



AUDITOR-GENERAL  
SOUTH AFRICA

# AUDIT REPORT

iLembe District Municipality

2022-23

*Date: 30 November 2023*

# Report of the auditor-general to KwaZulu-Natal Provincial Legislature and the council on iLembe District Municipality

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of the iLembe District Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2023, statement of financial performance, statement of changes in net assets and cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the iLembe District Municipality as at 30 June 2023 and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2022 (Act No. 5 of 2022) (Dora).

### Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the responsibilities of the auditor-general for the audit of the financial statements section of my report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' International code of ethics for professional accountants (including International Independence Standards) (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Emphasis of matters

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

#### Distribution losses – water

7. As disclosed in note 45.3 to the financial statements, the municipality incurred material water losses of R106,19 million (2022: R106,00 million) which represents 46.36% (2022: 46.11%) of the total water purchased. The losses were mainly due to illegal connections, main leaks (ageing infrastructure), reservoir overflows and service connection leaks.

### **Irregular expenditure**

8. As disclosed in note 59 to the financial statements, irregular expenditure of R155,87 million (2022: R149,53 million) that was incurred in the previous years was still under investigation at year-end.

### **Allowance for impairment of receivables**

9. As disclosed in note 2 to the financial statements, receivables from exchange transactions were impaired by a total amount of R760,26 million (2022: R456,27 million) as the recoverability of these amounts was doubtful.

### **Other matter**

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

### **Unaudited disclosure notes**

11. In terms of section 125(2)(e) of the MFMA, the particulars of non-compliance with the MFMA should be disclosed in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

### **Responsibilities of the accounting officer for the financial statements**

12. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and Dora, 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.
13. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

### **Responsibilities of the auditor-general for the audit of the financial statements**

14. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
15. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

## Report of the audit of the annual performance report

16. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for the selected objective presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.
17. I selected the following objective presented in the annual performance report for the year ended 30 June 2023 for auditing. I selected an objective that measures the municipality's performance on its primary mandated functions and that is of significant national, community or public interest.

| Objective                     | Page numbers | Purpose                                                                                                                                                                        |
|-------------------------------|--------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Basic Service Delivery</b> | XX           | The core function of the municipality is to ensure sustainable provision of water and sanitation services and improve access to these basic services thereby reducing backlogs |

18. I evaluated the reported performance information for the selected objective against the criteria developed from the performance management and reporting framework, as defined in the general notice. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users on the municipality's planning and delivery on its mandate and objectives.
19. I performed procedures to test whether:
- the indicators used for planning and reporting on performance can be linked directly to the municipality's mandate and the achievement of its planned objectives
  - the indicators are well defined to ensure that they are easy to understand and can be applied consistently, as well as verifiable so that I can confirm the methods and processes to be used for measuring achievements
  - the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated
  - the indicators and targets reported on in the annual performance report are the same as those committed to in the approved initial or revised planning documents
  - the reported performance information is presented in the annual performance report in the prescribed manner
  - there is adequate supporting evidence for the achievements reported and for the measures taken to improve performance.
20. I performed the procedures for the purpose of reporting material findings only; and not to express an assurance opinion or conclusion.

21. I did not identify any material findings on the reported performance information for the selected objective.

#### **Other matters**

22. I draw attention to the matter below.

#### **Achievement of planned targets**

23. The annual performance report includes information on reported achievements against planned targets and provides measures taken to improve performance.

#### **Report on compliance with legislation**

24. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting officer is responsible for the municipality's compliance with legislation.
25. I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.
26. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the municipality, clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.
27. The material finding on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

#### **Annual Financial Statements**

28. The financial statements submitted for auditing were not fully prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements in the cash flow statement identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

#### **Other information in the annual report**

29. The accounting officer is responsible for the other information included in the annual report. The other information referred to does not include the financial statements, the auditor's report and the selected objective presented in the annual performance report that has been specifically reported on in this auditor's report.
30. My opinion on the financial statements, the report on the audit of the annual performance report and the report on compliance with legislation do not cover the other information

included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.

31. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the financial statements and the selected objective presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
32. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract the auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

#### Internal control deficiencies

33. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
34. The matters reported below are limited to the significant internal control deficiencies that resulted in the material findings on compliance with legislation included in this report.
35. Management did not prepare an accurate and complete set of financial statements that were supported and evidenced by reliable information, as material misstatements were identified in the annual financial statements.

AUDITOR - GENERAL

Pietermaritzburg

30 November 2023



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SOUTH AFRICA

*Auditing to build public confidence*