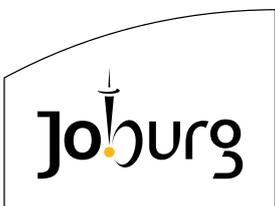




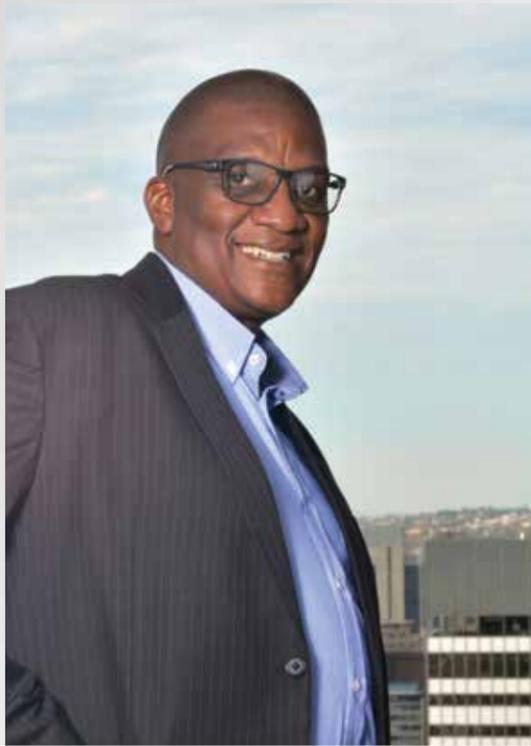
## **City of Johannesburg Municipal Entity Clean Audit Case Study**

How the Johannesburg Development Agency achieved  
clean audits for consecutive years

**Best practice in municipal entity good governance**



a world class African city



# FOREWORD

Good governance in the public sector must translate to better decision making, efficient use of public resources and strengthened public accountability. It therefore gives me great pleasure to introduce the City of Johannesburg case study documenting the Johannesburg Development Agency (JDA)'s record of attaining clean audits in successive years.

The attainment of clean audit is in line with the City of Johannesburg's commitment to maintain a clean administration characterised by good governance, financial compliance, internal controls practices across the institution.

JDA's achievement illustrates the entity's ability to conform to compliance requirements whilst at the same time being able to deliver on its mandate of being a centre of excellence in delivering resilient area-based regeneration, sustainable and liveable urban areas in identified transit nodes and corridors, as well as the successful project implementation as a delivery agent of the City.

The intention of Group Strategy, Policy Coordination and Relations (GSPCR) through its Innovation and Knowledge Management programmes, is to capture and recognise best practices and key learnings in its annual body of case studies. JDA's clean audits achievement in successive years is one such example of best municipal practice.

This case study tracks the strategy, guiding policies and processes that led to JDA's history of good audits, linked to the Auditor-General South Africa's recommendations and guidelines. It records how a municipal entity embraced, engaged, and developed its culture, people and processes to ensure the stamp of approval so important to the City of Joburg's municipal financial management.

**We encourage all stakeholders within the City of Johannesburg and beyond, to take part in our learning journey, and look forward to your feedback on how we can continue to translate knowledge and learnings into service delivery excellence.**

**Harvey Phalatse**

Director: Innovation and Knowledge Management Unit  
Group Strategy, Policy Coordination and Relations

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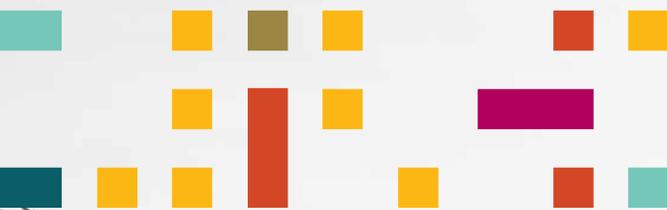
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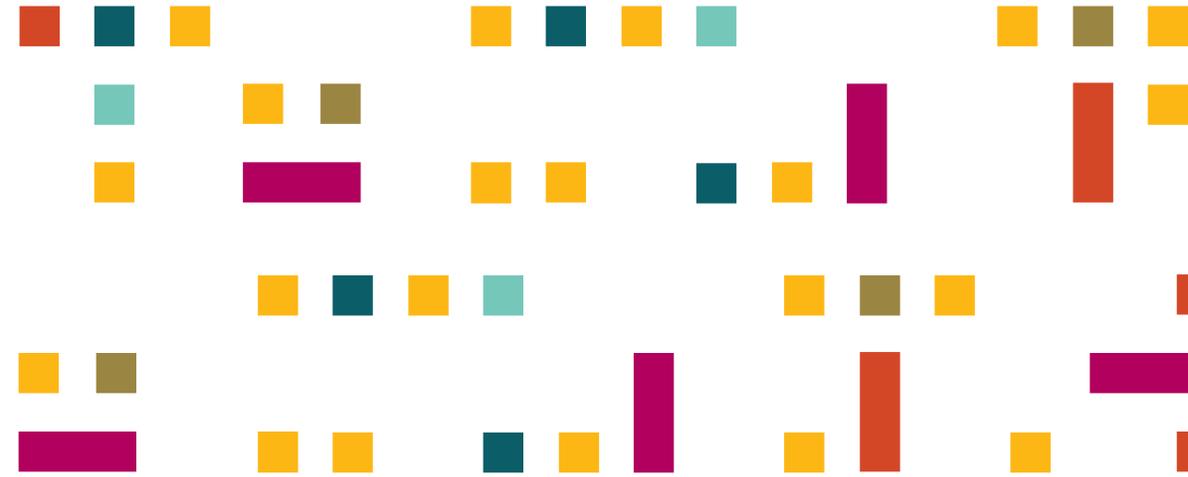
a world class African city

*City of Johannesburg Nelson Mandela Bridge,  
Johannesburg Central Business District*





Watt Interchange, Wynberg, Sandton



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## List of Abbreviations

<b>ADM</b>	Assistant Development Manager
<b>AG</b>	Auditor-General
<b>AGSA</b>	Auditor-General South Africa
<b>BBBEE</b>	Broad-Based Black Economic Empowerment
<b>BRT</b>	Bus Rapid Transit
<b>CA (SA)</b>	Chartered Accountant (South Africa)
<b>CAE</b>	Chief Audit Executive
<b>CEO</b>	Chief Executive Officer
<b>CFO</b>	Chief Financial Officer
<b>CoJ</b>	City of Johannesburg
<b>DI</b>	Development Implementation
<b>DM</b>	Development Manager
<b>EM</b>	Executive Manager
<b>EXCO</b>	Executive Committee
<b>FMPPI</b>	Framework for Managing of Programme Performance Information
<b>FMPPLA</b>	Financial Management of Parliament and Provincial Legislatures Act
<b>GAC</b>	Group Audit Committee
<b>GCR</b>	Global Credit Ratings
<b>GDS</b>	Growth and Development Strategy
<b>GFIS</b>	Group Forensic Investigating Unit
<b>GRGC</b>	Group Risk and Governance Committee
<b>GSPCR</b>	Group Strategy, Policy Coordination and Relations
<b>IA</b>	Internal Audit
<b>IKM</b>	Innovation and Knowledge Management
<b>IT</b>	Information Technology
<b>ICT</b>	Information and Communications Technology
<b>IDP</b>	Integrated Development Plan
<b>JDA</b>	Johannesburg Development Agency
<b>KPI</b>	Key performance indicator
<b>LGTA</b>	Local Government Turnaround Strategy
<b>MANCO</b>	Management Committee
<b>MD</b>	Managing Director
<b>ME</b>	Municipal Entity
<b>MFMA</b>	Municipal Finance Management Act
<b>MinMEC</b>	Ministers and Members of Executive Councils Meeting
<b>MPAC</b>	Municipal Public Accounts Committee
<b>MSA</b>	Municipal Systems Act
<b>MTEF</b>	Medium Term Expenditure Framework
<b>NCATT</b>	National Clean Audit Task Team
<b>OPCA</b>	Operation Clean Audit
<b>PAA</b>	Public Audit Act
<b>PIP</b>	Project Implementation Plan
<b>SAICA</b>	South African Institute of Chartered Accountants
<b>SCM</b>	Supply Chain Management
<b>SDM</b>	Senior Development Manager
<b>SLA</b>	Service Level Agreement
<b>TBC</b>	To be confirmed
<b>TCWG</b>	Those charged with governance

## List of Key Terms and Definitions

<b>Clean audit outcome</b>	Unqualified audit opinion on annual financial statements with no material negative findings on compliance and the audit of the pre-determined objectives.
<b>Financially unqualified audit opinion</b>	Unqualified audit opinion on the annual financial statements, which means the audited financial statements do not contain any material misstatements.
<b>Qualified audit opinion</b>	Qualified audit opinion on the annual financial statements, which means the audited financial statements contain material misstatements which are normally explained in detail on the audit report.
<b>Adverse audit opinion</b>	Adverse audit opinion on the annual financial statements, which means the audited financial statements contain material misstatements which are pervasive, and mainly or all relate to disagreements with figures reported on the financial statements. The disagreements per each financial statement line item is normally explained in detail in the audit report.
<b>Disclaimer of audit opinion</b>	Disclaimer of audit opinion on the annual financial statements, which means the audited financial statements contain material misstatements which are pervasive, and mainly or all relate to information not provided to support the figures reported on the financial statements. The limitation per each financial statement line item is normally explained in detail on the audit report.
<b>Audit of predetermined objectives</b>	Part of the mandatory audit engagement in terms of the Public Audit Act (PAA), 2004 (Act No. 25 of 2004). It provides reasonable or limited assurance on the reported information relating to the performance of the auditee against predetermined objectives.
<b>Performance auditing</b>	Performance auditing is part of the discretionary audit engagement in terms of the PAA and includes procedures to assess the economy, efficiency and effectiveness (3 E's) of projects or services.
<b>Probity audit</b>	A probity audit is an assurance engagement, in which a probity auditor provides an independent scrutiny of a procurement process and expresses an objective opinion as to whether the prescribed probity requirements have been adhered to.
<b>Project governance</b>	The framework, functions, and processes that guide project management activities in order to create a unique product, service, or result to meet organisational strategic and operational goals.
<b>Risk</b>	An uncertain event or condition that, if it occurs, has a positive or a negative effect on a project objective.

## Executive Summary

“A proper clean audit is rooted in good governance, proper performance information which is streamlined towards service delivery, and proper financial information, which is streamlined towards the good health of the City.”

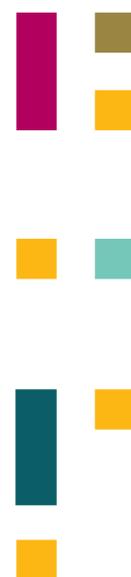
**Khamusi Ramulifho, Internal Audit, Group Risk and Assurance Services, City of Johannesburg**

*Johannesburg International Transport Interchange,  
Johannesburg Central Business District*

There is no greater confirmation of good governance in the public sector than a clean audit.

A clean audit means many things: it strengthens South Africa's democracy by ensuring oversight, accountability and governance in the public sector; it instils confidence of institutional and private investors and from the public; but most of all, it indicates an organisation has met the stringent requirements of the Auditor-General South Africa and resulting policies and requirements as an institution in good standing, showcasing how government funds can be appropriately managed and spent. It is a rare status – in the 2017/2018 financial year, only 18 out of 257 municipalities across the country achieved a clean audit status (being an unqualified audit opinion with no other findings).

Since 2014/2015, the Johannesburg Development Agency (JDA) has achieved clean audits as a municipal entity. Since that time, the organisation has developed many best practices that are the hallmark of an institution deserving of the remarkable achievement of five years of good audit standings.



What is impressive about the JDA's good audit standing is the massive budgets and projects that are managed under its auspices as the City of Johannesburg's development portfolio – between R1- and R2-billion in infrastructure spending. These projects are of high strategic importance for the City – infrastructure lays the groundwork for creating a pro-poor democratic government that uplifts the lives of all its citizens.

### This case study is an exploration of best practices in achieving clean audits by the JDA.

It explores the meaning of good governance in a municipal context and explains what a clean audit entails. It also unpacks how the pursuit of clean audits falls under the City of Johannesburg's vision, mission, strategy and policies and shares the objectives and key accomplishments of the JDA's clean audit status.

What is critical is that a clean audit cannot be achieved through one department or organisation – it is a

culmination of the hard work of many City employees, dedicated to clean governance and determined and committed to achieving this status.

JDA's clean audit status reveals an important best practice for the City of Johannesburg, which includes 12 municipal entities, each with its own board of directors and independent financial measures. Its practices start with a culture of good governance, leadership, development of a strong internal audit perspective, an organisational culture focused on problem solving, and robust policies and procedures. This case study seeks to capture the institutional learnings from JDA's best practice and members of those involved in the audit process participated in interviews to share their insights.

Five years of clean audits is a remarkable achievement for the JDA and the City of Johannesburg. This paves the way for many more municipal entities to obtain clean audits, and to strengthen the City's governance and best practices.

# 1. Introduction

“Not just from a daily perspective, but from a public sector perspective, achieving a clean audit is extremely significant and important.”

Sherylee Moonsamy, Chief Financial Officer, Johannesburg Development Agency

Infrastructure development is one of the most capital-intensive areas of municipal spending. It has the potential for the greatest impact, as capital projects – transportation areas, bridges, major transport systems – are all large-scale projects that provide jobs for the people and work opportunities for businesses, and the final projects can offer massive improvement of citizens’ quality of life.

These projects can bring enormous change to the local economy and ensuring the spend is properly managed is often at risk. When a municipal entity such as the Johannesburg Development Agency (JDA), with five years of clean audits, oversees the project management and spend of these projects, it has huge implications that the biggest spending items in the City of Johannesburg are well-managed.

The JDA is the infrastructure development arm of the City of Johannesburg (CoJ) and manages capital expenditure projects on behalf of the City.

**Since the 2014/2015 financial year, the JDA has attained five years of clean audit status, an achievement that has been attained with the promotion of good governance principles – accountability, transparency, and underlying policies and procedures – within a strong organisational culture that promotes a risk-first approach. The back-to-basics mechanisms cited by the JDA are a potential best practice framework for other entities as well as organisations looking to attain and maintain a clean audit status.**

A clean audit, particularly for local government entities tasked with the implementation and delivery of basic services, instils public trust. There is a reassurance that public funds are being allocated in line with legislation and policy, and that processes are robust and transparent. Essentially, there needs to be good governance in the provision of services to constituents, to build and cement public faith in their government structures. Failures of governance include corruption, poor service delivery, and weak institutions. These have wide-ranging ramifications for local government, including lack of investment, and poor international status.

The onus is on municipal entities to ensure good governance within their own organisations, thereby contributing to the City’s good standing.

For the JDA, organisational culture – being the shared beliefs

and values established by leaders, and communicated and reinforced through various methods, ultimately shaping employee behaviours, perceptions and understanding – was the starting point in attaining and maintaining their clean audit status.

### What is a clean audit?

Enshrined in the South African Constitution are the checks and balances that uphold the country’s democracy and maintain the rules of law. The Auditor-General South Africa (AGSA) has a constitutional mandate as the supreme audit institution to strengthen democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

When the AGSA awards a municipality with a clean audit, it is an enormous vote of confidence in that organisation’s good governance and capability. A clean audit is the highest evaluation of clean governance and appropriate accountability and public finance management.

To get a clean audit, there need to be three clean aspects:

- 01** No material amendments to the financial statements.
- 02** No material amendments to the integrated annual report.
- 03** No compliance issues with key legislation.

Materiality from an audit perspective is the level of error that can be expected from a financial statement. From the JDA perspective, any error up to R1m is not considered a material amendment to the financial statements – it’s considered a minor adjustment.

### Johannesburg Development Agency Interior and Exterior Criteria to Identify Material Issues in Preparation for a Clean Audit

Internal Criteria	External Criteria
Joburg 2040 GDS criteria and objectives	Emerging opportunities and challenges facing the JDA. Changes in the socioeconomic development agenda and priorities of national and provincial government.
Enterprise risk management process, including key risks affecting the JDA’s strategic and operational objectives and the associated mitigating activities.	Factors that may affect the JDA’s reputation and influence its ability to promote sustainable growth.
The expectations and feedback of stakeholders such as residents, ratepayers, the business community, civil society, national and provincial government, neighbouring municipalities, and designated targeted groups.	The provisions of various frameworks, including the Municipal Finance Management Act, section 46(1) of the Municipal Systems Act, the King Code, the International Financial Reporting Standard, the Millennium Development Goals, and the broad-based black economic empowerment (B-BBEE) code.
The JDA’s mission, vision and values.	
The JDA’s governance framework and policy environment.	

Source: Johannesburg Development Agency (JDA). November, 2019. Development Implementation Procedures Manual version 1.0, p.10

There will be no clean audit status if anything arises that is considered a non-compliance issue from an Auditor General (AG) perspective, even if the value attached to it is not material.

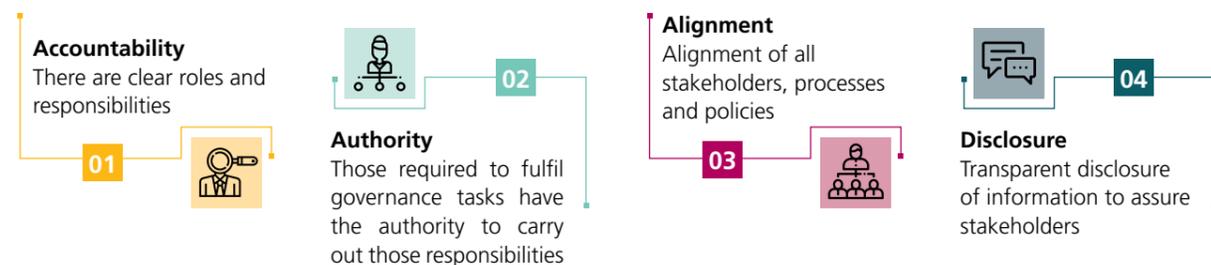
Some of the biggest challenges or barriers that municipal entities like the JDA face in ensuring sustained clean audits as identified by the AGSA in 2019/2020 audit are as follows:

- Inadequate reviews of the annual financial statements and underlying schedules.
- Senior management did not implement adequate controls to ensure that there is full compliance with applicable laws and regulations.
- Senior management did not fully implement action plans to address internal control deficiencies noted during previous year’s audit.



Johannesburg International Transport Interchange

### Good governance is built on the pillars of:



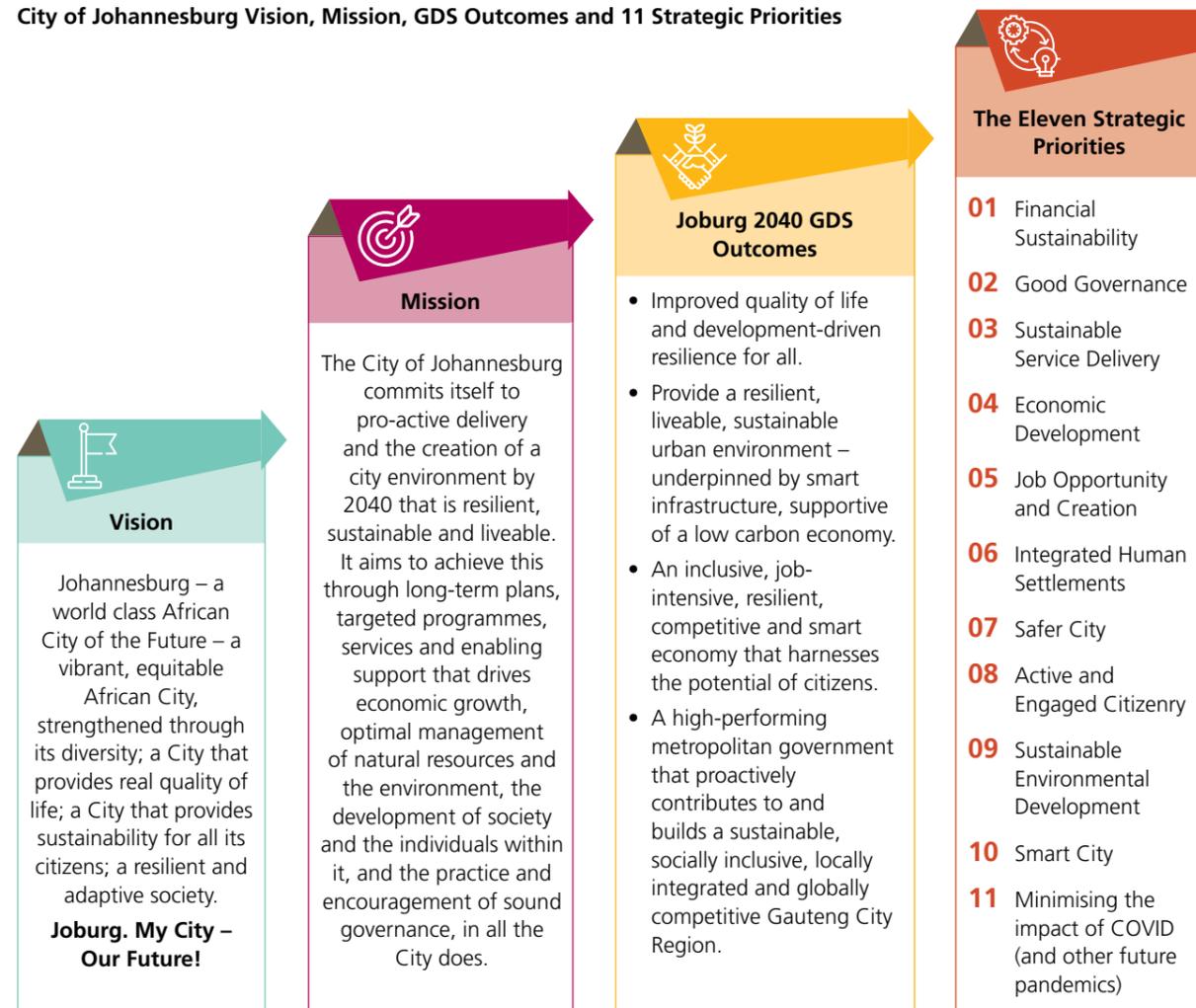
## 2. City of Johannesburg Vision, Strategy and Policies

### 2.1 City of Johannesburg Vision, Strategy and GDS

The City of Johannesburg has a vision to be a world class African City of the Future – a vibrant, equitable African city, strengthened through its diversity; a City that provides real quality of life; a City that provides sustainability for all its citizens; a resilient and adaptive society.

The City of Johannesburg’s mission is pro-active service delivery and the creation of a city environment by 2040 that is “resilient, sustainable and liveable”. The City is guided by the 2040 Growth and Development Strategy (GDS) as well as the Integrated Development Plan (IDP).

#### City of Johannesburg Vision, Mission, GDS Outcomes and 11 Strategic Priorities



Source: City of Johannesburg. March 2019. Joburg 2040 Growth and Development Strategy

The City of Johannesburg’s 2040 GDS details four outcomes and eleven priorities alongside outcomes, outputs and indicators, which departments and municipal entities of the City must implement according to their mandate to execute the strategy of the City.

In order to meet its mandate, there are a number of municipal entities - independent organisations that perform municipal services on behalf of the City, and in which the City controls the majority shareholding. All municipal entities need to share the collective vision of the City of Johannesburg and are guided by the GDS and IDP in meeting their service delivery mandates.

#### City of Johannesburg municipal entities



### 2.2 City of Joburg Audit Strategy

It is crucial for the City to be compliant with the various legislation that promotes good governance and accountability. From a strategic level, this enables the City to effectively and efficiently deliver services to its beneficiaries, who are the citizens of the City. A clean audit displays prudence in managing the finances. Transparency in executing and deploying these services is key to earning public trust.

The audit engagement is in terms of the Public Audit Act, 2004 (Act No. 25 of 2004).

The objective of the annual audit is to:

- Provide an opinion on the consolidated and separate financial statements;
- Report findings regarding reported performance information against predetermined objectives for the selected programmes as presented in the annual performance report;
- Report findings on compliance with specific legislation in terms of selected subject matters; and
- Report significant deficiencies in internal control.

The auditee’s consolidated and separate financial statements, annual performance report and compliance with legislation form the scope of the annual audit.

In planning for the City’s audit, the municipal entities prepare and present information in line with the performance management and reporting framework of the following legislation:

- Municipal Finance Management Act of South Africa, 2003 (MFMA)
- Municipal Systems Act (MSA)
- Regulations for planning and performance management, 2001, issued in terms of the MSA

- Municipal performance regulations for municipal managers and managers directly accountable to municipal managers, 2006, issued in terms of the MSA
- Financial Management of Parliament and Provincial Legislatures Act, 2009 (FMPLA)
- The Framework for the Managing of Programme Performance Information (FMPPI), issued by the National Treasury.

The municipal entities are also governed by the Companies Act 71 of 2008.

There is also subscription to corporate good governance protocols, such as those outlined in King III. Therefore, there is a balancing of local government legislation, corporate legislation and good governance guidelines to direct audit activities.

#### The King Code of Governance Principles for South Africa (King III)

- The Board should provide effective leadership based on an ethical foundation.
- The Board should act as the focal point for and custodian of corporate governance.
- The Board should appreciate that strategy, risk, performance and sustainability are all inseparable.
- The Board should ensure that the company has an effective and independent audit committee, and be responsible for the preparation of financial statements.
- The Board should be responsible for the governance of risk and information technology (IT) governance.
- The Board and its directors should act in the best interest of the company.

“It is the mandate of the City and entities to achieve a clean audit that will emphasise and illustrate the City’s intention of improving its service delivery operations, for financial sustainability.”

Takalani Mmbara, Director: Monitoring and Evaluation, City of Johannesburg

### 3. Objectives and Key Accomplishments of the Clean Audit

#### 3.1 Objectives

Outcome four of the GDS prioritises good governance and accountability, in order to be a high-performing smart metropolitan government that is pro-active in terms of

contributing and building a sustainable, socially inclusive, locally integrated and globally competitive Gauteng City Region.

The following outputs are critical components for Outcome Four to be realised:



Source: City of Johannesburg. March 2019. Joburg 2040 Growth and Development Strategy

Therefore, it is crucial for the City and its entities to reflect on Outcome four, and to be compliant with various legislation that promotes good governance and accountability.

A clean audit reflects a global picture of the City. It speaks about the quality of submitted financial statements, the quality of submitted performance information, the management of supply chains and contracts, financial health and human resource management and information technology.

A clean audit outcome is an indication of a strong control environment, which is required to ensure that the municipality and its municipal entities provide economical, efficient and effective service delivery. It indicates that the

City's monitoring mechanisms are working well, that issues of financial management and governance are within the required confines of the laws. There is the potential to attract good investors who will champion or invest in the City's initiative to better the life of their people. There is public trust.

Keeping a clean audit means more than just compliance with the requirements. It means that the municipal entity has "stepped up" above the general perception around the public sector.

If financial information is well-structured, it means the financial resources will be channelled to where it matters, which will ultimately lead to better service delivery.

#### 3.2 JDA Key Accomplishments

The JDA received its first clean audit in 2015/2016 and has maintained a clean audit status for the past five years.

The JDA's clean audit status sets the tone within the organisation. It encourages employees and staff to work harder to achieve strategic objectives in operations.

Also, it is a factor in how the entity measures its success.

The following best practises were noted by JDA during the 2018/19 Auditor-General audit:

- Stable governance structures that promote accountability.
- Senior management ensures timeous implementation of recommendations and regularly monitors the action plan.

- There was discipline by senior management in the preparation and review of the quarterly financial, performance and compliance reports, as well as timeous implementation of internal and external audit recommendations.
- The audit and risk committee provided adequate oversight over the quarterly financial and performance reporting and compliance with laws and regulations through robust interrogation and review of these processes.
- The internal audit function reviewed significant internal controls, thereby providing management with an appropriate internal audit appraisal function, focusing on key controls over financial and performance reporting and compliance with laws and regulations.



### 4. City of Johannesburg Audit Framework

#### 4.1 City Audit Framework

The City has three committees that oversee compliance:

- The **Group Performance Audit Committee (GPAC)** looks at the City's performance and plans.
- The **Group Risk and Governance Committee (GRGC)** assists the organisations to identify both financial and non-financial risks and operational risks, as well as device mechanisms to address those risks. The GRGC looks at the risk and compliance issues of the City.

There is convergence between the GPAC, GAC and GRGC, as the financials need to have a relationship with risk and with performance.

There is also an Information Technology (IT) Governance Steering Committee that monitors the efficiency and effectiveness of the IT domain within the organisations.

Johannesburg Development Agency External and Internal Auditing Structures



Source: Auditor-General South Africa. 30 June 2020. Audit Strategy: City of Johannesburg, p. 15.

At City level, there is no board, but a Mayoral Committee and oversight committee, and the GPAC, that deal with issues that have been raised at a monetary level. At entity levels, Boards deal with those issues.

In the case of irregularities, the National Clean Audit Task Team (NCATT) investigates in connection with the Hawks. After an investigation, their findings are presented to the Mayoral Committee. The Municipal Public Accounts Committee (MPAC) then unpacks these findings. MPAC consists of representatives from different political organisations and their mandate is to provide oversight

at a national level. Irregular expenditure that cannot be recouped as a City is written off by this Committee.

## 4.2 Auditor-General

The AGSA is contracted to the City by law. They request the City's annual report to identify key performance indicators. The AGSA's point of entry is the group funds, and the Group CFO is the main custodian of audits in the City.

The AGSA's areas of focus are compliance, performance information and the financial statements.

### Auditor-General South Africa Preventative Controls Guide

The AGSA's preventative controls guides are shared with municipal entities like JDA to ensure sustained clean audits in the future (a recommended checklist).



**Guide 1**  
*Importance of preventative controls*

- Implement standardised, effective procurement processes
- Safeguard against conflicts of interest



**Guide 2**  
*Tone and control culture*

- A demonstrated commitment to integrity and ethical values
- Accounting officers and authorities provide independent oversight
- Building and maintaining a strong control culture
- Implementing effective consequences



**Guide 3**  
*Institutionalised internal controls*

- Implement suitable risk management
- Establish and communicate policies and procedures
- Demonstrate commitment to competence
- Use assessments of independent assurance providers



**Guide 4**  
*Procurement of goods and services*

- Use procurement plans to enable proper planning
- Ensure adequate capacity and skills for supply chain management



**Guide 5**  
*Preparation of financial statements*

- Ensure adequate capacity and skills to perform accounting and reporting activities
- Implement standardised, effective accounting processes
- Ensure proper record keeping and document control
- Independently review and reconcile accounting records
- Carry out in-year reporting and monitoring
- Perform timely and accurate year-end reporting and monitoring



**Guide 6**  
*Asset management*

- Keep proper records of assets and perform conditional assessments
- Implement controls to safeguard and maintain assets
- Ensure segregation of duties in management of assets

Source: Auditor-General South Africa (AGSA). September 2020. Preventative Controls Guide 1- 6.

## 4.3 Municipal Entity level

The **first level** of defence within the JDA is their Executive Management, specifically the Human Resources and Monitoring and Evaluation function.

The **second level** of defence is the internal structures, which consist of the Internal Audit, Audit and Risk Committee, Monitoring and Evaluation, and the 'mini' Operation Clean Audit Committee. The audit and risk functions are combined in the City's municipal entities.

From a corporate governance and a key report perspective, the Audit and Risk Committee meets at least four times a year and is made up of three independent committee members, as well as appointed board members. The Audit and Risk Committee consists of the different heads of departments and Internal Audit to unlock any bottlenecks that they may come across as they execute their responsibilities.

There is also an Information and Communications Technology (ICT) Steering Committee which reports on a quarterly basis in terms of ICT governance.

The **third and final level** of defence is the JDA's board. The board members would have seen the internal audit reports, which are assessed by monitoring and evaluation or other internal processes. Then, based on the reports, the board decides what to do with the information to assist the MD or CEO to achieve the desired results. Boards represent the City, as shareholders, and their responsibility is to provide independent oversight or opinion and hold management accountable. The board also includes three independent committee members that only sit on the Audit and Risk Committee and the quorum of the meeting is when the majority of these members are in the meeting.

### The Operation Clean Audit Committee

Operation Clean Audit (OPCA) was originally conceived to try to achieve clean audits in all municipalities by 2014. In order to align the OPCA with the five priority areas, all provinces were visited from July to August 2012, to discuss the Provincial Local Government Turnaround Strategies (LGTS) Action Plans for the 108 municipalities. The Action Plan, now finalised, had to take into account the critical findings of the Auditor-General. In the main, these highlighted three areas of focus: governance, leadership, and financial management. The Action Plan was a collaborative effort that drew on the roles played by specific stakeholders in support of municipalities. It was refined in September 2012, when the Local Government Ministers and Members of Executive Councils (MinMEC) invited municipalities who consistently achieved a clean audit, those who showed improvements, and those who never submitted Annual Financial Statements to a convention, to illustrate and share success stories and highlight challenges.

**The OPCA gives feedback quarterly in terms of progress in resolving those issues that the Auditor-General singles out as audit findings against an entity.**

The 'mini' JDA OPCA prepares the JDA for their audit and looks at previous findings, and this Committee addressed the shortfalls that JDA had before their first clean audit.



Alexandra Hospice

## 5. About the JDA

The JDA, a municipal entity of the City of Johannesburg, implements projects on behalf of the client departments within the City. Essentially, it is the infrastructure development arm of the City and manages enormous projects and budgets. The JDA's room for error is minimal because if they fail to execute what has been contracted and agreed on, it can financially "collapse the City."

JDA's portfolio of projects is grouped into three sub-portfolios, namely, Portfolio A (Inner City projects), Portfolio B (Clinics and Community Developments projects) and Portfolio C (BRT projects). The portfolio of projects implemented by JDA's Development Implementation Department includes both projects that have been conceptualised within JDA and projects that have been proposed by separate departments and municipal entities.

The JDA has implemented over 600 projects across all administrative regions of the City in 19 years of operation. Over the past five years, the JDA has grown by almost 75% from 50 employees to 87 employees and resulted in an increased capital budget and increased number of projects to implement on behalf of client departments.

From a budget perspective, the JDA's overall capital expenditure budget is up to R2-billion per annum, but from an operational perspective, it only generates management fees from those projects. Therefore, it only has an operational budget of approximately R120-million per annum.

### For every R1-million invested by the JDA

private investors have put **R18-million** into the Inner City of Johannesburg since 2001.

### Since 2007/08, the JDA has created property assets valued at R0.6-billion and infrastructure assets valued at R3.1-billion,

including the Fashion Kapital, BRT routes and stations, Vilakazi Street, the Nasrec transit hub, the Bus Factory, the Metro Link building and Chancellor House.

### Over the past five years, the JDA has spent R0.8-billion

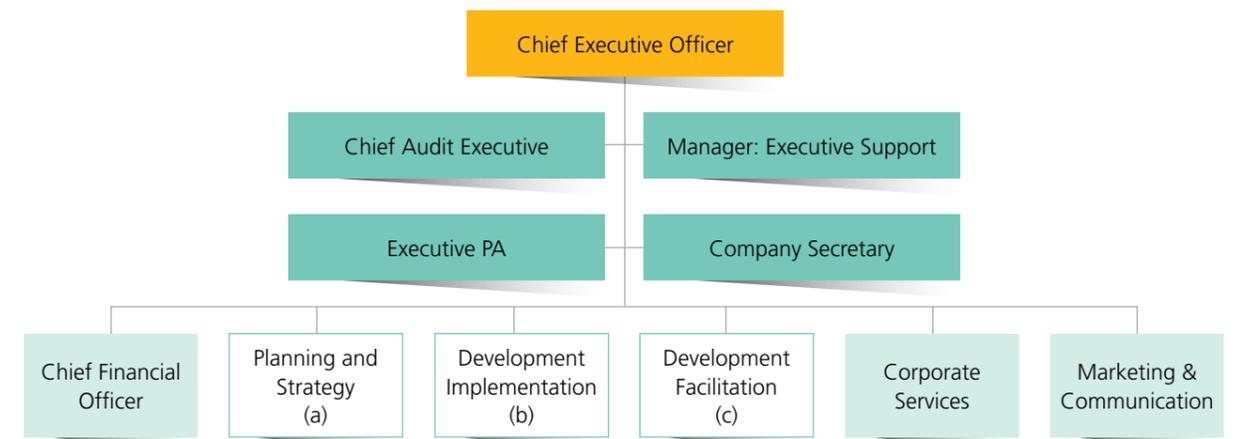
on **work in the Inner City**, including refurbishing 12 parks and five public squares.

Sources: Census 2011, Statistics South Africa 2012 report, City of Johannesburg Integrated Development Plan and JDA figures.

## 5.1 JDA's Structure and Function

The figure below shows JDA's structure and the function that the departments play with regards to capital expenditure, project conceptualisation planning and implementation.

### Johannesburg Development Agency Organisational Structure



Source: Johannesburg Development Agency (JDA). November 2019. Development Implementation Procedures Manual version 1.0, p. 10.

#### Planning and Strategy

With regards to capital expenditure projects, the Planning and Strategy department focuses on conceptualising developments that stimulate and support area-based economic development. These development concepts/initiatives are funded by either JDA or other departments or municipal entities within the City.

#### Development Implementation

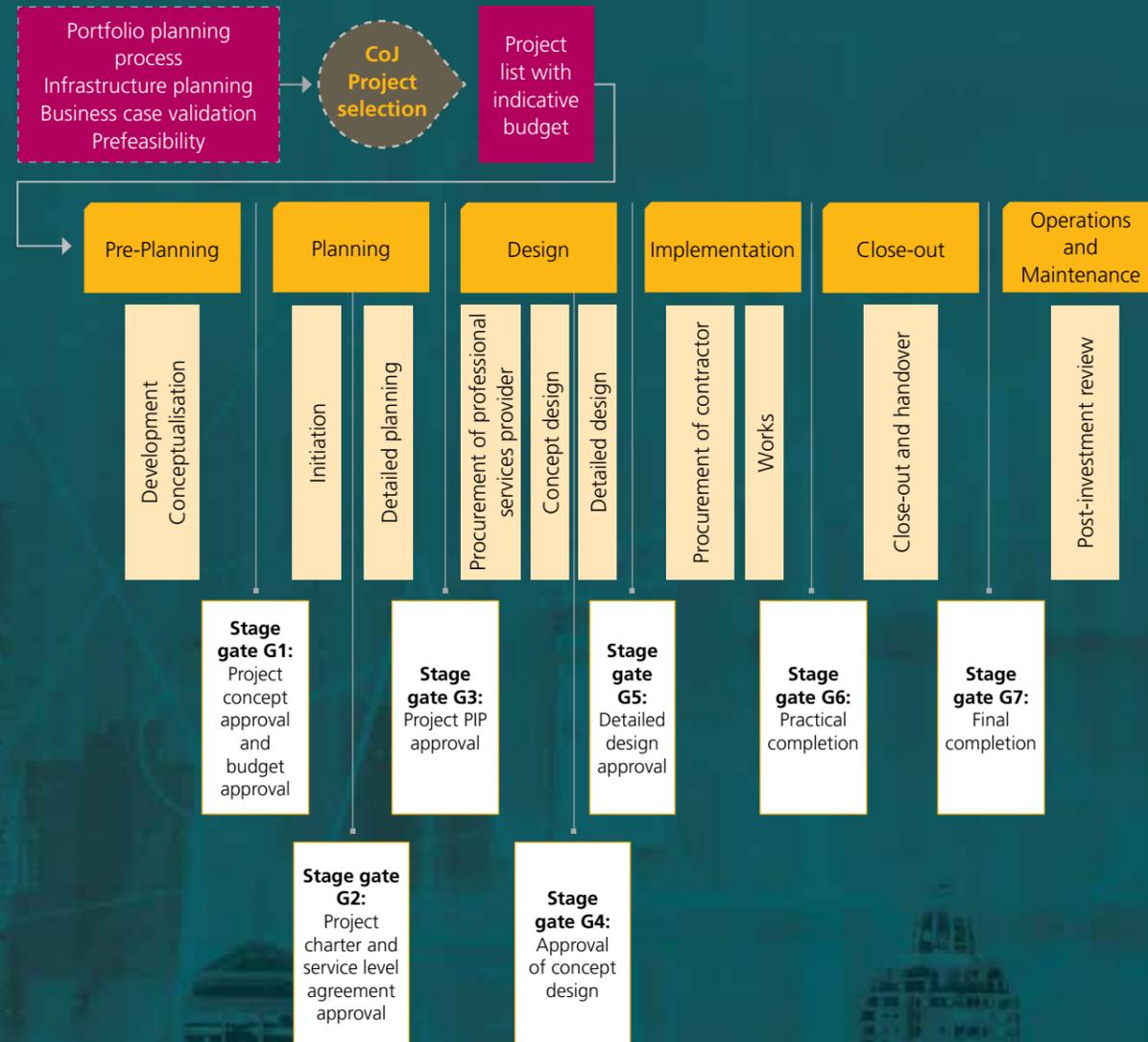
The Development Implementation department is responsible for the implementation of all capital expenditure projects. These include both projects not funded by JDA, but accepted for implementation by JDA, and JDA-funded projects with an approved budget. The figure below outlines the JDA project lifecycle outlining the various steps within the project process.

#### Development Facilitation

The Development Facilitation department implements feasibility studies, assesses technical and financial feasibility on JDA-funded projects and develops high order estimates and programmes.



## Johannesburg Development Agency Project Management Lifecycle



Source: Johannesburg Development Agency (JDA). November, 2019. Development Implementation Procedures Manual version 1.0, p. 14.

“From a policy and procedure perspective, we’ve allocated our risk and compliance department to be responsible for safeguarding all of JDA policies and procedures. This means that once a department gets their policy approved by the Board, it is the Risk and Compliance Department that is required to ensure that those documents are signed, safe-guarded, and reviewed on a regular basis, depending on the frequency included in the policy.”

Sherylee Moonsamy, Chief Financial Officer, Johannesburg Development Agency

## 5.2 JDA Project Management

All parties involved in a project, including external service providers, are bound by the JDA’s Development Implementation Procedures Manual, which lists and details the roles, expectations and parameters for capital expenditure project management. It also clearly delineates the processes to manage and mitigate risk, as well as the

expected service provider adherence to good business governance principles.

### 5.2.1 Project Responsibility

For each stage of a capital expenditure project, there are clear responsibility matrices, for example the Detailed Planning Responsibility Matrix below:

Johannesburg Development Agency Detailed Planning Responsibility Matrix

No.	Activity	Output	Key activities			
			R	A	C	I
1	Develop project baselines (include work packages, project milestones, expenditure projection)	Project Implementation Plan	Senior Development Manager	Executive Manager: Development Implementation	Planning and Strategy / Client	Executive Committee
2	Develop a resource plan	Resource plan	Senior Development Manager	Executive Manager: Development Implementation	Planning and Strategy / Client	Executive Committee
3	Assess project risks and develop a mitigation plan	Updated risk and issues register and mitigation plan	Senior Development Manager	Executive Manager: Development Implementation	Planning and Strategy / Client Risk Manager (Risk & Compliance)	Executive Committee
4	Develop a procurement plan	Procurement plan	Senior Development Manager	Executive Manager: Development Implementation / Supply Chain Management	Senior Development Manager	Executive Committee
5	Update project schedule and cost information of the work breakdown structure on SAP	Project updated on SAP	Development manager	Senior Development Manager	Budget manager / IT	Executive Manager: Development Implementation
6	Meet with Regional Director and Ward Councillor to get acceptance of Project Implementation Plan	Proof of meetings	Stakeholder manager	Senior Development Manager	Executive Manager: Development Implementation Development Manager	Client

Source: Johannesburg Development Agency (JDA). November, 2019. Development Implementation Procedures Manual version 1.0, p. 18

## 5.2.2 Project Procurement Process

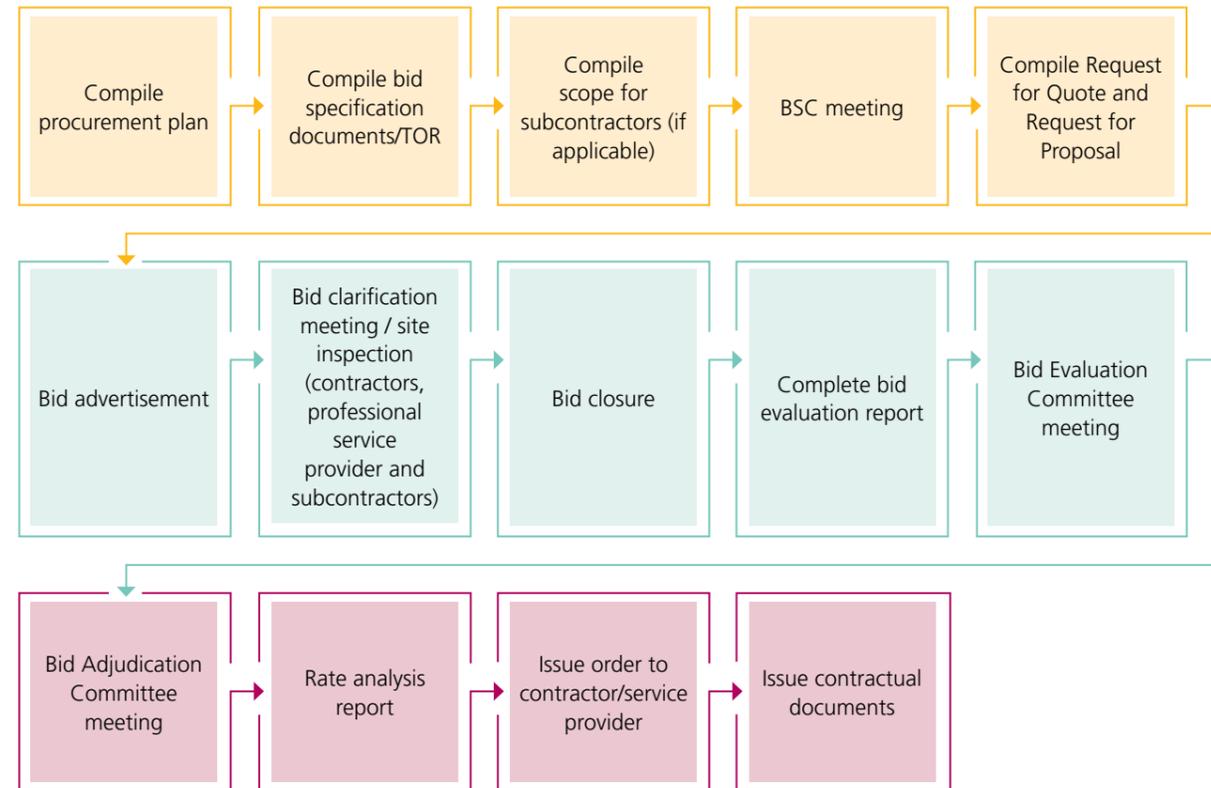
JDA contracts service providers and contractors to implement portions of the capital expenditure project.

Within the project life cycle there are two instances where JDA would have to go out on tender to look for a service provider. Firstly, during the design phase, JDA would procure

a professional service provider. The professional service provider implements the design work, and subsequently will act as the principal agent during the construction work. Secondly, JDA would procure the main contractor who executes the construction scope of work.

The procurement process to be followed is shown in the figure below.

### Johannesburg Development Agency Project Procurement Process Flow



Source: Johannesburg Development Agency (JDA). November, 2019. Development Implementation Procedures Manual version 1.0, p. 33.

## 5.2.3 Project Governance

Project governance is the extension of corporate governance pillars into the capital expenditure project environment. Governance refers to the processes by which the project is directed, controlled and held to account so that success is achieved.

Good project governance includes aspects of:

### 1) Well-defined project and project baselines

- Clearly defined scope and deliverables (appropriate to project phase);
- Clearly defined budget and schedule constraints; and
- Accurate project cost and schedule estimates (appropriate to project phase).

### 2) Formal agreement between stakeholders

- Signed contractual agreement between client and JDA;

- Signed contractual agreement between JDA and contractors;
- Formal approval of key outputs including project charter, concept design and supporting documents, and detailed design and supporting documents; and
- Formal approval of project changes (scope change, cost change, budget change and schedule change).

### 3) Risk and Issues management

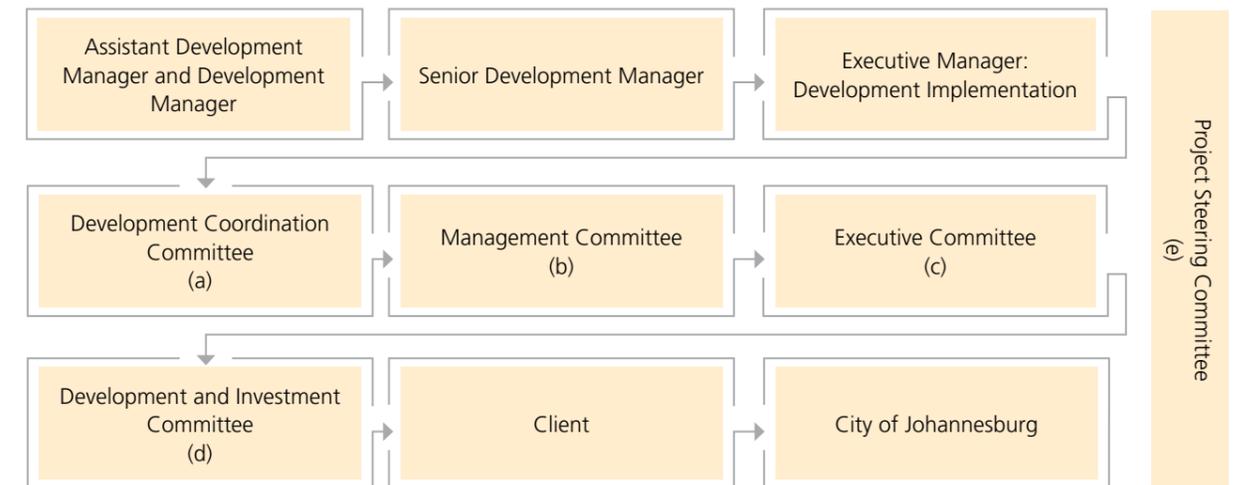
- Consistent application of risk management process; and
- Consistent application of issues management process.

### 4) Transparency

- Regular meetings;
- Regular performance reporting; and
- Compliance to change management process.

There are two governing bodies within JDA that play a role in governing projects, namely, the Project Steering Committee and the Executive Committee. The general escalation path of project descriptions is shown in the figure below:

### Johannesburg Development Agency Escalation Process/Authorisation



Source: Johannesburg Development Agency (JDA). November, 2019. Development Implementation Procedures Manual version 1.0, p. 53

## 5.2.4 Project Risk Management

For each project, a risk assessment is done. During the risk assessment meeting, risks are identified, rated and a detailed mitigation plan is compiled.

### Johannesburg Development Agency Typical Project Risks

Risk Type	Examples	Typical Consequences
Threats to the achievement of outputs	<ul style="list-style-type: none"> <li>Concept or detailed designs are not fit for purpose</li> <li>Concept or detailed designs are not aligned to business case</li> </ul>	<ul style="list-style-type: none"> <li>Client department dissatisfied</li> <li>Community unrest</li> <li>Rework at own costs</li> <li>Total abandonment of project</li> </ul>
Threat to project performance	<ul style="list-style-type: none"> <li>Contractor non-performance</li> <li>Sub-contractor non-performance</li> </ul>	<ul style="list-style-type: none"> <li>Cost overruns</li> <li>Schedule delays/Timeline slippage</li> <li>Non-expenditure</li> <li>MTEF approved project budget not spent</li> </ul>
Threat to availability of resources	<ul style="list-style-type: none"> <li>Unavailability/loss of critical personnel</li> <li>Unavailability of plant/equipment</li> </ul>	<ul style="list-style-type: none"> <li>Work stoppage</li> <li>Timeline slippage</li> <li>Poor quality of work</li> <li>Cost overruns</li> </ul>
Unplanned events	<ul style="list-style-type: none"> <li>Weather conditions</li> <li>Major disputes &amp; negotiations – Strikes</li> <li>Non-participation of external key stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>Work stoppage</li> <li>Timeline slippage</li> <li>Poor quality of work</li> <li>Cost overruns</li> </ul>
Non-compliance to processes	<ul style="list-style-type: none"> <li>Not processing invoices</li> <li>Not processing change requests</li> <li>Not escalating deviations timeously</li> </ul>	<ul style="list-style-type: none"> <li>Late payment charges</li> <li>Reduced productivity</li> <li>Scope creep</li> <li>Work stoppage</li> <li>Contractor claims</li> <li>Audit findings</li> </ul>

Source: Johannesburg Development Agency (JDA). November, 2019. Development Implementation Procedures Manual version 1.0, p. 53.

The JDA's risk management strategy is guided by the principles of the enterprise-wide risk management system. The JDA's strategic risk register is treated as a working document. Identified risks are recorded and the management thereof is constantly monitored. Management monitors and evaluates the implementation and efficiency of controls.

Effective risk management is fundamental to the JDA's business activities. The organisation is committed to achieving its strategic goals and increasing shareholder value by facilitating, developing and implementing infrastructure projects on behalf of the CoJ. The JDA seeks to achieve an appropriate balance between risk and reward in the business.

Risk identification and assessment is an on-going process. The JDA's management conducts an annual strategic and operational risk assessment workshop. This process is supported by an on-going risk management process at departmental level, and all employees are required to take ownership of risks that fall within their respective areas of responsibilities.

The risk management programmes and/or activities that were implemented during the 2018/2019 financial year were as follows:

- Strategic Risks Management and Monitoring;
- Operational Risks Management and Monitoring;
- Universal Regulatory Register (URR) and Compliance Monitoring;
- 2019/2020 Operational Risk Assessment started;
- Enterprise-Wide Risk Management Training;
- Anti-Fraud & Anti-Corruption and Ethics Management Training;
- Business Continuity Management Programme at 50% completion;
- Independent Compliance Review;
- Assessment of Risk Management Maturity Level;
- Fraud Risk Management Policies approved;
- Fraud Prevention Strategy and Response Plan approved; and
- Declaration of Interest Policy approved.

The JDA conducts an annual strategic risk assessment workshop to ensure that there is a link between risk management and the business planning processes. The eight strategic risks, should they materialise, have the implications of impacting the achievement of short-, medium- and/or long-term plans and objectives of the JDA.

The table below plots the risks that would be impacted in the short-, medium- and/or long-term:

#### Johannesburg Development Agency Capital Project Risk Implications

No.	Risk description	Short Term	Medium Term	Long Term
1	Failure to deliver capital projects on time and within budget	✓	✓	✓
2	Inadequate project packaging, budgeting and sequencing that support ROI in terms of economic outcomes in key development areas	✓	✓	✓
3	Failure to adequately manage SMME's expectations	✓	✓	✓
4	Failure to implement effective job creation, SMMEs and BBBEE support systems	✓	✓	✓
5	Failure to adequately manage stakeholder expectations	✓	✓	✓
6	Inability to ensure financial sustainability	✓	✓	✓
7	Fraud and corruption	✓	✓	✓
8	Ineffective management processes	✓	✓	✓

Source: Johannesburg Development Agency. Annual Integrated Report 2018/2019, p. 48

### 5.3 The City audit process

A critical element of the JDA audit is the interaction with the City's audit processes. During the course of the audit, the auditor communicates on matters concerning the audit with management and those charged with governance. This communication is an important two-way process. It is

fundamental to the planning, conducting and reporting on the audit. Communication received is also a key input to the audit process. The figure below outlines the key audit communication elements and their timings.

#### City of Johannesburg Key Audit Communication Elements and Timing

Type of communication	Communication with	Timing
Audit strategy and Engagement letter	Group Chief Financial Officer (GCFO)	11 November 2020
Audit strategy and Engagement letter	City Manager	20 November 2020
Audit strategy	Group Audit Committee (GAC)	27 November 2020
Meeting	GAC	Quarterly
Meeting	City Manager	Quarterly
Audit Steering Committee	Management	Bi-monthly
Audit findings	Management and those charged with governance where applicable	Throughout the audit as and when identified
Final management report	Management City Manager	26 February 2021
Key audit matters	City Manager and those charged with governance	Throughout the audit as and when identified
Auditor's report	City Manager	26 February 2021
Consolidated auditor's report	City Manager	31 March 2021

Source: Auditor-General South Africa. 30 June 2020. Audit Strategy: City of Johannesburg, p. 4.

The key events during the annual audit are timed as follows:

#### Johannesburg Development Agency Key Audit Events

No.	Event	Responsibility	Planned date
1	Initial meeting with management	AGSA	TBC
2	Initial meeting with accounting officer, GCFO, Group Head: Finance, Group Head: GRAS	AGSA	TBC
3	Commencement of audit planning	AGSA	01 October 2020
4	Steering committee meeting to discuss audit strategy	AGSA and CoJ	11 November 2020
9	Attend count of physical assets and inventory	AGSA	June 2020
10	Send confirmation letters	AGSA	January 2021
11	Commence with final audit	AGSA	01 October 2020
12	Audit Steering Committee meeting	AGSA and CoJ	Bi-Monthly
13	Receive financial statements, annual performance report and other information to be included in annual report from auditee for audit	CoJ	Core: 31 October 2020 Group: 30 November 2020
14	Receive consolidated financial statements and annual performance report	CoJ	30 November 2020
15	Cut-off: submission of information requests	AGSA	25 January 2021
16	Cut-off: receipt of information from management	CoJ	10 February 2021
17	Cut-off: issuing of audit findings	AGSA	10 February 2021
18	Cut-off: receipt of responses and supporting information	AGSA AND CoJ	10 February 2021
19	Discuss the draft management letter	AGSA	17 February 2021
20	Discuss the final MR and draft AR	AGSA	26 February 2021
21	Discuss the final audit report	AGSA	26 February 2021
22	Signoff core audit report	AGSA	26 February 2021
23	Consolidated auditor's report	AGSA	31 March 2021
24	Audit Committee meeting	CoJ	TBC
25	Receive printer's proof for review	AGSA AND CoJ	08 April 2021
26	Sign off printer's proof	AGSA AND CoJ	17 April 2021
27	Complete and tidy audit file	AGSA	32 May 2021
28	Attend Oversight Meetings	AGSA	March-April 2021

Source: Auditor-General South Africa. 30 June 2020. Audit Strategy: City of Johannesburg, p. 17.



Watt Interchange



“You can tick boxes all you want, but that doesn’t give you sustainability. We’ve tried to build over the years, to inculcate a culture of good governance within the entity and with the King III principles as our guide. We’ve never said to the management team, ‘Bring us your King III checklist.’”

**Keabetswe Onuoka, Independent Audit Committee Member, Johannesburg Development Agency**

The AGSA focuses on the areas listed below as these have a significant impact on the auditee’s ability to achieve clean administration and to provide effective and efficient service delivery. The AGSA’s general reports include the audit outcomes on these focus areas and regular interactions take place with the relevant stakeholders to ensure that commitments are made to take corrective action where necessary.

**Auditor-General South Africa Specific Focus Areas**

Area	Communication with
<b>Procurement and Contract Management</b>	<p>The assessment focuses on the following areas of procurement and contract management practices:</p> <ul style="list-style-type: none"> <li>• Internal controls</li> <li>• SCM policy</li> <li>• Conflict of interest testing</li> <li>• Existence and administration of the list of prospective providers</li> <li>• Testing procurement processes and contract management</li> <li>• Central supplier database</li> </ul>
<b>Financial Indicator Reporting</b>	<p>Financial indicator reporting will be assessed according to the following areas:</p> <ul style="list-style-type: none"> <li>• Budget management</li> <li>• Expenditure management</li> <li>• Revenue management</li> <li>• Asset and liability management</li> <li>• Cash management</li> <li>• Grant management</li> </ul>
<b>Management of Conditional Grants</b>	<p>An assessment will be done on the effectiveness of the municipality’s utilisation of the conditional grants received.</p>
<b>Consequence Management</b>	<p>An assessment will be done according to the following areas:</p> <ul style="list-style-type: none"> <li>• Measures in place to manage consequences</li> <li>• Prolonged investigations; consequences not implemented</li> </ul>

Source: Auditor-General South Africa. 30 June 2020. Audit Strategy: City of Johannesburg, p. 9.

## 6. Critical Success Factors

### 6.1 Sustainable governance culture

Over the years, the JDA has developed a culture of good governance within the organisation, with King III as a guide to their principles. These principles have been adopted and applied on a day-to-day basis. Audit is not seen as a ‘tick-box’ exercise, but is built into the organisation’s culture,

where governance is a deeply embedded value.

There are clear layers of accountability, robust policies and procedures, and transparency, which all contribute to ongoing good governance.

### 6.2 Leadership

“Leadership is a make or break element. If you appoint strong leaders with a consultative approach who approach people for solutions, you resolve issues.”

**Takalani Mmbara, Director: Monitoring and Evaluation, City of Johannesburg**

Ethical and competent leaders are crucial. The tone is set from the top. The organisational culture is influenced primarily by leadership.

findings, and making sure that financial statements are correct. This example is then passed on to the CEO from the JDA Audit Committee, and downwards.

This starts with the JDA Audit Committee, and a firm chairperson, which cements itself when it comes to governance and improving outcomes, addressing audit

The CEO takes an interest in making sure that the JDA gets a clean audit, holds everyone accountable and leads by example in driving a continuous audit outcome.

**According to the AGSA, at a minimum, leadership must provide assurance in the following areas:**

- Provide effective leadership based on a culture of honesty, ethical business practices and good governance, and protecting and enhancing the best interests of the entity.
- Exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls.
- Implement effective human resource management to ensure that adequate and sufficiently skilled people are in place and that performance is monitored.
- Establish and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities.
- Develop and monitor the implementation of action plans to address internal control deficiencies.
- Establish and implement an information technology governance framework that supports and enables the business, delivers value and improves performance.

### 6.3 Strong internal audit perspective irrespective of who's at the top

At JDA, there is a sense of universal pride in making sure that it continues to run clean operations. The clean audits have set the bar for JDA to maintain this status going forward.

They encourage employees and staff to work harder at achieving strategic objectives in operations. Also, it sets the standard when they receive new board members, new political leadership or any new member of management of the JDA.

Although the organisational culture was influenced primarily by leadership, even when the JDA had a change of CEO, there was no noticeable organisational change as

the culture was both well-understood and well-entrenched within the organisation.

Internal Audit is provided assurance and support by the management team, as they recognise the importance of that function in executing their mandate. It carries and creates a culture in which the management team is a partner in helping the JDA to execute and achieve a clean audit. There is a strong sense of joint responsibility. Internal Audit partners with management and finance in the process of preparing financial statements.

Internal Audit is not feared. It is recognised as giving advice from a process improvement perspective at both the Audit and Risk Committee and the Executive Committee.

### 6.4 Organisational culture focused on problem solving

There are no silo operations within the JDA, particularly when it comes to Supply Chain Management (SCM).

The Audit committee has an open-door policy, which creates an environment where the different heads of department have access to the committee, and they are able to clear any blockages they might come across.

Internal Audit and Finance work together to prepare financial statements, and the relationship between Internal Audit, Management and the Audit committee is critical. However, the culture is such that problems and issues can be discussed openly between these functions with the focus on improvement.

The JDA has moved beyond a defensive management style – issues are raised that need to be dealt with, without any personal implications. It is not a punitive culture. This approach encourages management to be more open to valid criticism and feedback for improvement. This is enhanced by the increased number of meetings, which allows them to engage and interrogate issues or challenges that the JDA might be facing. The culture is such that it is okay to make a mistake, learn from it, and move on.

Managers are open to criticism in terms of how they can improve the controls in their working environment. However, the Audit Committee stands firm, and staff are aware that they have to be prepared when going into an Audit Committee meeting.

“When there’s a particular issue that we’re not sure how to tackle, the CAE, the CFO, the SCM Manager and Legal sit together and say, ‘How best do we deal with this?’”

**Zelda Tshabalala, Chief Audit Executive, Johannesburg Development Agency**

### 6.5 Robust policies and procedures

Making sure that the JDA had all the relevant policies that supported their strategy was key to attaining their first clean audit.

It is difficult to hold people accountable or to review whether a transaction has followed the correct procedure without an approved document procedure manual. Policies and procedures allow for accountability within the organisation because there is a document that stipulates the processes and procedures that need to be followed. From this, monitoring and evaluation flows as to whether or not a process has been executed.

The structures that the JDA has in place have enabled the necessary checks and balances for them to sustain ongoing clean audits. The JDA now has policies that are relevant, up-to-date, and have been workshoped. However, the process of updating these policies was “painful” and

required numerous extended meetings over a two-year period.

Numerous policies, including finance, performance management, and SCM policies, and a well-thought-out audit plan, as well as the ‘mini’ OPCA, have been key to their success. A **“universal compliance register”** is checked two or three times a year.

The JDA also worked extensively on the risk appetite and risk tolerance framework. Similarly, they looked at all of the IT policies and established an ICT Steering Committee, which provides quarterly reports on IT governance. This was crucial, as there was increased capital deployment towards IT infrastructure. The right policies were needed to support the execution of these projects, and to make sure the necessary checks and balances were in place to flag any potential risks.



Brixton Social Cluster

## 7. Key Learnings

### 7.1 Leadership sets the tone and strategic positioning of audits

Leadership sets the tone – there is an audit culture. There is a shared responsibility in maintaining a clean audit, and pride in the JDA's ongoing accomplishments. There is a firmness in the Audit Committee's workings, and procedures, policies and accountability are clear.

This joint responsibility and individual accountability encourage service providers and suppliers to similarly 'toe the line'. There is an expectation of compliance.

### 7.2 Internal audit is part of the value chain

The internal audit function within the JDA reports directly to the Audit and Risk Committee, which has an open-door policy and, therefore, any issues that need to be escalated reach the committee timeously. Internal audit works in partnership with management and other department heads to support them in executing their mandate as a committee and also operationally. Executives therefore appreciate what the function does, and create a culture of assistance in executing and achieving this clean audit. There is a standing invitation to the Chief Auditive Executive (CAE) with the Executive Committee, the board and board sub-committee meetings.

The JDA also decided that they would no longer outsource the function of service providers reviewing financial statements, but would do it themselves as internal audit. In this way, they could spend sizeable time on the statements, and assist management.

Internal audit is seen as the auditor throughout the year. If the JDA can address findings during the year, when the external audit looms, they already have a clean house. This goes a long way toward sustaining their clean audits.

From a performance point of view, achieving objectives within a proper system of internal control means that there is supporting information to back that achievement

Similarly, the positioning of the risk and compliance function within the JDA has also added to the sustained clean audit.

### 7.3 Bottom-up policy-making supports compliance

The way that the JDA approached policies within the organisation was to ensure that they had employee or staff buy-in, leading to an ongoing shared responsibility for a clean audit.

**The route that policies take within the JDA enables the employees to give their input. Before the policy reaches management, it has already been canvassed at operational levels. Policies then ultimately are fed back to the Executive Committee and then the board.**

Once the policies have been approved at board level, there is training during which the policy is workshopped to make

sure that employees are aware of what the policies are and how they themselves have contributed towards the broader achievement of what that policy intends to achieve.

If the employees are not aware of these policies, it defeats the purpose of the policy.

The JDA communicates, at all levels, their municipal entity scorecards and how each staff member was accountable for delivering on these key performance indicators (KPIs). For example, if they do not communicate these scorecards to a cleaner, that employee would not understand the overall impact of clean JDA offices on the business audit.

### 7.4 Project management implementation is carefully controlled

The same approach that the JDA uses to implement and execute its capital expenditure projects is used to implement and execute its internal audit checks and balances.

The JDA has developed its own monitoring and evaluation framework and insists on a tracking tool being submitted on a quarterly basis. Any commitment made has to be accompanied by a timeline.

There is a strategic plan, with clean audits as the outcome.

The audit plan links to the internally developed policies and procedures. If something is not followed according to the plan, it does not matter how urgent the item is, there are always processes and procedures in terms of the policy to address any concerns that may come about.

They also audit SCM twice. Procurement is regularly attended to and if there are any issues, they are addressed immediately.

### 7.5 A risk-based strategic approach

There is a risk-based strategic approach, which means that Internal Audit has an annual and three-year plan that looks at specific areas within the organisation that are considered high-risk. This helps keep their risk strategies current and up to date.

There is a specific department that has its finger on the trigger when it comes to updating policies and procedures. There are also risk champions within each unit who are deliberately placed so that they can address the risks that have been identified, both from a strategic perspective and an operational perspective.

**The OPCA, which was instituted specifically for the achievement of a clean audit, sits on a monthly basis looking at resolving audit findings, both internally and externally.**

The CFO reports monthly to the Executive Team and quarterly to the Audit and Risk Committee. At every meeting, there is a progress report on addressing audit findings.



## 7.6 Transparency on risk identification

“If there’s one of the JDA committees that one would dread or wouldn’t like attending, it’s the Audit Committee. Some people would even consider it to be a pedantic committee, and they are very detailed, sometimes you could even say they’re operational.”

**Zelda Tshabalala, Chief Audit Executive, Johannesburg Development Agency**

From a governance or strategy perspective, JDA is honest in terms of identifying risks. Sometimes, it is necessary to acknowledge that there are risks that cannot be mitigated by the JDA, and other/different control procedures or strategies will need to be addressed. If there are shortfalls that cannot be controlled, they are honest about what needs to be put in place to address this. This is done on a regular basis.

In the JDA’s maturing compliance culture, they are honest in disclosing any issues that could be picked up by the AGSA, and then investigating and regularising these issues.

## 7.8 Back-to-basics principles ensure continual clean audits

The JDA reviewed previous audits and noted that there were repeat findings, mostly on housekeeping issues such as outdated policies, which were “low hanging fruit” that could be closed out.

Often when JDA, when JDA had addressed a finding it was to resolve that specific audit finding, but not the actual root cause. For example, from an SCM perspective, if there was a process where an item was not recorded on a deviation register, it could be because someone did not record it. Therefore, the root cause could be negligence or manual intervention that required it to be recorded on the register, but it wasn’t followed through. Or it could be linked to a deeper issue in the sense that the register in itself was not maintained, or there was no register to begin with, or the transaction itself was not identified as a deviation.

Sometimes the finding is just the tip of the iceberg of a deeper issue that, even the irregularity was fixed and corrected in that instance, would not be addressed.

The bigger, overall problem would not be tackled, which means that the irregularity could reoccur, maybe not in that context, but in other future transactions. The actual control is not being corrected.

Therefore, the JDA has adopted a “back-to-basics” principle. Daily transactions, and the processes and review processes required for them, are done every day. This leads to the almost automatic accomplishment of weekly, monthly and annual controls, as everything is kept continually up to date.

It is too late to focus at year-end on a transaction that happened almost 12 months prior. One needs to focus on and control each individual transaction as it happens, so that all of them are recorded accurately and are complete in terms of the financial information.

**Implementing the process of going back to basics means that every transaction has to be correct so as to be in the clear.**



“Because you have achieved a clean audit once, does not necessarily mean that you’ll get a clean audit in the next cycle.”

**Keabetswe Onuoka, Independent Audit Committee Member, Johannesburg Development Agency**

“If someone hasn’t followed the process, if they haven’t received the three quotations that they were meant to request or if they interacted with a supplier without our knowledge, there are certain processes and procedures that are in place for us to handle those situations. Should we find that a process hasn’t been followed accordingly, it is stopped before the transaction even occurs. Other SCM controls that we have put in place are the normal checklists, monthly recons and processes. We have strict adherence in terms of deadlines to these processes, which means that we don’t have a problem saying ‘no’.”

**Sherylee Moonsamy, Chief Financial Officer, Johannesburg Development Agency**

## 7.9 Managing SCM processes

The JDA’s biggest challenge or potential risk is with procurement. SCM is audited twice a year. To mitigate its risks, probity audits are accepted as part of the process.

There are two benefits to these audits: there is no delay in service delivery, and everything is guaranteed to be clean before a supplier is appointed. An objection period was also introduced into the procurement process, in line with the MFMA.

The JDA’s SCM processes are different from other municipal entities as they are decentralised, i.e., the user departments are just as involved as the SCM units in their supply chain processes. The SCM unit ensures that all the procedures and processes undertaken by the user department are followed according to approved policy and methods.

SCM ensures that every transaction, before it is even

incurred, before a tender goes out, or before a report gets submitted, is submitted to the adjudication committee. All the compliance checks and balances are done which means that SCM plays more of an oversight role than carrying out the procedures themselves.

This brings a second level of checks and balances – had SCM been entirely responsible for the process, no one would necessarily be reviewing it.

**Drawing on issues they have picked up in the supply chain over the years, Internal Audit is stern in making sure the supply chain implements recommendations that have been made by the Audit Committee.**

The supply chain policy and procedures are reviewed every year, which means that any changes required, including legislative changes, are done on a regular basis. These changes are then communicated to all staff.

## 7.10 Layers of accountability builds compliance



Maintaining a clean audit is a significant goal, from a KPI perspective, as well as the performance of JDA as a whole.

On a strategic level, the effectiveness and efficiency of service delivery depends on detailed self-examination and careful control being part of every City activity. Having that responsibility, and the responsibility that comes with being accountable to the people, a clean audit displays prudence in managing the finances. The JDA is funded primarily by the shareholder and the services that it provides are to the

City’s municipal entities, so the money flows within the Group. The transparent way in which JDA is able to execute and deploy resources is key.

Entity irregularities are checked by the National Clean Audit Task Team (NCATT). The NCATT and the Group Forensic Investigating Unit (GFIS) in the City work together with the Hawks, the country’s intelligence agencies and the police. However, the JDA’s Executive Committee and Internal Audit can also open investigative inquiries. The City is also in the process of establishing a consequence management board.

Prior to its clean audit status, consequence management at the JDA was almost non-existent. However, when it started holding the CEO accountable, the agency started to see a shift.

**Management is held accountable – if deadlines are not reached, the Audit Committee wants to know why they were not reached.**

There are clear, communicated consequences for non-compliance with internal audit policies, through all layers of staff – a consequence management structure that is overseen by the City’s GFIS, whose responsibility is to bring sanction within the City.

All of the executives in the City sign a performance contract with the board, which is reviewed by the board. At City level, executives sign their contract with the City Manager, who reviews performance on a quarterly basis.

One of the executive KPIs is a clean audit. Therefore, responsibility for a clean audit is directly linked to executive KPIs. Because the KPI was included on the corporate scorecard, there is a standard operating procedure for it and a clear definition of execution. Non-performance

has consequences, and committee members are held accountable.

 **ANOTHER METHOD OF ACCOUNTABILITY IS** calling executives into committee meetings to account for irregularities.

 **WARNINGS FOR NON-COMPLIANCE** are issued on the spot.

Similarly, there are internal processes that trigger warning letters for staff who fail to comply with internal audit policies.

### 7.11 Calibre of the people involved at all levels determines success

There is the suggestion that those municipal entities that do not have CFOs, in particular those CFOs who were not SAICA registered, struggle with maintaining good internal audit practices. CA (SA) appointees are bound by their professional licence and practice within those codes of practice and service standards.

However, there is also a well-balanced Audit Committee in terms of skills. Where skills are lacking, the committee is

able to write to the shareholders and request a particular skill on the committee to help with a specific area or mandate.

It is not only about management. Those who process invoices efficiently, for instance, also contribute to success. JDA has been fortunate that those staff responsible for capturing information have prevented issues from falling through the cracks.

### 7.12 Open communication channels and clear reporting lines are essential

There are clear reporting lines to the City. Quarterly reports need to be submitted to the City and there are committees at Group level where the Audit Committee Chairperson serves and reports.

The Internal Audit function within the JDA, which reports directly to the Audit and Risk Committee, has an open-door policy and, therefore, any issues that need to be escalated

are able to reach the committee timeously.

The Audit and Risk Committee is not restricted in the number of meetings they have and are able to meet as and when necessary to deliberate on the issues of the organisation. This allows the committee to go into detail with each report, without time restrictions.

### 7.13 Creation of the Operation Clean Audit Committee lends itself to clean audits

A specific committee, the OPCA, was created to deal with the AGSA’s audit findings prior to the JDA’s clean audit status, as well as to look at addressing areas that were considered to be of concern from a risk perspective.

Management, as a whole, is responsible for addressing audit findings that are raised, both for internal and external audit purposes. However, management felt that this was insufficient. Therefore, they created their separate ‘mini’ OPCA.

The OPCA reports from a leadership perspective to JDA’s Executive Committee, and the Audit and Risk Committee. In this way, the JDA centralised and elevated an operational team audit from an organisational point of view. JDA’s leadership was, and still is, very hands-on in terms of addressing the earlier shortcomings.

The OPCA is a standing item on the agenda at meetings, both at an executive level, as well as from an audit governance perspective so that findings are addressed timeously.



Johannesburg International Transport Interchange

## 8. Recommendations and Conclusions

When a municipal entity such as JDA executes five years of clean audits, it is difficult to elaborate on where the organisation can improve. Yet, every good process exists through continual improvement and those interviewed for the creation of this case study have some recommendations.

### 8.1 Recommendations

 **Process digitisation**

The JDA has some systems in place, which take care of certain processes, but there are a lot of processes that are still done manually, i.e., it is someone’s responsibility to input information, therefore there is always room for error. If someone forgets to put something on a register, it is a manual error and the controls around that are generally difficult to enforce. They make use of Excel spreadsheets and Word documents, which increases the room for human error, as well as lengthens processes.

For instance, from an SCM perspective, there are manual contracts, and it is someone’s responsibility to update and ensure those contracts are completed on a daily basis. The only contracts loaded on their SAP system are those for the capital expenditure projects. Contracts are especially critical and without digitised systems, the commitment register was a “mammoth of a task.”

There are review and checklist procedures in place to ensure that those manually recorded items are covered, but those employees could better use their time doing other things.

IT is an enabler for the JDA to achieve their strategic objectives. They need to make sure that they have the right foundation in place to safeguard resources, and also to safeguard the municipal entity’s assets in terms of IT assets and intellectual property.

Also, these manual review processes are essentially a weakness in their control. Therefore, one of the JDA’s main objectives, especially for the credit financial year, is to digitise these processes.



### Building processes for institutional knowledge

The people at JDA are the ones who make the clean audits possible. One of the biggest challenges is that managers ended up being the ones carrying not only procedures, but also the culture, as custodians thereof.

In order to make sure that the everyone was involved in

the audit process, they had to pull together before the beginning of an audit and encourage staff to recognise the importance of the audit, even if it wasn't their focus. This also included advocacy of the audit process.

The danger is that when key staff leave, they leave with all of the institutional knowledge they have gathered. This can be somewhat mitigated by the introduction of digital systems, but developing strong handover and capture of protocols are important processes to build for the future.

## 8.2 Conclusions

Good governance is a benchmark for successful public administration, and it ultimately goes a long way to renew and secure public faith in public institutions. The JDA has, through pragmatic strategies and determined leadership, created an organisational environment that, in pursuit of maintaining its clean audit status, has fostered good governance. The organisation has built the leadership, internal audit processes, culture, and robust processes and systems to ensure a continuation of its five years of clean audits.

The JDA's staff are proud of their clean audit status and they are prepared to do what is necessary to keep it. The organisation's accountability framework ensures that, should that shared responsibility waiver, there is sufficient institutional strength to reach their clean audit goals.

What JDA has done is set the bar for other municipal entities on clean governance. They have developed best-

practice models, systems, and processes, and developed their people to embrace a culture that sees clean audits as the mark of strong municipal governance and public service. In essence, good governance is the ultimate measure of public service – ensuring that the public sector's finances are appropriately managed and spent.

South Africa has one of the leading constitutions in the world and its values espouse those of a government that serves the people.



### The JDA's example of clean audit status is an aspiration for all government, and especially municipal entities

– by ensuring that the management and use of public finances go to serve the citizens and stakeholders in the City of Johannesburg.



“The status of drivers of internal control is the cornerstone of getting a clean audit”.

Khamusi Ramulifho, Acting Unit Head, Internal Audit, Group Risk and Assurance Services, City of Johannesburg



Paterson Park Sports and Recreation Centre

## 9. Interviews and References

### Interviews

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- Zelda Shabalala, Chief Audit Executive, Johannesburg Development Agency – 7 December 2020.
- Takalani Mmbara, Director: Monitoring and Evaluation, Group Strategy, Policy Coordination and Relations, City of Johannesburg – 17 February 2021.
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# Innovation and Knowledge Management Unit

## Group Strategy, Policy Coordination and Relations

The Innovation and Knowledge Management (IKM) Unit is responsible for embedding a culture and practice of knowledge co-creation, knowledge sharing and learning across the City of Johannesburg Group in support of the City's long-term strategy, the Joburg 2040 Growth and Development Strategy (GDS).

The IKM Unit also seeks to strengthen the strategic focus and impact of knowledge management practices in an integrated manner to enable the City to become a learning organisation and a model of performance excellence in delivering service to our citizens.

In the spirit of working together as a team, the IKM Unit looks forward to continue collaborating with colleagues in the City, and embracing best practices and pockets of service delivery excellence practiced through the production of annual case studies publication as our contribution to the objectives of the City's long-term strategy which is centred on resilience, sustainability and liveability.

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