

**REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL  
LEGISLATURE ON THE FINANCIAL STATEMENTS AND PERFORMANCE  
INFORMATION OF THE LUKHANJI MUNICIPALITY FOR THE YEAR ENDED 30  
JUNE 2007**

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I have audited the accompanying financial statements of the Lukhanji Municipality which comprise the balance sheet as at 30 June 2007, income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes and the accounting officer's report, as set out on pages 27 to 51.

**Responsibility of the accounting officer for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with an entity-specific basis of accounting and in the manner required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). This responsibility includes:
  - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
  - selecting and applying appropriate accounting policies
  - making accounting estimates that are reasonable in the circumstances.

**Responsibility of the Auditor-General**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
5. 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.
6. An audit also includes evaluating the:
  - appropriateness of accounting policies used
  - reasonableness of accounting estimates made by management
  - overall presentation of the financial statements.

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

#### **Basis of accounting**

8. The municipality's policy is to prepare financial statements on an entity-specific basis of accounting, as set out in accounting policy note 1.

#### **Basis for qualified opinion**

##### **Fixed assets**

9. Assets to the value of R91.3 million could not be physically verified due to lack of appropriate information in the fixed asset register. In addition, land and infrastructure assets owned by the municipality have not been disclosed in appendix C to the financial statements. The municipality did not write off assets identified by the municipality as non-operational or stolen in the amount of R 2.3 million.

As disclosed in appendix C to the financial statements, total fixed assets amounting to R179.2 million agrees to the fixed asset register. However, vote differences were found between amounts disclosed in appendix C and general ledger balances. The net effect of these differences was nil.

As a result of the above-mentioned matters, I could not conclude on the existence and completeness of fixed assets in the amount of R179.2 million per note 6 to the Financial Statements.

Cognisance is taken of the fact that the Lukhanji Municipality was still in the process of compiling a complete fixed asset register.

##### **Debtors**

###### **Provision for bad debts**

10. An amount of R69.2 million has been disclosed in note 10 to the financial statements as the provision for doubtful debts. Based on an analysis of receipts received subsequent to year end as well as a lack of follow-up of long outstanding amounts by management, and in view of the fact that 58% of debtors disclosed are older than 90 days, this amount is understated. As a result thereof, the provision of R69.2 million was inadequate to cover the possible level of irrecoverable debts at year-end.

###### **Value-added taxation (VAT)**

11. Included in debtors, per note 10 to the financial statements, was an amount of R15.5 million which related to VAT receivable at year-end. However, it was determined that this account was understated by R578 191 due to VAT being set off in error.

##### **Provisions**

###### **Leave**

12. Numerous inconsistencies were identified in the calculation of the leave gratuity provision, including differences between attendance registers and leave registers, no regular review of leave registers, an inadequate leave system and clock cards being used which does not refer to specific dates. It was not possible to verify the accuracy and completeness of leave days used in the calculation. Therefore the accuracy and completeness of the leave gratuity provision of R 3 million disclosed in note 11 of the notes to the financial statements could not be verified.

#### Landfill site

13. The municipality did not have a restoration plan for its landfill site and as such is in breach of Section 28 of the National Environment Management Act, 1998 (Act No. 107 of 1998). No liability in respect of the obligation for restoring/rehabilitating these landfill sites had been raised. The understatement of the liability could not be determined in the absence of management's assessment in this regard.

#### Qualified opinion

14. In my opinion, except for the effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements of the Lukhanji Municipality as at 30 June 2007 and its financial performance and cash flows for the year then ended have been prepared, in all material respects, in accordance with the basis of accounting as set out in accounting policy note 1 and in the manner required by the MFMA.

#### EMPHASIS OF MATTERS

15. I draw attention to the following matter(s):

Per note 27 of the annual financial statements an amount of R 555 750 had been disclosed as fruitless and wasteful expenditure. An amount of R 555 750 was paid for replacement of a hired vehicle which was destroyed while the municipality was in possession of the vehicle. This could have been avoided had reasonable care been exercised.

Per note 28 of the annual financial statements an amount of R 90 989 had been disclosed as unauthorised expenditure. This disclosure related to overspending of the Electricity - Technical Services vote account.

#### OTHER MATTERS

I draw attention to the following matters that are ancillary to my responsibilities in the audit of the financial statements:

##### **Material non-compliance with applicable legislation**

##### **Property Valuation Ordinance 148 of 1993**

16. In terms of sections 8(1) and (2) of the Property Valuation Ordinance 148 of 1993, a local authority shall from time to time cause a general valuation to be performed on all property. The general valuation must be performed every four years. The last general valuation was performed in 1997. Council is therefore in contravention of the above mentioned legislation.

It was noted that a general valuation was performed by an external service provider during the 2005/06 financial year. However, a report issued by the Department of Housing, Local Government and Traditional Affairs indicated that no reliance could be placed on the accuracy of the valuation and as such it was rendered not applicable for rates purposes.

An interim valuation was performed during the year under review. However this valuation only came into affect on 1 July 2007.

\* \* \* Immediate TX Result Report ( 6. Dec. 2010 15:16 ) \* \* \*

1) LUKANJI MUNICIPALITY ADMIN  
2)

Date	Time	Destination	Mode	TXtime	Page	Result	User Name	File No.
6. Dec.	15:15	TECHNICAL SERVICES	G3TES	0'19"	P. 1	OK	vera	6734

Q>S# : Batch  
 : Memory  
 : Standard  
 : Reduction  
 : RX Notice Req.  
 : Folder

C : Confidential  
 L : Send later  
 D : Detail  
 H : Stored/D. Server  
 A : RX Notice

\$ : Transfer  
 @ : Forwarding  
 F : Fine  
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P : Polling  
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