

REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE LEGISLATURE AND THE COUNCIL ON THE MANGAUNG METROPOLITAN MUNICIPALITY

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the consolidated and separate financial statements of the Mangaung Metropolitan Municipality set out on pages xx to xx, which comprise the consolidated and separate statement of financial position as at 30 June 2012, the consolidated and separate 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 consolidated and separate financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2010 (Act No. 1 of 2010) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of consolidated and separate 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 the consolidated and separate financial statements based on conducting the 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. Because of the matters described in the Basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Property, plant and equipment

4. Sufficient appropriate audit evidence could not be obtained to support the amounts disclosed for property, plant and equipment with a carrying value of R2 997 219 011 (2011: R3 050 432 267) and R344 778 540 (2011: R378 986 421), included in the carrying value amounting to R9 786 996 613 (2011: R9 619 230 873) and R7 134 556 148 (2011: R6 947 785 027) as disclosed in note 11 to the consolidated and separate financial statements, respectively. I was unable to confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustments relating to property, plant and equipment in the consolidated and separate financial statements were necessary. Furthermore, the municipality did not in all instances account for the decline in future service potential embodied in these assets during the current and previous years, as required by South African Statement of Generally Accepted Accounting Practice, IAS36, *Impairment of assets*. I have not determined the correct net carrying amount of property, plant and equipment as it was impracticable to do so.
5. Projects completed by the parent municipality in the current and previous years could not always be traced to the infrastructure additions to which they relate. This was mainly due to a reconciliation not being performed between the previous and reconstructed asset registers. As a result, I was unable to obtain sufficient appropriate audit evidence for additions to infrastructure assets amounting to R50 893 073 (2011: R47 697 883) and for work in progress amounting to R46 693 235 (2011: R18 405 671). I was unable to confirm the

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amounts by alternative means. Consequently, I was unable to determine whether any further adjustment relating to infrastructure assets in the consolidated and separate financial statements was necessary.

6. Sufficient appropriate audit evidence could not be obtained to determine whether the parent municipality had acquired servitudes amounting to R748 445 906 included in infrastructure assets as per note 11 to the financial statements, or whether the servitudes were exercised in terms of rights granted through legislation. Consequently, I could not confirm whether the servitudes had to be recognised as infrastructure assets, as required by SA Standards of GRAP, GRAP 17, *Property, plant and equipment*, or as intangible assets as required by SA Standards of GRAP, GRAP 102, *Intangible assets*. Furthermore, I could not confirm that all servitudes acquired were included as assets in the financial statements. I was unable to confirm the amounts by alternative means. Consequently, I was unable to determine whether any further adjustment relating to infrastructure assets in the consolidated and separate financial statements was necessary.
7. The parent municipality did not, as per SA Standards of GRAP, GRAP 17, *Property, plant and equipment* and accounting policy note 1.7 to the financial statements, consider the fair value increases of land and buildings in arriving at the carrying amounts of R878 826 945 (2011: R878 829 945) and R531 799 104 (2011: R415 988 505) as per note 11 to the financial statements. In addition, all municipal land and buildings which conform to the definition and recognition criteria of property, plant and equipment, as per SA Standards of GRAP, GRAP 17, *Property, plant and equipment*, were not always accounted for and recognised in the financial statements. The parent municipality did not include 1 456 erven and 315 buildings in the fixed asset register. I have not determined the correct net carrying amount of land and buildings in the consolidated and separate financial statements as it was impracticable to do so.
8. Municipal land and buildings with a significant service delivery element amounting to R200 903 433 were incorrectly accounted for as investment property instead of property, plant and equipment. In addition, land and buildings were not appropriately classified between property, plant and equipment, investment property and inventory as the management processes for identifying the intention with these assets had not been finalised at year-end. I have not determined the correct net carrying amount of land and buildings in the consolidated and separate financial statements as it was impracticable to do so.
9. Due to the material effect of the identified misstatements and scope limitations as reported in paragraphs 4 to 8 above, I was unable to determine whether any further adjustments to the related depreciation charges, as presented in the consolidated and separate statement of financial performance, and the related prior period error notes as disclosed in note 52 to the consolidated and separate financial statements, were necessary.

Cash and cash equivalents

10. Sufficient appropriate audit evidence could not be obtained from the municipal entity to confirm cash and cash equivalents amounting to R162 784 175 included in note 8 to the consolidated financial statements. I was unable to confirm the disclosed amounts by alternative means. Consequently, I was unable to determine whether any adjustments to the cash and cash equivalents figure were necessary.

Inventory

11. The municipal entity did not carry its inventory amounting to R38 893 971 included in note 3 to the consolidated financial statements at the lower of cost or net realisable value, as required by SA Standards of GRAP, GRAP 12, *Inventories* and in line with accounting policy note 1.12. Due to weaknesses in the recording of inventory items and the volume thereof I have not determined the correct amount for inventory in the consolidated financial statements as it was impracticable to do so.

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Other receivables from exchange transactions

12. Sufficient appropriate audit evidence could not be obtained from the parent municipality to confirm the existence of sundry receivables with gross balances of R33 920 690 (2011: R38 824 759) included in the gross balance amounting to R56 577 459 (2011: R46 283 483), as disclosed in note 5 to the consolidated and separate financial statements. In addition, sufficient appropriate audit evidence could not be obtained from the municipal entity to confirm other receivables with a carrying amount of R188 679 035 (2011: R30 491 700) in the consolidated financial statements due to an inadequate system of internal control to account for these receivables. The municipality's records did not permit the application of reasonable alternative procedures. Consequently, I was unable to determine whether any adjustments to the other receivables from exchange transactions figure were necessary. Furthermore, an analysis of the age of sundry receivables that are overdue at year-end but not impaired, was not disclosed in the consolidated and separate financial statements in accordance with the requirements of International Financial Reporting Standards, IFRS 7, *Financial instruments: disclosures*. In the absence of appropriate records and information, I was unable to determine the relevant disclosures.

Consumer receivables from exchange transactions

13. Sufficient appropriate audit evidence could not be obtained from the municipal entity to confirm consumer receivables amounting to R276 438 203 (2011: R142 507 514) included in note 7 to the consolidated financial statements due to an inadequate system of internal control to account for consumer receivables. I was unable to confirm the consumer receivables by alternative means. Consequently, I was unable to determine whether any adjustment relating to consumer receivables in the consolidated financial statements was necessary.

Defined benefit plan obligation

14. The defined benefit plan obligations, amounting to R497 437 000 (2011: R442 310 000) as disclosed in note 22 to the consolidated and separate financial statements, were understated as a number of employees were not included or their details were incorrectly captured in the source data that was used to calculate the carrying amount of this liability. Furthermore, the multi-employer-defined benefit plans were also not disclosed in the consolidated and separate financial statements. In the absence of an updated actuarial valuation and due to the complexity of the calculations involved, it was impracticable to determine the full extent of the misstatements involved.

Payables from exchange transactions

15. I was unable to obtain sufficient appropriate audit evidence from the municipal entity to confirm the payables amounting to R375 420 356 (2011: R294 161 703), as included in note 17 to the consolidated financial statements, due to an inadequate system of internal control to account for these payables. Consequently, I was unable to determine whether any adjustment relating to payables from exchange transactions in the consolidated financial statements was necessary.
16. The municipal entity applied for exemption from normal tax as per section 10(1)(c)(A) of the Income Tax Act of South Africa, 1962 (Act No. 58 of 1962). At year-end, the municipal entity had been granted exemption from normal tax by the Commissioner of South African Revenue Service. However, the income tax exemption granted does not cover the period since the company started trading in 2005. The municipal entity had a present legal obligation to recognise a current tax liability as well as a deferred tax liability in the consolidated financial statements as required by SA Statement of GAAP, IAS 12 (AC 102), *Income taxes* for the period 2005 to January 2007. In the absence of appropriate records and information I have not determined the correct amount payable as it was impracticable to do so.

17. The parent municipality incorrectly disclosed unallocated deposit suspense accounts amounting to R17 960 583 as payments received in advance, instead of decreases in other or consumer receivables as per notes 5 and 7 to the consolidated and separate financial statements, respectively. In addition, sufficient appropriate audit evidence could not be obtained from the parent municipality to substantiate movements during the year on these suspense accounts. Furthermore, sufficient appropriate audit evidence could not be obtained to confirm the existence and valuation of and obligations pertaining to payments received in advance amounting to R81 462 611 (2011: R79 168 073), included in payables amounting to R958 510 488 (2011: R639 245 215) and R1 621 702 433 (2011: R1 381 909 839) as disclosed in note 17 to the consolidated and separate financial statements respectively. The municipality's records did not permit the application of reasonable alternative procedures. Consequently, I was unable to determine whether any further adjustment relating to payables from exchange transactions in the consolidated and separate financial statements was necessary.

Consumer deposits

18. Sufficient appropriate audit evidence could not be obtained from the municipal entity to confirm electricity consumer deposits amounting to R51 606 472 (2011: R46 331 130) included in note 19 to the consolidated financial statements due to an inadequate system of internal control to account for consumer receivables. I was unable to confirm the consumer deposits by alternative means. Consequently, I was unable to determine whether any adjustment relating to consumer deposits in the consolidated financial statements was necessary.

Revaluation reserve

19. The corresponding figures for the revaluation reserve, as disclosed in the consolidated and separate statement of financial position and note 25 to the consolidated and separate financial statements, were overstated by R80 363 290 as this amount was incorrectly allocated to the revaluation reserve instead of accumulated surplus by the parent municipality.

Accumulated surplus

20. Sufficient appropriate audit evidence could not be obtained from the municipal entity to confirm the accumulated surplus amounting to R253 496 237 (2011: R334 415 958) as included in the amount of R7 683 668 195 (2011: R7 321 875 546) disclosed in the consolidated financial statements due to the material effect on the accumulated surplus of the identified misstatements and scope limitations as mentioned in this report. The municipal entity's available records and information did not permit the application of alternative procedures. Consequently, I was unable to determine whether any adjustments were necessary to the amount disclosed for accumulated surplus in the consolidated financial statements.

Revenue

21. I was unable to obtain sufficient appropriate audit evidence from the municipal entity to confirm the sale of electricity revenue amounting to R1 211 974 409 (2011: R909 782 472) as disclosed in the consolidated statement of financial performance due to weaknesses in the accounting records. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed for sale of electricity revenue.
22. All water meters were not billed on a monthly basis and the reasonability of the estimated units levied on the billing system could not be confirmed. Due to the volume of transactions it was impracticable to determine the full extent of the misstatement involved. Consequently, I was not able to determine the effect on water service charges amounting to R447 910 378 (2011: R406 241 759) as per note 37 to the consolidated and separate financial statements

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and water consumer receivables amounting to R726 633 045 (2011: R481 589 595) as disclosed in note 7 to the consolidated and separate financial statements.

23. Rental income from premises amounting to R91 749 400, as disclosed in the consolidated and separate statement of financial performance and note 36 to the consolidated and separate financial statements, was not recognised on a straight-line basis over the lease term, as required by SA Standards of GRAP, GRAP 13, *Leases*. As the relevant information was not available I was unable to calculate what the rental income and deferred income should have been had GRAP 13 been correctly applied.
24. The municipal entity did not have a system of internal control over the recognition of conditional government grants and subsidies revenue of R89 074 626 (2011: R15 502 883) as included in note 31 to the consolidated financial statements on which could be relied for audit purposes. In addition, the supporting documents provided by the municipal entity revealed that the conditions of each grant were not met and thus I was unable to confirm whether the expenditure against grants should have been transferred to revenue in the consolidated statement of financial performance. Furthermore, I was unable to obtain sufficient appropriate evidence from the municipal entity to provide reasonable assurance that government grants and subsidies were properly recorded in the consolidated financial statements. Consequently, I was unable to determine whether any adjustment relating to government grants and subsidies in the consolidated financial statements was necessary.

Expenditure

25. The municipal entity could not provide sufficient appropriate audit evidence to support the bulk electricity purchases and journal entries of R181 347 304 and R20 516 832 credited and debited, respectively, to and included in bulk purchases as disclosed in note 39 to the consolidated financial statements. Due to an inadequate system to account for expenditure, the management of the filing system not functioning effectively and transactions being recorded when payment is made, instead of when goods and services are received, I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustment relating to bulk purchases expenditure in the consolidated financial statements was necessary.
26. The municipal entity could not provide sufficient appropriate audit evidence to support the transactions and journal entries of R10 914 520 and R45 771 196 debited and credited, respectively, to consulting and professional fees, contractors fees, travelling and subsistence, vendor commission and other expenses due to an inadequate system to account for expenditure. The municipal entity's management of the filing system also did not function effectively. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that all goods and services were properly recorded in the consolidated financial statements. I was unable to determine whether any adjustment relating to general expenditure as per note 45 to the consolidated financial statements was necessary.
27. I was unable to obtain sufficient appropriate audit evidence from the parent municipality for the restatement in the corresponding figure of repairs and maintenance. As disclosed in note 52.39 to the consolidated and separate financial statements, the restatement of R33 480 045 was made in order to rectify a prior year misstatement. However, the corresponding amount of repairs and maintenance decreased by R15 638 209 compared to that reported in the prior year. The parent municipality could not provide an explanation for the difference of R49 118 254. Consequently I was unable to determine whether any adjustments to repairs and maintenance corresponding figure were necessary.

Capital commitments

28. Paragraph 83(c) of SA Standards of GRAP, GRAP 17, *Property, plant and equipment* states that the financial statements shall disclose for each class of property, plant and equipment recognised in the financial statements, the amount of contractual commitments in this regard.

The parent municipality and the municipal entity did not have adequate contract management systems in place for the identification and recognition of contracts and there were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that all commitments were properly recorded. Consequently, I was unable to determine whether any adjustments to the commitments disclosure of R604 607 080 (2011: R272 555 457) and R551 714 690 (2011: R203 042 374), as stated in note 49 to the consolidated and separate financial statements, were necessary.

Irregular expenditure

29. Irregular expenditure amounting to R26 994 305 was identified during the audit due to non-adherence by the municipal entity to its supply chain management (SCM) policy and the SCM regulations. Furthermore, the municipal entity overspent its budgeted amount by R317 550 826. This irregular expenditure was not completely disclosed in note 59 to the consolidated financial statements, as required in terms of section 125(2)(d) of the MFMA. In addition, sufficient appropriate audit evidence could not be obtained that all the expenditure transactions for the current and previous years were investigated to ensure that all instances where irregular expenditure transactions occurred were identified, recorded and investigated. I was unable to perform reasonable alternative audit procedures. Consequently, I could not obtain adequate audit assurance as to the completeness of irregular expenditure amounting to R403 627 113 (2011: R299 363 858) and R255 032 009 (2011: R207 212 944), as disclosed in note 59 to the consolidated and separate financial statements, respectively.

Fruitless and wasteful expenditure

30. Fruitless and wasteful expenditure amounting to R21 170 839 was identified at the municipal entity during the audit. Furthermore, the municipal entity could not provide sufficient appropriate audit evidence that management had properly identified, investigated and recorded all fruitless and wasteful expenditure transactions during the current and prior years. Due to the limitations placed on the scope of the work performed relating to expenditure of the municipal entity, there were no satisfactory alternative audit procedures that I could perform to confirm the completeness of fruitless and wasteful expenditure amounting to R79 714 747 (2011: R76 685 448), as disclosed in note 58 to the consolidated financial statements.

Presentation and disclosure

31. The completeness and accuracy of electricity losses of R183 033 832 (2011: R130 533 189), as disclosed in note 60 to the consolidated financial statements, could not be confirmed as the municipal entity was unable to provide supporting documentation to substantiate the calculation. Consequently, I was unable to determine whether any adjustment to the electricity losses disclosure as per the consolidated financial statements was necessary.
32. The municipal entity has not disclose street lighting service revenue as a separate category of revenue as required by paragraph 39 (b)(i) of SA Standards of GRAP, GRAP 9, *Revenue from exchange transactions*. Consequently, street lighting service revenue was not disclosed separately in the consolidated financial statements. I have not determined the correct amount as it was impracticable to do so.

Cash flow statement

33. The consolidated and separate cash flow statement and the related notes are not fairly stated due to the material effect on the cash flow statement and related notes of the identified misstatements and scope limitations as mentioned in this report.

Accumulation of immaterial uncorrected misstatements

34. The consolidated and separate financial statements are materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the

following elements making up the consolidated and separate statement of financial position, the consolidated and separate statement of financial performance and the notes to the consolidated and separate financial statements:

- Rental income reflected as R106 106 515 (2011: R45 992 460) is understated by R17 101 941 (R16 046 185) in the consolidated and separate financial statements.
- Repairs and maintenance expenditure reflected as R177 942 530 and R148 390 544 in the consolidated and separate financial statements, respectively, is overstated by R16 434 598.

In addition, I was unable to obtain sufficient appropriate audit evidence and was unable to confirm or verify the following elements by alternative means.

- Free services recovered revenue reflected as R3 368 071 in the consolidated financial statements
- Repairs and maintenance expenditure of R8 576 227 included in the amount of R177 942 530 and R148 390 544 as reflected in the consolidated and separate financial statements, respectively
- Employee-related costs of R13 624 425 included in the amount of R860 487 677 as reflected in the consolidated financial statements
- Intangible assets of R10 942 829 (2011: R705 551) included in the amount of R18 461 880 (2011: R8 189 349) as reflected in the consolidated financial statements
- Contingent liabilities of R33 868 634 included in the amount of R40 123 487(2011: R51 168 642) as reflected in the consolidated financial statements.

Disclaimer of opinion

35. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

Emphasis of matters

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

Restatement of corresponding figures

37. As disclosed in notes 52 and 53 to the consolidated and separate financial statements, the corresponding figures for 30 June 2011 have been restated as a result of errors discovered during the 2011-12 financial year in the consolidated and separate financial statements of the parent municipality and municipal entity at, and for the year ended, 30 June 2011.

Material losses

38. As disclosed in note 60 to the consolidated and separate financial statements, material water losses amounting to R111 479 285 (2011: R114 210 109) were incurred by the parent municipality mainly due to the deterioration of the water reticulation system and unmetered water connections. In addition, the municipal entity suffered a significant electricity distribution loss to the value of R183 033 832 (2011: R130 533 189) as disclosed in note 60 to the consolidated financial statements.

Material impairments

39. As disclosed in note 4 to the consolidated financial statements, a provision for a decrease in value to the amount of R55 507 665 (77,9%) (2011: R56 238 181) (80,4%) was made with regard to housing-selling scheme loans, erven loans, vehicle loans and study loans granted by the parent municipality amounting to R71 197 911 (2011: R69 986 546).
40. As disclosed in note 5 to the consolidated financial statements, a provision for a decrease in

value to the amount of R36 937 970 (65,3%) (2011: R33 902 241) (73,2%) was made with regard to amounts owing to the parent municipality in respect of commercial rental income and other miscellaneous services rendered by the parent municipality amounting to R56 577 459 (2011: R46 283 483).

41. As disclosed in note 6 to the consolidated financial statements, a provision for a decrease in value to the amount of R272 433 076 (71,9%) (2011: R237 398 622) (79,4%) was made with regard to amounts owing to the municipality in respect of property rates amounting to R378 880 397 (2011: R299 111 645).
42. As disclosed in note 7 to the consolidated financial statements, a provision for a decrease in value to the amount of R1 038 584 578 (69,8%) (2011: R635 279 659) (69,3%) was made with regard to amounts owing to the municipality in respect of electricity, water, sewerage and housing rentals amounting to R1 487 359 654 (2011: R916 118 333).

Unauthorised expenditure

43. As disclosed in note 57 to the consolidated and separate financial statements, non-budgeted expenditure of R307 256 486 (2011: R67 711 892) was incurred by the parent municipality during the current and previous financial year, which is regarded as unauthorised expenditure. The total reported unauthorised expenditure that was still under investigation at 30 June 2012 amounted to R374 968 378 (2011: R466 793 278).

Fruitless and wasteful expenditure

44. As disclosed in note 58 to the consolidated and separate financial statements, fruitless and wasteful expenditure of R11 092 862 (2011: R40 953 136) and R183 514 (2011: R11 836 142), respectively, was incurred in the current and previous financial year for the reasons set out in the note. The total reported fruitless and wasteful expenditure that was still under investigation at 30 June 2012 amounted to R79 714 747 (2011: R76 685 448) and R27 000 205 (2011: R34 880 254), respectively.

Irregular expenditure

45. As disclosed in note 59 to the consolidated and separate financial statements, irregular expenditure of R113 698 713 (2011: R148 765 509) and R57 254 523 (2011: R108 427 595), respectively, was incurred in the current and previous financial year mainly as a result of contracts awarded to suppliers in contravention of the Local Government: Municipal Supply Chain Management Regulations (GNR 868 of 30 May 2005) (Municipal SCM Regulations) and policies. Accumulated irregular expenditure amounting to R403 627 113 (2011: R299 363 858) and R255 032 009 (2011: R207 212 944), respectively, is awaiting condonement by the council.

Financial sustainability

46. As disclosed in note 55 to the financial statements, certain going concern ratios are regarded as unfavourable.
 - (a) The current liabilities of the municipality significantly exceeded its current assets.
 - (b) The municipality did not always settle its debt within 30 days as required by the MFMA.
 - (c) Although an improvement in the collection of business and government accounts are visible, the municipality is experiencing serious difficulties with regard to its debt collection from domestic customers.
 - (d) Furthermore, as disclosed in note 22 to the financial statements, no funds have been set aside to settle defined benefit obligations amounting to R497 437 000 (2011: R442 310 000).

The municipality may therefore be unable to realise its assets and discharge its liabilities in the normal course of business.

Additional matter

47. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

48. The supplementary information set out in appendices A, C, D and F does not form part of the consolidated and separate financial statements and is presented as additional information. I have not audited these appendices.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

49. In accordance with the PAA 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.

Annual performance report not prepared

50. I was unable to report findings on the usefulness and reliability of the annual performance report of Centlec Limited [state-owned company (SOC)] as it was not prepared as required by section 121(4)(d) of the MFMA.

Predetermined objectives

51. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report of the parent municipality as set out on pages xx to xx of the annual report.

52. 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's 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).

53. The material findings are as follows:

Usefulness of information

Presentation

Measures taken to improve performance not supported by sufficient appropriate evidence

54. Section 46 of the Municipal Systems Act requires the disclosure of measures taken to improve performance in the annual performance report where planned targets were not achieved. Adequate and reliable corroborating evidence could not be provided for 27% of measures taken to improve performance as disclosed in the annual performance report. This was due to the absence of proper processes and information systems. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the validity, accuracy and completeness of the reasons for major variances.

Measures taken to improve performance not disclosed

55. Improvement measures in the annual performance report of the parent municipality for a total of 58% of the planned targets not achieved were not disclosed as required by section 46 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA). This was due to inadequate