



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

Report on the audit of the consolidated and separate financial statements

Opinion

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 2020, and the consolidated and separate statement of financial performance, statement of changes in net assets, and 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 consolidated and separate financial statements, including a summary of significant accounting policies.
2. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Dr Kenneth Kaunda District Municipality and its subsidiary as at 30 June 2020, and their financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (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, 2019 (Act No. 16 of 2019) (DoRA).
3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the consolidated and separate financial statements section of this auditor's report.
4. I am independent of the group 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.

Unauthorised, irregular and fruitless and wasteful expenditure

7. As disclosed in note 33 to the consolidated and separate financial statements, unauthorised expenditure of R2 782 151 was incurred in the current year and the unauthorised expenditure of R67 966 774 in respect of prior years have not yet been dealt with in accordance with section 32 of the MFMA.

8. As disclosed in note 35 to the consolidated and separate financial statements, irregular expenditure of R57 310 700 was incurred in the current year and irregular expenditure of R147 383 928 from prior years have not yet been dealt with in accordance with section 32 of the MFMA.
9. As disclosed in note 34 to the consolidated and separate financial statements, fruitless and wasteful expenditure of R404 195 was incurred in the current year and fruitless and wasteful expenditure of R10 989 425 from prior years have not yet been dealt with in accordance with section 32 of the MFMA.

Restatement of corresponding figures

10. As disclosed in note 39 to the financial statements, a number of corresponding figures have been restated as a result of errors discovered during the year ended 30 June 2020.

Subsequent event

11. As disclosed in note 40 to the financial statements, the municipality's Economic Agency is wholly dependent on the Dr Kenneth Kaunda District Municipality for continued funding of operations. The Council of Dr Kenneth Kaunda District Municipality resolved in terms of Council Resolution no. A.26/07/2020 to implement section 109 of the Companies Act process to de-establish the entity.

Other matter

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

Unaudited disclosure notes

13. 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.

Responsibilities of the accounting officer for the consolidated and separate financial statements

14. The accounting officer is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the Standards of GRAP and the requirements of the MFMA and the 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.
15. In preparing the consolidated and separate 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 there is no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the consolidated and separate financial statements

16. My objectives are to obtain reasonable assurance about whether the consolidated and separate 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 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 the aggregate,



they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

17. A further description of my responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

18. 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 material findings on the reported performance information against predetermined objectives for selected key performance area presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
19. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
20. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected key performance area presented in the annual performance report of the municipality for the year ended 30 June 2020:

Key performance area	Pages in the annual performance report
KPA 1 – Basic service delivery and infrastructure development	x – x

21. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
22. I did not identify any material findings on the usefulness and reliability of the reported performance information on the selected key performance area of the municipality.

Other matter

23. I draw attention to the matter below.

Achievement of planned targets

24. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year and explanations provided for the under and over achievements for a number of targets.



Introduction and scope

25. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
26. The material findings on compliance with specific matters in key legislation are as follows:

Financial statements

27. The consolidated financial statements were not submitted to the Auditor-General, for auditing, within five months after the end of the financial year, as required by section 126(1)(b) of the MFMA.
28. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of liabilities, revenue and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified opinion.

Expenditure management

29. Reasonable steps were not taken to prevent irregular expenditure of R57 310 700 as disclosed in note 35 to the financial statements, as required by section 62(1)(d) of the MFMA. The majority of the disclosed irregular expenditure was caused by payments made on expired contracts and awards evaluated and adjudicated by the committees not properly constituted.
30. Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R404 195, as disclosed in note 34 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by a payment for which none of the expected benefits were realised.

Consequence management

31. Unauthorised, irregular, and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
32. Losses resulting from irregular expenditure were not recovered from the liable person, as required by section 32(2) of the MFMA.

Strategic planning and performance management

33. Annual performance objectives and indicators were not established for the Dr Kenneth Kaunda District Municipality Economic Agency SOC Limited and included in its multi-year business plan, as required by section 93B(a) of the Municipal Systems Act of South Africa, 2000 (Act no. 32 of 2000) (MSA).

Procurement and contract management

34. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).
35. Some of the competitive bids were adjudicated by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2). Similar non-compliance was also reported in the prior year.

36. Bid documentation for procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by regulation 8(2) of the 2017 preferential procurement regulations. Similar non-compliance was also reported in the prior year.
37. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year.
38. The contract performance and monitoring measures and methods were not sufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA. Similar non-compliance was also reported in the prior year.

Other information

39. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the consolidated and separate financial statements, the auditor's report thereon and the selected key performance area presented in the annual performance report that have been specifically reported on in this auditor's report.
40. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
41. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements and the selected key performance area presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
42. If, based on the work I have performed, I conclude that there is a material misstatement in this other information, I am required to report that fact. I have nothing to report in this regard.

Internal control deficiencies

43. I considered internal control relevant to my audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.
 - Leadership's oversight over the financial reporting and compliance with legislation did not deliver financial reports which were free from material misstatements. The expected behaviour has not been embedded in the daily practises of the municipality in all instances with various material non-compliance still being identified in the area of supply chain and contract management.
 - There remains a lack of discipline in ensuring that the necessary internal controls are designed, implemented, and monitored throughout the year which resulted in material misstatements not being prevented and detected. Management remains slow in responding to and addressing root causes of the prior year audit findings as well as implementing the recommendations by internal audit and the audit committee.

- The risk management activities still require attention as there are no fraud detection plan or policies in place for fraud prevention. This includes establishing a risk committee to ensure regular risk assessments, including information technology and fraud prevention, are conducted and that a risk strategy is developed and monitored in order to address these risks.

Auditor - General

Rustenburg

16 April 2021



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the consolidated and separate financial statements, and the procedures performed on reported performance information for the selected key performance area and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the consolidated and separate financial statements as described in the auditor’s report, I also:
 - identify and assess the risks of material misstatement of the consolidated and separate financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - obtain an understanding of internal control relevant to the audit 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 municipality’s internal control.
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
 - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Dr Kenneth Kaunda District Municipality and its subsidiary’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor’s report. However, future events or conditions may cause a municipality to cease to continue as a going concern.
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
 - obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and where applicable, related safeguards.

