OVERSIGHT REPORT : 2017/18 FINANCIAL YEAR

(drafted by MPAC (Oversight Committee) in terms of Section 129(1) of the Local Government: Municipal Finance Management Act, 2003, by following Annexure A of MFMA Circular 32 as a guide)

1. SUMMARY OF RESERVATIONS :

The following reservations are hereby recorded on the 2017/18 Annual Report;

1.1 Human Resources Management: The failure and/or refusal of the Municipal Manager and other senior managers to sign their performance agreements as required by the provisions of section 57(2)(a) of the Local Government: Municipal Systems Act 32 of 2000.

1.2 Material Adjustments to Statements: material misstatements relating to capital commitments disclosures in statements presented to the AG for audit.

1.3 Expenditure Management: what is of concern to the committee is the failure by Management to prevent irregular expenditure of which the bulk was due to supply chain management processes not being adhered to.

1.4 Contract Management is not adequately and effectively implemented, which exposes the municipality to risks and possible litigation.

1.5 Unauthorised expenditure of R9.21 million is reflected in note 49 which is a concern.

1.6 Irregular expenditure amounting to R18.53 million of which most relates to supply chain management processes not being adhered to.(move to end of para 1.4 above)

1.7 Lack of internal controls: the deficiencies with regard to internal controls is a major concern to the committee since we are of the opinion that the situation has worsened.

2. PROPOSED ACTIONS TO BE TAKEN

The following actions should be taken by the executive and administration to resolve the reservations quoted above:

2.1 Re 1.1: The Municipal Manager must take this matter up with National Treasury and to further engage with the AG. Strict compliance with the Municipal Investment Policy and Municipal Investment Regulations must be ensured by the Accounting Officer. See comment on 1.1 above.

2.2 Re 1.2 and 1.5: Adherence to legislative prescripts is a non-negotiable and this ties in with the view that contract management and legal compliance are inadequate in the organization. The appointment and or establishment of a dedicated Contract and Compliance Officer or unit must be urgently addressed within the Corporate Services Directorate.

2.3 Re 1.3: Management must ensure that the financial statements are carefully prepared well in advance in order to avoid any errors. The timeframes set by the AG and in the Audit Committee Charter for the preparation of the annual financial statements must be adhered to.
2.4 Re 1.4 and 1.5: The municipality must as a matter of urgency adapt its IT system to aid in the management of contracts. Regular training of supply chain personnel should be held in order to ensure that the staff operating the SCM system are fully conversant with the latest legal requirements for the procurement of goods and services.

2.5 Re 1.5: See 2.2 above.

2.6 Re 1.6 and 1.7: Consequence management needs to be applied and disciplinary steps must be taken against staff who cause or permit unauthorised, fruitless and wasteful or irregular expenditure and any losses incurred must be recovered from those staff members responsible.

2.7 Re 1.8: The Accounting Officer must as a matter of priority exercise oversight responsibility regarding financial and performance reporting, compliance and related internal control. Consequence management needs to be applied where internal controls were not properly implemented.

3. SUMMARY OF COMMENTS

The following comments are offered on the 2017/18 Annual Report;

3.1 We concur with the Western Cape Local Government Office’s assessment, quoted in paragraph 6 of this Report, and congratulate the Administration for a well-produced product.

3.2 We recommend, however, that the omission of some of the required annexures to the Annual Report should, to the extent possible, be urgently corrected so that the finally published Annual Report be compliant with requirements.

### Chapter 3: Service Delivery Information and Performance

<table>
<thead>
<tr>
<th>Strategic Objectives</th>
<th>Number of targets achieved</th>
<th>Number of targets not achieved</th>
</tr>
</thead>
<tbody>
<tr>
<td>SO 1: To ensure the provision of bulk infrastructure and basic service through the upgrading and replacement of ageing infrastructure and the expansion of new infrastructure</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>SO 2: To promote a safe and healthy environment through the protection of our natural resources</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>SO 3: To create an enabling environment for social development and economic growth</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>SO 4: To grow the revenue base of the municipality</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>SO 5: To structure and manage the municipal administration to ensure efficient service delivery</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>SO 6: To encourage the involvement of communities in the matters of local government through the promotion of open channels of communication</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>14</td>
</tr>
</tbody>
</table>

Comments

The municipality have met 27 (66.7 per cent) of its 41 non-financial performance targets it set for the 2017/18 financial year, which indicates that the municipality could not execute its strategy successfully during the financial year. Significant under performance are noted under the strategic objective “To ensure the provision of bulk infrastructure...” as well as “To grow the revenue base of the municipality”, where only 31.7 per cent of targets were met.
4. **TOP TEN RISKS**

4.1 Extreme weather events. Drought can result in water shedding, economic losses. Fire and floods can cause loss of life.
4.2 Pollution can cause economic losses and degradation of fresh water marine ecosystem.
4.3 Unacceptable water loss percentage due to lack of inadequate internal controls being implemented and monitored.
4.4 Worn roads and potholes (infrastructure risks0 due to lack of adequate maintenance and addressing backlogs relating to roads infrastructure may lead to loss of human lives due to the conditions of roads.
4.5 Deviations from following SCM regulations and policy may not be authorized if it is not adequately motivated, properly documented and kept on record, resulting in non-compliance and possible fraudulent transactions.
4.6 Financial loss due outstanding debt not being collected sufficiently and timeously.
4.7 Abuse of Council’s assets due to lack of internal controls resulted from no fleet management in place.
4.8 Lack of permanent disaster management centre for Knysna Municipality leading to inadequate coordination and facilitation in the event of a disaster.
4.9 Lack of centralised/ integrated contract management system which leads to inadequate contract management and litigation.
4.10 Non availability of land for garden waste disposal site.

**Comments**

The Risk Management Committee must develop an Action Plan on how to avoid or mitigate the risks identified before 30 May 2019.
The Risk Management Committee needs to sit with each risk owner in order to determine the status of the risk identified in the previous year.
5. **SITE VISIT**

The Committee visited the Bloemfontein Housing Development to verify the relevant information contained in the 2017/18 Annual Report.

The following comments are offered regarding this project:
5.1 The development does not comply with the requirements of a human settlement.
5.2 No security measures to prevent possible accidents or injuries to children. The development must be fenced off.
5.3 The sizes of the dwellings are too small. There was no public participation regarding the sizes of the dwellings.
5.4 No open spaces for play-park.
5.5 The spaces between the dwellings are too small.
5.6 Director Planning and Development explained that there was in fact public participation and that the houses were developed in terms of the minimum standards. This is an in situ development which makes it difficult to provide for adequate space between the houses and to provide for access roads to properties.

6. **COMMENTS RECEIVED**

The Draft Annual Report was tabled at an ordinary Council meeting that was held on 30 January 2019 and was made public on 31 January 2019 in terms of the provisions of section 127(5)(a)(i) of the Local Government: Municipal Finance Management Act 56 of 2003. Copies of the Annual Report were available for inspection at all municipal libraries and municipal administrative offices. An electronic version of the Annual Report was published on the municipal website.

The Auditor-General, Western Cape Provincial Treasury and the Western Cape Local Government Department were also provided with a copy of the Annual Report.

The Auditor-General commented on 30 January 2019, that there were minor inaccuracies in the 2018/19 Annual Report. These inaccuracies were rectified in the Amended Annual Report considered by the Committee.

The Western Cape Local Government Budget Office submitted comments on 22 February 2019. Their conclusion and recommendations are as follows:

“Knysna Municipality is commended for once again compiling and tabling a draft annual report of exceptional quality which is reasonably in line with the requirement of sections 121 and 127 of the MFMA.

The Municipality produced a thorough and sufficiently detailed 20017/18 Annual Report reflecting accurate information pertaining to the municipality’s performance during the year under review.

The 2017/18 Annual Report adheres to the prescribed format albeit only partial, as it did not included all the recommended appendices.

The municipality’s service delivery performance for the 2017/18 financial year should be improved in 2018/19 by a thorough review of the target setting for 2018/19 as well as the implementation of the corrective measures as proposed in the 2017/18 annual report.”
7. **CONCLUSION**

The Oversight Committee concluded that the 2017/18 Annual Report be approved subject to the reservations mentioned in 1 above and the actions to be taken as mentioned in 2 and 3.2 above.

8. **ANNEXURES**


B. Minutes of the meetings of MPAC held on 7, 12 and 19 March 2019, respectively.

9. **RECOMMENDATIONS**

[a] That having fully considered the 2017/18 amended Annual Report of Knysna Municipality and the comments thereon, the Oversight Report 2017/18 be approved subject to [b] below;

[b] That the 2017/18 Amended Annual Report, in terms of Section 129(1) of the Local Government : Municipal Finance Management Act, 2003, be approved with the reservations mentioned in 1.1 – 1.4 of the Oversight Report 2017/18; and

[c] That the Executive Mayor and the Municipal Manager, where applicable, report to a future Municipal Council meeting on the actions taken as recommended in paragraph 2 and paragraph 3.2 of the Oversight Report 2017/18.