

Report of the auditor-general to the North West Provincial Legislature and the council on 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 (the group) set out on pages xx to xx, which comprise the consolidated and separate statement of financial position as at 30 June 2024, consolidated and separate statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as 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 financial position of the group as at 30 June 2024 and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 5 of 2023 (DoRA).

Context 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 consolidated and separate 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 with respect to these matters.

Irregular expenditure

7. As disclosed in note 38 to the financial statements, an irregular expenditure of R47,3 million was incurred in the current year and irregular expenditure of R302,1 million from prior years has not yet been dealt with in accordance with section 32 of the MFMA.

Other matters

8. I draw attention to the matters below. My opinion is not modified with respect to these matters.

Unaudited disclosure notes

9. 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 on it.

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

10. 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.

11. In preparing the consolidated and separate financial statements, the accounting officer is responsible for assessing the group'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 group or to cease operations or has no realistic alternative but to do so.

Responsibilities of the auditor-general for the audit of the consolidated and separate financial statements

12. 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 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 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.

13. 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. This description, which is located at page xx, forms part of our auditor's report.

Report on the annual performance report

14. 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 information against predetermined objectives for the selected material performance indicators presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

15. I selected the following material performance indicators related to KPA 1 - basic service delivery and infrastructure development presented in the annual performance report for the year ended 30 June 2024. I selected those indicators that measure the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.

- KPI 3 – Number of compliance reports on drinking water samples taken and tested from JB Marks, Matlosana and Maquassi Hills local municipalities
- KPI 4 – Number of water samples taken and tested at the reservoirs in JB Marks, Matlosana and Maquassi Hills local municipalities
- KPI 5 – Number of waste inspection activities conducted
- KPI 6 – Number of air quality management inspections conducted within Dr Kenneth Kaunda District
- KPI 7 – Number of compliance reports on food control taken from JB Marks, Matlosana and Maquassi Hills local municipalities
- KPI 8 – Total kilometres of paved roads assessed within Matlosana Local Municipality
- KPI 10 – Number of dry sanitation units installed in Boskuil and Oersonskraal villages in Maquassi Hills



- KPI 11 – Number of geo-hydrological surveys conducted within Dr Kenneth Kaunda District Municipality

16. I evaluated the reported performance information for the selected material performance indicators 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.

17. 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
- all the indicators relevant for measuring the municipality's performance against its primary mandated and prioritised functions and planned objectives are included
- 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 and is comparable and understandable
- there is adequate supporting evidence for the achievements reported and for the measures taken to improve performance.

18. I performed the procedures to report material findings only; and not to express an assurance opinion or conclusion.

19. I did not identify any material findings on the reported performance information for the selected indicators.



Report on compliance with legislation

20. 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.
21. 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.
22. 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.
23. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statements, performance reports and annual reports

24. The consolidated and separate 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 of disclosure relating non-current and current assets identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.
25. The consolidated financial statements were not submitted to the Auditor-General for auditing within three months after the end of the financial year, as required by section 126(1)(b) of the MFMA.

Expenditure management

26. Reasonable steps were not taken to prevent irregular expenditure amounting to R47,3 million, as disclosed in note 38 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by bids that were not disqualified in accordance with the predetermined requirements as stipulated in the bid document, not following competitive bidding processes.



27. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R0,2 million as disclosed in note 37 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by double payments erroneously made on both salaries and expenditure payments.
28. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R3,6 million, as disclosed in note 36 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by the transfers made to the Dr Kenneth Kaunda District Municipality Economic Agency SOC Ltd, which were not provided for in the current year's budget.

Consequence management

29. Unauthorised 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.
30. Some of the irregular expenditure, fruitless and wasteful expenditure incurred by the municipality, were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Procurement and contract management

31. Some of the goods and services within the prescribed transaction value for competitive bids were procured without inviting competitive bids, as required by supply chain management (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). Similar non-compliance was also reported in the prior year.
32. Sufficient appropriate audit evidence could not be obtained that the performance of contractors or providers was monitored monthly as required by section 116(2) of the MFMA.
33. Persons in the service of the municipality who had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of SCM regulation 46(2)(e).

Strategic planning and performance management



34. Annual performance objectives and indicators were not established for Dr Kenneth Kaunda District Municipality Economic Agency SOC Ltd, as required by section 93B(a) of the MSA.
35. The performance of Dr Kenneth Kaunda District Municipality Economic Agency SOC Ltd was not monitored and reviewed as part of the annual budget process, as required by section 93B(b) of the MSA.

Human resource management

36. Appropriate systems and procedures to monitor, measure and evaluate the performance of staff were not developed and adopted, as required by section 67(1)(d) of the MSA.

Other information in the annual report

37. The accounting officer is responsible for the other information included in the annual report which includes the audit committee's report. The other information referred to does not include the consolidated and separate financial statements, the auditor's report and those selected material indicators in the scoped-in key performance area (KPA) presented in the annual performance report that have been specifically reported on in this auditor's report.
38. My opinion on the consolidated and separate financial statements, the findings on the reported performance information 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.
39. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the consolidated and separate financial statements and the selected material indicators in the scoped-in KPAs presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
40. I did not receive the other information before the date of this auditor's report. When I 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 this auditor's report and re-issue an amended report as appropriate; however, this will not be necessary if it is corrected.



Internal control deficiencies

41. I considered internal control relevant to my audit of the consolidated and separate financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
42. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the material findings on compliance with legislation included in this report.
43. The leadership did not provide sufficient oversight regarding financial reporting and compliance with laws and regulations. There were inadequate reviews and a lack of monthly or bi-annual preparation of the financial statements to ensure that the transactions reported aligned with the supporting schedules, were backed by reliable information and met all disclosure requirements as mandated by the GRAP standards. This was evidenced by material misstatements identified during the audit process, which were subsequently corrected, along with repeated findings of non-compliance with laws and regulations.
44. Inadequate implementation of SCM procedures and policies by management to ensure fairness, competitiveness and transparency when procuring goods and services. This, together with a lack of contract management, resulted in non-compliance with SCM regulations and the incurrence of irregular expenditure.
45. The leadership did not adequately implement consequence management by ensuring that unauthorised, irregular and fruitless and wasteful expenditures are adequately investigated to ensure responsible parties can be held accountable.
46. Throughout the financial year, there was no fixed-term audit committee, raising concerns about the municipality's commitment to oversight.
47. Oversight and monitoring of the municipal entity's performance were ineffective, as no clear service delivery targets were established to track its progress. There is slow progress in winding down of the subsidiary which results in money spent on non-service delivery activities as the functions which the subsidiary was established for are currently performed by the controlling entity.



Other reports

48. I draw attention to the following engagements conducted by various parties. These reports did not form part of my opinion on the financial statements, my findings on the reported performance information or compliance with legislation.

49. An investigation into fraud allegations was conducted by the Directorate for Priority Crime Investigation (Hawks), which led to two employees being charged with theft and money laundering. Internal investigations into this matter started during the current year and are still ongoing.

Auditor General
Rustenburg

11 December 2024



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence



Annexure to the auditor's report

The annexure includes the following:

- the auditor-general's responsibility for the audit
- the selected legislative requirements for compliance testing.

Auditor-general's responsibility for the audit

Professional judgement and professional scepticism

As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected material performance indicators and on the municipality's compliance with selected requirements in key legislation.

Financial statements

In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:

- identify and assess the risks of material misstatement of the 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 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
- conclude on the appropriateness of the 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 relating to events or conditions that may cast significant doubt on the ability of the municipality 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 my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease operating as a going concern

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures and determine 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

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.

I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.



Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003 (MFMA)	Section 1 (a), (b) & (d) of the definition: irregular expenditure Section 1 Definition of SDBIP Sections 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15 Sections 24(2)(c)(iv), 29(1), 29(2)(b), 32(2) Sections 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b) Sections 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c) Sections 62(1)(d), 62(1)(f)(i), 62(1)(f)(ii), 62(1)(f)(iii) Sections 63(2)(a), 63(2)(c), 64(2)(b), 64(2)(c), 64(2)(e) Sections 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e) Sections 72(1)(a)(ii), 95(a), 112(l)(iii), 112(1)(j) Sections 116(2)(b), 116(2)(c)(ii), 117, 122(1), 122(2) Sections 126(1)(a), 126(1)(b), 127(2), 127(5)(a)(i) Sections 127(5)(a)(ii), 129(1), 129(3), 133(1)(a) Sections 133(1)(c)(i), 133(1)(c)(ii), 170, 171(4)(a), 171(4)(b)
MFMA: Municipal Budget and Reporting Regulations, 2009	Regulations 71(1), 71(2), 72
MFMA: Municipal Investment Regulations, 2005	Regulations 3(1)(a), 3(3), 6, 7, 12(2), 12(3)
MFMA: Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014	Regulations 5(4), 6(8)(a), 6(8)(b), 10(1)
MFMA: Municipal Supply Chain Management Regulations, 2017	Regulations 5, 12(1)(b), 12(1)(c), 12(3), 13(b), 13(c), 13(c)(i) Regulations 16(a), 17(1)(a), 17(1)(b), 17(1)(c), 19(a) Regulations 21(b), 22(1)(b)(i), 22(2), 27(2)(a), 27(2)(e) Regulations 28(1)(a)(i), 28(1)(a)(ii), 29(1) (a) and (b) Regulations 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1) Regulations 38(1)(c), 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i) Regulations 38(1)(g)(ii), 38(1)(g)(iii) Regulations 43, 44, 46(2)(e), 46(2)(f)
Municipal Systems Act 32 of 2000 (MSA)	Sections 25(1), 26(a), 26(c), 26(i), 26(h), 27(1) Sections 29(1)(b)(ii), 29(2)(a), 29(2)(c), 34(a), 34(b) Sections 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2) Sections 56(a), 57(2)(a), 57(4B), 57(6)(a) Sections 66(1)(a), 66(1)(b), 67(1)(d), 74(1) Sections 93B(a), 93B(b), 93C(a)(iv), 93C(a)(v), 96(b)



Legislation	Sections or regulations
MSA: Municipal Planning and Performance Management Regulations, 2001	Regulations 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 3(5)(a), 7(1), 8 Regulations 9(1)(a), 10(a), 12(1), 15(1)(a)(i), 15(1)(a)(ii)
MSA: Municipal Performance Regulations for Municipal Managers and Managers Directly Accountable to Municipal Managers, 2006	Regulations 2(3)(a), 4(4)(b), 8(1), 8(2), 8(3)
MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations 17(2), 36(1)(a)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2), 5(3), 5(6), 8(4)
Annual Division of Revenue Act 5 of 2023	Sections 11(6)(b), 12(5), 16(1), 16(3)
Construction Industry Development Board Act 38 of 2000	Section 18(1)
Construction Industry Development Board Regulations	Regulations 17, 25(7A)
Municipal Property Rates Act 6 of 2004	Section 3(1)
Preferential Procurement Policy Framework Act 5 of 2000	Sections 2(1)(a), 2(1)(f)
Preferential Procurement Regulations, 2017	Regulations 5(1), 5(3), 5(6), 5(7) Regulations 6(1), 6(2), 6(3), 6(5), 6(6), 6(8) Regulations 7(1), 7(2), 7(3), 7(5), 7(6), 7(8) Regulations 8(2), 8(5), 9(1), 10(1), 10(2), 11(1)
Preferential Procurement Regulations, 2022	Regulations 3(1) Regulations 4(1), 4(2), 4(3), 4(4) Regulations 5(1), 5(2), 5(3), 5(4)
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section 34(1)

