

## **REPORT OF THE AUDITOR-GENERAL TO THE COUNCIL ON THE FINANCIAL STATEMENTS OF LESEDI LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2005**

### **1. AUDIT ASSIGNMENT**

The financial statements as set out on pages 1 to 54, for the year ended 30 June 2005, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the accounting officer. My responsibility is to express an opinion on these financial statements, based on the audit.

### **2. NATURE AND SCOPE**

The audit was conducted in accordance with statements of South African Auditing Standards. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements,
- assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall financial statement presentation.

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations which came to my attention and are applicable to financial matters.

The audit was completed in accordance with Auditor-General Directive No. 1 of 2005.

I believe that the audit provides a reasonable basis for my opinion.

Lesedi Local Municipality has not opted for early implementation of Generally Accepted Municipal Accounting Practice (GAMAP). Although the effective dates of application of these Standards of Generally Recognised Accounting Practice (GRAP) and Generally Accepted Municipal Accounting Practice (GAMAP) also referred to in my audit opinion in paragraph 3 below, have not yet been gazetted by the Minister of Finance, they have been recommended for implementation by the Accounting Standards Board and National Treasury.

### **3. AUDIT OPINION**

In my opinion, the financial statements fairly present, in all material respects, the financial position of Lesedi Local Municipality at 30 June 2005 and the results of its operations and cash flows for the year then ended, in accordance with IMFO guidelines and in a manner required by the Municipal Finance Management Act, 2003 (Act No.56 of 2003).

### **4. EMPHASIS OF MATTER**

Without qualifying the audit opinion expressed above, attention is drawn to the following matters:

#### **4.1 Consumer debtors**

Consumer debtors amounting to R52 634 911 (2004: R42 797 219) remained outstanding for 120 days and longer as at 30 June 2005 which represents 68,83% (2004: 67,69%) of the total outstanding consumer debtors. Although the provision for doubtful debt amounted to R29 339 385 (2004: R29 653 898) at 30 June 2005, the non-recovery of debtors could have a serious impact on the cash flow situation, future growth and the continued service delivery of the municipality.

#### **4.2 Distribution losses**

The loss on the distribution of electricity amounted to 13.60% (2004: 13.95%) representing a purchase price of R 4 331 926 (2004: R 4 168 278) and the loss on the distribution of water amounted to 14.90% (2004: 17.19%) representing a purchase price of R 1 944 573 (2004: R 2 102 692). These were considered to be high.

### 4.3 Declaration of interests by certain Tender Committee Members

The municipal manager and executive managers that form part of the Tender Committee did not declare their interests before the evaluation of tenders as prescribed by the policies and procedures.

### 4.4 Weaknesses detected during the information systems audit

Although some controls were in place, certain control weaknesses were still identified in the IT general control environment:

- (i) Logical access controls were yet to be addressed on the operating system.
- (ii) A draft Disaster Recovery Plan was yet to be finalised, approved and implemented.
- (iii) Certain environmental control weaknesses existed.

Accordingly, weaknesses pertaining to change control and user data account management raised concerns regarding the integrity of the data.

## 5. APPRECIATION

The assistance rendered by the staff of the Lesedi Local Municipality during the audit is sincerely appreciated.

**I Vanker for Auditor-General**

**Johannesburg**

**20 January 2006**



AUDITOR - GENERAL