



a world class African city

**METROPOLITAN TRADING COMPANY  
STATE OWNED COMPANY LIMITED**

Registration No: 1999/011422/07

# ANNUAL REPORT

## 2011/2012

1<sup>st</sup> DRAFT

(In terms of Section 121 of the  
Municipal Finance Management Act, 2003 and Section 46 of the Municipal Systems Act, 2000)

**THE METROPOLITAN TRADING COMPANY SOC LTD**  
(Registration number 1999/011422/07)  
**General Information**

**COUNTRY OF INCORPORATION AND DOMICILE**

**South Africa**

Management of retail markets for formal and informal **traders**, ranking and **holding facilities** for public transport operators. The company provides support to traders and taxi operators in the form of **market promotions** and business training; management of ticket sales, security and cleaning of Bus Rapid Transit System on behalf of the City of **Johannesburg Metropolitan Municipality**.

**NATURE OF BUSINESS AND PRINCIPAL ACTIVITIES**

Municipality

Acting Chief Executive Officer (CEO)

Mr. M.J. Mashele

Acting chief finance officer (CFO)

Mr J. Klopper

Directors

\*Mr C. Coovadia (Chairman) (Appointed on 25.04.2012)  
\*Mr M. Bahula (Appointed on 25.04.2012)  
\*Ms D. Dondur (Resigned on 10.02.2012)  
\*Ms X. Hloma  
\*Mr M.J. Makgonye (Appointed on 25.04.2012)  
\*Mr N. Mametja (Appointed on 25.04.2012)  
\*Mr F. Matabane (Resigned on 20.07.2011)  
\*Mrs L. Nxumalo  
\*Mr N. Rau (Appointed on 25.04.2012)  
\*Mr A. Sam (CEO), passed away on 27.06.2012)  
\*Ms F. Segole  
\*Ms N. Singh (Retired on 25.04.2012)  
\*Ms B. Skenjana (Retired on 25.04.2012)  
\*Mr L. Vutula (Appointed on 25.04.2012)

**REGISTERED OFFICE**

171 Bree Street  
Metro Mall  
Top Deck  
Johannesburg  
2113

**POSTAL ADDRESS**

P O Box 870  
Newtown

Johannesburg  
2113

**CONTROLLING ENTITY**

The City of Johannesburg Metropolitan  
Municipality

**BANKERS**

ABSA Bank Limited

**AUDITORS**

Auditor General of South  
Africa

**ACTING COMPANY SECRETARY**

Mrs. P. Mathebula

**COMPANY REGISTRATION**

1999/011422/047

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## **CHAPTER ONE: INTRODUCTION AND CORPORATE PROFILE**

### **SECTION 1: SCOPE OF THE REPORT**

This annual report covers MTC's corporate governance, financial reporting, corporate and social responsibility, environmental, broader economic and overall sustainability performance for the year. It provides an account of the company's progress to date and offers a forward-looking perspective in terms of future plan and value generating strategies.

The report also covers the following:

- Comparative information;
- Performance information;
- Sustainability Reporting; and
- Operational reports.

### **SECTION 2: COMPANY PROFILE**

The Metropolitan Trading Company (MTC), an entity of the City of Johannesburg (CoJ), was established in 1999 to manage certain informal trading markets and taxi rank facilities in the City of Johannesburg. With the implementation of the Rea Vaya Bus Rapid Transit (BRT) system in August 2009 in the City, the mandate of the company was extended to the management of the BRT stations. The conduct and operations of the entity are subject to legislation applicable to local government as well as the Companies Act. The institutional association between the CoJ and MTC is through the Department of Economic Development (DED) as well as the Shareholder Unit (SHU). The political champion of MTC is the Member of the Mayoral Committee (MMC) responsible for Economic Development, Mr Ruby Mathang.

The company's Memorandum of Incorporation makes provision for the Board of Directors (BoD) to be the highest decision-making body of the organisation. The BoD exercises their fiduciary responsibilities over the company. In 2011/12, the BoD comprised nine non-executive directors and two acting executive managers ie the acting Chief Executive Officer and the acting Chief Financial Officer. The entity is bound by the scorecard performance system entered into between the CoJ and the BoD. The scorecard performance management tool aims to advance the goals of the Integrated Development Plan and the thirty year Growth and Development Strategy of the City.

By its incorporation, the entity receives a total of seventy (70) per cent annual subsidy from the City of Johannesburg Metropolitan Municipality (CoJ) in order to execute its mandate.

The mandate of the entity is four-fold, namely:

- to directly manage or oversee the management of public transport facilities and informal trading markets;
- to promote customer and user satisfaction in respect of commuters, consumers, taxi drivers and traders;
- to participate in ensuring that facilities are well planned and designed so that they operate effectively and respond to user needs; and
- to actively facilitate developmental support for public transport operators and traders, and directly management of BRT station in the CoJ.

### **Organisational Structure**

MTC embarked on a review of its organisational structure; which resulted in its redesign; to ensure that the organisation is properly defined hierarchically and provides for capacity that is required for the entity to respond effectively to the challenges related to informal trading and public transport operations, throughout the seven regions of the City.

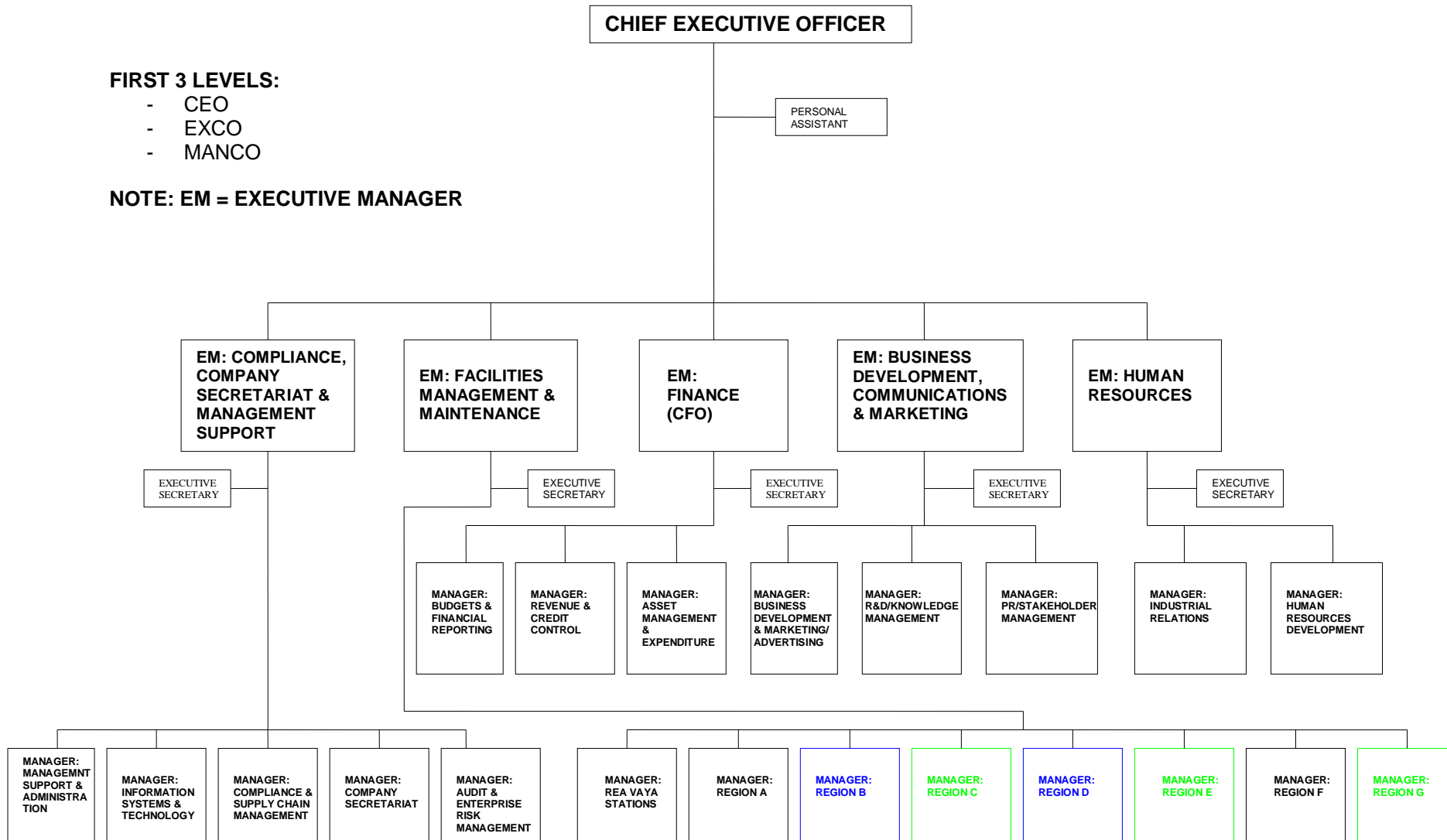
Another high level review of the structure was undertaken in June 2011; however its implementation was shelved due to CoJ undertaking institutional review of the entire City and its entities. As a result there was a partial implementation of the revised structure. This was done in order to respond to critical capacity challenges in the organisation. All appointments (except for permanent position) are filled on a temporary basis. In addition all temporary positions have been extended until the end of October 2012 to align with proposed integration of MTC to the City. Below is the new structure (without June 2011 changes) that was approved for implementation by the Board in May 2010.

**NEW ORGANISATIONAL STRUCTURE**

**FIRST 3 LEVELS:**

- CEO
- EXCO
- MANCO

**NOTE: EM = EXECUTIVE MANAGER**



**EXCO** consists of CEO and Executive Management (Job Grades TASK 18 and upwards or Paterson D5 and E bands)

**MANCO** consists of departmental managers who report to EXCO members (Job Grades TASK 14 and upwards or Paterson D1 to D4)

## **SECTION 3: MANDATE, VISION, MISSION VALUES AND STRATEGIC OBJECTIVES**

### **CORPORATE PROFILE**

#### **Our Mandate**

The Metropolitan Trading Company is a wholly owned entity of the City of Johannesburg. It has as its mandate the management of informal trading markets and public transport facilities; including the Rea Vaya Bus Rapid Transport system; at key locations within the city. Our mandate is to ensure that these facilities maximise their revenue generation potential whilst fully meeting the developmental needs of their users.

More than 5 000 traders across the various facilities, and approximately 400 000 to 500 000 commuters make use of the 9000 commuter taxis that pass through our facilities on a daily basis. MTC also manages the operations of 33 Rea Vaya BRT stations, including four (4) additional stations handed over by Transport Department on May 2012 namely Park Station, Rissik, Harrison and Basothong.

In this financial year the company's efforts were focused on four key performance areas namely:

- Maximise revenue collection;
- Enhance stakeholder management and relations;
- Ensure financial viability and sustainability; and
- Extend the company's management to other additional facilities within available resources.

These key performance areas were also in line with the following Economic Development Sector programmes:

5-Year Strategic Objectives	IDP Programmes	Deliverables	Alignment with GDS Principles
<ul style="list-style-type: none"> <li>Measured increase in sectoral diversification and growth in sectors targeted for City support.</li> <li>Increase in the rate of formation of new businesses.</li> <li>Increase in the City's spending to specific targeted firms owned by specific categories of HDI (BEE, women, disabled, youth, etc)</li> </ul>	<ul style="list-style-type: none"> <li>Support tourism, and especially the emerging tourism sector, by developing a well-publicized Joburg tourism package targeting both the local and international markets.</li> <li>Support the development of emerging industries through the City's own targeted procurement.</li> <li>Expand and continuously refine the City's own targeted procurement.</li> </ul>	<ul style="list-style-type: none"> <li>Procurement spend on BBBEE as a percentage of total OPEX procurement.</li> <li>Installation of trading stalls and ablutions at Kliptown and Lenasia facilities.</li> </ul>	<ul style="list-style-type: none"> <li>Proactive absorption of the poor.</li> <li>Sustainability</li> <li>Environmental Justice</li> </ul>
<ul style="list-style-type: none"> <li>Economic base of underdeveloped areas of the City increased over five years.</li> </ul>	<ul style="list-style-type: none"> <li>Facilitate improved urban management in targeted areas.</li> </ul>	<ul style="list-style-type: none"> <li>Continue Implementation of 4 000 smart-cards throughout the City.</li> <li>Manage Rea Vaya BRT stations</li> </ul>	<ul style="list-style-type: none"> <li>Balanced and Shared Growth</li> </ul>
<ul style="list-style-type: none"> <li>Across City and Municipal Entities increased spend on new products and services that can be commercialised</li> <li>Achievement of unqualified audit beginning of financial period</li> </ul>	<ul style="list-style-type: none"> <li>In partnership with existing national and provincial support agencies, sponsor or facilitate R&amp;D funding for new industry segments</li> </ul>	<ul style="list-style-type: none"> <li>Implement a financial model to maximize revenue from MTC facilities.</li> </ul>	<ul style="list-style-type: none"> <li>Innovative Governance Solutions</li> </ul>

### Our Vision

*"To provide clean, secure and integrated public transport and trading facilities in the City of Johannesburg".*

### Our Mission

*"To enhance stakeholder value by managing world class, safe and eco-friendly facilities whilst facilitating development opportunities for small business operators and convenience for commuters and consumers"*

### Our Values

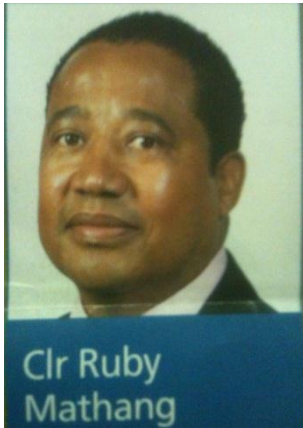
The values that MTC as a company and its staff espouse include Respect, Integrity, Trust and Responsibility.

Our value proposition lies in our ability to provide safe, secure and clean facilities that enable convenience for our users in terms of affordable public transport and access to essential purchases. Furthermore, we pride ourselves in being not only a commercial organisation but a developmental one, insofar as facilitating training opportunities for our users and enabling access to certain human development facilities.

## CHAPTER TWO: LEADERSHIP OVERVIEW

### SECTION 1: REVIEW BY MEMBER OF THE MAYORAL COMMITTEE

#### Leadership Overview



Councillor Ruby Mathang  
MMC: Economic Development  
(June 2012 to current)



Councillor Sello Lemao  
MMC: Economic Development  
(June 2011 to June 2012)

#### Member of the Mayoral Committee Review

On 29 June 2011, during his inaugural Budget Speech, the Executive Mayor, Councillor Mpho Parks Tau, announced that the City of Johannesburg intended to initiate an inclusive and participatory process in formulating a revised Growth and Development Strategy (GDS). The GDS sets out an overarching plan for the long-term development of CoJ. The GDS was adopted and launched by Council on the 20 October 2012 outlining the City's vision as follows:

*The vision of Joburg 2040 is for Johannesburg to be a liveable, sustainable and resilient City, the front-line of a developmental state within the Gauteng City region (GCR).*

The Mayoral GDS Lekgotla held on 10-11 October 2011 agreed on the City's need to "Change the course." Changing the course means: "redirecting and reorienting our collective energies to achieve our short to medium term goals in order to pave the way for the long term realisation of Joburg 2040".

The City of Johannesburg is faced with a number of developmental challenges that include, but are not limited to:

- High levels of inequality and poverty;
- Constrained economic growth and high levels of unemployment, particularly among the youth;
- Restructuring the City's urban form; and

- Rising to the challenges of sustainability (economic, societal and environment).

In order to respond to these challenges, the City decided to review the delivery mechanism and find ways to improve service delivery while maintaining efficiency and value for money. As a consequence the City has opted to integrate the MTC to its core administration. This implies that by the end of the second financial year 2012/2013, the company will conclude its operations as a private entity of the City and it will be integrated into City's core departments. In this regard MTC functions will be transferred to specific departments within the City. Given that MTC has developed competencies and expertise in managing the informal business sector, efforts will be made to ensure continuation of current business processes and systems while the process of integration is being undertaken.

MTC currently forms part of the economic growth cluster which seeks to achieve the following outputs in relations to Outcome 3 of the GDS:

- Job-intensive economic growth
- Promotion and support to small businesses
- Increased competitiveness of the economy
- A 'smart' City of Johannesburg, that is able to deliver Quality Services to Citizens in an efficient and reliable manner.

Furthermore, towards the end of February 2012, the CoJ held the second Budget Lekgotla. Its aim was to ensure that the City and its entities are aligned to the changing course and budgets are linked directly to the new cluster approach. In this context the Budget Lekgotla agreed on the ten (10) integrated development plans (IDP) flagship programmes that will guide the implementation of the GDS principals for the next five years, namely:

1. Financial Sustainability
2. Shift to Low Carbon Infrastructure
3. Integrated Waste Management
4. Green Ways and Mobility
5. Sustainable Human Settlements
6. Urban Water Management
7. Citizen Participation and Empowerment
8. Strategic Communications and Marketing
9. Human Capital Development and Management
10. A safe, secure and resilient City that protects, serves, builds and empowers communities

## **SECTION 2: CHAIRMAN'S REVIEW**

### **Overview**

The City of Johannesburg (Shareholder) appointed a new Board of Directors for the Metropolitan Trading Company (MTC) at the Annual General Meeting held on 25 April 2012. I was appointed Chairman of the Board at that time and am thus not in a position to submit a review of the activities of MTC that is informed by first-hand knowledge and experience. However, I have been briefed by the Acting CEO and members of management and have gone through a Board induction, both of which enable me to submit this review.

The financial year saw the untimely and tragic passing away of our CEO, Mr Alfred Sam. I take this opportunity to express the condolences of the MTC Board of Directors and all staff to Alfred's family and loved ones. The past year has posed numerous challenges for the MTC, particularly in the area of human resources where numerous critical management positions have been temporarily filled and others are vacant. Despite this, we have had an eventful and successful year with improvements to the facilities' services to our customers. Much of our energy has also been focused on the dissolution of the company and the eventual incorporation of its operations into the Departments of Economic Development and Transport, as per the decision of our shareholder.

### **Highlights**

Major highlights in the report include better financial performance and improved stakeholder relations with facilities users, which contributed to a positive overall performance. The company is constantly working with the shareholder, internal stakeholders and external private partners to improve the commuter experience by putting facilities users at the centre of our strategic objectives. I have been informed of efforts to improve relationships with taxi operators' mother bodies, and I am delighted to see this bearing fruit. One of the results of this is the signing of a memorandum of understanding with Randburg United Local and Long Distance Taxi Association (RULLDTA) to pilot an integrated management approach at the Diepsloot public transport facility in an attempt to improve services to our facilities users; especially the commuter.

The Annual Report highlights areas where the MTC has improved, challenges that still remain and future plans, within the context of the integration of operations into the two departments alluded to above.

### **Corporate Governance and Sustainability**

The Board of Directors of the MTC, both newly appointed and those that have remained, are committed to sound corporate governance and have put into place the necessary instruments to ensure the MTC operates in a way that is morally and economically sustainable. This includes the

promotion of sound controls, good financial management, fair labour practice, knowledgeable and active directors and adherence to necessary legislation and guidelines. We are governed by the Municipal Finance Management Act (MFMA), Companies Act of 2008 and other pieces of legislation, and management ensures these are all adhered to, with oversight from the Board of Directors. We also meet essential requirements, as appropriate, of the King Code of Governance Principles 2009 (King III Report). During the year under review, the Charters of the Board and its sub-committees were reviewed and amended. In line with the requirements of the Companies Act of 2008, the Human Resources and Remuneration Committee's mandate was expanded to include responsibilities of a Social and Ethics Committee.

The Board members, individually and collectively offer wide ranging experience to the Board and its sub-committees.

### **Directorate**

The Annual General Meeting held on the 25<sup>th</sup> April 2012 led to changes in Board leadership, as referred to earlier in the Review. Six new directors were appointed and two directors retired. I would therefore like to take this opportunity to encourage the new Board of Directors to commit to an effective and efficient dissolution of the MTC and the integration of its operations into the two departments of the City of Johannesburg.

### **Appreciation**

I would like to commend Management and all staff for putting in a sterling effort during the financial year, under very difficult conditions. An example of innovative work during the period is the initiation of the waste recycling pilot project with The Star Africa Newspaper. Initiatives like these go some way to bringing in additional income, thus reducing the dependence on the subsidy provided by the shareholder.

I also take this opportunity of thanking the outgoing Board of Directors for its sterling efforts in steering the ship in turbulent waters.

Finally, I must thank our customers, suppliers and other stakeholders for their continuing efforts in partnering us to provide services to commuters. Lastly, please allow me the opportunity to express my appreciation to our shareholder for their support and guidance.

## **SECTION 3: ACTING CHIEF EXECUTIVE OFFICER'S REVIEW**

### **“OUR PEOPLE, OUR VALUE”**

#### **Overview**

This report seeks to reflect on the Metropolitan Trading Company's (MTC) 2011/2012 financial annual performance.

The 2011/2012 financial year was the most interesting and challenging in the history of the company. The year under review was exciting in that management tested various hypotheses to improve on service delivery and sustainability. Some of the initiatives will be carried forward to the 2012/2013 financial year. One example of such a model is tenant reverse installation - a model intended to reduce financial dependency from the City in delivering essential services to our consumers, while striving for quality and improved revenue collection.

On the other hand, the year under review posed a number of challenges for the company, chief amongst which included:

1. Lack of a proper integration strategy and poor communication of the proposed unbundling of MTC into City key departments: This led to serious instability in the organisation, at one stage leading to hijacking of one of MTC's facilities by users. The lack of a proper communication plan meant that even staff were uncertain about what would happen at the end of the process.
2. Lack of capacity and over stretched executive management team: For the first the three quarters of the year, the company did not maintain stability at management level. The problem was compounded by the prolonged absence of the two most senior executives, namely the chief executive officer and chief financial officer, for almost a year. In addition lack of clarity about the future of senior managers on short term employment contracts led to the exodus of key skilled personnel at a crucial time of the financial year.
3. Lack of appropriate skills and capacity at various levels of the organisation meant that critical work was either assigned to junior staff or new recruits with unproven related experience or at worst, work being undertaken at the last dying moments of the financial year. This led to the company registering its highest levels of dissatisfaction, especially from the shareholder, where the perception of “things falling apart” has created tremendous pressure on management, leading to staff burnout and increased levels of stress in the organisation.
4. Inability to attend and resolve all matters raised by the Auditor General in the last financial audit report and management letter:. Key Performance Areas such as the human resources and stakeholder relations were completely lost due to lack of appropriate skills resulting in previously identified matters in former management letters still being outstanding and possibly requiring extended time to resolve all of them.

5. Lack of staff discipline led to an increased number of cases referred to the Commission for Conciliation, Mediation and Arbitration (CCMA) for resolution. Lack of discipline has had unintended consequences such as Trade Union affiliated staff members demanding to be consulted on each and every decision made by management. This led to prolonged decision making and indirectly “co-management” of the company with the trade union.

Despite all these challenges, the current management team pulled out all stops to ensure that the organisation realised its main objectives, and sustainable gains were made in the past financial year. Key highlights in the current financial year include the recent appointment of a new Board, Audit Committee and other essential Board Committees, which will bring the required stability at leadership level. At management level, it is with great sorrow that we announce the passing on of the Chief Executive Officer on the 23<sup>rd</sup> June 2012. His contribution to the organisation’s innovation will be greatly missed. Our condolences go to his extended family and those who worked under his leadership; may his soul rest in peace.

On the other hand, it is worth noting that the company’s ability to collect one hundred percent of rental is being hampered by increased competition from surrounding shopping centres that continuously undermine the ability of our tenant to pay maximum rentals. This challenge has prompted management to investigate counter strategies that will reverse the decline of business at our facilities. One strategy being employed is to commercialise some of our key facilities to make them more attractive to consumers. Engagement with key suppliers has reached advanced stages and a breakthrough is expected within the first quarter of the 2012/2013 financial year.

### **Major Highlights**

- Signed a partnership deal with the Star newspapers Africa edition to team up in piloting recycling of waste in one of our big facilities.
- Other initiatives such as managed car washing and prepaid showers for the taxi ranks are currently being rolled out in various facilities. These will contribute to the wellbeing of taxi operators, while at the same time improving revenue collection.
- The company is making inroads in terms of financial sustainability, as stated in the CFO report. The company is slowly raising the bar in terms of cash collection.
- Relationships with facilities users are also improving. Various facilities are keenly working with MTC to improve the look and feel of facilities and to improve profit by making our facilities user friendly.
- Participation of Yeoville market in the Big Break Legacy where two traders were direct beneficiaries
- Rolling out prepaid metres in our major facilities which contributed to a reduction in costs, in particular electricity consumption and recovery from past electricity leakages.

- Increased revenue from advertising by more than 350% from the previous financial year.
- Signed a memorandum of understanding with SANTACO – RUULDTA which saw resumption of payment of user fees by taxi operators at Diepsloot.
- Other initiatives to assist informal traders' business development (such as building relations with manufacturers) have been finalised with ABI and Tiger Brands.
- The tenant reverse installation will be piloted in various facilities.

### **Appreciation**

I would like to thank the outgoing Board of Directors for their guidance and support and to the newly appointed chairman, Mr Cas Coovadia and the current Board members, I look forward to their advice and support whilst we focus on the dissolution of the company. To the Management team and employees for eagerly assisting me during these trying times, I salute you. I am proud to be heading a leadership team of this calibre.

### **SECTION 4: ACTING CHIEF FINANCIAL OFFICER'S REVIEW**

For the year under review, the Company posted a surplus of R6,212,600, compared to a deficit of R 2,349,021 in the 2010/11 financial year. The operating expenditure is R66,1 million (2011: R64, 9million) against an approved budget of R71, 5 million (2011: R62, 6 million), which represented a - 7.68% or -R5,49 million variance over the approved budget. Major cost drivers in respect of the Company's operating budget were security, cleaning and utilities which constitute 31.13% (2011: 27.7%), 12.01% (2011: 9.5%) and 15.1% (2011: 12.9%) respectively of the budget, increasing by 14,3%, 28.9% and 18.9% respectively.

The Company raised total revenue of R72,3 million (2011: R62,5 m) which exceeds the approved budget of R 71,5 million (2011: R62,6m). The City's subsidy constituted 71,6 % (2011: 72.4%) of the total revenue raised in the year under review. This calls for a more aggressive approach to optimise the entity's own revenue sources (including advertising) to reduce the reliance on the City's subsidy. During this financial year, the Company earned a total of R 2,9 million (2011: R1.05m) from Rea Vaya BRT station contractor management fees.

Revenue collection from all formal and informal traders improved from 65% in the 2010/11 financial year to 93% in the year to June 2012, which represents a 28% improvement. Collection from informal traders at 73% also improved as a result of intensified revenue collection and credit control methods. The collection from taxi associations stands at 148% (2011: 75%) of the taxi associations that are billed, totalling only R43 000 for the period. At the moment, the company has resolved not to bill the associations that have not signed the user agreements. There has been a 95% (2011:

98%) revenue collection from bus operators who form part of the public transport operators. The decrease in bus operators' collection rate was due to a temporary dispute at one of the facilities over faulty toilets in May and June 2012.

For the year under review there was a decrease in the provision for bad debt of 71% to R1,2 million (2011: R4,3 million). Key cost drivers that have deviated from the line item budget and that contributed to the surplus that has been realised in the 2011/12 financial year are as follows:

- **Employee Related costs (excluding director fees)**

The annual personnel cost was R16,08 million (2011: R17,4 million) against a budget R 17,3million (2011: R13, 3 million), thus resulting in a positive variance of R1,22 million (2011: - R4,1 million). This was mainly due to savings on vacancies due to the city's moratorium on replacement of staff.

- **Utilities-Electricity and Waste removal**

The Company under budgeted the impact of the annual increase in electricity costs in the current period as the electricity regulatory authority increased tariffs by about 16% (2011: 25.1%). The Company has installed pre-paid electricity meters at some of the major facilities, which has resulted in the recovery of R 1.7 million (2011: R1.5 m) from electricity supplied. The installation of pre-paid meters will continue in the next annual period to recover electricity costs further.

- **Debt Impairment**

The actual bad debts provision for the year to date was R1, 238,453 (2011: R4, 3 million) against a budgeted provision of R1, 750,000 (2011: R2.1 m) resulting in a positive variance of R 511,547 (2011: -R 2.2 million). An analysis of the debtors ageing was performed in the month of June 2012 and the provision was found to be adequate and in line with the Company's credit control policy and the improved collection rate for all debtors at 96% (excluding intercompany debtors). However, collection procedures are being revamped in line with the credit control policy to eliminate uncertainties among all stakeholders in the process, and to ensure that the collection rate reaches the required level to reduce arrear debtor balances fully and turn around the precedent that has been set of non-payment of rentals.

MTC has found that once a debtor is regularised, they remain paying debtors, and an improvement in the collection rate should have an exponential effect of reducing the balance of arrear debtors.

## Statement of Financial Position

Current assets decreased by R16,08 million (2011: R4.9 million) mainly due to a decrease in related party debt. In this reporting period the current liabilities decreased by R23,5 million (2011: R6 million) also largely due to related party creditor balances.

## Financial Ratios

This section reflects an analysis of the Company's finances in the form of Key ratios that the City and Rating agencies monitor in terms of the credit quality of the entity and the CoJ:

- Current ratio above 1 – 2012: 1.68 (2011: 1.18)
- Solvency ratio above 2 – 2012: 4.67 (2011: 2.77)
- Debt to Revenue ratio below 45% – 2012: 34.95%(2011: 78%)
- Interest to Expenditure ratio below 7% – 2012: 0.47% (2011: 1.29%)
- Net operating margin above 15% – 2012: 8.6% (2011: -3.75%)
- Remuneration to Expenditure ratio below 30% – 2012: 24.31%(2011: 27%)
- Maintenance to Expenditure ratio of at least 7% – 2012: 2.23% (2011: 1.4%)

## Debtors' age analysis

The informal trader collection ratio has remained at 73% during the period under review. The credit control and debt collection policy will be amended to remove some ambiguities in the policy and to avoid time wasting tactics by the traders. A new collection and locking out process has been developed that will ensure accountability and monitoring of all responsible individuals in the collection process including the programme officers, credit controller and head of security responsible for locking out the arrear traders. An aggressive policy of locking out traders is the only way to stem the culture of non-payment.

## SECTION 5: CAPITAL PROJECTS

MTC was allocated a total R5 million (2011: R7 million and R2. 5 million EPWP funding) capital budget for the 2011/12 financial year from the City's normal budgeting processes. This funding was used to refurbish two facilities namely Kliptown and Lenasia. An additional R372 000 was spent on Kliptown from the EPWP claim that rolled over from the previous year's EPWP allocation. There were several delays in the appointment of the contractors for the CAPEX projects and both projects were completed only in the last quarter of the financial period.

The table below shows the CAPEX projects on which the R5 million was spent.

CAPEX PROJECTS FOR 2011/12				
Status	Project Description	Project Name	Township/ Suburb	Total R
COMPLETED	Kliptown Market & Taxi Rank (Improving Trading Facilities)	Kliptown Improvements	Walter Sisulu Square, Kliptown	2 972 000
COMPLETED	MTC Upgrade Informal trading Stalls LENASIA construction of additional trading stalls in the market at Lenasia	Lenasia Improvements	195 Station Place, Lenasia	2 400 000
<b>TOTAL</b>				<b>5 372 000</b>

It still has to be highlighted that MTC's maintenance-to-expenditure ratio of 2.1% (2011:1.4%) is insufficient to maintain the facilities under its management in a working condition based on normal rates of wear and tear. MTC has a mandate to manage  $\pm$  25 facilities with an average budget of R5 200 per month per facility. MTC has only been able to apply this allocation on emergency repairs of mostly plumbing and ablution related breakdowns in a re-active manner as the deteriorating infrastructure collapses over time. It is be estimated that the fair market value of the facilities under its management would range in excess of R100 million to R200 million rand representing a maintenance ratio of between 1.57 and 0.79.

## SECTION 6: ENTITY FIVE-YEAR REVIEW

	Units		2011	2010	2009	2008
<b>Key financial figures</b>						
Total assets	Rm	118,362,493	135,537,938	128,531,305	125,528,742	116,119,540
Total equity	Rm	91,210,603	88,132,315	87,972,754	87,367,091	88,521,065
Total equity and liabilities	Rm	118,362,493	135,537,938	128,531,305	125,528,742	116,119,540
Bank balance (Sweeping)	Rm	27 056 908	(10,331,549 )	(1,668,226.58 )	0	0
Capital expenditure	Rm	5,000,000	7,000,000	0		
External Funding Loans	Rm	0	0	0	0	0
MIG	Rm	0	0	0	0	0
Revenue	Rm	20,540,779	17,407,114	16,288,449	17,781,620	14,615,686
Grant and Subsidies	Rm	51,775,000	45,293,000	48,059,000	40,135,000	35,972,000
Direct cost (If	Rm					

	Units		2011	2010	2009	2008
applicable)						
Employee costs (Including directors)	Rm	17,535,993	15,872,077	11,312,133	9,283,313	7,941,352
Discounting	Rm	(161,056)	(513,399)	(1,922,962)	(981,860)	(968,056)
Finance income	Rm	1,413,608	735,004	3,252,980	5,414,573	5,541,856
Finance costs	Rm	350,739	301,154	1,029,288	350,458	(118,488)
Surplus before tax	Rm	4,754,563	(778,786)	(405,107)	(1,295,424)	(625,488)
Income tax expense-current	Rm	0	0	0	0	0
Income tax expense –deferred	Rm	0	0	0	0	0
Surplus for the year	Rm	4,754,563	(778,786)	(405,107)	(1,295,424)	(625,027)
Cash generated from operations	Rm	7,790,600	4,430,409	6,238,220	(3,547,239)	(4,558,473)
Net cash from operating activities	Rm	977,775	1,461,340	1,438,305	1,525,777	887,141
Net cash used in investing activities	Rm	(410,000)	(602,608)	(636,120)	(1,413,010)	(735,012)
Net cash from/(used in) financing activities	Rm	(582,314)	(843,311)	296,159	(112,354)	(150,039)
<b>Financial ratios</b>						
Liquidity	%	1.6	1.20	1.10	1.26	1.15
Solvency	%	4.36	1.99	2.54	2.47	2.40
Total operating expenditure/revenue	%	0.94%	1.01%	101%	102%	101%
Interest coverage	Ratio					
<b>Other</b>						
Employees	number					
Employment equity	%					
Gender equity	%					
People with disabilities	%					

	Units		2011	2010	2009	2008
Training cost	Rm					
Black economic empowerment	Rm					
Corporate social investment	Rm					

### **CHAPTER THREE: PERFORMANCE REVIEW**

#### **SECTION 1: HIGHLIGHTS AND ACHIEVEMENTS**

##### **Service Delivery Monitoring**

The company's operations are aligned to the approved 2011/2012 financial year Business Plan, in particular the scorecard as outlined in the same business plan. The following key performance areas are part of the company's scorecard deliverables for this financial year:

- Financial Sustainability
- Operations Management
- Internal Management systems, Processes and Policies
- Branding & Marketing
- Stakeholder Relations & Management
- Trader Development
- Corporate Governance
- People and Culture (HR Development

There is an improvement in the company's overall performance against the scorecard from 55% in the third quarter to 56% in the final quarter. This performance is attributed to the working relationship the company is building with its employees, facilities users and key partners in the City. It should be noted that rental decline in this quarter is as a result of increased competition around our facilities and a decline in disposable income. It is known that during economic downturns, consumers spend less on luxury goods, which directly affect tenants offering such goods.

Again, the steep decline in rental collection towards the end of the quarter was as a result of unfair competition from large conglomerates that have suddenly entered the lowest segment of the fast moving consumer goods market. One example is Mass Mart Cambridge Stores that sells some goods at cost price and have located their stores in properties closer to our facilities. To counter the unfair competition, management is developing a counter strategy that would turn around our facilities in order to attract anchor tenants. At present our facilities are mainly used for transiting from one point to the other. There is a need to urgently review the current business model. The current model relies heavily on the City's subsidy, and contributes to a lack of financial sustainability. Management is investigating the "Taxi City" model, whereby greater emphasis would be placed in partnering with private sector investors in making our facilities attractive to current tenants and attract new anchor tenants, commuters and consumers.

### **Highlights and Achievements**

MTC Operations entails the management of retail markets for formal and informal traders, ranking and holding facilities for public transport operators. The company provides support to traders and taxi operators in the form of market promotions and business training; in addition it manages Rea Vaya BRT stations.

The company manages two types of facilities, namely thirty seven (37) Rea Vaya bus stations and twenty eight (28) public transport facilities that caters for the local buses, traders (formal and informal) and taxi operations. In each facility, the company provides facilities maintenance, ticket sales (only on Rea Vaya), security, cleaning, utilities, provision for trading spaces, informal business empowerment and provision of advertising space on behalf of the City of Johannesburg Metropolitan, herein referred to as the CoJ.

### **KEY DELIVERABLES PERFORMED IN THE YEAR UNDER REVIEW**

#### **Operations Management Achievements**

The company has improved its operations under challenging circumstances with limited resources, in this quarter operations were mainly focused on the following activities:

- Draft a new tariff policy and seek Council approval. This was achieved.
- Compile and monitor implementation of the forty five (45) day turnaround programme to address lapses in company performance. *(See annexure A for detailed work undertaken)*
- Take a closer look at maintenance challenges that contribute to negative public perception (in particular public conveniences) of our facilities and ensuring that toilets are in a working condition.

- The appointment of five (5) maintenance staff members through the Internship programme, which led to a dramatic improvement in maintenance turnaround times, standards of facilities and reduced costs of rendering services.
- Installation of prepaid meters in some facilities has reduced electricity consumption and expenditure resulting in lower costs.
- A proactive maintenance plan is currently being introduced in key facilities to prioritise maintenance of sanitation and health. Servicing fire equipment is being undertaken in three facilities, namely Metro Mall, Bara and Park Central.
- In a drive to reduce costs, the company has begun a process of establishing in-house stores in order to keep consumable maintenance stock which will speed up maintenance response time. In the coming financial year, efforts will be directed towards building essential capacity in the Facilities Management Unit.
- This quarter saw an improvement in a number of user agreements signed with facilities users, including a breakthrough signing of user agreement with the Diepsloot taxi associations.
- In the past three months, major refurbishments and upgrades to two facilities, namely Kliptown and Lenasia markets, were undertaken to improve the safety, security and cleanliness of the areas as well as to ensure compliance to Occupational Health and Safety Act (OHASA) and the City's environmental health and emergency management regulations. It should be brought to the attention of the reader that the Lenasia capex project encountered serious setbacks that led to the project not being completed within the stipulated timeframe. The main problem related to the current zoning of the facility as Residential Three. To overcome this problem in the new financial year, efforts will be directed towards changing the zoning to a public transport and trading facility.
- MTC created a total of 464 jobs over the past three months, mostly in the area of the Capex operations and other operational areas including EPWP.
- Overall cash collection increased from 49% in the last financial year to 65%, which translates into 16% improvement in overall collection.
- An unqualified audit opinion on our prior year end audit was attained.
- The Smart Trade programme has been rolled out to further areas. It seeks to improve the regulation and management of the informal traders within our facilities and further seeks to maximise revenue generation through the enforcement of binding lease agreements with our tenants. The number of informal traders issued with smart cards increased to 2,729 by the end of the quarter.
- The enforcement of the company's credit control policy was further tightened, which saw a slight improvement in the payment of rentals, particularly by informal traders. Given the budget challenges that MTC is currently facing, the company is trying to ensure that there is significant improvement in the payment of rentals so as to improve its financial position and thereby deliver on its mandate; primarily targeting public transport operators.

- Training of station staff in terms of Customer Care Service was completed.
- Appointment of TOICs ( Taxi Operators Investment Companies) to take over security services at Rea Vaya stations for phase 1A was made.
- Appointments of Rea Vaya maintenance team (interns) led to transport department cost savings in terms of station repairs and maintenance.;
- There is stability in terms of staff discipline, for example, absenteeism has reduced.
- There is improvement in the procurement unit in terms of addressing maintenance problems.

**SECTION 2: PERFORMANCE AGAINST IDP AND CITY SCORECARD**

Below is an indication of the Entity’s performance in relation to the Scorecard.

Effective Performance Management: 2011/12

No.	Key Performance Area (KPA)	Total Key Performance Indicator(KPI)	Year 2011/12		
			Total Achieved	KPI	Total KPI Not Achieved
1.	Financial Sustainability	12	6		6
2.	Operations Management	15	11		4
3.	Internal Management systems, Processes and Policies	6	4		2
4.	Branding & Marketing	3	2		1
5.	Stakeholder Relations & Management	3	1		2
6.	Trader Development	4	3		1
7.	Corporate Governance	4	4		0
8.	People and Culture (HR Development)	9	1		8
	Total	56	32		24
	Total %	100%	57%		43%

KPA Number & Corresponding KPA	Key Performance Indicators	Prior Year 2010/11		Current Year 2011/12		Reason for variance	Remedial action
		Target Performance	Actual Performance	Target Performance (Annual)	Actual Performance (Annual)		

KPA Number & Corresponding KPA	Key Performance Indicators	Prior Year 2010/11		Current Year 2011/12		Reason for variance	Remedial action
		Target Performance	Actual Performance	Target Performance (Annual)	Actual Performance (Annual)		
<b>Financial Sustainability(1.1)</b>	Improved revenue collection from informal traders.	75%	65%	100%	73%	Resistance from certain markets (e.g. Bara, Faraday, Lenasia & Kliptown).	Stricter adherence to the locking out of overdue accounts.
<b>Financial Sustainability(1.2)</b>	Improved revenue collection from retailers.	100%	110%	100%	113%	Target was exceeded due to more stringent credit control procedures that management used to collect revenue. E.g., lockouts	Continue to apply tight credit control procedures to further boost the collection levels.
<b>Financial Sustainability(1.3)</b>	Improved revenue collection from retailers' prepaid utilities (e.g. gas, electricity).	100%	100%	100%	100%	Target was achieved.	N/A
<b>Financial Sustainability(1.4)</b>	Improved revenue collection from taxis.	20%	39%	75%	82%	The existing taxi operators at the Trump taxi rank moved out of the facility due to lack of water flushing the toilets, impacting collections for June. The facility manager will resolve in the next month.	A special task team should be created to be headed by MMC to bring the taxi associations back to the negotiation table.
<b>Financial Sustainability(1.5)</b>	Improved revenue collection from buses.	100%	48%	100%	95%	The collection rate for June reduced to 63%, due to illegal disruptions by the long distance taxi operators against the long distance bus operators traveling on the KZN route.	
<b>Financial Sustainability(1.6)</b>	Reduction in operating costs (excluding personnel costs)	5%	0%	30%	5.81%	Savings in the budget has to be applied against repairs and maintenance In the future.	This scorecard element conflicts with the mandate to spend the full budget allocations and should be relooked at.
<b>Financial Sustainability(1.7)</b>	Implementation of the revenue maximisation Model through piloting at Metro Mall and Yeoville	2 markets	0 markets	2	0	Resignation of the business development manager and lack of capacity which led to contracts not signed with the prospective service	Ensure that that contracts are signed by operations

KPA Number & Corresponding KPA	Key Performance Indicators	Prior Year 2010/11		Current Year 2011/12		Reason for variance	Remedial action
		Target Performance	Actual Performance	Target Performance (Annual)	Actual Performance (Annual)		
						providers.	
<b>Financial Sustainability(1.8)</b>	% Variance against ME's operating budget	0%	4%	0%	4%	The final statutory increases for contracted services were less than budgeted. General savings were to avoid fruit less and wasteful expenditure.	N/A
<b>Financial Sustainability(1.9)</b>	Reduction of bad debts	30%	12%	75%	85%	The target was exceeded due the BRT shortages debtor having to be impaired	
<b>Financial Sustainability(1.10)</b>	Source additional funding from MIG	R2m	R2m	R2m	0	No MIG funding from the City received.	To be removed from score card as grant funding is now centralised at City.
<b>Financial Sustainability(1.11)</b>	Procurement spent on BBBEE as a total of OPEX procurement	90%	81%	95%	95%	Target was achieved.	
<b>Financial Sustainability(1.12)</b>	Increase revenues from advertising and promotional activities in our facilities	R1, 5m	R2, 15m	R1, 6 m	R3,59m	Target was exceeded. There were more promotional activities than forecasted as management engaged in a lot of projects to make the facilities more attractive to the advertisers.	
<b>Operations Management(2.1)</b>	Average emergency maintenance response lead time (hrs)	24 hrs	8 hrs	24 hrs	24 hrs	Target was achieved.	
<b>Operations Management(2.2)</b>	Average maintenance response lead time (hrs) for soft maintenance	2 weeks	1 day	2 weeks	2 weeks	Target was achieved.	
<b>Operations Management(2.3)</b>	Report on state of compliance with OHASA.	20 facilities	15 facilities	21 facilities	1 facility	The failure to maintain all the 21 facilities is due to insufficient Capex budget. OHASA requires all facilities to have proper working fire extinguishers and hoses.	Currently servicing fire extinguishers and hoses. Metro Mall completed and Compliance Certificate obtained

KPA Number & Corresponding KPA	Key Performance Indicators	Prior Year 2010/11		Current Year 2011/12		Reason for variance	Remedial action
		Target Performance	Actual Performance	Target Performance (Annual)	Actual Performance (Annual)		
Operations Management(2.4)	Compliance with cleaning and security contracts, including BRT stations.	100%	100%	100%	100%	Target was achieved.	
Operations Management(2.5)	Accuracy of rent roll in relation to the database of traders operating in MTC facilities.	100%	100%	100%	100%	Target was achieved.	
Operations Management(2.6)	Up-to-date waiting list database in electronic format	100%	100%	100%	100%	Target was achieved.	
Operations Management(2.7)	Response time to resolve traders complaints	2 weeks	7 days	2 weeks	2 weeks	Target was achieved.	Will continue to ensure that complaints are resolved within the time frame
Operations Management(2.8)	Policy for the allocation of trading spaces and determination of user tariffs.	100%	90%	100%	100%	Policy has been approved by the Board	
Operations Management(2.9)	Informal traders in MTC managed facilities (including streets) issued with Smartcards.	100%	43%	100%	60%	Finalising the signing of lease agreements and capturing of data.	To be completed during the first quarter of the new financial year.
Operations Management(2.10)	User agreements signed with Taxi Operators	20%	0%	20%	20%	Target was achieved	
Operations Management(2.11)	User agreements signed with Bus Operators	100%	100%	100%	100%	Target was achieved	
Operations Management(2.12)	User agreements signed with Informal Traders.	100%	44%	100%	57%	Resistance from some traders to sign lease agreements.	The traders have started signing the User Agreements. Eviction notices are being issued in order to ensure that Traders to sign the User agreements
Operations Management(2.13)	Management of illegal and unregulated traders through establishment of Informal Trading Management Areas (ITMAs).	4 streets	4 streets	6	25	Target was exceeded. There was an increase in the demand of trading space and through improved coordination with DED and JMPD, more streets were demarcated.	

KPA Number & Corresponding KPA	Key Performance Indicators	Prior Year 2010/11		Current Year 2011/12		Reason for variance	Remedial action
		Target Performance	Actual Performance	Target Performance (Annual)	Actual Performance (Annual)		
<b>Operations Management(2.14)</b>	Ensure the management and disposal of waste through separation at source in five (5) facilities.	5	0	5	0	The tender was issued and finalised but due to lack of funds no appointment has been made.	Engagement and partnership with Pikitup and other stakeholders.
<b>Operations Management(2.15)</b>	Customers billed	100%	100%	100%	100%	Target was achieved.	
<b>Internal Management Systems, Processes and Policies(3.1)</b>	Real time connection to I.T. network on and offsite.	1 hr	0	1 hr	1 hr	Target was achieved on site. Connection offsite was not achieved because of the services provider's oversight	
<b>Internal Management Systems, Processes and Policies(3.2)</b>	Turnaround time from purchase request to purchase order.	7 days	7 days	7 days	7 days	Target was achieved.	
<b>Internal Management Systems, Processes and Policies(3.3)</b>	Turnaround time for open tender finalisation including actual tender award.	90 days	120 days	90 days	90 days	Target was achieved.	
<b>Internal Management Systems, Processes and Policies(3.4)</b>	Reconciliation of tickets sales against cash collected  * Ensure Reduction shortages	100%	99.97%	100%	100%	The target was achieved	
<b>Internal Management Systems, Processes and Policies(3.5)</b>	Development of a communications and marketing strategy	100%	0%	100%	40%	Due to the institutional review some tenders have been put on hold.	
<b>Internal Management Systems, Processes and Policies(3.6)</b>	Development of a new website	100%	0%	100%	20%	Target was not achieved. Will be finalised in August 2012. The company that is developing the website was still designing the website as per MTC requirements.	Specifications were submitted to Big Media as per the advice of the office of the CIO of the COJ
<b>Branding and Marketing(4.1)</b>	Branding of MTC facilities	70%	60%	70%	50%	Due to the institutional review branding has been put on hold.	
<b>Branding and Marketing(4.2)</b>	Develop House Rules for traders and	100%	100%	100%	100%	Target was achieved	

KPA Number & Corresponding KPA	Key Performance Indicators	Prior Year 2010/11		Current Year 2011/12		Reason for variance	Remedial action
		Target Performance	Actual Performance	Target Performance (Annual)	Actual Performance (Annual)		
	taxi operators						
<b>Branding and Marketing(4.3)</b>	Empower targeted beneficiaries through participation in the management of MTC facilities.	1	5	1	3	Target was exceeded.	
<b>Trader Development(5.1)</b>	Regularise and facilitate demarcation of additional streets to absorb more informal traders	10	5	10	22	Target was exceeded. There was an increase in the demand of trading space and through improved coordination with DED and JMPD, more streets were demarcated.	
<b>Trader Development(5.2)</b>	Jobs created and training undertaken in compliance with EPWP & Learnerships	1180	1682	1300	1230	Target was not met due to the fact that only two Refurbishment projects were undertaken in the financial year under review unlike other year where an average of 5 projects will be undertaken hence creating more opportunities.	
<b>Trader Development(5.3)</b>	Percentage improvement of Customer satisfaction index, including BRT station	60%	0%	60%	60%	Target was achieved.	Further studies to be commissioned
<b>Trader Development(5.4)</b>	Initiatives started with the private sector	3	0	3	3	Target was achieved.	
<b>Stakeholder Relations &amp; Management(6.1)</b>	Quarterly road shows by the CEO to facilities	3	1	4	2	Due to the institutional review, there has been a number of meeting at the City as well as normal City meetings that clashed with the proposed dates for Roadshows.	With regards to the new financial year and MTC being integrated into JPC, all stakeholder engagement will be coordinated from JPC.

KPA Number & Corresponding KPA	Key Performance Indicators	Prior Year 2010/11		Current Year 2011/12		Reason for variance	Remedial action
		Target Performance	Actual Performance	Target Performance (Annual)	Actual Performance (Annual)		
Stakeholder Relations & Management(6.2)	Clean Audit Report	3	1	1	N/A		
Stakeholder Relations & Management(6.3)	Regular fortnightly EXCO meetings	12	7	22	21	A meeting was not held in Q4. Target not achieved. Lack of capacity as most EXCO positions are vacant, regular City meetings and tight time frames for submission of reports to the City	Appoint people on vacant positions or obtain secondments from the City in order to capacitate EXCO. Some people are acting and they perform dual or multiple functions
Corporate Governance(7.1)	Quarterly monitoring of compliance with relevant policies and legislation.	2	2	4	4	Target was achieved.	
Corporate Governance(7.2)	Quarterly reviews of risk register	100%	100%	100%	100%	Target was achieved.	
Corporate Governance(7.3)	Regular monthly internal audit management meetings	6	6	12	12	Cumulative target was achieved.	
Corporate Governance(7.4)	Establish an anti-corruption hotline or other facility to report corruption (e.g. comment box)	100%	90%	100%	100%	Target was achieved.	
People and Culture(8.1)	* Full Implementation of Performance Management	100%	8%	100%	11%	MOU has been signed with SAMWU and we will implement this as of the 1 <sup>st</sup> of July 2012 in terms of the new grading and job description being developed together with the salary adjustments agreed.	A workshop is being organised to educate them on the benefits of performance management system.
People and Culture(8.2)	% of Total salary expense for Staff Training in line with the requirements of the "National Treasury Minimum skills and Competencies for Municipal officials"	3%	1%	3%	1.15%	Development & needs analysis exercise to be completed. To commence Q2 of 2012/13.	A workshop is being organised to educate them on the benefits of performance management system.

KPA Number & Corresponding KPA	Key Performance Indicators	Prior Year 2010/11		Current Year 2011/12		Reason for variance	Remedial action
		Target Performance	Actual Performance	Target Performance (Annual)	Actual Performance (Annual)		
People and Culture(8.3)	Development of a change management programme	100%	100%	100%	60%	City currently reviewing programme.	Engagement with the City to use the same standard.
People and Culture(8.4)	Implementation of the new organisational structure	100%	0%	100%	50%	Not achieved due to the institutional review and budget adjustments not approved.	Engagement with the City in terms of appointing essential staff.
People and Culture(8.5)	Develop Individual learning Plans (ILP's)	100%	0%	100%	30%	Staff not willing to sign scorecards.	Engagement with Union to resolve the stand-off.
People and Culture(8.6)	Undertake Skills Gap Analysis	100%	0%	100%	0%	Lack of Capacity at Senior level	Request for additional staff made to the City
People and Culture(8.7)	Develop an HR Strategy	100%	90%	100%	40%	Lack of Capacity at Senior level	Request for additional staff made to the City
People and Culture(8.8)	% Increase of designated groups employed – female	3%	11%	15%	15%	The target was achieved.	
People and Culture(8.9)	% Increase of people living with disability employed	2%	0%	2%	0%	Moratorium not to appoint due to the institutional review.	Request for additional staff made to the City

### SECTION 3: ASSESSMENT OF ARREARS ON SERVICE CHARGES

#### Assessment of Directors' and Senior Managers' Municipal Accounts

Name of Director / Senior Managers	Designation	Name of Municipality	Municipal Account Name / Number	Account Status as at 30 June 2012	Comments
Coovadia C	Chairman	City of Johannesburg	400864220	Up-to-date	
Segole F	Non-Executive Director	City of Johannesburg	2601534187	Up-to-date	
Nxumalo L	Non-Executive Director	City of Johannesburg	202032982	Up-to-date	
Sam A	Executive Director	City of Johannesburg	403080231	Up-to-date	
Mashele J	Acting Chief Executive	City of Johannesburg	504134839	Not –up-to date	
Mathebula P	Acting Company Secretary	City of Johannesburg	47389720	Up-to-date	
Klopper J	Chief Financial Officer	City of Johannesburg	551032016	Up-to-date	
Vutula L	Non-Executive Director	City of Tshwane	3320617299	Up-to-date	
Mametjan N	Non-Executive Director	City of Tshwane	5004114181	Up-to-date	

Makgonye J	Non-Executive Director	City of Johannesburg	900897584	Up-to-date	
Bahola M	Non-Executive Director	City of Johannesburg	505507674	Up-to-date	
Rau N	Non-Executive Director	City of Johannesburg	020689425	Up-to-date	

## **SECTION 4: STATEMENT ON AMOUNTS OWED BY GOVERNMENT DEPARTMENTS AND PUBLIC ENTITIES**

*Not applicable to the Entity.*

## **SECTION 5: RECOMMENDATION AND PLANS FOR NEXT FINANCIAL YEAR**

MTC is tasked with the responsibility of realising the City's vision to create a well-managed informal trading sector and public transport operation in designated facilities and streets. The entity will be undertaking projects with the objectives of increasing economic growth and development, reducing poverty, promoting and supporting small businesses as well as protecting the environment. It is on this basis that MTC will continue to explore creative ways in which to raise alternative funding to perform its functions and efficiently deliver on its mandate.

The key cluster priorities that MTC will seek to advance are informed by the **five flagship projects** namely:

1. Stimulate economic activities to increase revenue to ensure sustainable living and efficient use of natural resources and promote environment friendly City.
2. Stimulate economic activities in marginalized areas through the development of regional economic frameworks, green economy frameworks and land preparation e.g. Region G.
3. Resuscitation of declining economic nodes & Revitalisation of the inner City.
4. Bridging the gap between the first and second economy through job creation, upgrade of informal trading facilities, enterprise development and development of other City facilities to achieve the socio-economic mandate.
5. Optimise the use of MTC facilities by encouraging multi-functional and mixed land uses focusing primarily on the commercial diversification of these facilities.

There are **six key activities** that the Company will undertake to achieve the above flagship projects:

1. Optimising income from advertising in its facilities, including income from advertising on the back of the rental statements.
2. Ensuring proactive and sustainable maintenance, safety, security and cleanliness of facilities, by introducing innovative methods of managing our facilities.
3. Ensuring that there is regular repair and refurbishment of facilities, including the use of the Extended Public Works Programme (EPWP) funding.

4. Exploring partnership possibilities in facilities that MTC is currently not managing, especially partnership with the private sector in the provision of public transport and trading facilities.
5. Depending on turnaround of the business model, taking over and managing additional  $\pm$  20 existing City-owned public transport facilities that are currently unmanaged without increasing the dependency on the City.
6. Oversee the management of Rea Vaya Bus Rapid Transit (BRT) stations and maximising the usage of land outside Rea Vaya stations to stimulate economic nodes by encouraging local investments.

All the above activities will enable skills and enterprise development, promotion of SMMEs, job creation, increased competitiveness, trade and investment promotion, and economic transformation. Ultimately, the aim is to improve rental collection, business practises and to fully explore the advertising potential to provide the required funding.

## **SECTION 6: CORPORATE GOVERNANCE STATEMENT**

### **Ethical Leadership**

MTC is committed to sound corporate governance principles which sets the tone for ethical leadership and lays a solid foundation for a sustainable business.

During the past year, the company has worked actively to improve, where applicable, the recommendations of the King III report. The Board is satisfied that MTC complies with the relevant legislation and best practice. The company continues to entrench the principles of sound risk management and the revision of risk frameworks where appropriate.

### **The Board of Directors**

MTC has a unitary Board, which consists of nine non-executive directors plus the Acting Chief Executive Officer and acting Chief Financial Officer who are in attendance. The Board is appointed by the Shareholder and provides the company with strategic direction. The Board is diverse and has numerous years of collective experience to deliver on the strategy of the company.

Declarations of interest are submitted before every Board meeting to determine and manage any potential conflicts. The new Board members completed an induction with the company and with the Shareholder. Training and development of directors is an ongoing process.

The Board charter sets out the responsibilities of the Board which include:

- Strategic guidance to the company
- Reviewing and evaluating the company's risks

- Monitoring and evaluating the performance scorecard

The roles of the chairman and the acting CEO are separate. An effectiveness assessment has been completed for the Board, the Audit and Risk Committee, acting CEO and the Company Secretary.

### **The Board Sub-Committees**

The Memorandum of Incorporation advocates that the Board has the powers to appoint committees and delegate its powers, however this does not abdicate the Board from taking ultimate responsibility.

### **Audit and Risk Committee**

This committee comprises two non-executive directors and two independent non-executive members. The Committee discharges an oversight role of reviewing of the principles, policies and practices adopted in the preparation of the Annual Financial Statements and ensures that the Annual Financial Statements relating to the financial performance comply with all statutory requirements.

### **The Human Resources, Remuneration, Social and Ethics Committee**

The Committee comprises three non-executive directors. The Committee discharges an oversight role in respect of the development and implementation of MTC's Human Resources (HR) Policies, Strategy, Human Capital management processes and systems which are intended to ensure that employees contribute effectively to the success of MTC's business objectives.

### **Operations Committee**

The committee comprises three non-executive directors. The Committee discharges an oversight role in respect of the development and implementation of MTC's operational procedures, policies and strategic operational plans.

In terms of the provisions of the Local Government: Municipal Finance Management Act, 2003 (MFMA) and the Local Government: Municipal System Act, 2000 (as amended), the City takes the ultimate responsibility for the financial performance of its municipal entities and departments. The MFMA aims to modernise budget and financial management practices by placing local government finances on a sustainable footing in order to maximise the capacity of the City to deliver services to all its residents, customers, users and investors. It also aims to put in place a sound financial governance framework, by clarifying and separating the roles and responsibilities of the mayor, executive and non-executive councillors, and officials. This framework (through risk management) will support the requirements of the MFMA by identifying and minimising strategic, operational and

financial risks which may materially impact MTC's ability to meet the regulatory requirements of the MFMA.

Risk management is widely recognised as an essential cornerstone of an organisation's framework to secure and demonstrate a robust and effective process of corporate governance.

According to the King III Report, the Board should be responsible for the governance of risk. The report further requires the Board to exercise this responsibility through a formal process which includes the total system and process of risk management. The Board is additionally required to exercise leadership to prevent risk management from becoming a series of activities that are detached from the realities of the company's business.

## **SECTION 7: BOARD OF DIRECTORS**

MTC has a unitary board, which consists of nine (9) Non-Executive Directors plus the acting Chief Executive and acting Chief Financial Officer who are in attendance. During the period under review, at the Annual General Meeting on the 25<sup>th</sup> April 2012, Mr Cas Coovadia was appointed as the new Chairman of the Board. Ms Xolisa Hloma, the former chairman, continues to serve as a non-executive director of the company.

The Board meets at least quarterly and retains full control over the entity. The Board remains accountable to the City of Johannesburg Metropolitan Municipality, the sole member, and its stakeholder, the citizens of Johannesburg. A Service Delivery Agreement (SDA) concluded in accordance with the provisions of the MSA governs the relationship. The Board provides quarterly, mid-year and annual reports on its performance and service delivery to the parent municipality as prescribed in the SDA, MFMA and the MSA.

Non-executive directors contribute an independent view to matters under consideration. The roles of the Chairman and the acting Chief Executive Officer are separate, with responsibilities divided between them. The Chairman has no executive functions. Members have unlimited access to the Company Secretary, who acts as an advisor to the Board and its committees on matters including compliance with rules and procedures, statutory regulations and best corporate practices. The Board or any of its members may, in appropriate circumstances and at the expense of the entity, obtain the advice of independent professionals.

The table below outlines the composition of the Board of Directors and their roles and functions:

No.	Board member	Capacity	Board Committee Membership
1	<b>Mr Cassim Coovadia</b> <i>(Appointed on 25.04.2012)</i>	Non-Executive Director	Chairman: MTC Board
2	<b>Mr Maropeng Bahula</b> <i>(Appointed on 25.04.2012)</i>	Non-Executive Director	Operations Committee
3	<b>Ms Doris Dondur</b> <i>(Resigned on 10.02.12 from the Board)</i>	Non-Executive Director	“Audit & Risk Committee”, “Human Resources, Remuneration And Social And Ethics (HRRSE) Committee”
4	<b>Ms Xolisa Hloma</b> <i>(Chairman of the Board until 25 April 2012. Currently a Non-Executive Director)</i>	Chairman: MTC Board	Human Resources, Remuneration And Social And Ethics (HRRSE) Committee
5	<b>Mr Justice M. Makgonye</b> <i>(Appointed on 25.04.2012)</i>	Non-Executive Director	Human Resources, Remuneration And Social And Ethics (HRRSE) Committee
6	<b>Mr Norman K. Mametja</b> <i>(Appointed on 25.04.2012)</i>	Non-Executive Director	Audit & Risk Committee
7	<b>Mr Francis Matabane</b> <i>(Resigned on 20.07.11 from the Board )</i>	Non-Executive Director	Chairperson: Operations Committee
8	<b>Ms Linda Nxumalo</b>	Non-Executive Director	Chairman: Human Resources, Remuneration And Social And Ethics (HRRSE) Committee
9	<b>Mr Nerendra Rau</b> <i>(Appointed on 25.04.2012)</i>	Non-Executive Director	Chairman: Audit & Risk Committee
10	<b>Ms Fikile Segole</b>	Non-Executive Director	Chairman: Operations Committee
11	<b>Ms Nadira Singh</b> <i>(Retired on 25.04.12 from Board)</i>	Non-Executive Director	Chairman: Audit & Risk Committee Operations Committee
12	<b>Ms Busisiwe Skenjana</b> <i>(Retired on 25.04.12 from Board)</i>	Non-Executive Director	Human Resources, Remuneration And Social And Ethics (HRRSE)

			Committee
<b>13</b>	<b>Mr Luthando Vutula</b> <i>(Appointed on 25.04.2012)</i>	Non-Executive Director	Operations Committee

**BELOW ARE ALL THE BOARD AND COMMITTEE MEETINGS FOR THE 4TH QUARTER OF THE 2011/12 FINANCIAL YEAR**

No.	Directors	Board	Board Workshops & Other Special Meetings	AGM	Audit	HR & Remuneration	Operations
<b>NO OF MEETINGS HELD</b>		11		1	11	8	7
<b>1</b>	<b>C Coovadia</b>	1	0	0	0	0	0
<b>2</b>	<b>M Bahula</b>	1	0	1	0	0	1
<b>3</b>	<b>D. Dondur</b> <i>(Resigned on 10.02.12 from the Board)</i>	4	2	0	5	4	0
<b>4</b>	<b>X Hloma</b> <i>(Chairman of the Board until 25 April 2012. Currently a Non-Executive Director)</i>	11	4	1	0	1	5
<b>5</b>	<b>J Makgonye</b>	1	0	1	0	1	0
<b>6</b>	<b>N Mametja</b>	1	0	1	1	0	0
<b>7</b>	<b>F Matabane</b> <i>(Resigned on 20.07.11 from the Board )</i>	1	0	0	0	0	1
<b>8</b>	<b>L Nxumalo</b>	5	0	1	0	8	0
<b>9</b>	<b>N Rau</b>	1	0	1	1	0	0
<b>10</b>	<b>F Segole</b>	7	2	1	0	0	7
<b>11</b>	<b>N Singh</b>	9	1	1	10	0	0
<b>12</b>	<b>B Skenjana</b>	7	1	0	0	6	0

13	L Vutula	1	0	0	0	0	1
<b>Independent Audit Committee</b>							
14	H. Moolla	2	1	1	10	0	0
15	R Kenosi	1	2	1	7	0	0
16	R Theunissen	1	1	0	6	0	0
<b>DATES OF MEETINGS : 1 JULY 2011 – 30 JUNE 2012</b>		15.07.20 11 30.07.20 11 29.08.20 11 10.10.20 11 18.11.20 11 25.11.20 11 09.12.20 11 05.03.20 12 26.03.20 12 20.04.20 12 11.06.20 12		25.04.20 12	9.7.2011 27.7.201 1 26.8.201 1 30.8.201 1 31.8.201 1 14.11.20 11 24.11.20 11 27.02.20 12 26.03.20 12 16.04.20 12 20.06.20 12	11.7.2011 20.9.2011 3.10.2011 22.11.2011 1.3.2012 22.3.2012 13.4.2012 18.6.2012	12.7.201 1 3.10.201 1 25.11.20 11 25.2.201 2 24.3.201 2 20.4.201 2 19.6.201 2

### Directors and Top Management Remuneration

Report on amounts of expenditure on director's remuneration per director.

#### Non-Executive Directors

No	SURNAME	POSITION	Total (Rand)
1	Mr C. Coovadia	Current Chairman of MTC Board	17,193.75
2	Mr M Bahula	Board Member	17,527.34
3	Ms D. Dondur (Resigned)	Board Member	82,564.44
4	Ms X. Hloma	Chairman of the Board until <b>25 April 2012</b> . Currently an Ordinary Board Member	282,136.79
5	Mr J.M. Makgonye	Board Member	17,527.34

6	Mr N.K. Mametja	Board Member	18,517.34
7	Mr F. Matabane	Board Member	10,912.00
8	Ms L. Nxumalo	Chairman HRRSE Committee: Board Member	94,244.00
9	Mr N. Rau	Chairman Audit & Risk Committee: Board Member	18,517.34
10	Ms F. Segole	Chairman Operations Committee: Board Member	110,120.00
11	Ms N. Singh	Board Member	168,037.77
12	Ms B. Skenjana	Board Member	62,510
13	Mr L. Vutula	Board Member	12,567.34
<b>TOTAL</b>			<b>912,375.45</b>

#### Independent Audit Committee Members

<b>SURNAME</b>	<b>POSITION</b>	<b>Total</b>
Ms R Kenosi	Independent Audit Member	71,430
Mr R Theunissen <i>(Retired on 25.04.12 from Audit and Risk Committee)</i>	Independent Audit Member	38,690
MR H Moolla	Independent Audit Member	89,280
		<b>199,400</b>

## Executive Committee Members

SURNAME	POSITION	Total
Mr A.X Sam	Chief Executive Officer (Passed away 27 June 2012)	1,224,977.32
Mr J. Mashapa	Compliance and Company Secretary / Acting General Manager: Ops (Resigned 7 November 2011)	259,129.17
Ms P Mathebula	Acting Compliance and Company Secretary	403,612.90
Mr V Kgopa	Chief Financial Officer (Resigned 30 April 2012)	1,028,928.84
Mr J Klopper	Acting Chief Financial Officer (Appointed 20 April 2012)	130,277.69
Mr M. J Mashele	Acting Chief Executive Officer (Acting since 4 April 2011)	852,962.29
Mr M Makhunga	Acting IA Manager	450,315.29
Mr S Moloji	HR Manager (Resigned 23 Feb 2012)	239,927.36
Ms N Kama	HR Manager (Resigned 5 June 2012)	319,498.26
Mr A Baloyi	EM Business Development and Communications (Resigned 31 May 2012)	269,710.25
Mr L Chepape	Senior BRT Operations Manager	544,991.83

**5,724,331.20**

## Board Committees

The Board met eleven times during the financial year. The Board has the following sub-committees, each of which is chaired by a non-executive director:

- Audit and Risk Committee
- Human Resources, Remuneration, Social and Ethics Committee
- Operations Committee

### Audit and Risk Committee

The Audit and Risk Committee consists of the following non-executive directors: Mr N Rau (Chairman), Mr N Mametja and two independent members, Mr H Moolla, and Ms R Kenosi.

The Audit and Risk Committee operates in accordance with a written charter approved by the Board and provides assistance to the Board with regards to:

- Ensuring compliance with applicable legislation and the requirements of regulatory authorities
- Matters relating to financial accounting, accounting policies, reporting and disclosures
- Matters relating to risk management
- Internal and external audit policy
- Activities, scope, adequacy and effectiveness of the internal audit function and audit plans

- Reviewing and recommending the approval of external audit plans, findings, reports and fees
- Compliance with the Code of Corporate Practices and Conduct;
- Compliance with the code of ethics

The Audit and Risk Committee adequately addressed its responsibilities in terms of the charter during the period under review. The Audit and Risk Committee met eleven times during the period under review.

### **Human Resources, Remuneration, Social and Ethics Committee**

The Human Resources, Remuneration, Social and Ethics Committee consists of the following non-executive directors: Ms L Nxumalo (chairman), Ms X Hloma and Mr JM Makoko. The acting CEO and the Executive Manager: Human Resources are in attendance.

The Human Resources, Remuneration, Social and Ethics Committee advises the Board on remuneration policies, remuneration packages and other terms of employment for senior management as well as socio-economic developments. Its specific terms of reference also include recommendations to the Board on matters relating to general staff policy remuneration, bonuses, executive remuneration, director remuneration and fees and service contracts. The Committee met eight times during the period under review.

### **Operations Committee**

The Operations Committee consists of the following non-executive directors: Ms F Segole, Mr Vutula and Mr Bahula. The Committee advises the Board on matters pertaining to the operations of the Company. This includes providing strategic guidance for the day to day running of the company-managed facilities, the Rea Vaya BRT stations as well as matters related to revenue maximisation.

The Committee gives input to company policies and procedures relating to the sustainable operation and maintenance of facilities as well as approving and reviewing operational plans.

The Committee met seven times for the period under review.

## **SECTION 8: ENTITY SECRETARIAL FUNCTION**

The Company Secretary has a key role to play in ensuring that Board procedures are both followed and reviewed regularly and that the Board performs its oversight role. The Company Secretary also ensures that the Board meets regularly and all members of the Board are aware of and provided with guidance as to their powers, duties, roles and responsibilities.

The Company Secretary also serves as an advisor to the Board and its committees, while ensuring that all Board resolutions are adhered to and implemented by management.

## **SECTION 9: RISK MANAGEMENT AND INTERNAL CONTROLS**

Effective risk management forms an integral part of the entity's objective of consistently adding value to the business. Management is continuously developing and enhancing its risk and control procedures to improve the mechanisms for identifying and monitoring risks and mitigation thereof. The corporate risk register for the 2011/12 financial year was finalised in the last quarter of the 2010/11 financial year. The process of reviewing the risk register was undertaken by management and Johannesburg Risk and Audit Services (JRAS) and presented to the Audit and Risk Committee.

In line with the risks standards set by the CoJ, the entity continued to refine its risk management programme. Such risk management programmes are executed in terms of Sections 62(c) and 95(c) of the MFMA. In addition to independent risk assessments and valuations conducted by JRAS, the Audit and Risk Committee conducts oversight of all matters of risk and through the expertise presented on the committee, provides guidance to the entity in respect of risk controls

## **SECTION 10: INTERNAL AUDIT FUNCTION**

The Audit and Risk Committee performed, inter alia, the following main activities:

- Considered the effectiveness of Internal Audit, which included reviewing and approving the annual internal audit plan and the internal audit charter and monitored Internal Audit's adherence to its annual programme.
- Received and reviewed reports from the internal auditors concerning the effectiveness of the Company's internal control environment, systems and processes.
- Reviewed the adequacy and appropriateness of management's corrective action plan as a consequence of audit findings.
- Considered all material forensic reports and established that appropriate corrective action was taken by management.
- Made appropriate recommendations to the Board regarding the corrective actions to be taken as a consequence of the audit findings.
- Monitored and supervised the effective functioning and performance of the internal auditors.

- Ensured that the scope of the internal audit function had no limitations imposed by management and that there was no impairment on its independence.

The head of Internal Audit, the Manager: Internal Audit reports functionally to the chair of the committee and administratively to the acting Chief Executive Officer. The internal audit function was performed by an outsourced service provider and in the latter part of the year by the Manager: Internal Audit assisted by a co-sourced partner.

The internal audit coverage plan is based on the risk assessment performed and was approved for implementation by the Audit and Risk Committee. The coverage plan is reviewed and updated annually, based on the risk assessment and results of the audit work performed. This ensures that the audit coverage is focused on and identifies areas of high risk.

## **CHAPTER FOUR: HUMAN RESOURCES AND ORGANISATIONAL MANAGEMENT**

During the year under review, much work was done with regards to capacity building within the organisation. There has been movement in terms of employees leaving and joining as some members of staff resigned and other temporary personnel were appointed towards the end of the financial year to assist with critical functions in the company.

### **SECTION 1: HUMAN RESOURCES MANAGEMENT**

MTC's drive has been that of ensuring that its employment practices and remuneration policies motivate, retain and attract talented employees and create an attractive, conducive environment for its employees.

In December 2010 a review of the structure was undertaken and a new structure approved in June 2011 for implementation in the new financial year, dependent on the availability of funds, with priority being given to the most critical positions. An additional amount of approximately R2 million was earmarked for the implementation of this new structure. While the finalisation of the role description and job grading were being undertaken, some of the positions had to be filled by temporary staff to help MTC to continue to function more effectively. These positions were the Contract Officer, Procurement Officer, Accountant, IT Manager, Electrician, Audit and Enterprise Risk Manager, Business Development Manager, Company Secretary and Credit Controllers.

In order to build more capacity in the compliance management function, and to ensure that the entity optimised value for money for the services received from service providers, one of the current staff members was redeployed to focus on the performance of the cleaning and security companies to ensure that they provided the levels of services expected in terms of their contracts. This was as a result of an observation that was made at the Metro Mall facility where the entity was not receiving the number of security guards and cleaners from the service providers as per the contracts.

### **SECTION 2: EMPLOYMENT EQUITY**

MTC is an equal opportunity employer and fully supports the principles underpinning the Employment Equity Act. The entity is not fully compliant as it has 549 employees, 543 of which are Africans, 5 Coloureds and 1 White. There are 307 females and 242 males. Of the 11 managers, 3 are females. However, there is still room for improvement in terms of female employees in management positions, people with disabilities and race groups other than African. MTC has employment policies it believes to be appropriate to the business.

The Entity endorses:

- Elimination of discrimination;
- Promotion of employee diversity;
- Reduction of barriers to the advancement of the disadvantaged; and
- Introduction of measures and procedures for transformation.

MTC has an Employment Equity Committee which looks after Employment Equity issues as identified by the Employment Equity Act.

### **SECTION 3: SKILLS DEVELOPMENT AND TRAINING**

MTC is dedicated to upholding performance standards by continually supporting and training staff in line with its training and development programme. The entity bought a new finance package, Pastel Evolution, and all the employees in the finance department had to undergo training to improve their skills and to understand the package better. The budgeted amount for training in 2010/2011 was 3% of the gross salary budget. This was not fully utilised as a result of the organisational review whereby some of the roles changed and the training had to be aligned to employees' functions.

Computer literacy training will continue in the next year and will focus on programmes specific to the execution of various tasks, including the Smart Trade system. With the introduction of the Minimum Competency Levels in the Regulations of the MFMA for officials in local government, most of the budget in the coming year will be utilised towards achieving those minimum competencies. Once performance objectives have been completed, HR will be in a position to do a skills gap analysis for each employee and have Individual Learning Plans that will inform what training needs to be conducted for each employee. The plans will automatically effect or trigger a spend for training.

### **SECTION 4: PERFORMANCE MANAGEMENT**

The entity has adopted a Performance Management System as a performance enhancement tool to increase the organisation's productivity and foster a positive employee attitude towards work and the organisation. Thus performance management at MTC, like in any other City department or entity, is undertaken through the balanced scorecard system. The performance indicators are linked to the entity's objectives and the IDP scorecard. Additional objectives are included to reinforce the culture of governance and risk management, especially amongst managers.

However, it has not been an easy exercise to get staff members to sign performance scorecards at MTC. Although MTC as an entity had an organisational scorecard in the 2009/10 financial year, none of the staff members (including middle management who are union members) had individual scorecards signed to ensure that they take responsibility collectively and individually for the achievement of deliverables for the year. Only senior management signed scorecards due to protestations from the union and staff members. The staff members were then given tasks which were measurable and performance could be monitored

Management at MTC continued with engaging the union and the union had a change of heart and requested that members be taken for yet another training in PMS, after which they will all sign scorecards. The plan was to commence with the performance management process on 21 August 2012 to ensure that all employees sign performance objectives with their respective line managers and monitor performance on an on-going basis.

## **SECTION 5: HIV/AIDS ON THE WORKPLACE**

MTC has taken a stance to approach the management of HIV/Aids as an important challenge which faces every entity and has therefore adopted the City's HIV/AIDS Policy. It has been able to leverage from the partnerships and services provided by the City through various forums. MTC has joined hands with a Non-Governmental Organisation, Aurum Institute, to form Emthonjeni which assists, amongst other things, with HIV and Aids in the Workplace including Voluntary Counselling and Testing.

### **HIV/Aids Structures**

In order to ensure that the objectives of the HIV/AIDS policy are met, MTC appointed a Workplace Wellness Co-ordinator, a member of senior management who is the champion of the HIV/AIDS Wellness Local Forum, which consists of three peer educators. The three peer educators, who are fulltime employees and who have volunteered for this role, have demonstrated a willingness to assist their colleagues to ensure that a better understanding of HIV/AIDS is achieved and that HIV-positive employees receive the care and support they need.

### **Prevalence rate**

Members of staff have been encouraged to visit various clinics that are part of the network established to manage the prevalence of HIV/AIDS within the organisation. This will assist the entity in identifying the current prevalence rate and providing adequate support to those employees who are infected. The Emthonjeni Centre within the Metro Mall facility makes this service easily accessible to staff.

The results from all the tests done at the Emthonjeni Centre are as follows:

- The centre managed to reach 10 884 clients, out of which 961 (8.83%) tested positive;
- 612 of those tested had done CD4 counts, and at the time of reporting 57.4% had already collected their CD4 results;
- 2 235 out of the total number of 10884 were tested for the first time;
- 29 of the traders tested (out of 206), were positive;
- 30 of the taxi operators tested (out of 180), were positive;
- 148 of the youth aged 20 – 24 years tested out of (3 903), were positive;
- 63 of the domestic workers tested (out of 363), were positive;
- 35 of the couples tested (out of 340) were positive;
- 8 945 of those tested (out of 10 884) were actively mobilised by the mobilising officers to test.

### **Awareness of the disease**

A qualified counsellor has been made available to all staff members, where they can ask questions related to the virus and receive the necessary counselling. This process will assist the Local Forum to establish the levels of awareness of the disease within the organisation.

### **Education**

An on-going education programme has been established and is being managed and co-ordinated by the HIV/AIDS Workplace Wellness Co-Coordinator. Five Peer Educators received training on lay counselling, grief management, entity benefits for HIV infected employees and treatment of workplace injuries. The Peer Educators provide HIV/Aids education to all staff on an ongoing basis.

## **SECTION 6: EMPLOYEE BENEFITS**

Since MTC offers total cost to company packages, employees arrange their own medical aid and pension funds for which they must produce proof. Those who do not arrange their own are encouraged to join either Liberty Medical Scheme or Discovery Health. Old Mutual is the recommended and generally used Provident Fund.

## **CHAPTER FIVE: AUDITED STATEMENTS AND AUDIT AND RISK COMMITTEE REPORT**

### **AUDIT AND RISK COMMITTEE REPORT FOR THE YEAR ENDED 30 JUNE 2012**

The Audit and Risk Committee (the Committee) is pleased to present its report for the financial year ended 30 June 2012.

#### **Introduction**

Metropolitan Trading Company SOC Ltd (the Company) is a municipal entity wholly owned by the City of Johannesburg (the Shareholder). This report is therefore presented in accordance with the requirements of the statutory responsibilities of Audit Committees, as contained in Section 166 of the Municipal Finance Management Act, 56 of 2003 (MFMA), Section 270A of the Companies Act, 61 of 1973, (as amended) (the Companies Act 1973) and Section 94 of the Companies Act, 71 of 2008 (as amended) (the Companies Act 2008), which came into effect on 01 May 2011 and the recommendations contained in the third King Report on Governance for South Africa and the King Code of Governance Principles (King III).

The committee is a statutory committee which also has an independent role with accountability to the Board and the Shareholder. The Committee is constituted as a statutory committee of the Company in respect of its statutory duties in terms of section 94 (7) of the Companies Act 2008 and a committee of the Board in respect of all other duties assigned to it by the Board. The Audit Committee is also an independent advisory body established by the Board in terms of Section 166 of the MFMA.

The Committee has documented its objectives, authority and responsibilities in a formal Audit and Risk Committee Charter (the Charter). The Charter was reviewed for the year under review by the Committee. The Charter will be reviewed on a continuous basis to incorporate the requirements of King III and the Companies Act 2008. The Committee's role and responsibilities include its statutory duties and other responsibilities that the Board may assign to the Committee from time to time.

The Committee conducted its affairs in accordance with its mandate as set out in the Charter and executed its responsibilities in terms of its statutory duties and the requirements of King III.

## Committee Composition

The Committee comprises two non-executive directors. The Committee further comprises two independent members who are not members of the Board or employees of the company or its Shareholder. The Chairman of the Board is not the Chairman of the Committee nor is he a member of the Committee. The Committee has no executive directors as members however the acting Chief Executive Officer, the acting Chief Financial Officer and other members of executive management have standing invitations to attend meetings of the Committee. The Committee met eleven times during the period under review and appropriate feedback was provided to the Board on matters that are within the mandate of the Committee.

The Committee consists of the following independent non-executive directors and independent members:

<b>NAME OF MEMBER</b>	<b>ROLE</b>	<b>APPOINTMENT DATE</b>	<b>QUALIFICATIONS</b>
Mr N Rau	Non-Executive Director	25 April 2012	Bachelor of Commerce Bachelor of Commerce (Honours) MCom (MBA equivalent)
Mr N Mametja	Non-Executive Director	25 April 2012	B.Proc, LLB Msc in Transport and Maritime Management Admitted Advocate of the High Court of South Africa
Mr Haroun Moolla	Independent Committee Member	01 February 2010	B.Com (Accounting and Business Economics) Post Graduate Diploma in Accounting Chartered Accountant
Ms Rene Kenosi	Independent Committee	01 February 2010	Chartered Accountant

	Member		
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The effectiveness of the committee is reviewed as part of the board and committee evaluation process each year. All members of the Committee are suitably skilled and experienced and independent. The Committee has collectively and individually sufficient qualifications and experience to fulfil their duties, including an understanding of the financial and sustainability reporting, internal financial controls, external audit process, internal audit process, corporate law, risk management, sustainability, information technology governance as it relates to integrated reporting and governance processes within the Company.

**Role of the Committee**

The Committee performed, *inter alia*, the following main activities:

External Auditors:

- Received and reviewed reports from the external auditors concerning the effectiveness of the Company’s internal control environment, systems and processes.
- Made appropriate recommendations to the Board regarding the corrective actions to be taken as a consequence of the audit findings.
- Obtained assurance from the external auditors that adequate accounting records are being maintained by the Company and appropriate accounting principles are in place and are being consistently applied.
- Reviewed and approved the external audit plan.
- Approved the annual audit fee.
- Ensured that the scope of the external audit has no limitations imposed by management and that there is no impairment on its independence.

The Auditor-General is the External Auditor of the company in terms of Section 92 of the MFMA. The independence and objectivity of the Auditor-General is confirmed.

Internal Audit:

- Considered the effectiveness of Internal Audit, which included reviewing and approving the annual internal audit plan and the internal audit charter and monitoring Internal Audit’s adherence to its annual programme.
- Received and reviewed reports from the internal auditors concerning the effectiveness of the Company’s internal control environment, systems and processes.
- Reviewed the adequacy and appropriateness of management’s corrective action plan as a consequence of audit findings.

- Considered all material forensic reports and established that appropriate corrective action was taken by management.
- Made appropriate recommendations to the Board regarding the corrective actions to be taken as a consequence of the audit findings.
- Monitored and supervised the effective functioning and performance of the internal auditors.
- Ensured that the scope of the internal audit function had no limitations imposed by management and that there is no impairment on its independence.

The head of Internal Audit, the Manager: Internal Audit, reports functionally to the chair of the committee and administratively to the Chief Executive Officer. The internal audit function was performed by an outsourced service provider and in the latter part of the year by the Manager: Internal Audit assisted by co-source partners SAB&T.

### **Risk Management**

- Oversight of the financial reporting risks, internal financial controls, fraud risk and IT risk as it relates to financial reporting.
- The committee assisted the Board in assessing the adequacy of the risk management process. However, the Board remains ultimately responsible for the maintenance of an effective risk management process.
- The committee fulfils an oversight role regarding financial reporting risks, internal financial controls, fraud risk as it relates to financial reporting and information technology risks as they relate to financial reporting.

During the course of the 2011/12 financial year, the Committee, together with the Board, considered the risk management approach, methodology and key control risks of the Company. The Committee has made recommendations on management's approach and structure to ensure an elevation of the risk management profile and to further enhance its effectiveness. The Committee is satisfied that the key control risks are being adequately addressed by management.

### **General**

- Reviewed the accounting practices adopted by the Company.
- Reviewed the accounting policies adopted by the Company and proposed changes in accounting policies and practices and recommended any changes considered appropriate in terms of GRAP to the Board for approval.
- Reviewed and recommended disclosed financial information for adoption by the Board.
- Considered the programmes introduced to improve the overall ethics of the Company and reviewed reports from management and the internal auditors relating to material issues.

- Monitored ethical conduct by the Company, its executives and senior management.
- Monitored the Company's compliance with all applicable legislation and regulations, including without limitation, the companies Act, the MFMA, and Treasury regulations.
- Reported on terms of unauthorised, fruitless, wasteful and irregular expenditure in terms of the MFMA.
- Ensured cooperation between the external auditor and internal audit by clarifying and co-ordinating their roles and functions and that the combined assurance received is appropriate to address all significant risks.
- Assisted the Board in carrying out its risk management and IT responsibilities.
- Received and dealt appropriately with any complaints and/or allegation of wrongdoing including fraud.

The Committee is presented with regular quarterly management reports to assist it to perform its mandated and statutory functions. A review of the whistle-blowing policy and the development of a comprehensive prevention of fraud and corruption policy has been completed. The Committee will review the reporting requirements and structure of the report as part of its continuous improvement programme.

The Internal Auditors and External Auditors have direct access to the Chairman of the Committee and its members. The Committee's agenda provides for confidential one-on-one in-committee meetings with the members.

### ***King III Recommendations***

#### **Assessment of the Finance Function**

The acting Chief Financial Officer (CFO) was appointed on 20 April 2012. The former CFO resigned on 30 April 2012. The company assessed whether the finance function was suitably resourced and skilled to carry out its obligations. Based on the assessment and its recommendation to strengthen the finance function, a suitable resource was utilised to strengthen the finance function.

#### **Internal Financial Control Environment**

Concerted efforts were made to address the findings of audit reports and management has given the assurance that adequate corrective measures have been put in place. The Committee is monitoring the steps being taken by management to address each of the issues raised. Nevertheless, based on the assessment of the system of internal financial controls conducted by internal audit, as well as information and explanations given by management and discussions held

with the external auditors on the results of their audit and the assurance given by the Shareholder, the committee is of the opinion that the system of internal financial controls is effective and forms a basis for the preparation of reliable financial statements in respect of the year under review.

### **Annual Financial Statements**

The Audit and Risk Committee has evaluated the audited annual financial statements for the year ended 30 June 2012 and reviewed them for material compliance with all relevant legislation, regulations and the appropriate accounting policies, standards and practices.

The Audit Committee concurs and accepts the Auditor-General's report on the Annual Financial Statements and is of the opinion that the audited Annual Financial Statements be accepted and read together with the report of the Auditor-General.

Neren Rau

Chairperson: Audit and Risk Committee

# **REPORT OF THE AUDITOR-GENERAL TO GAUTENG PROVINCIAL LEGISLATURE AND COUNCIL OF THE CITY OF JOHANNESBURG METROPOLITAN MUNICIPALITY ON METROPOLITAN TRADING COMPANY SOC LTD**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Introduction**

1. "I have audited the financial statements of the Metropolitan Trading. Company SOC Ltd set out on pages.... to ....., which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory information. "

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act, 2003 (Act No.56 of 2003) (MFMA) and the Companies Act of South Africa, 2008(Act No.71 of 2008 effective on 1 May 2011)(Companies' Act) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements \_that are free from material misstatement, whether due to fraud or error.

### **Auditor-General's responsibility**

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the General Notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's

judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my unqualified audit opinion.

### **Opinion**

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Metropolitan Trading Company SOC. Ltd as, at 30 June 2012, and its financial performance and cash flows for the year then ended accordance with ' SA Standards of GRAP and the requirements of the MFMA and •Companies Act of South Africa, 2008 (Act No. 71 of 2008).

### ***Emphasis of matters***

7. I draw attention to the matters below. My opinion is not modified in respect of these matters

### **Going concern**

8. As disclosed in note 30 to the financial statements, the City of Johannesburg undertook an institutional review and a final decision has been made that MTG operations will be re-integrated back into the City, This re-integration will commence on 1 November 2012 with the entity ultimately being deregistered by 30 June 2013.

### **Material losses**

9. As disclosed in note 23 to the financial statements, material losses to the amount of R283 012 (2011:R1 535 307) were incurred as a result of a write-off of irrecoverable debt from Informal Traders. "

### ***Irregular Expenditure***

10. The municipal entity incurred irregular expenditure of R1 547 625 (2011:R1 406 630) as the expenditure incurred was in contravention of MFMA relating to' supply chain management bid specifications and quotations.

### ***Fruitless and Wasteful Expenditure***

11. The municipal entity incurred fruitless and wasteful expenditure of R645 215 (2011:R697 236) due to interest and penalties arising from late payment of supplier invoices, cancellation fee for the cancelling of a contract and for lease payments made for IT equipment which was not utilised.

### ***Additional Matters***

12. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### ***Unaudited supplementary schedules***

13. The supplementary information set out on pages 39 and 40 do not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

### **Other reports required by the Companies Act**

14. As part of my audit of the financial statements for the year ended 30 June 2012, I have read the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate: for the purpose of identifying whether there are material inconsistencies, between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports I have not identified material inconsistencies between the reports and the audited financial statements in respect of which I have expressed an unqualified opinion. I have not audited the reports and accordingly do not express an opinion on them.

### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

15. In accordance with the PM, and the General Notice issued in terms thereof, I report the following findings relevant to performance against predetermined **objectives**, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion,

#### **Predetermined objectives**

16. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages ... to ... of the annual report.
17. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury, Framework for managing programme performance*

information.

The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

**18.** The material findings are as follows:

### **Usefulness of Information**

**19.** Based on my work described in this report, nothing has come to my attention that causes me to believe that the selected objectives set out in the annual performance report is not fairly stated in all material respects, in accordance with the predetermined criteria.

### **Reliable Information**

20. Based on my work described in this report, nothing has come to my attention that causes me to believe that the selected objectives set out in the annual performance report is not fairly stated in all material respects, in accordance with the predetermined criteria.

### **Additional Matters**

21. I draw attention to the following matters below. These matters do not have an impact on the predetermined objectives audit findings reported above.

### **Achievement of planned targets**

22. Of the 55 planned targets, only 32 were achieved during the year under review. This represents 42% of total planned targets that were not achieved during the year under review.

### **Material adjustments to the annual performance report**

23. Material adjustments in the annual performance report were identified during the audit, of which 33% were corrected by management.

### **Compliance with laws and regulations**

24. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

## **Budgets**

25. The annual budget of the municipal entity was not approved by the board of directors as required by section 87(4) of the MFMA.

## **Strategic Planning and Performance management**

26. The accounting officer of the municipal entity did not, by 20 January 2012 assess the performance of the entity during the first half of the financial year, taking into account the targets set in the service delivery agreement, business plan or other agreement with the entity's parent municipality as required by section 88(1)(a) of the MFMA.

## **Annual Financial statements, performance and annual report**

27. The financial statements submitted for audit did not comply with section 122(1) of the MFMA. Material misstatements were identified during the audit; these were subsequently corrected by management.

## **Procurement and contract management**

28. Quotations were accepted from prospective providers who are not on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy in contravention of SCM regulation 16(b) and 17(b).
29. Sufficient appropriate audit evidence could not be obtained that goods and services of a transaction value above R200 000 were procured by means of inviting competitive bids as per the requirements of SCM regulation 19(a) and 36(1).
30. Sufficient appropriate audit evidence could not be obtained that awards were to providers based on criteria that were stipulated in the original bid documents as, per the requirements of SCM regulation 21(b) and 23(1).
31. Awards were made to suppliers who did not submit a declaration on their employment by the state or their relationship to a person employed by the state as per the requirements of Municipal SCM regulation 13(c).
32. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act and SCM regulation 28(1)(a).
33. Sufficient appropriate audit evidence could not be obtained that awards were made to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.
34. Sufficient appropriate audit evidence could not be obtained that awards were made to

suppliers that scored the highest points in the evaluation process as per the requirements of section 2(1)(f) of Preferential Procurement Policy Framework Act.

35. Awards were made to providers who are persons in service of other state institutions in contravention of the requirements of SCM regulations 44. Furthermore the provider failed to declare that he/she is in the service of the state as required by SCM regulation 13(c).

#### Expenditure management

36. The accounting officer did not take reasonable steps to prevent unauthorised expenditure, irregular expenditure or fruitless and wasteful expenditure, as required by section 95(d) of the Sobahle23Municipal Finance Management Act.

37. All payments due to creditors were not settled within 30 days from receipt of an invoice or statement, as per the requirements of section 99(2)(b).

#### **Internal control**

38. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

#### **Leadership**

39. There was a lack of oversight responsibility regarding financial and performance reporting, compliance with laws and regulations and related internal controls. Policies and procedures were not established and communicated to enable and support understanding and execution of internal control objectives, processes, and responsibilities. Action plans to address internal control deficiencies were not adequately developed and the implementation thereof was not adequately monitored.

#### **Financial and performance management**

40. Proper record keeping was not implemented in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting. There was a lack of controls over daily and monthly processing and reconciling of transactions. Accurate and complete financial and performance reports were not prepared and were not supported by reliable information. Compliance with applicable laws and regulations were not monitored and reviewed.

### **OTHER REPORTS**

#### **Investigations**

41. In the previous year we reported that MTC management was in the process of investigating •5 contracts entered into by previous management; where proper SCM procedures were not followed, this investigation has been finalised and tabled to the Council. Various recommendations have been made and management is in the process of following these recommendations.

*Auditor General*

Johannesburg

30 November 2012



AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*