

Report of the auditor-general to Western Cape Provincial Parliament and the council on the Knysna Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Knysna Municipality set out on pages 1 to 117, which comprise the statement of financial position as at 30 June 2023, statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects and possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Knysna Municipality as at 30 June 2023 and its financial performance and cash flows for the year then ended in accordance with the Standard 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 2022 (Dora).

Basis for qualified opinion

Property plant and equipment

3. I was unable to obtain sufficient appropriate audit evidence for the impairment of property, plant and equipment for assets where indicators of impairment existed, and were not assessed for impairment in accordance with GRAP 26, *Impairment of cash generating assets*. I was unable to determine the impact thereof by alternative means. Furthermore, completed infrastructure projects were not unbundled and depreciated when it became available for use in accordance with GRAP 17, *Property, plant and equipment*.
4. Consequently, I was unable to determine the adjustment to the balance of property, plant and equipment stated at R1 457 614 072 (2021-22: R1 413 041 804) and the resultant effect on the impairment of assets stated at R6 059 535 (2021-22: R1 549 724) in the financial statements, and on the depreciation stated at R51 349 628 (2021-22: R49 152 401) in the financial statements. Additionally, I was not able to determine the impact on the loss/gain on disposal of assets and on the accumulated surplus stated at R986 009 470 (2021-22: R1 021 148 970) in the financial statements.

Payables from exchange transactions

5. I was unable to obtain sufficient and appropriate audit evidence that other payables and hoarding fees included in payables from exchange transactions exists as the municipality did not prepare reconciliations to clear the subsidiary accounts regularly. Consequently, I was

unable to confirm by alternative means the extent of the overstatement of the payables balance, which is stated at R206 247 658 (2021-22: R174 115 471).

Context for opinion

6. 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 financial statements section of my report.
7. 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.
8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

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

Contingent liabilities

10. With reference to note 46 to the financial statements, the municipality is the defendant in various ongoing litigation and claims, and a claimant in others. The ultimate outcome of these matters could not be determined and no provision for any liability or asset that may result was made in the financial statements.

Material losses

11. As disclosed in note 53 to the financial statements, material electricity losses were incurred, which represents 12,15% (2020-21: 9%) of total electricity purchased.
12. As disclosed in note 53 to the financial statements, material losses of R4 871 529 were incurred as a result of the underbilling of refuse.
13. As disclosed in note 53 to the financial statements, material losses of R6 990 650 (2021-22: R6 492 300) was incurred as a result of the late processing of traffic fines.
14. As disclosed in note 53 to the financial statements, material losses of R4 812 500 were incurred as a result of expenditure incurred in contravention of the specific purpose for allocation.

Material impairments

15. As disclosed in note 5 to the financial statements, material losses of R26 474 887 were incurred as a result of a write-off of irrecoverable trade debt, as well as the impairment of the debt by R46 177 007.

16. As disclosed in note 6 to the financial statements, material losses of R89 767 947 were incurred as a result of a write-off of irrecoverable debt from non-exchange transactions, namely rates and traffic fines, as well as the impairment of the debt by R86 559 058.

Unauthorised and irregular expenditure

17. As disclosed in note 52 to the financial statements, irregular expenditure of R71 659 020 was incurred as a result of non-compliance with procurement and human resource legislation.
18. As disclosed in note 50 to the financial statements, unauthorised expenditure of R54 100 349 was incurred as a result of the underestimation of non-cash flow transactions. In addition, R4 812 500 was incurred because of expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose.

Other matters

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

Unaudited disclosure notes

20. In terms of section 125(2)(e) of the MFMA, the particulars of non-compliance with the MFA should be disclosed in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

Unaudited supplementary schedules

21. The supplementary information set out on pages 117 to 126, 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 on them.

Responsibilities of the accounting officer for the financial statements

22. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the GRAP and the requirements of the MFMA; and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
23. In preparing the 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 has no realistic alternative but to do so.

Responsibilities of the auditor-general for the audit of the financial statements

24. My objectives are to obtain reasonable assurance about whether the 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Report on the audit of the annual performance report

26. 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 against predetermined objectives for the selected objectives presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

27. I selected the following objectives presented in the annual performance report for the year ended 30 June 2023 for auditing. I selected objectives that measure the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.

Objective	Page numbers	Purpose
Strategic objective 1 – to improve and maintain current basic service delivery through specific infrastructural development projects	16-21	Provision of the following basic services: Sanitation Water supply Electricity Streets and storm water management Integrated human settlements
Strategic objective 3 – to create an enabling environment for social development and economic growth	24	Decent employment opportunities and job creation Rural development Youth development Care for the elderly Opportunities for women and people living with disability HIV/Aids awareness

28. I evaluated the reported performance information for the selected objectives 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.

29. 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

- 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
- there is adequate supporting evidence for the achievements reported and for the measures taken to improve performance.

30. I performed the procedures for the purpose of reporting material findings only and not to express an assurance opinion or conclusion.

31. I did not identify any material findings on the reported performance information for the selected objectives.

Other matters

32. I draw attention to the matters below.

Achievement of planned targets

33. The annual performance report includes information on reported achievements against planned targets and provides measures taken to improve performance. This information should be considered in the context of the material findings on the reported performance information.

Material misstatements

34. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for strategic objective 1 – to improve and maintain current basic service delivery through specific infrastructural development projects and strategic objective 3 – to create an enabling environment for social development and economic growth. Management subsequently corrected all the misstatements, and I did not include any material findings in this report.

Report on compliance with legislation

35. 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.

36. 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.

37. 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.

38. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Financial statements

39. 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 non-current assets and liabilities identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements and/or supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Expenditure management

40. Reasonable steps were not taken to prevent irregular expenditure amounting to R71 659 020, as disclosed in note 52 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by contravention to procurement and human resources legislation.

41. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

Revenue management

42. An adequate management, accounting and information system, which accounts for revenue, was not in place, as required by section 64(2)(e) of the MFMA.

Asset management

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

Procurement and contract management

44. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(1)(a) and (c).

45. 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). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).
46. Some of the contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43.

Other information in the annual report

47. The accounting officer is responsible for the other information included in the annual report. The other information referred to does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported on in this auditor's report.
48. My opinion on the financial statements, the report on the audit of the annual performance report 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.
49. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
50. I did not receive the other information prior to the date of this auditor's report. When I do 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, if it is corrected, this will not be necessary.

Internal control deficiencies

51. I considered internal control relevant to my audit of the financial statements, annual performance and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
52. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion and the material findings on compliance with legislation included in this report.
53. Leadership was not effective in ensuring that good governance was in place that set the tone of accountability to protect and enhance the interests of the municipality. Instability in the office of the municipal manager and chief financial officer hindered the creation of systems and processes that enable the municipality to build stable capacity, enhance the skills of officials and create a culture of good financial and performance disciplines and compliance.

54. Leadership did not act on audit recommendations made in the prior year and did not honour previous commitments made through the development and implementation of an effective action plan, resulting in some of the findings recurring.
55. Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
56. Management did not implement controls over daily and monthly processing and reconciling of transactions.
57. Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.
58. Management did not review and monitor compliance with applicable legislation.

Auditor-General
Cape Town

30 November 2023



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 objectives 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 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
- 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.

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	Section 1 – paragraph (a), (b) & (d) of the definition: irregular expenditure Section 1 – definition: service delivery and budget implementation plan Sections 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 29(1) Sections 29(2)(b), 32(2), 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), 62(1)(d), 62(1)(f)(i) Sections 62(1)(f)(ii), 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b) Sections 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e) Sections 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1) Sections 126(1)(a), 127(2), 127(5)(a)(i), 127(5)(a)(ii) Sections 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170 Sections 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)(c), 12(3), 13(b), 13(c), 13(c)(i), 16(a), 17(1)(a) Regulations 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b), 22(2), 27(2)(a) Regulations 27(2)(e), 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a), 29(1)(b) Regulations 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c) Regulations 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43 Regulations 44, 46(2)(e), 46(2)(f)

Legislation	Sections or regulations
Municipal Systems Act 32 of 2000	Sections 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 29(3)(b), 34(a), 34(b) Sections 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), 56(a), 57(2)(a) Sections 57(4B), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 96(b)
MSA: Municipal Planning and performance Management Regulations, 2001	Regulations 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 3(6)(a), 7(1), 8, 9(1)(a), 10(a) Regulations 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)
Division of Revenue Act 5 of 2022	Section 12(5), 16(1)
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 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8) Regulations 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5) 9(1), 10(1), 10(2) Regulations 11(1), 11(2)
Preferential Procurement Regulations, 2022	Regulations 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4)
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section 34(1)