Executive Summary

Both the Executive Mayor and the Municipal Manager’s forword detail many of the achievements, it is disappointing to note that Knysna Municipality did not achieve a clean audit for 2016/2017 and while these achievements are mentioned, no challenges or remedies are addressed. There were certain key areas where the municipality is at risk which were highlighted in previous audits that were not addressed during the past financial year.

Auditor-General Report (Appendix D)

Knysna Municipality received a Financially Unqualified Audit, with other findings due to material misstatements in the area of performance information. The AG mentions that the financial statements presents fairly, in all material aspects and the financial position of Knysna municipality as at 30 June 2017, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the MFMA and DORA.

One of inaccuracies mentioned is the overstatement of “The number of single residential properties with access to basic level of electricity”. The reported achievement for the target of 19430 single residential properties was misstated, as the evidence provided indicated 17553 and not 20566 as reported. The reported achievements with regards to water, sanitation/sewerage and solid waste/refuse were also overstated as 1539 while the audited value was 342.

These inaccuracies that were identified as misstatements on the annual performance report were raised as material findings on the reliability of the reported information such as the use of SASSA information rather than an affidavit, as per policy. Whilst the AG commends KM for submitting financial statements that were free from material financial misstatements, the AG attributed the material findings on action plans from the previous year not having been monitored by management and leadership. There have been repeat findings over a number of years that required remedial attention. These and other issues raised will require serious attention to avoid a similar or a possible worse outcome in the following financial year.

Comment from the Knysna Municipality Audit Committee

A very in-depth report from the Audit Committee raises many pertinent issues, one however, MPAC feels, is vital in ensuring fiscal and service delivery performance is improved as well as positive audit outcomes, is that of “Levels of Assurance”. It was noted that the AG rated Senior Management and the Municipal Manager for the year 2016/2017 as providing “some assurance”. The AG states that “the Municipal Manager is responsible for the internal controls, including leadership, planning, risk management, as well as oversight and monitoring. While the municipal manager depends on senior management for designing and the implementation of the required controls, he should also create an environment that helps to improve such controls…..”
MPAC notes this as a constant organisational weakness as departments have not had senior management in place for months at a time thereby negating any consistent controls, performance reporting, compliance and plans of action in the departments of Corporate Services and Community Development. These posts must be filled as a matter of urgency.

**Procurement and Contract Management**

Concerns are noted from both the AG and the Audit Committee with regards to Irregular Expenditure. 2016/17 saw R9.45 million of irregular expenditure in contravention of Supply Chain Management legislation. 75% of the above amount was not detected by Knysna Municipality’s own monitoring processes; this is an area of concern for this committee. The main cause of this is the lack of management implementing all the requirements pertaining to SCM regulations. This committee recommends that serious attention be given to establishing stronger contract management as well as legal compliance management within the entire organisation to prevent this occurrence.

**Risk Management**

Below are the Top 10 Risks as identified in terms of the risk management system, 9 of which are highlighted as concerns in the above paragraph with reference to Supply Chain Management.

1. Financial loss resulting from fraudulent activities due to lack of and/or monitoring of reconciliation between payroll costs per the sub ledger and the general ledger.
2. Expenditure may exceed the amount appropriated for a vote in the approved budget, resulting in unauthorised expenditure.
3. Unauthorised transactions due to unauthorised changes being made to creditors and supplier master file data. (Lack of adequate user access control restrictions and/or lack of adequate segregation of duties.)
4. Valid contract documentation missing due to lack of an integrated Contract Management System
5. Terms, conditions and deadlines relating to contracts not adequately identified, communicated and monitored leading to breach of contract and legal processes
6. Products and/or services received, which are not in line with the contract requirements, due to inadequate monitoring of contract criteria
7. Service delivery negatively influenced due to contracts expiring, which are not timely/not at all renewed due to inadequate monitoring processes.
8. Loss of lives (Human and Livestock) due to injuries resulted from cables lying openly on the road
9. Non-compliance with SCM legislation, regulations and/or policy due to incorrect application of SCM legislation and regulations.
10. Tender register information may be incomplete and not published on the municipality’s website as per requirements of SCM regulations, resulting in non-compliance with SCM regulations.
Debtors Management

The lack of a Municipal Court is brought to the fore when the measurement of "net debtor days ratio" is shown as a percentage including all fines versus one excluding fines. Excluding fines the ratio is 57 days (an improvement from 69 days in 15/16) while including fines it rises to 93 days. These figures far exceed the norm of 30 days. These figures indicate the challenge in the collection of outstanding debt as well as the exposure to a cash flow risk. The lack of a Municipal Court has seen a very high percentage of fines been written off due to a lack of proper enforcement in the payment of fines.

Site Visits

The committee undertook three capital project visits as part of its oversight role, namely The Charlesford Scheme, The Housing Rectification Project and the Hornlee Toilet Project.

1. The Charlesford Scheme: KM recently undertook to enhance the supply of pumped water from the Knysna River by enlarging the pipe size to increase capacity. When completed, the pipeline pumping capacity will be increased from a current 80l/sec to approximately 150l/sec. The progress of the project has been interrupted on occasion by the theft of material and the proposed date of completion has been postponed from December 2017 to July 2018 and is currently on track to spend the current budget allocation.

2. The Housing Rectification Project: 19 houses identified within the Greater Knysna area which were built pre 1994, and were in a very poor condition, to be rectified within a R1million budget. Two houses were inspected in Sedgefield in the Smutsville area and found to be in a better condition with a new veranda roof. It was however noted that gutters were not installed and window putty was not replaced where missing but merely painted over.

3. The Hornlee Toilet Project: This project was undertaken to install toilets in houses that previously only had an outside toilet. A bathroom comprising of a toilet, bath and washbasin was to be added to the house. On inspection, extremely poor workmanship was noted with a plethora of complaints been raised by the residents, from leaks to windows not fitted properly as well as the use of old material such as asbestos roof sheeting fitted to a house, to ceiling boards collapsing, amongst some of the more prominent observations. One of the houses inspected, in fact, already had a bathroom before the project was initiated so it begs the question; what were the qualifying criteria to receive a bathroom?

Conclusion

Although the Annual Report for 2016/2017 highlights excellent and successful efforts by the CFO and staff to ensure a financially unqualified audit, there are inadequate sections of the performance report that cost the Municipality its fifth clean audit in a row and these must be corrected so that the Annual Report can be considered a reliable record of the performance of the Municipality. The Auditor General also identified areas of concern that require strong leadership
and management and improved controls to ensure that repeat, or even more adverse, findings are not issued in future.

**Recommendations**

a) That the Oversight Report for 2016/2017 be adopted;

b) That, within seven days if its adoption, the Oversight Report be made public by the Municipal Manager in accordance with Section 129(3) of The Local Government Municipal Finance Management Act, 2003;

c) That the Annual Report be referred back to Management for urgent correction of those sections of the performance report that were found by the Auditor General to contain material misstatements that had not been corrected;

d) That, when so corrected, the Annual Report be submitted to Council;

e) That the Oversight Report and Annual Report for 2016/2017 be submitted to the Provincial Legislature by the Municipal Manager in accordance with Section 132(2) of the Local Government Municipal Finance Management Act, 2003;

f) That the classification, validation and recoverability of unauthorised, irregular expenditure as reflected in the 2016/2017 Annual Financial Statements and as identified by the Auditor General and the Audit Committee, be determined by the Municipal Public Accounts Committee in terms of Section 32 of the Local Government Municipal Finance Management Act, 2003 and that once determined, a report be submitted to the Municipal Council for consideration;

g) That the current top 10 Risks as identified in terms of the risk management system be reported on with regards to progress in mitigating the risks to the relevant Section 80 Committees as a standing item on the agenda;

h) That the issues raised by the Auditor General and the Audit Committee in relation to Procurement and Contract Management, be attended to as a matter of urgency;

i) That effective Credit Control and Debt Collection measures be implemented with a serious consideration to the establishment of a Municipal Court.

j) That cognisance be taken of the remedial actions recommended by both the Auditor General and the Audit Committee and that regular and timeous feedback to Council be given as to the progress;

k) That MPAC be adequately staffed and capacitated in order for it to carry out its functions.