allocation of each element of advance and suspense to the proper cost centre. Advances to staff for official travel or to carry out any official duties are acquitted monthly. Suspense accounts are reconciled monthly and those with rollover balances 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

PI-22			Scoring Method M2
			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 SAP software and chart of accounts are capable of and do actually capture financial information on resources in both cash and kind to the level of service delivery units such as primary health clinics.

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 SAP software and the chart of accounts allow financial information on resources in cash and kind, to be captured at the level of, for example, primary health clinics.

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 SAP system used in CoJ 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 CoJ 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 SAP application that runs across the 'core' Municipality facilitates the recording and reconciliation of financial data. In spite of these measures, the Auditor General noted concerns about data accuracy – including material misstatements – in the annual audit reports for each of the last three fiscal years: while this comment relates to the annual financial statements submitted for audit, it brings into question the accuracy of the monthly and quarterly in-year budget execution reports.

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 Auditor General has raised concerns about the quality of financial information; however, these concerns have not resulted qualified 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 Accountant General 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 CoJ 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 CoJ 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 used	A	CoJ's AFS disclose and observe the financial 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 Auditor-General reports that formal responses are made by Accounting Officers to audit findings, as evidenced by the reduction in material audit findings. Furthermore, management uses the external audit findings to formulate an action plan, which is then monitored by internal audit and progress is reported (indicating those findings addressed or in progress) to the Audit Committee. However, the systematic and timely follow-up of these recommendations has not been implemented appropriately and adequately, as some audit findings are recurring.
Dimension rating = B

PI-26			**Scoring Method M1**
Scope, nature and follow-up of external audit		**B+**	
(i)	Scope/nature of audit performed (incl. adherence to auditing standards)	A	CoJ is audited annually, covering revenue, expenditure, assets and liabilities. Financial and performance audits are integrated and 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	B	A formal response is made in a timely manner, then followed up via internal audit reports to the Audit Committee.

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 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. The debates in Council are public and the media report on them.
Dimension rating = A

(ii) Extent to which the legislature's procedures are well-established and respected
The CoJ 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 before the start of the financial year (in May), 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 are respected. These adjustments are 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, 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 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 contains sections on their policy, medium term perspective, audited financial statements, Auditor-General's opinion and Management Letter including recommendations. MPAC reviews the audit report within the timeline required by S129 of the MFMA: in each of the three years under review, the process was completed and an oversight report produced within the two-month period prescribed. For the 2013/14 financial year, the annual report was tabled on 26 January 2015 and MPAC completed the examination on 13 March 2015, which is within two months after tabling: the OAG confirmed that this was also the case in the two previous FYs.

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. Deadlines are set to members of the executive to provide written responses as well as evidence before the MPAC meeting to enable MPAC members to evaluate information submitted: MPAC then has the opportunity to raise questions during the meeting, supported by the AGSA who provides clarity/response on technical issues. Furthermore, the Audit Committee chair attends these meetings to provide technical assistance if required. 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 from each municipal entity as well as CoJ in attendance. MPAC then reports to Council, and those meetings dealing with the report are attended by Auditor-General and are also open to the public and media.

Dimension rating = A

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

Section 129 of the MFMA requires that the oversight report should indicate whether the Council has approved, rejected or required revisions to the annual report. The oversight report will contain recommendations made by MPAC on the annual report (including the audit report), and these are included in the minutes of Council meetings. The Mayor is responsible for ensuring that a department implements corrective measures, and progress is reported to the Audit Committee. Recommendations are tracked and responses and evidence is required to be provided on how recommendations have been acted on. Although this tracking is also included in the Council minutes, both Internal Audit and the Auditor-General report that resolutions are not always systematically addressed across all departments.

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	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 Mayor is responsible for ensuring that a department implements corrective measures, 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 CoJ mainly consist of

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

The South African PFM reform programme

CoJ 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 CoJ 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 CoJ 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. In CoJ, the 'Group Governance Unit' performs this function to ensure greater linkages between plans, budgets and 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 CoJ, the general public of the country, researchers and the international community. It further provides valuable insight into the priority areas of CoJ, 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 of CoJ in the context of government priorities. It provides an overview of the CoJ budget, budget process and discusses current and anticipated medium term budget trends. The overview of Revenue and Expenditure offers a detailed analysis of the CoJ'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 CoJ 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 CoJ:

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 CoJ

CoJ's specific reforms are built on the establishment of municipal entities, as provided for in Chapter 10 of the MFMA. CoJ has established municipal entities for the provision of all the core functions of local government. The Governance Unit situated in the office of the Municipal Manager monitors the efficiency and effectiveness of these entities.

Annexes

ANNEX A Documents consulted

ANNEX B People interviewed

ANNEX C Responsibilities assigned to Municipalities by the Constitution

ANNEX D Calculations for PI-1 & 2

ANNEX E Summary of ratings

Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Confederation

South African CitiesNetwork

AECOM

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 City of Johannesburg 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 City of Johannesburg Metropolitan Municipality:- 2011-12; 2012-13

4 Other

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

ANNEX B

OFFICIALS INTERVIEWED

Division	Contact Person
Revenue	Lungelwa Sonqishe
	Victor Jansen
Supply Chain Management	Setlhabi Leso
	Ntsokolo Selebe
Treasury and Support Services	Khomotso Letsatsi
	Denga Matambo
Governance and Compliance	Bryne Maduka
	Evans Mokwatedi
	Nonhlanhla Modirapula
Management Information Systems	Ntuthuzelo April
Financial Reporting	Zahin Anandlal
	Ishwar Ramdas
Risk Management	Sinaye Nxumalo
Internal Audit	Vusi Ndlovu
Budget Office	Ntuthuzelo April
Human Resources	Deon van Niekerk

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
Finance	1.3	33.7	1.4	32.4	32.4	2,344.9%
Environment & Infrastructure	17.0	12.8	18.8	(5.9)	5.9	31.6%
Human Settlement	1,089.1	1,795.8	1,202.2	593.6	593.6	49.4%
Transport	998.0	1,067.5	1,101.6	(34.1)	34.1	3.1%
Public Works, incl. electricity	345.0	234.8	380.8	(146.0)	146.0	38.3%
Sports and Culture	-	-	-	-	-	-
Health & Social Development	191.0	206.0	210.8	(4.9)	4.9	2.3%
Non-earmarked transfers	4,189.8	4,189.8	4,624.8	(435.1)	435.1	9.4%
Allocated expenditure	6,831.1	7,540.4	7,540.4	0.0	1,251,9	
Contingency	-	-				
Total expenditure	6,831.1	7,540.4				
Overall (PI-1) variance						10.4%
Composition (PI-2) variance						16.6%
Contingency share of budget						0.0%

Variance between actual and estimated transfers of earmarked grants, FY 2012/13

	budget	**actual**	adjusted budget	deviation	absolute deviation	percent
Finance	1.3	1.7	1.2	0.5	0.5	39.6%
Environment & Infrastructure	18.0	18.5	17.2	1.3	1.3	7.7%
Human Settlement	1,359.5	1,604.0	1,297.8	306.2	306.2	23.6%
Transport	1,298.7	805.5	1,239.8	(434.2)	434.2	35.0%
Public Works, incl. electricity	185.6	106.3	177.2	(70.9)	70.9	40.0%
Sports and Culture	-	20.8	-	20.8	20.8	-
Health & Social Development	202.3	187.2	193.1	(6.0)	6.0	3.1%
Non-earmarked transfers	4,085.0	4,081.9	3,899.6	182.3	182.3	4.7%
Allocated expenditure	7,150.4	6,825.9	6,825.9	0.0	1,022.2	
Contingency	-	-				
Total expenditure	7,150.4	6,825.9				
Overall (PI-1) variance						4.5%
Composition (PI-2) variance						15.0%
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
Finance	1.3	1.3	1.1	0.2	0.2	16.5%
Environment & Infrastructure	7.0	4.9	6.0	-1.1	1.1	17.7%
Human Settlement	1705.9	1689.0	1463.9	225.1	225.1	15.4%
Transport	1161.8	776.8	997.0	-220.2	220.2	22.1%
Public Works, incl. electricity	127.4	138.1	109.4	28.7	28.7	26.3%
Sports and Culture	0.0	0.0	0.0	0.0	0.0	-
Health & Social Development	215.5	152.2	185.0	-32.8	32.8	17.7%
Allocated expenditure	3218.8	2762.2	2762.2	0.0	508.0	
Contingency	0.0	0.0				
Total expenditure	3218.8	2762.2				
Overall (PI-1) variance						14.2%
Composition (PI-2) variance						18.4%
Contingency share of budget						0.0%

Calculations for PI 1-2

Budgeted and actual expenditure of CoJ, FY 2011/12 to FY 2013/14
(In millions of Rands, unless otherwise indicated)

	2011/12		2012/13		2013/14	
	Budget	Actual	Budget	Actual	Budget	Actual
Expenditure By Type						
Employee related costs	6,868.9	6,876.2	7,598.3	7,450.7	8,155.7	8,206.9
Remuneration of councillors	97.9	98.3	129.1	110.4	124.2	124.2
Debt impairment	1,723.4	2,191.6	2,050.3	2,850.7	1,451.6	1,684.8
Depreciation & asset impairment	1,590.0	1,799.8	1,880.4	2,018.7	2,345.4	2,345.4
Finance charges	1,523.6	1,598.2	1,589.1	1,477.5	1,403.1	1,316.4
Bulk purchases	10,695.8	10,159.1	11,775.3	11,113.6	12,315.4	11,635.2
Other materials	-	38.3	80.9	40.2	42.5	-
Contracted services	2,212.2	1,978.7	2,878.8	1,882.5	3,215.0	3,386.9
Transfers and grants	45.3	133.0	22.1	154.0	175.4	456.2
Other expenditure	3,804.5	4,899.5	4,350.2	4,451.2	5,283.2	5,566.1
Loss on disposal of PPE	0.4	-	0.1	1.7	-	-
Total operating expenditure	28,562.0	29,772.7	32,354.6	31,551.2	34,511.5	34,722.1
Current primary, excl. finance charges	27,038.4	28,174.5	30,765.5	30,073.7	33,108.4	33,405.7
Capital expenditure	3,722.3	3,606.3	4,261.5	4,143.4	7,595.3	7,700.4
Total, incl. finance charges	32,284.3	33,379.0	36,616.1	35,694.6	42,106.8	42,422.5
Total, excl. finance charges	30,760.7	31,780.8	35,027.0	34,217.1	40,703.7	41,106.1

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
Office of the Executive Mayor	690.2	201.2	713.1	(511.9)	511.9	71.8%
Speaker: Legislative Arm of Council	214.9	215.7	222.0	(6.3)	6.3	2.8%
Corporate and Shared Services	420.4	1,267.3	434.3	833.0	833.0	191.8%
Group CFO: Finance and Revenue	1,638.1	1,774.9	1,692.4	82.5	82.5	4.9%
Health and Social Development	537.9	628.2	555.7	72.5	72.5	13.0%
Metropolitan Police Department	1,523.4	1,604.8	1,573.9	30.9	30.9	2.0%
City Power	11,508.1	11,505.3	11,889.8	(384.5)	384.5	3.2%
Water and Sanitation	6,355.5	6,705.1	6,566.3	138.8	138.8	2.1%
Transportation	1,425.6	1,353.6	1,472.9	(119.3)	119.3	8.1%
Johannesburg Roads Agency	753.7	938.5	778.7	159.8	159.8	20.5%
Metrobus	424.8	443.6	438.9	4.7	4.7	1.1%
Johannesburg City Parks and Zoo	677.0	690.0	699.5	(9.5)	9.5	1.4%
Municipal Entities Accounts	666.6	759.5	688.7	70.8	70.8	10.3%
Others	3,924.5	3,693.1	4,054.7	(361.6)	361.6	8.9%
Allocated expenditure	30,760.7	31,780.8	31,780.8	-	2,785.9	
Contingency	-	-				
Total expenditure	30,760.7	31,780.8				
Overall (PI-1) variance						3.3%
Composition (PI-2) variance						8.8%
Contingency share of budget						0.0%

Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Confederation

South African CitiesNetwork

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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
Office of the Executive Mayor	704.2	559.1	687.9	(128.8)	128.8	18.7%
Speaker: Legislative Arm of Council	250.5	247.6	244.7	2.9	2.9	1.2%
Corporate and Shared Services	990.3	1,017.4	967.4	50.0	50.0	5.2%
Group CFO: Finance and Revenue	2,131.8	1,905.7	2,082.5	(176.8)	176.8	8.5%
Health and Social Development	705.9	684.5	689.6	(5.1)	5.1	0.7%
Metropolitan Police Department	1,647.2	1,822.8	1,609.1	213.7	213.7	13.3%
City Power	12,973.1	12,264.7	12,673.1	(408.4)	408.4	3.2%
Water and Sanitation	7,247.3	7,594.6	7,079.7	514.9	514.9	7.3%
Transportation	1,848.4	1,237.7	1,805.7	(568.0)	568.0	31.5%
Johannesburg Roads Agency	800.7	841.0	782.2	58.8	58.8	7.5%
Metrobus	437.4	471.4	427.3	44.1	44.1	10.3%
Johannesburg City Parks and Zoo	749.9	638.4	732.6	(94.2)	94.2	12.9%
Municipal Entities Accounts	686.3	801.7	670.4	131.3	131.3	19.6%
Others	3,854.0	4,130.5	3,764.9	365.6	365.6	9.7%
Allocated expenditure	35,027.0	34,217.1	34,217.1	0.0	2,762.5	
Contingency	-	-				
Total expenditure	35,027.0	34,217.1				
Overall (PI-1) variance						2.3%
Composition (PI-2) variance						8.1%
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
Office of the Executive Mayor	832.5	879.0	840.7	38.3	38.3	4.6%
Speaker: Legislative Arm of Council	270.5	270.5	273.2	-2.7	2.7	1.0%
Corporate and Shared Services	1545.2	1556.6	1560.5	-3.9	3.9	0.2%
Group CFO: Finance and Revenue	1448.6	1584.2	1462.9	121.3	121.3	8.3%
Health and Social Development	837.6	843.2	845.9	-2.7	2.7	0.3%
Metropolitan Police Department	1676.2	1677.0	1692.8	-15.8	15.8	0.9%
City Power	14398.3	13709.8	14540.6	-830.8	830.8	5.7%
Water and Sanitation	8145.5	8336.9	8226.0	110.9	110.9	1.3%
Transportation	1940.5	2189.1	1959.7	229.4	229.4	11.7%
Johannesburg Roads Agency	1448.8	1496.8	1463.1	33.7	33.7	2.3%
Metrobus	479.4	479.4	484.1	-4.7	4.7	1.0%
Johannesburg City Parks and Zoo	766.8	773.6	774.4	-0.8	0.8	0.1%

Municipal Entities Accounts	1377.5	1334.9	1391.1	-56.2	56.2	4.0%
Others	5536.3	5975.1	5591.0	384.1	384.1	6.9%
Allocated expenditure	40703.7	41106.1	41106.1	0.0	1835.2	
Contingency	0.0	0.0				
Total expenditure	40703.7	41106.1				
Overall (PI-1) variance						1.0%
Composition (PI-2) variance						4.5%
Contingency share of budget						0.0%

ANNEX E

SUMMARY OF RATINGS

PI		Score	Justification
HLG 1	**Predictability of transfer from Higher Level of Government**	**D+**	
(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	C	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	D	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 CoJ 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**	**A**	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.**	**B**	Actual own revenues varied between 95% and 107% of budgeted revenues in 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 (COFOG) 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 CoJ'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 CoJ Group 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**	CoJ 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 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 CoJ 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, CoJ 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 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	CoJ 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**	**D+**	
(i)	Degree of integration and reconciliation between personnel records and payroll data	C	Reconciliation of the payroll with personnel records takes place at least every six months.
(ii)	Timeliness of changes to personnel records and the payroll	D	Delays in processing changes to payroll and nominal roll are often significantly longer than three months and require widespread retroactive adjustments.
(iii)	Internal control of changes to personnel records and the payroll	C	Controls exist, but are not adequate to ensure full integrity of the data
(iv)	Existence of payroll audits to identify control weaknesses and/or ghost workers	A	A strong system of annual payroll audits exists to identify control weaknesses and/or ghost workers.
PI-19	**Competition, value for money, and controls in procurement**	**D+**	
(i)	Transparency, comprehensiveness and competition in the legal and regulatory framework	B	CoJ 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 CoJ.
(iv)	Existence of an independent administrative procurement complaints system	D	CoJ does not have an independent procurement complaints review body.
PI-20	**Effectiveness of internal controls for non-salary expenditure**	**C+**	
(i)	Effectiveness of expenditure commitment controls	B	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	C	The AG'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 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**	**A**	The SAP software and the chart of accounts allow financial information on resources in cash and kind, to be captured at the level of, for example, primary health clinics.
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	
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	CoJ'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**	**B+**	
(i)	Scope/nature of audit performed (incl. adherence to auditing standards)	A	CoJ 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	B	A formal response is made in a timely manner, then followed up via internal audit reports to the Audit Committee.
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 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 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 Mayor is responsible for ensuring that a department implements corrective measures, and that progress is reported to the Audit Committee.