

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

Opinion

1. I have audited the financial statements of the Knysna Municipality set out on pages 5 to 116, which comprise the statement of financial position as at 30 June 2024, 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, the financial statements present fairly, in all material respects, the financial position of the Knysna Municipality 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), the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 5 of 2023 (Dora).

Basis 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 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 in respect of these matters.

Restatement of corresponding figures

7. As disclosed in note 49 to the financial statements, the corresponding figures for 30 June 2023 were restated as a result of errors in the financial statement of the municipality at, and for the year ended, 30 June 2023.

Matters important to the users of financial statements – contingent liabilities

8. With reference to note 47 to the financial statements, the municipality is the defendant in various lawsuits. The ultimate outcome of these matters could not be presently determined and no provision for any liability that may result was made in the financial statements.

Material impairments

9. As disclosed in note 34 to the financial statements, the municipality has provided for the impairment of receivables from exchange transactions and receivables from non-exchange transactions to the value of R58,6 million (2022-23: R46,1 million) and R98,6 million (2022-23: R84,6 million) respectively.

Unauthorised and irregular expenditure

10. As disclosed in note 51 to the financial statements, the municipality incurred unauthorised expenditure of R58,2 million (2022-23: R54,1 million) as a result of over expenditure on the approved budget.

11. As disclosed in note 53 to the financial statements, the municipality incurred irregular expenditure of R142,2 million (2022-23: R72,3 million) as a result on non-compliance to laws and regulations.

Other matters

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

Unaudited disclosure notes

13. In terms of section 125(2)(e) of the MFMA, the particulars of non-compliance with the MFMA 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

14. The supplementary information set out on pages 117 to 125, 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

15. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the Standards of 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.
16. 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

17. 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.
18. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report. This description, which is located at page 12, forms part of our auditor's report.

Report on the audit of the annual performance report

19. 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.
20. I selected the following objectives presented in the annual performance report for the year ended 30 June 2024 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	30 to 33	To ensure the provision of services to communities in a sustainable manner

Objective	Page numbers	Purpose
through specific infrastructural development projects		
Strategic Objective 2: To promote a safe and healthy environment through the protection of our natural resources	n/a	Every municipality must ensure that conditions not conducive to the health and safety of the inhabitants of its area of jurisdiction are prevented or removed
Strategic Objective 3: To create an enabling environment for social development and economic growth	34	Create loveable local towns and rural areas Building vibrant and inclusive local economies Facilitating community empowerment and development

21. 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.

22. 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.

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

24. The material findings on the reported performance information for the selected objectives are as follows:

Strategic Objective 1: To improve and maintain current basic service delivery through specific infrastructural development projects

TL68: Limit unaccounted water losses to less than 35%

25. An achievement of 33,68% was reported against a target of 35%. I could not determine if the reported achievement was correct, as adequate supporting evidence was not provided for auditing. Consequently, the achievement might be more or less than reported and was not reliable for determining if the target had been achieved.

Various indicators

26. Measures aimed at improving performance against targets were reported. However, I could not determine if the measures were actually implemented to improve performance because it relates to future actions to be taken. Consequently, I could not verify whether the reported measures were indeed taken.

Indicator	Target	Reported achievement	Reported measure
TL70: 90% compliance to general standards with regard to waste water outflow by 30 June of the financial year	90%	70.83%	Target will be set on a quarterly basis in order to ensure closer and proper monitoring of reported performance against set targets
TL75: Service Sites for future housing development through the programme on the Upgrading of Informal Settlements Plan (UISP) and Enhanced People's Housing Process (EPHP)	103	12	Municipality revised the target in 2024/2025 SDBIP and ensure the number of identified sites are serviced in line with target
TL77: Provision of Housing opportunities in accordance with the Provincial Business Plan and budget allocation	168	16	Implement measures that will ensure tightening of the processes and ensure that reporting is correct

Strategic Objective 2: To promote a safe and healthy environment through the protection of our natural resources

Primary mandated function not prioritised

27. The primary mandated function of promoting a safe and healthy environment through the protection of its natural resources was not prioritised for delivery in the performance year. The accounting officer indicated that the relevant indicators, namely TL63, TL 64 and TL67, are

included under strategic objective 6. Consequently, this function was not adequately planned or accounted for, which undermines transparency.

Strategic Objective 3: To create an enabling environment for social development and economic growth

TL59: Number of employment opportunities created through the Municipality’s local economic development initiatives including capital projects for the financial year

28. Measures aimed at improving performance against targets were reported. However, I could not determine if the measures were actually implemented to improve performance because it relates to future actions to be taken. Consequently, I could not verify whether the reported measures were indeed taken.

Indicator	Target	Reported achievement	Reported measure
TL59: Number of employment opportunities created through the Municipality's local economic development initiatives including capital projects for the financial year	443	196	Annual target will be broken down into quarterly targets for close monitoring of actual reported performance against targets set

Other matters

29. I draw attention to the matters below.

Achievement of planned targets

30. 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.

31. The tables that follow provide information on the achievement of planned targets and list the key service delivery indicators that were not achieved as reported in the annual performance report. The measures taken to improve performance are included in the annual performance report on pages 30 to 34.

Strategic Objective 1: To improve and maintain current basic service delivery through specific infrastructural development projects

<p><i>Targets achieved: 67%</i> <i>Budget spent: 97%</i></p>		
Key service delivery indicator not achieved	Planned target	Reported achievement
TL69: Municipal Streets and Stormwater capital spending measured by the percentage (%) of budget spent	95%	73%
TL70: 90% compliance to general standards with regard to waste water outflow by 30 June of the financial year	90%	70,83%
TL72: Limit electricity losses to less than 11.5% by 30 June of the financial year (Number of Electricity Units Purchased and/or Generated - Number of Electricity Units Sold) / Number of Electricity Units Purchased and/or generated) x 100	<11,5%	<11,58%
TL75: Service Sites for future housing development through the programme on the Upgrading of Informal Settlements Plan (UISP) and Enhanced People's Housing Process (EPHP)	103	12
TL77: Provision of Housing opportunities in accordance with the Provincial Business Plan and budget allocation	168	16

Strategic Objective 3: To create an enabling environment for social development and economic growth

<p><i>Targets achieved: 0%</i> <i>Budget spent: 100%</i></p>		
Key service delivery indicator not achieved	Planned target	Reported achievement
TL59: Number of employment opportunities created through the Municipality's local economic development initiatives including capital projects for the financial year	443	196
TL61: Percentage Rand Value implementation of SMME incubator programme	100%	90,9%

Material misstatements

32. 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. Management did not correct all of the misstatements, and I reported material findings in this regard.

Report on compliance with legislation

33. 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.
34. 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.
35. 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.
36. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Financial statements and annual report

37. The 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 property, plant and equipment disclosure and the fines identified by the auditors in the submitted financial statement were subsequently corrected resulting in the financial statements receiving an unqualified audit opinion.
38. The 2022-23 annual report was not made public after being tabled in the council, as required by section 127(5)(a)(i) of the MFMA.
39. The local community was not invited to submit representations in connection with the 2022-23 annual report, as required by section 127(5)(a)(ii) of the MFMA.
40. The council failed to adopt an oversight report containing the council's comments on the 2022/23 annual report, as required by section 129(1) of the MFMA.
41. The oversight report adopted by the council on the 2022-23 annual report was not made public, as required by section 129(3) of the MFMA.

Consequence management

42. 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.
43. Some of the irregular 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.

44. Losses resulting from irregular expenditure were not recovered from the liable person, as required by section 32(2) of the MFMA.
45. 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)(b) of the MFMA.
46. Appropriate action was not taken against officials of the municipality where investigations proved financial misconduct, as required by section 171(4)(b) of the MFMA and municipal regulations on financial misconduct procedures and criminal proceedings 6(8).

Expenditure management

47. Money owed by the Knysna municipality was not always paid within 30 days as required by section 65(2)(e) of the MFMA.
48. Reasonable steps were not taken to prevent irregular expenditure amounting to R142 220 046 as disclosed in note 53 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance to laws and regulations on procurement and human resources.
49. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R23 741 962 incurred by the community services department, as disclosed in note 51 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.

Human resources management

50. The municipal manager did not develop the staff establishment and did not submit it to the municipal council for approval as required by section 66(1)(a) of the Municipal Systems Act 32 of 2000.

Procurement and contract management

51. Some of the goods and services within the prescribed transaction value for competitive bids 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). Similar non-compliance was also reported in the prior year.
52. Bid specifications for some of the tenders were drafted in a biased manner and did not allow all potential suppliers to offer their goods or services, in contravention of SCM Regulation 27(2)(a).
53. Some of the contracts were awarded to bidders based on points given for legislative requirement that differed from those stipulated in the original invitation for bidding, in contravention of SCM regulations 21(b) and 28(1)(a)(i) and the Preferential Procurement Regulations.
54. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM Regulation 5.

55. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.

56. The contract performance and monitoring measures were not in place to ensure effective contract management, as required by section 116(2)(c)(ii) of the MFMA.

Revenue management

57. An effective system of internal control for revenue was not in place, as required by section 64(2)(f) of the MFMA.

Strategic planning and performance

58. KPIs were not set for each of the development priorities and objectives, as required by section 41(1)(a) of the MSA and municipal planning and performance management regulation 9(1)(a).

Other information in the annual report

59. 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.

60. 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.

61. 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.

62. 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

63. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
64. The matters reported below are limited to the significant internal control deficiencies that resulted in the material findings on the annual performance report and the material findings on compliance with legislation included in this report.
65. Leadership did not exercise oversight responsibility regarding financial and performance reporting, and compliance with laws and regulations, including consequence management, due to instability at senior management level. This instability created a culture of a lack of accountability resulting in an unstable control environment including inadequate monitoring.
66. Leadership did not implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place.
67. 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 supply chain management and performance reporting.

Auditor General

Cape Town

30 November 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 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	<p>Section 1 – paragraph (a), (b) & (d) of the definition: irregular expenditure</p> <p>Section 1 – definition: service delivery and budget implementation plan</p> <p>Sections 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 29(1)</p> <p>Sections 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b)</p> <p>Sections 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 62(1)(f)(i)</p> <p>Sections 62(1)(f)(ii), 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b)</p> <p>Sections 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e)</p> <p>Sections 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1)</p> <p>Sections 126(1)(a), 127(2), 127(5)(a)(i), 127(5)(a)(ii)</p> <p>Sections 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170</p> <p>Sections 171(4)(a), 171(4)(b)</p>
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	<p>Regulations 5, 12(1)(c), 12(3), 13(b), 13(c), 13(c)(i), 16(a), 17(1)(a)</p> <p>Regulations 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b), 22(2), 27(2)(a)</p> <p>Regulations 27(2)(e), 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a), 29(1)(b)</p> <p>Regulations 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c)</p> <p>Regulations 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43</p> <p>Regulations 44, 46(2)(e), 46(2)(f)</p>

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)