



Report of the auditor-general to the North West provincial legislature and the council on the Dr Kenneth Kaunda District Municipality

Report on the consolidated and separate financial statements

Introduction

1. I have audited the consolidated and separate financial statements of the Dr Kenneth Kaunda District Municipality and its subsidiary set out on pages XX to XX, which comprise the consolidated and separate statement of financial position as at 30 June 2016, the consolidated and separate statement of financial performance, the statement of changes in net assets, the cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the consolidated and separate financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these consolidated and separate financial statements 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, 2015 (Act No. 1 of 2015) (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 these consolidated and separate financial statements based on my audit. I conducted my audit in accordance with 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 consolidated and separate financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate 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 consolidated and separate 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 consolidated and separate financial statements.

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

Basis for qualified opinion

Property, plant and equipment

6. The municipality made payments of R10 368 727 for the acquisition of the broadband wifi network infrastructure assets. Furthermore, in terms of the contract with the supplier, the supplier also subsidised additional assets, the amount which could not be reliably determined. However, I was unable to obtain sufficient appropriate audit evidence that all these assets acquired in the year in terms of this contract, have been appropriately accounted for by the municipality in accordance with GRAP 17 *Property, plant and equipment*. I was unable to confirm the correct accounting of these assets by alternative means. Consequently, I was unable determine whether any adjustments to revenue from non-exchange transactions of R181 133 548, transfers and subsidies of R145 448 261 and R151 448 261 respectively in the consolidated and separate statement of financial performance, VAT receivable of R4 493 682 and R4 062 894 respectively and property, plant and equipment of R16 661 450 and R16 497 144 respectively in the consolidated and separate statement of financial position, were necessary.

Transfers and subsidies

7. Contrary to the requirements of GRAP 1 *Presentation of financial statements* and GRAP 17 *Property, plant and equipment*, the municipality incorrectly recognised operational expenditure and capital projects for local municipalities not yet completed at year end, as transfers and subsidies. I was not able to determine the full extent of the misstatement of transfers and subsidies of R145 448 261 (2015: R94 899 417) and R151 448 261 (2015: R101 927 677), repairs and maintenance of R1 289 417 (2015: R1 544 601) and R1 259 977 (2015: R1 532 101) and contracted services of R2 594 670 (2015: R2 407 881) and R2 360 648 (2015: R2 111 723) respectively in the consolidated and separate statement of financial performance and property, plant and equipment of R16 661 450 (2015: R37 521 660) and R16 497 144 (2015: R37 309 700) respectively in the consolidated and separate statement of financial position, as it was impracticable to do so.

Irregular expenditure

8. Section 125 of the MFMA requires the disclosure of irregular expenditure incurred. The municipality made payments of R25 024 770 in contravention of the supply chain management requirements which were not included in irregular expenditure disclosed. As the municipality did not quantify the full extent of the irregular expenditure, it was impracticable to determine the understatement of irregular expenditure of R21 151 080 and R17 830 379 respectively disclosed in note 49 to the consolidated and separate financial statements.

Qualified opinion

9. In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraphs, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the Dr Kenneth Kaunda District Municipality and its subsidiary as at 30 June 2016 and their financial performance and cash flows for the year then ended, in accordance with the SA standards of GRAP, the requirements of the MFMA and the DoRA.



Emphasis of matters

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

Fruitless and wasteful expenditure

11. As disclosed in note 48 to the consolidated and separate financial statements, fruitless and wasteful expenditure from prior years of R10 607 737 and R10 357 980 respectively, had not yet been dealt with in accordance with section 32 of the MFMA.

Going concern

12. Note 45 to the separate financial statements indicates that the Dr Kenneth Kaunda District Municipality incurred a net deficit of R99 521 959 for the year, resulting in an accumulated deficit of R8 251 839 for the year ended 30 June 2016 and, as of that date, the municipality's total liabilities exceeded its total assets by R8 251 839. These conditions, along with other matters disclosed in note 45, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

Additional matters

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

Unaudited disclosure notes

14. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Unaudited supplementary schedules

15. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

Report on other legal and regulatory requirements

16. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected key performance areas (KPA) presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

17. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected key performance areas presented in the annual performance report of the municipality for the year ended 30 June 2016:

- Key performance area 2: Basic service delivery and infrastructure development on pages x to x
- Key performance area 3: Good governance and public participation on pages x to x



18. I evaluated the usefulness of the reported performance information to determine whether it was consistent with the planned key performance areas. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).
19. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
20. The material findings in respect of the selected key performance areas are as follows:

KPA 2: Basic service delivery and infrastructure development

Usefulness of reported performance information

21. A total of 24% of the indicators did not relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives as per the five year integrated development and service delivery and budget implementation plan, as required by the FMPPI.

Reliability of reported performance information

22. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. The reported achievements against planned targets of 24% of indicators were not reliable when compared to the source information or evidence provided.

KPA 3: Good governance and public participation

Usefulness of reported performance information

23. A total of 79% of the indicators did not relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives as per the five year integrated development and service delivery and budget implementation plan, as required by the FMPPI.

Reliability of reported performance information

24. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of the reported performance information.

Additional matter

25. I draw attention to the following matter:

Achievement of planned targets

26. Refer to the annual performance report on pages XX to XX and XX to XX for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected key performance areas reported in paragraphs XX to XX of this report.



Compliance with legislation

27. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Strategic planning and performance management

28. The performance management system and related controls were inadequate as it did not describe and represent the processes of performance planning, monitoring, measurement, review, reporting, improvement and how it is conducted, organised and managed, including determining the roles of the different role-players, as required by sections 38 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) and regulation 7 of the Municipal planning and performance management regulations.
29. Annual performance objectives and indicators for the Dr Kenneth Kaunda District Municipality Economic Agency SOC Limited were not established by agreement between the municipality and the entity as required by sections 93B(a) and 93C(a)(iv) of the MSA.
30. The 2014-15 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the MFMA.

Financial statements, performance and annual reports

31. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of current assets and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were subsequently provided, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Procurement and contract management

32. Bid adjudication committee meetings were not always composed in accordance with SCM regulation 29(2).
33. Goods and services with a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).
34. Awards were made to providers who were in the service of other state institutions in contravention of MFMA 112(j) and SCM regulation 44.
35. The preference point system was not 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)

Expenditure management

36. The accounting officer did not take reasonable steps to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.

Asset management

37. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.



38. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Internal control

39. I considered internal control relevant to my audit of the consolidated and separate financial statements, the annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

40. Leadership did not ensure that all policies and procedures were reviewed and implemented to enable and support the understanding and execution of internal control objectives, processes, and responsibilities. Lack of appropriate oversight to ensure adequate monitoring of internal controls resulted in material findings reported on the consolidated and separate financial statements, annual performance report and compliance with legislation.

Financial and performance management

41. The accounting officer did not implement adequate monitoring controls to ensure that reliable financial and performance reports were collated throughout the year. Management did not adequately review and monitor compliance with applicable laws and regulations, resulting in repeated findings on compliance.

Governance

42. The municipality did not adequately respond to the concerns raised by the audit committee, resulting in the internal control environment over financial and performance information and compliance with laws and regulations being ineffective.

Other reports

43. I draw attention to the following engagement that could potentially impact on the municipality's financial, performance and compliance related matters. My opinion is not modified in respect of this engagement that is in progress.

Investigations

44. The South African Police Service is investigating a case of fraud against a service provider who failed to perform in terms of a contract during the period February 2015 to June 2015. The investigation is still in progress.



Rustenburg

31 December 2016



A U D I T O R - G E N E R A L
S O U T H A F R I C A

Auditing to build public confidence