



CITY OF CAPE TOWN
ISIXEKO SASEKAPA
STAD KAAPSTAD



INTEGRATED GOVERNANCE REPORT 2019

Making progress possible. Together.



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INTRODUCTION

Integrated thinking and integrated reporting are key concepts of the King IV Report on Corporate Governance for South Africa (King IV), which was adopted by Council on 5 December 2017. In the spirit of King IV, and to enhance the City's integrated reporting processes, a supplement to its Integrated Annual Report was compiled last year that focused exclusively on governance and related matters.

On 30 May 2019, Council resolved that this supplement, i.e. the Integrated Governance Report, be made available to the public. The intention of the supplement was to affirm the organisational commitment to good corporate and ethical governance to the public by providing an overview of the respective roles of the leadership and oversight/governance structures. It also reflects the results of the work performed by the independent internal assurance providers and the corrective measures and governance initiatives undertaken to address these. Interventions to enhance governance within the City is ongoing and the outcomes thereof regularly monitored.

The City is committed to implementing and institutionalising corporate governance, as it underpins everything the municipality does to deliver excellent services and achieve its strategic objective of being a well-run city. The City has zero tolerance for fraud, corruption and other criminal activity, maladministration and/or negligence, and that opportunities for these are reduced through proactive anti-fraud and corruption initiatives. The fraud hotline (**0800 32 31 30**) can be used by the public to report suspected fraudulent activities. The Office of the City Ombudsman serves as an office of last resort to resolve public complaints against the City in an independent, impartial, unbiased, non-prejudicial and apolitical manner. The City Ombudsman can be contacted via email (**ombudsdirect@capetown.gov.za**) or by visiting their offices (**3rd flr, Civic Centre, Cape Town**). A synopsis of the 2019 Integrated Governance Report is included in the City's Integrated Annual Report.

COMBINED ASSURANCE

This report introduces the Combined Assurance (CA) concept, the organisational CA model and the role of the respective role players and the various levels of assurance within the City.

The City Manager (CM) remains ultimately accountable for risk management, governance and internal controls, and for the institutionalisation of good corporate governance and ethics in the City. CA is the integration and aligning of assurance processes in the City to maximise risk and governance oversight and control efficiencies, thereby optimising overall assurance to Council, the Audit and Performance Audit Committee (APAC), Risk Management Committee (RiskCo) and the Executive Management Team (EMT).

The Portfolio Manager: Probity (PMP), within the Office of the CM, is responsible for coordinating and driving the CA programme. Such responsibility includes mobilising, monitoring and reporting on the outcomes of the CA programme.



A. OVERSIGHT BODIES/STRUCTURES

The roles of different oversight/governance committees regarding CA in the City are provided below:

COUNCIL AND COUNCIL COMMITTEES

As elected public representatives, members and committees of Council are accountable to the public. Therefore, Council takes an interest in combined assurance services to the extent necessary to obtain reasonable assurance that risk governance is properly integrated and institutionalised in the City's business activities and culture. This aids in the consideration of risk and opportunities during strategic planning and implementation to achieve the organisational objectives as detailed in the IDP, and to promote effective service delivery.

INDEPENDENT OVERSIGHT ADVISORY COMMITTEES

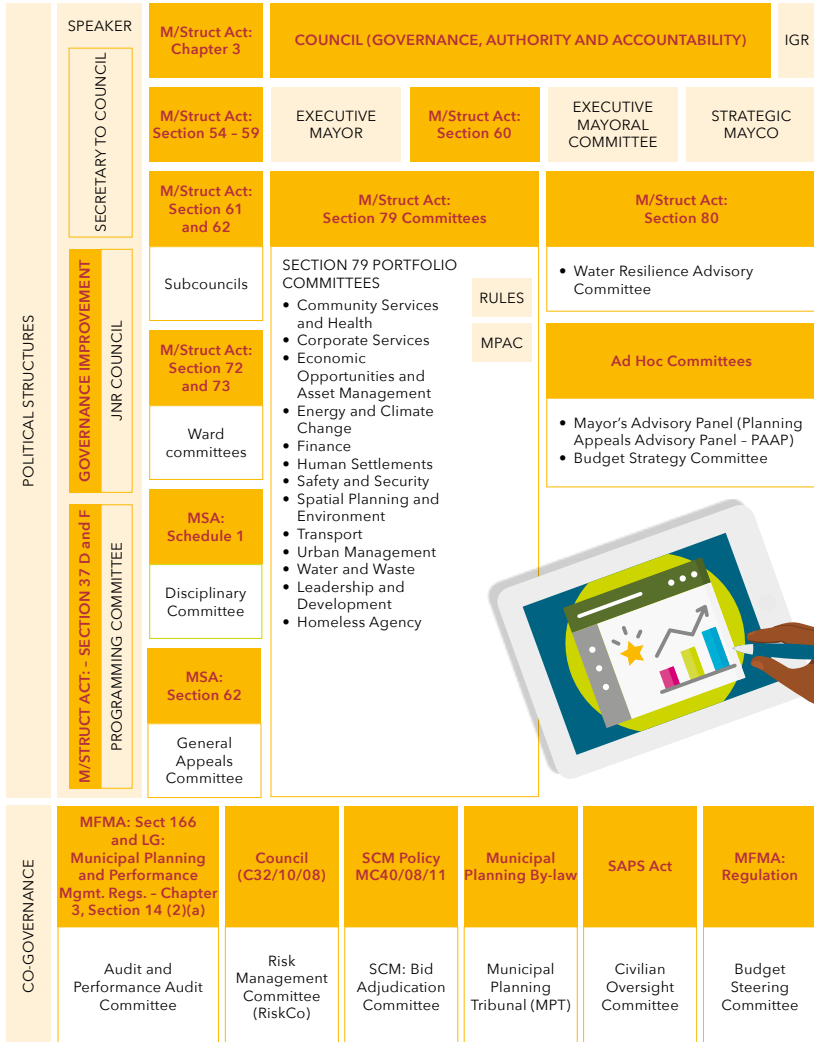
Per the respective mandates, the independent oversight and advisory committees provide assurance and advise on the organisation's internal controls, risk management and governance matters to the political leadership (e.g. Council, the Executive Mayor, etc.) and the administrative management (e.g. the CM, management and officials). One such committee is the Audit and Performance Audit Committee (APAC).

INTERNAL ADVISORY COMMITTEES

In accordance with their respective mandates, internal advisory committees provide assurance and advise on the City's controls, risk management and governance matters to the administrative management (i.e. the CM, management and officials), e.g. the Risk Management Committee (RiskCo).

GOVERNANCE STRUCTURE

The model below depicts the City's political governance arrangements:



In line with legislative requirements, the City has established key governance committees such as the Audit and Performance Audit Committee (APAC), the Risk Management Committee (RiskCo) and the Municipal Public Accounts Committee (MPAC), all of which are mandated with oversight functions relating to and ensuring good governance practices.

Further detail on the establishment and functioning of these committees are provided below:

AUDIT AND PERFORMANCE AUDIT COMMITTEE (APAC)

Section 166 of the MFMA requires each municipality to have an audit committee. The audit committee is an independent body that must advise the municipal council, political office-bearers, accounting officer and municipal management staff on a range of matters. These include internal financial control and internal audits, risk management, accounting policies, the adequacy, reliability and accuracy of financial reporting and information, performance management, governance, compliance with the MFMA, the annual Division of Revenue Act and other applicable legislation, performance evaluation, and any other issues referred to it by the municipality.

In addition, in terms of Regulation 14(2)(a) of the Municipal Planning and Performance Management Regulations, a municipality must annually appoint and budget for a performance audit committee. Regulation 14(2)(c), in turn, enables a municipality to utilise any audit committee established in terms of other applicable legislation as its performance audit committee.

In October 2016, Council resolved (C16/10/16) that the functions of the Audit Committee and the Performance Audit Committee be merged to form the Audit and Performance Audit Committee.

RISK MANAGEMENT COMMITTEE (RISCKO)

The City Manager has established RiskCo to provide an appropriate forum and governance structure to help the City Manager and management discharge their risk governance responsibilities. It is also intended to provide an enabling environment for the City to comply with laws, regulations and recognised governance frameworks.

MUNICIPAL PUBLIC ACCOUNTS COMMITTEE (MPAC)

MPAC performs an oversight function on behalf of Council by considering and evaluating the annual reports of the City and its municipal entities. Moreover, it investigates unauthorised, irregular, fruitless and wasteful expenditure relating to the City and its municipal entities in terms of sections 32 and 102 of the Municipal Finance Management Act, Act 56 of 2003 (MFMA).

B. ASSURANCE PROVIDERS

The City's CA model is comprised of four levels of assurance providers, each with unique roles in ensuring good corporate and ethical governance practices. King IV indicates that good governance will aid in the success of a municipality, and will also enhance the protection and advancement of the interests of its constituents.

The diagram below reflects the different levels of assurance providers in the City:

LEVEL 1: MANAGEMENT AND LINE FUNCTIONS	
✓	City Manager
✓	Management
✓	City officials
LEVEL 2: SPECIALIST FUNCTIONS	
✓	Supply Chain Management (SCM), Occupational Health and Safety (OH&S), Disaster Risk Management (DRM), Information Systems and Technology (IS&T), Environmental Risk Management (ERM), Organisational Performance Management (OPM), Human Resources (HR), Legal Services (LS) and Risk, Ethics and Governance (REG).
LEVEL 3: INDEPENDENT INTERNAL ASSURANCE PROVIDERS	
✓	Ethics Investigations
✓	Forensic Services (FS)
✓	Internal Audit (IA)
✓	Ombudsman (OCO)
LEVEL 4: EXTERNAL ASSURANCE PROVIDERS AND REGULATORS	
✓	Auditor General of South Africa (AGSA)
✓	National Treasury (NT)

ROLE OF LEVEL ONE ASSURANCE PROVIDERS:

The City's administrative leadership consists of the CM, who is supported by the Executive Management Team (EMT) whose members are managers appointed in terms of section 57 of the Municipal Systems Act and report directly to the CM. The CM is ultimately accountable for risk management, governance and internal controls, and for the institutionalisation of good

corporate governance and ethics in the City. Section 78 of the Municipal Finance Management Act (MFMA) states that each senior manager of a municipality, and each official of a municipality exercising financial management responsibilities, must take all reasonable steps with their areas of responsibility to ensure, inter alia, that the system of financial management and internal control established for the municipality is carried out diligently.

In setting the tone from the top, the CM promotes accountability, integrity and other ethical values to create a positive control environment and instils a culture of ethics. By understanding their responsibilities and performing their duties ethically and with due care, all City officials have a role to play as the first level of assurance.

ROLE OF LEVEL TWO ASSURANCE PROVIDERS:

Level two assurance providers are the specialist functions in the City that assist management and line functions with the risk assessment, mitigation and compliance in their respective areas of expertise. They also advise oversight bodies on the control environment, and improvement areas thereon.

ROLE OF LEVEL THREE ASSURANCE PROVIDERS:

Level three are internal assurance providers, each with their unique role and mandate with regard to ensuring and promoting good and ethical corporate governance in the City, by providing independent and objective assurance services in accordance with their applicable governing legislation, professional standards and leading practices. As part of the level three assurance provision in the City, Ethics within REG conducts investigations as approved by the CM.

ROLE OF LEVEL FOUR ASSURANCE PROVIDERS:

External assurance providers (e.g. AGSA) and regulatory inspectors are required to provide assurance in accordance with their industry, sector codes, guidelines and applicable legislation.

C. PROBITY

Probity, in the Office of the City Manager, is a portfolio of selected levels of assurance providers. It consists of the Office of the Portfolio Manager: Probity (PMP), Risk, Ethics and Governance (REG), Internal Audit (IA), Forensic Services (FS) and the Office of the City Ombudsman (OCO). As governance and assurance partners and advisors to management, Probity aims to add value to City operations and to ensure resilience and professional excellence.

- ✓ **The Office of the PMP** monitors the integration and alignment of assurance processes in the City to maximise the oversight of risk and governance. The PMP also advises the CM on governance-related matters, and assists the City in making governance a key enabler for effective, equitable, and sustainable service delivery.
- ✓ The overall purpose of **REG** is to provide the City with an efficient, integrated risk management (IRM), ethics and integrity service, as well as a robust business continuity management (BCM) function. REG plays a particularly important part in protecting, nurturing and enhancing a culture of ethics across the City. It has overall responsibility for facilitating the implementation of the City's Ethics Action Plan and associated programmes and practices to institutionalise ethical behaviour across the City. Ethics investigations are authorised by the CM and are undertaken in an independent and objective manner.
- ✓ The mandate of **IA** is to provide an independent, objective assurance and advisory service designed to add value and improve City operations. Their services help the City to accomplish its objectives by bringing about a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- ✓ **FS** plays an important role in ensuring that the City contributes to the culture of good governance by combating fraud and

corruption. They deliver real-time reactive investigations and proactive programmes in an effective manner and actively promote forensic awareness and education programmes within the City.



The **OCO** investigates and helps to resolve public complaints against the City. They render an independent, impartial, unbiased, non-prejudicial and apolitical ombud service, which entails alternative dispute resolution, alongside advocacy, relationship management and communication.

RISK, ETHICS AND GOVERNANCE (REG)

REG functions are assigned in terms of section 62(1)(c) (i) of the Municipal Finance Management Act, Act 56 of 2003 (MFMA).

INTERNAL AUDIT (IA)

The IA function is a requirement in terms of section 165 of the MFMA and is largely directed by the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing ('Standards').

FORENSIC SERVICES (FS)

Section 67 of the Municipal Systems Act, Act 32 of 2000 (MSA), and various other legislative and legal imperatives underpin the establishment and operation of the FS.

OMBUDSMAN (OCO)

The Office of the City Ombudsman was established by a resolution of Council in 2002. Council's decision to establish the Office of the City Ombudsman is supported by the Consumer Protection Act, Act 68 of 2008, which advocates addressing public complaints by means of alternative dispute resolution.

These assurance providers report administratively to the PMP, within the Office of the City Manager. The Chiefs of these independent functions are responsible and accountable for their respective operations and functional responsibilities. IA, FS, OCO and the Ethics function within REG have a functional reporting line to APAC, who is accountable for independent oversight of governance, risk and internal controls in the City. This direct reporting line to APAC is required to safeguard the independence and objectivity of these functions and manage undue influence from line management when reporting on key governance issues in the City. IRM and BCM functions within REG reports functionally to RiskCo on risk and related functional matters. RiskCo, the membership of which consists of Executive Directors and the PMP serving as chairperson, discusses and takes decisions regarding the City's key risks and further advises the CM accordingly.

D. EMBEDDING OF COMBINED ASSURANCE

The Combined Assurance Plan (CAP) for 2018/19 was drafted using the approved corporate risk register dated 20 July 2018 as a basis. Input to the controls were directly obtained from control owners, leading to improvements in the corporate risk register. Drafting a CA standard operating procedure (SOP) is in progress and will assist with embedding CA in the City.

In order to further enhance the embedding of good governance, the CM issued Directive 19 of 2018 to all Executive Directors, Directors, Portfolio Managers and Finance Managers. All Section 78 Certificates were signed off, and respondents indicated that the roles and responsibilities as set out in section 78 of the MFMA are noted and understood.

Directive 9 of 2019 was also issued by the CM, requiring senior management charged with accountability and responsibility for internal controls to complete and submit an annual return on the status of internal financial controls in their respective business areas. The annual return is in respect

of the 2018/19 financial year and the submissions will be consolidated and reported on via the CA Forum (CAF) and processes. The CAF will be established in the new financial year, where all levels of assurance providers will be represented. The CAF, chaired by the PMP, will serve as a platform for discussing, identifying, reporting, monitoring and escalating combined assurance matters. Further improvements to CA methodologies, processes and services are underway and will be implemented, where feasible.

REPORTING BY PROBITY AND THE INDEPENDENT INTERNAL ASSURANCE PROVIDERS

King IV defines corporate governance as the application of ethical and effective leadership by a governing body. The municipal supplement indicates that the governing body is the municipal Council. Good governance outcomes include an ethical culture, good performance, effective control, and legitimacy.

Recommendations per reports issued by independent internal assurance providers are aimed at mitigating identified risks, addressing control weaknesses, alleviating fraud and corruption, and exploring alternative dispute resolution mechanisms. The reports are issued to appropriate stakeholders, including line management, Directors, Executive Directors, the City Manager, Mayoral Committee (Mayco) members and the Executive Mayor. Where deemed necessary, reports are submitted to the Executive Management Team (EMT) Governance and Risk Subcommittee, but may also be included for broader EMT discussions. When required, the CM also issues memorandums to staff members responsible for the implementation of corrective action, to address Probity recommendations in an appropriate and timely manner.

Based on the results of audits, investigations and other engagements, and per their functional reporting line requirements, the independent internal assurance providers submit quarterly reports to the APAC, highlighting key governance and control issues and emerging risks identified. These reports include functional and administrative performance against key operating indicators and targets. The PMP also submits a biannual report to APAC relating to the CA programme in the City. IA also drafts an annual statement on governance, risk and internal controls that is issued to stakeholders, including the EMT and APAC. Based on the work performed during the financial year, this report provides the City leadership and governance structures with an overall IA opinion of the control environment.



On a quarterly basis, the Office of the PMP issues an integrated governance report to the EMT Governance and Risk Subcommittee, the CM, Executive Deputy Mayor and Executive Mayor. The report provides a summary of the work performed by the independent internal assurance providers in the preceding period, including the key governance issues identified and management's progress in addressing these.

To provide an overview of the City's leadership and oversight bodies' role in good corporate and ethical governance and by using the quarterly integrated governance reports, an annual integrated governance report is compiled. This report includes key reporting items as identified and reported on by all the City's independent internal assurance providers and the corrective measures and governance initiatives being undertaken within the City to address these. The annual integrated governance report is incorporated into the City's Integrated Annual Report.

OUTCOMES FROM INDEPENDENT INTERNAL ASSURANCE PROVIDER ENGAGEMENTS

Engagements performed by the independent internal assurance providers are approved and based on the priorities and risk profile of the City. Performance is monitored via the Service Delivery and Budget Implementation Plan (SDBIP), which includes key performance indicators (KPIs), as required by the Municipal Systems Act. One of the KPIs is the percentage of approved audit engagements/investigations/risk registers completed. See next the results for the 2018/19 financial period:

INDEPENDENT INTERNAL ASSURANCE PROVIDER	TARGET	ACTUAL
Integrated Risk Management (IRM) (within REG)	210	339
Ethics (within REG)	20	21
Internal Audit	80	80
Forensic Services	150	154
Office of the Ombudsman	1 400	2 081

The outcomes of these engagements are reported to the appropriate stakeholders to facilitate the timely implementation of the required corrective action(s).

A summary of the outcomes of engagements completed in 2018/19 follows on the next page.

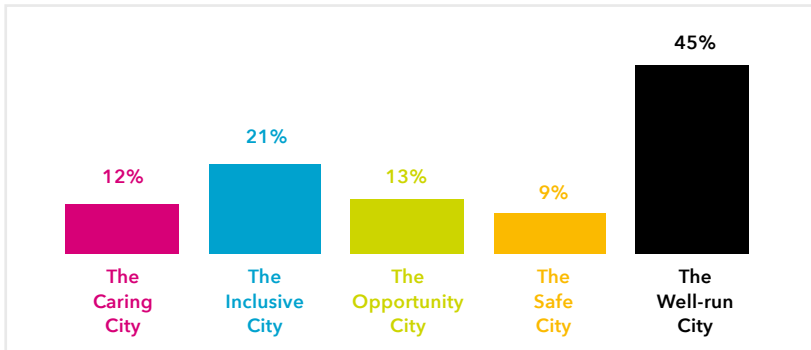
A. SUMMARY OF ENGAGEMENT OUTCOMES - INTEGRATED RISK MANAGEMENT (IRM) (WITHIN REG)

IRM's core mandate is to help the City identify risks that should be mitigated to achieve the organisational objectives.

In 2018/19:

- ✓ 339 risk registers were completed across the City; and
- ✓ the corporate risk register was updated and signed off.

During workshops facilitated by IRM staff, risks as identified by line management are linked to objectives of the 11 priority areas of the City. The graph below depicts, as a percentage, the 772 risks identified (at a strategic and departmental level) linked to the City's strategic focus areas:



The Well-run City Strategic Focus Area (SFA), which is aimed at service delivery and value creation for customers in an operationally sustainable manner, remains the area where the majority of the identified risks are linked to. The matrix on the following page categorises the strategic and departmental risks, as well as the related contributing factor categories.

CONTRIBUTING FACTOR CATEGORY

RISK CATEGORY												
Assets	Compliance	Environmental	Ethics & corruption	Financial	Human capital	Knowledge & information	Operations	Reputation	Safety & security	Service delivery	Social/ socio-economic	Grand total
Authority/ structure/ mandate	2	13	1	2	3	3	30	8	1	25	3	91
City dependency	2	22	1	1	24	7	48	9	4	26	2	174
Compliance	12	45		2	12	2	23	8	5	14	2	127
Economy			4	18			1		3	1		27
Environment	1	7	22	2			3	1	3	10	3	52
External stakeholders	3	17	3	4	37	2	24	9	19	50	4	177
Health, safety and security	4	4	1		10	2	11	3	55	9	5	104
Infrastructure	17	2	1		8		5	1	5	8	2	49
IT systems		1			8		10	1	1	9	1	61
Leadership	1	3		3	5	1	14	3	1	12	1	47
Maintenance	3						2			1		6
Monitor, review & reporting		4					1	1	1	2		14
Planning	6	9	1		8	2	26	6	2	37		97
Processes and procedures	7	45		6	29	13	100	22	5	63	3	305
Resources	40	23	4	3	71	64	63	9	12	55	3	358
Social		2	1	1					4	4	4	16
Unethical behaviour and criminal activities	2	2	1	23	3		2	4	2	16	1	66
Urbanisation	1		1		5		1		3	9	1	21
Grand total	101	199	37	49	243	96	370	83	141	345	35	1793

It indicates the relationship between the 18 contributing factor categories and the 12 risk categories. Risks are categorised and consolidated so that overarching areas are highlighted. These highlighted areas may not have an impact individually, but could collectively have an adverse effect on the achievement of organisational objectives per the City's strategic focus areas.

A large number of identified risks or contributing factors are not necessarily indicative of a problem, but shows proactive identification and appropriate management thereof. The top five risk categories based on the number of contributing factors are Operations; Service Delivery; Financial; Compliance; and Safety and Security. The matrix further indicates that the top five contributing factors are Resources; Processes and Procedures; External Stakeholders; City Dependency; and Compliance.

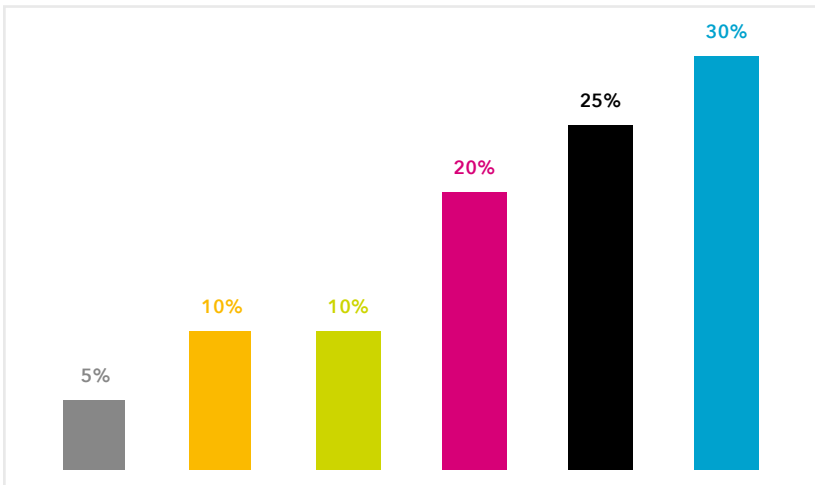
B. SUMMARY OF ENGAGEMENT OUTCOMES – ETHICS (WITHIN REG)

The core mandate of Ethics is to drive processes that protect, nurture, enhance and institutionalise a culture of ethics across the City, including investigating allegations of unethical behaviour and facilitating the implementation of the City's Ethics Action Plan and associated programmes and practices.

In 2018/19:

- ✓ 21 ethics investigations were completed, including one (1) referral to FS for investigation.

The following chart shows both a summary and categorised breakdown of ethics matters addressed in the period 1 July 2018 to 30 June 2019:



● Pornography ● Sexual harassment ● Discriminatory behaviour (including racism, assault, victimisation) ● Conflict of interests/unauthorised private work ● Recruitment and selection irregularities (including nepotism and favouritism) ● Breach of code of conduct/unethical behaviour

OUTCOMES

Number of recommendations:

- ✓ 30 for closure (i.e. no action required, paucity of information, etc.)
- ✓ 13 relating to corrective action (i.e. disciplinary, counselling)
- ✓ zero relating to seeking legal opinion/advice
- ✓ 19 relating to control/business improvements/error corrections
- ✓ zero referred to SAPS or Competition Commission

C. SUMMARY OF ENGAGEMENT OUTCOMES – INTERNAL AUDIT (IA)

The core mandate of IA is to provide assurance and advisory services with regard to the effective and efficient functioning of risk management, governance and internal controls. IA executed the risk-based operational IA Plan, which was approved by Mayco, and completed 100% (80 deliverables) of planned audit projects (assurance and advisory) for the financial year.

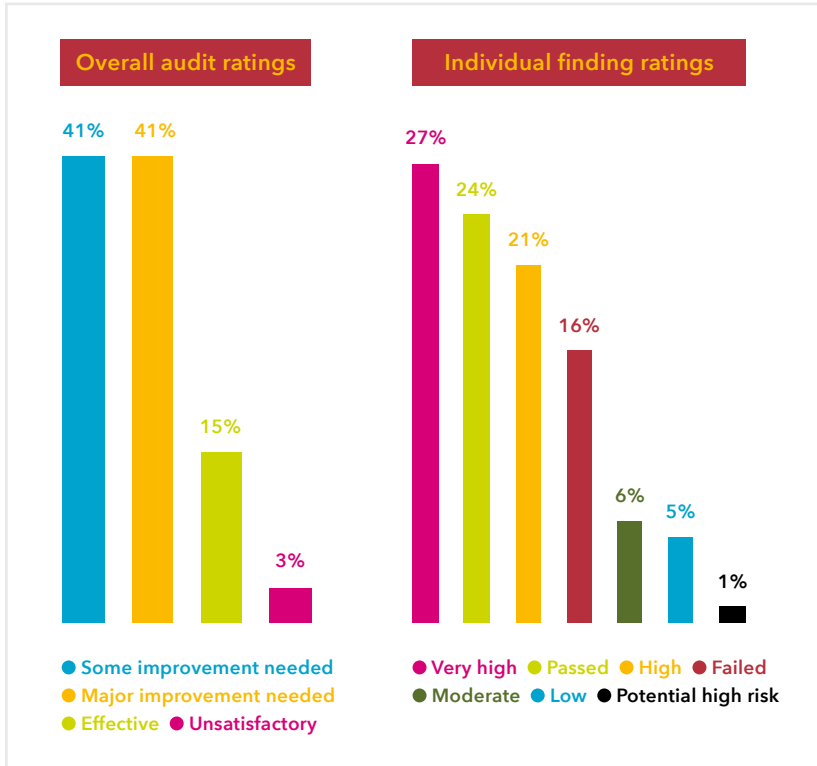
In 2018/19:

- ✓ 80 audit deliverables were completed, of which 32¹ were assurance engagements, 15 follow-up engagements and 25 advisory engagements. The remainder related to auxiliary governance services provided by IA.



¹ Limited to deliverables where components and principles of COSO (i.e. the Committee of Sponsoring Organisations of the Treadway Commission Internal Control Framework) are linked to audit opinions. Audit opinions are generally provided for assurance projects only, so the deliverables considered exclude advisory results. Other exclusions relate to engagements such as follow-ups and performance audits (EEEE) engagements, which are accounted for under the assurance deliverables, but, due to their nature and methodology, no audit opinion is given and related conclusions are reported to APAC as required in terms of the relevant methodologies.

A graphic representation of the outcomes (i.e. opinions and findings) of the 32 assurance engagements completed follows below:



Below are the key areas where unsatisfactory controls or major improvement needed to controls were identified:

- ✓ Performance management information relating to corporate indicators:
 - Number of new areas with CCTV surveillance cameras (within Safety and Security)
 - Megawatts of new small scale embedded generation (within Energy and Climate Change)

- Percentage progress made in establishing verifiable database that determines the housing needs (within Human Settlements)
- Number of service points provided to backyarders (within Human Settlements)
- ✓ Information Systems, namely the Patient Registration Health Management Information System (PREHMIS) used by Community Services and Health; Automated Fare Collections used by the Transport Directorate and SAP (the City's resource planning software solution) functional modules supporting transactions relating to human resources, EPWP workers, plant maintenance (fleet) and asset management
- ✓ Business process relating to contract management within the Transport and Water and Waste Services, environmental compliance within Spatial Planning and Environment, EPWP records management within Water and Waste Services, water billings within Water and Waste Services, and security at City-owned facilities (staff and clients)

An analysis of the detailed IA findings, reported in the 32 assurance reviews, revealed the following key concerns:

- ✓ A lack of management review and supervisory checks (reported in 19 of the 32 reports)
- ✓ A lack of supporting evidence/information/records management processes (reported in 13 of the 32 reports)
- ✓ A lack of monitoring activities (reported in 13 of the 32 assurance reports)
- ✓ A lack of policies and procedures, and the inadequacy of existing policies and procedures (reported in five of the 32 assurance reports)
- ✓ Resource/capacity constraints and a lack of skills (reported in five of the 32 assurance reports)
- ✓ A lack of communication/collaboration (reported in five of the 32 assurance reports)

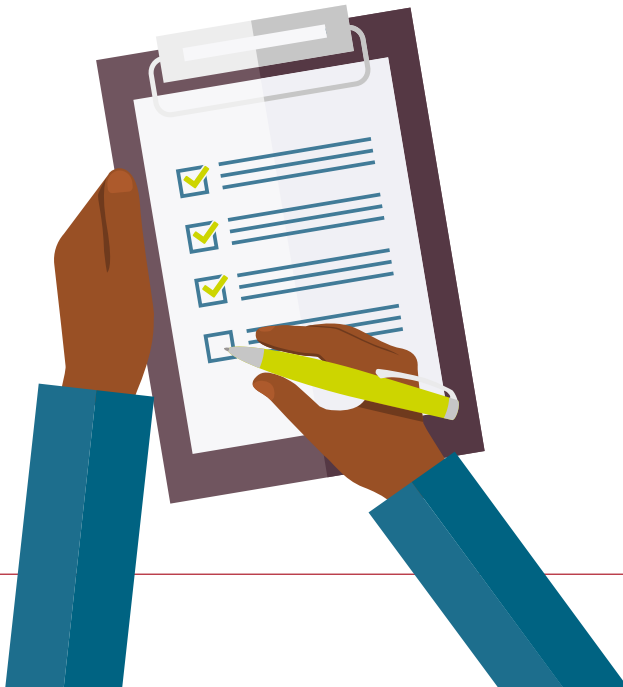
- ✓ A lack of reconciliation between various information sources as part of the verification process (reported in two of the 32 assurance reports)

D. SUMMARY OF ENGAGEMENT OUTCOMES - FORENSIC SERVICES (FS)

The City has zero tolerance for fraud, corruption and other criminal activity, maladministration and/or negligence. FS investigates all such complaints and, where appropriate, refers matters to the South African Police Service (SAPS).

In 2018/19:

- ✓ 154 FS investigations were completed, of which 77 were full forensic investigations.



In terms of the 154 investigations, a categorised breakdown of the types of allegations investigated and reported on is summarised below:

CATEGORY	NO. OF CASES	CATEGORY	NO. OF CASES
Fraud	29	Scam	3
Tender irregularities	26	Conflict of interest	2
Non-compliance with legislation/ policy	20	Favouritism/Corruption/Misuse of power	2
Corruption	13	Fronting	2
Misconduct	13	Maladministration	2
Theft	12	Unethical behaviour	2
False declarations	8	Misappropriation of funds	1
Recruitment and selection irregularities	6	Irregular appointment	1
Misapplication of funds	4	Unauthorised filling of positions	1
Irregular expenditure	3	Unauthorised use of City vehicle/ Fraud	1
Misuse of assets	3		

A breakdown of the outcomes of these investigations is as follows:

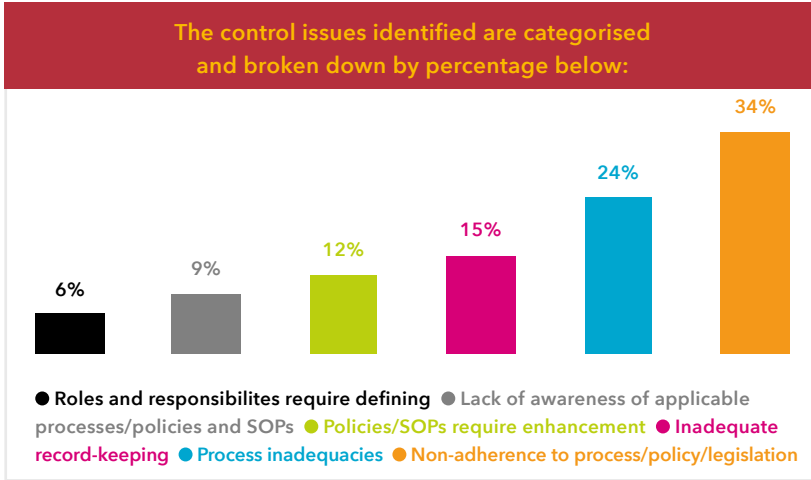
OUTCOMES OF FULL INVESTIGATIONS	NUMBER
Recommendations for closure (i.e. no action required, paucity of information, etc.)	63
Recommendations relating to control/business improvements	22
Recommendations relating to disciplinary action	16
Recommendations reported to SAPS (criminal investigation)	15
Recommendations referred to Legal Services	15

OUTCOMES OF FULL INVESTIGATIONS	NUMBER
Recommendations referred to City Manager	8
Recommendations relating to counselling	5
Recommendations referred to Speaker	3
Recommendations relating to recoveries	2
Recommendations referred to MPAC	2
Recommendations referred to REG	2
Recommendations reported to the Commissioner: Compensation Fund	1
Recommendations reported to Broad-Based Black Economic Empowerment Commission	1

In addition, the City is committed to ensuring that opportunities for fraud, corruption and other criminal activity, maladministration and/or negligence are reduced as far as possible. In this regard, FS also conducts awareness sessions with City officials and external stakeholders (e.g. ratepayers) on what fraud, theft, corruption, negligence and misconduct incidents are comprised of. This is performed by using methods such as training interventions, workshops and fraud hotline promotions. Increased awareness is intended to decrease these activities mentioned, and also lead to an increase in the reporting of such incidents. FS further assists by identifying and reporting on prevalent control issues identified during the course of conducting investigations.

In 2018/19:

- ✓ control issues were identified in 28 of the 77 full investigations completed.



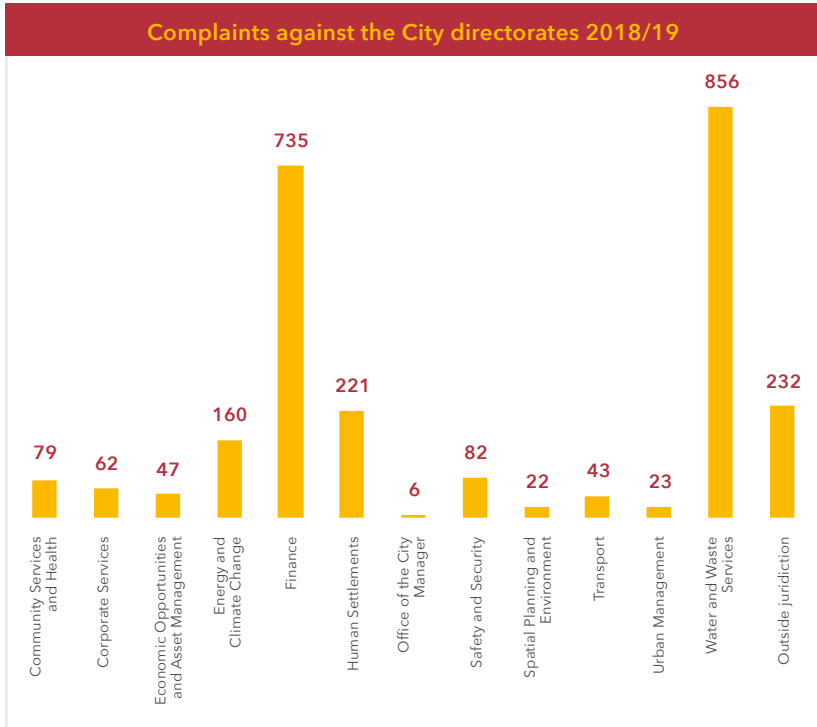
E. SUMMARY OF ENGAGEMENT OUTCOMES – OFFICE OF THE CITY OMBUDSMAN (OCO)

The core responsibility of the OCO is to serve as a mechanism for Cape Town residents to formally lodge complaints against alleged acts of maladministration.

In 2018/19, 2 568 complaints were reported to the OCO and addressed as follows:

- ✓ 1 641 non-complex complaints were completed (249 were 'out-of-jurisdiction' matters and 1 392 were matters redirected or escalated to line departments);
- ✓ 481 complaints' jurisdiction still to be determined; and
- ✓ 446 complaints allocated for formal investigation by the OCO (440 investigations completed).

The graph below provides a breakdown of the 2 568 complaints received and the directorate it was lodged against:



The outcomes and associated financial impact of the 440 full investigations completed during the year are reflected in the table below:

	NUMBER	RAND VALUE
Findings (<i>in favour of the City</i>)	297	R6 453 986
Recommendations (<i>in favour of the complainant</i>)	166	R4 978 068

The majority of completed investigations related to:

- ✓ **disputed increase in the tariff charges** billed to accounts during the water restriction period;
- ✓ installation of **water management devices (WMDs)**, with complaints varying from poor communications from the City on formal applications for an increased water supply during Level 5 water restrictions, allegedly defective WMDs, lack of awareness of the WMD daily limit of 350 litres, to calculation of installation fees on WMDs;
- ✓ **incorrect billing** for water due to incorrect SAP master data;
- ✓ **electricity meter tampering** due to City meter-replacement projects;
- ✓ **adjustments to electricity and/or water accounts** by the City without explanations provided to consumers; and
- ✓ negotiating sustainable **payment arrangements** with the City as a result of financial difficulties experienced by consumers.

MONITORING THE CITY'S CONTROL IMPROVEMENTS FOR 2018/19

Improvements to the internal control environment in the City is monitored through various mechanisms, including formal reporting on the status of the control environment by independent internal assurance providers, as well as the inclusion of key performance indicators on the personal scorecards of Executive Directors and on Directorate SDBIPs. Key monitoring activities of control improvements for 2018/19 include:

A. ANNUAL STATEMENT ON GOVERNANCE, RISK MANAGEMENT AND INTERNAL CONTROLS

An annual statement on governance, risk management and internal controls is issued by Internal Audit to stakeholders such as the EMT and APAC. The statement is made in line with the requirements of King IV, which Council adopted on 5 December 2017.

Based on the results of the work performed by Internal Audit during the year, the 2018/19 report provided the City leadership with an overall opinion of the control environment, indicating some improvements needed and any control areas that need to be enhanced.

B. APAC REPORT

APAC submits quarterly reports to the Executive Mayor, Mayoral Committee and Council on the activities of the APAC. The reports cover key responsibilities as stipulated in its approved terms of reference, and advises Council on matters relating, but not limited, to governance, risk management and internal controls. The APAC also drafts an annual report which is included in the City's Integrated Annual Report.

C. CORRECTIVE ACTIONS TAKEN STEMMING FROM ASSURANCE PROVIDER ENGAGEMENTS

The KPI 'Percentage Probity function recommendations implemented' measures the progress made by responsible line management in the implementation of recommendations made by the independent internal assurance providers. The results in respect of this KPI are reported to the relevant oversight bodies to ensure that the responsible officials are held accountable and that timely and appropriate actions are taken and that non-action is dealt with.

The indicator is implemented using a phased-in approach and during 2017/18 only IA, FS and Ethics recommendations were included in the calculation and reported on. During 2018/19, IRM and OCO recommendations/action plans were included, and the CM revised the target from 75% (for 2017/18) to 85% (for 2018/19).



Performance for 2018/19 is illustrated in the following table:

DIRECTORATE NAME	TOTAL NO. OF REC.	NO. OF REC. IMPLEMENTED	% REC. IMPLEMENTED	TARGET
Urban Management	18	9	50%	85%
Economic Opportunities and Asset Management	63	58	92%	
Corporate Services	211	165	78%	
Energy and Climate Change	69	62	90%	
Finance	161	156	97%	
Water and Waste Services	261	230	88%	
Office of the City Manager	14	14	100%	
Safety and Security	48	27	56%	
Community Services and Health	45	38	84%	
Transport	65	45	69%	
Human Settlements	36	23	64%	
Spatial Planning and Environment	7	2	29%	
TOTAL	998	829	83%	

D. PERCENTAGE IA FINDINGS RESOLVED

IA verifies the implementation status of its recommendations through a formalised follow-up process, with FS and Ethics verifying implementation of recommendations made through evidence-based feedback as submitted by line management. IA follow-up audit reviews check whether corrective actions stemming from previous audits and agreed to by line management have been adequately implemented. The results of follow-up audits are used every quarter to measure the KPI 'Percentage Internal Audit findings resolved' for the various directorates. As at 30 June 2019, directorates had achieved an average of **72%** on this indicator, against a target of **75%**.

DIRECTORATE	NO. OF RECOMMENDATIONS			CUMULATIVE % INTERNAL AUDIT FINDINGS RE- SOLVED PER DIRECTORATE
	ORIGINAL AUDIT	RECURRING	RESOLVED	
Urban Management	10	8	2	20%
Economic Opportunities and Asset Management	29	4	25	86%
Corporate Services	129	34	95	74%
Energy and Climate Change	23	6	17	74%
Finance	19	5	14	74%
Water and Waste Services	54	9	45	83%
Office of the City Manager	n/a			
Safety and Security	23	10	13	57%
Community Services and Health	5	2	3	60%
Transport	14	1	13	93%
Human Settlements	23	13	10	43%
Spatial Planning and Environment	n/a			
TOTAL AND AVERAGE PER DIRECTORATE	329	92	237	72%

E. PERCENTAGE DECLARATIONS OF INTEREST COMPLETED

City employees are expected to perform their functions in good faith, diligently, honestly and in a transparent manner. As part of this, and in line with the City's standard operating procedure relating to private work and declaration of interest, all employees at management levels 1 to 4, as well as supply chain management-conflicted employees are required to complete a declaration of interest every financial year. These two compliance categories directly affect the City's external audit outcomes, as 100% compliance is required by year-end.

Furthermore, Directive 19 of 2015 requires all other City employees to complete a declaration of interest every financial year. The Ethics function monitors and reports on the status of declarations of interest to the EMT, to enable follow-up and ensure completion thereof.

The overall compliance statistics in respect of declarations of interest completed as at 30 June 2019 are reflected below:

AS AT 30 JUNE 2019	
Declaration of interest for City	87% (target 100%)
City management levels 1 - 4	100% (target 100%)
SCM-conflicted employees on the City's database	0 (target 0)

The breakdown by directorate is as follows:

DIRECTORATE	COMPLETION % FOR LEVEL 5 & ABOVE	COMPLETION % FOR MANAGEMENT LEVELS 1 - 4	SCM- CONFLICTED STAFF ON CITY'S DATABASE
Community Services and Health	100%	100%	0
Corporate Services	99%	100%	0
Economic Opportunities and Asset Management	100%	100%	0
Energy and Climate Change	83%	100%	0
Finance	100%	100%	0
Human Settlements	99%	100%	0
Office of the City Manager	100%	100%	0
Safety and Security	96%	100%	0
Spatial Planning and Environment	79%	100%	0
Transport	75%	100%	0
Urban Management	100%	100%	0
Water and Waste Services	68%	100%	0
OVERALL CITY COMPLIANCE	87%	100%	0

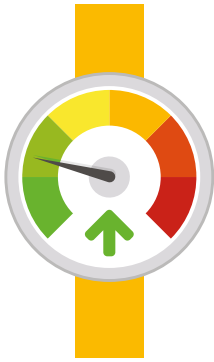
ASSESSMENT OF INDEPENDENT INTERNAL ASSURANCE PROVIDERS

Independent internal assurance providers must execute their respective mandate in an independent and objective manner, and provide assurance and/or advisory services that will add value to the City and improve organisational processes. There are certain legislative requirements in this regard, and, as appropriate, external professional bodies provide leading practices (i.e. standards and guidance).

To this extent, each independent internal assurance provider is responsible for implementing a quality assurance and improvement programme that enables the monitoring and evaluation of:

- a.** the adequacy, effectiveness and efficiency of their respective methodologies;
- b.** compliance with legislation, policies and procedures;
- c.** conformance to leading practices; and
- d.** value-add of services.

The Office of the City Manager initiated an independent external assessment of IA, with a 'general conformance' rating issued. This is the highest rating achievable for quality assurance assessments of IA functions. It is also envisaged that a maturity assessment exercise will be undertaken on REG in the next financial year. The Auditor-General of South Africa (AGSA) includes an assessment of the City's assurance providers and reports on the adequacy of assurance provided. For the 2018/19 financial year, the AGSA found that APAC and IA provided assurance while maintaining their independence and effectively executing their respective mandates in line with the principles of good corporate governance. The AGSA indicated that these independent internal assurance providers should continue supporting the City by providing oversight and making recommendations that address the root causes of the misstatements and instances of non-compliance with laws and regulations as



reported on.

CITY'S KEY GOVERNANCE INTERVENTIONS AND ENHANCEMENTS

The City is committed to implementing and institutionalising corporate governance, as it underpins everything the municipality does to deliver excellent services and achieve its strategic objective of being a well-run city. To this end, Probity and the independent internal assurance providers promote good governance.

Key governance interventions embarked on by the City, and driven by Probity and the independent internal assurance providers, included the following:

- ✓ **Assurance Governance Framework** - The Assurance Governance Framework, which was approved by the CM in April 2019, provides a single governance document for an integrated approach to risk management. It replaces the Integrated Risk Management (IRM) Policy and Framework, Combined Assurance (CA) Policy and Framework, as well as the Business Continuity Management (BCM) Framework. The City has taken a number of steps to reinforce a culture of ethical and disciplined risk-taking, which are also detailed in the Assurance Governance Framework.

- ✓ **City's Ethics Initiative recognised at national awards** - The Ethics Institute of South Africa (TEI) hosted the first annual Ethics Initiative Awards at their Ethics Officer Learning Forum in Centurion, Gauteng, on 14 September 2018. In the spirit of sharing good ethical practices, the City's Ethics function obtained permission to submit the Declaration of Interests (DOI) initiative, which forms part of the City's Ethics Management Programme, as a contender for the award. The DOI initiative was selected as one of the top three finalists in South Africa.
- ✓ **City Manager Performance Dashboard** - At the beginning of 2018/19, the CM implemented a monthly performance dashboard, which the Office of the PMP provides input on. The purpose of the CM dashboard is to monitor, amongst others, governance matters. The Organisational Performance Management (OPM) manages the dashboard process on behalf of the CM.
- ✓ **Combined Assurance** - The City will continue to embed CA, including finalising the standard operating procedure to operationalise the Assurance Governance Framework and other related initiatives.
- ✓ **Consequence Management Policy and Framework** - The document formalises and consolidates the principles of consequence management, accountability and responsibility for, inter alia, non-compliance, financial misconduct, misconduct and code-of-conduct/ethical dilemmas, including remedial and recourse measures. This was to address shortcomings in consequence management identified by the AGSA as per the management report of 30 June 2018. The policy was approved by Council on 30 May 2019. The City will continue to roll out and embed consequence management, including the finalisation and approval of a standard operating procedure.
- ✓ **Corporate Information Technology Risk Register** - Drafting of the transversal ICT risk register to ensure that cybersecurity and other related cross-cutting IS&T risks are identified and appropriately managed. The related ICT Risk Management Framework will form a component of the wider IRM processes. The Office of the PMP, in conjunction with REG, continues to engage with the IS&T department and other key stakeholders to refine and finalise the risk register and framework.

- ✓ **EMT Governance and Risk Subcommittee** - The EMT Governance and Risk Subcommittee was established in September 2018. The purpose of this committee is defined in the approved terms of reference, and is responsible for providing advice to EMT on oversight and governance processes, as well as the effectiveness of risk management within specific areas. It considers and discusses key governance and risk issues identified and reported, and determines whether there are any significant issues that require EMT's special attention or further deliberation.
- ✓ **Expanding on the key performance indicator (KPI)** - This measures the percentage implementation of recommendations made by Probity and the independent assurance providers. The KPI enables the monitoring and reporting of improvements to the control environment. This will further embed responsibility and accountability for the implementation of recommendations made by Probity and the independent internal assurance providers to address control deficiencies.
- ✓ **Financial Misconduct Board** - The board serves as an independent advisory body that assists designated officials/persons with investigations into alleged financial misconduct, as required by the Municipal Regulations for Financial Misconduct Procedures and Criminal Offences. Council adopted a revised terms of reference in July 2018.
- ✓ **Fraud Risk Register** - The Fraud Risk Register aims to assist in the identification of fraud-related risks, and to enable proactive measures to be considered and implemented to reduce the likelihood of such occurrences. A Fraud Risk Register Framework and SOP have been drafted and these documents will become a component of the wider Integrated Risk Management (IRM) processes.
- ✓ **Institute of Directors in Southern Africa (IoDSA)** - The IoDSA is responsible for the launch and release of the King reports or codes for corporate governance, with the latest being King IV, which was launched on 1 November 2016. In December 2018, Council resolved that the City become a corporate member of the IoDSA. Professional membership of the IoDSA was secured for five key City officials. Membership of the IoDSA will assist in developing and supporting effective leadership, as well as the continuous efforts to embed King IV principles of good governance in the City.



- ✓ **Leadership Conference** - The Executive Mayor hosted a three-day conference from 10–12 April 2019 at the Cape Town International Convention Centre (CTICC) with the theme 'Governance as a key enabler to service delivery'. Speakers included, among others:
- ➔ **Professor Thuli Madonsela** - South African advocate and professor of law, holding a chair in social justice at Stellenbosch University (served as the Public Protector of South Africa from 19 October 2009 to 14 October 2016).
 - ➔ **Mr N Manoir** - Chairperson of the Competition Tribunal of South Africa.
 - ➔ **Dr Claudelle von Eck** - Chief Executive Officer: Institute of Internal Auditors (IIASA).
 - ➔ **Mr TV Pillay** - Chief Director: MFMA (National Treasury).

➔ **Mr A Allie** – Senior Manager: AGSA (Western Cape).

The conference provided insights on how to embed good corporate and ethical governance practices and the key leadership characteristics required to ensure this. To also provide the public with an opportunity to learn more about good corporate and ethical governance, salient points from the conference will be summarised and publicised. The second leadership conference is planned for February 2020.

- ✓ **Reporting on integrated governance interventions/projects and their outcomes** to City leadership.
- ✓ **Running governance awareness campaigns and training sessions** across the City by Probity and the independent internal assurance providers.
- ✓ **Updated City of Cape Town Ethics Code** - The Ethics Code was updated to reflect the new organisational values, as well as the King IV principles. The updated City of Cape Town Ethics Code was adopted by Council on 26 July 2018. Pocket-size Ethics Code booklets were printed and used for distribution at selected awareness campaigns and training requests through the year.
- ✓ **Updated Gift Receiving System and Procedure** - The Gift Receiving System and Procedure for Officials was reviewed to include clarifications and guidelines regulating gift receiving in terms of statutory requirements and also renamed the Rewards, Gifts, Favours and Hospitality System and Procedure. It is designed to ensure fairness and consistent practice applicable to all staff, with continued and proper record-keeping, thereby enforcing legislation and a corporate governance culture in line with political views expressed.

Probity and the independent internal assurance providers will continue their role as trusted assurance partners and advisors to help embed good governance in City processes, aimed at enabling effective, equitable and sustainable service delivery.



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