



AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

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# FINAL MANAGEMENT REPORT

**Knysna Municipality**

**30 June 2017**

**Communicated to the accounting officer on: 9 January 2018**



No	Supplier	Deviation Reference	Expenditure	Reason for classification as irregular expenditure:	Details
1	METSI CHEM WESTERN CAPE	D 8677	R3 144 590,80	1. Reasons for deviation not in line with regulation 36 2. Award in contravention of the municipality's supply chain policy	1. Management states that the reason for the deviation is that the contract with the previous supplier had lapsed and a new tender had not yet been advertised. The auditor believes that the reason provided is indicative of poor planning by management instead of circumstances catered for in regulation 36 2. The auditor also noted that an award was made to this supplier prior to the accounting officer's approval as required by the municipality's SCM policy. This is evidenced by the invoices: IK10896 (dated: 10/11/2016) & IK 10 903 (dated 16/11/2016), which relates to a period prior to the date on which the accounting officer granted approval (21/12/2016)
2	Prentec (Pty) Ltd	D 8789	R2 631 578,95	Award in contravention of the municipality's supply chain policy	The auditor inspected the first invoice (no: 8408) received from the supplier (dated 21/10/2016) which indicated that services were received from the supplier prior to the appropriate approval by the municipal manager (20/01/2017)
3	Element Consulting Engineers	D 8528	R858 080,81	Award in contravention of the municipality's supply chain policy	The auditor inspected the orders and payments schedule submitted for audit and noted that an order under this deviation was placed on 17/11/2016, prior to the appropriate approval of the deviation by the municipal manager which was only on 20/12/2016.
4	Out There Consulting (F.Kirsten)	D 8253, D 8648, D 8970, D 9075, D 9296	R382 545,00	Reasons for deviation not in line with regulation 36	The deviation memorandum prepared by management did not make any reference to the circumstances provided for in regulation 36; consequently, the auditor could not determine the validity of the reasons. Furthermore, despite continuous requests and enquiries from the auditor, management could not provide evidence to support the claims cited in the deviation memorandum. Lastly, the auditor does not regard the skills of F. Kirsten to be of such a specialist nature that they warranted deviation from competitive bidding.



With regard to Element consulting engineer's **management disagree with the finding.**  
 The then acting municipal manager was acting for four days in a week and for two weeks was at the municipality and other two weeks he was at Stellenbosch university. From the interviewing of staff, it is apparent that the MM gave a verbal approval and this can be also collaborated by the fact that he agreed to sign afterwards. The municipality did not have senior managers to sign off immediately as even the then acting CFO was only in KM for three days a week and he approved the deviation and or recommended it. No irregular expenditure was therefore incurred.

With regard to Out There Consulting: **Management agrees with the finding**

Management comment on the root cause identified within the audit finding:

Management will continue to train the staff on the SCM policy and will also continue to issue memorandums on SCM processes. All the audit findings will also be communicated to all managers and directors to take note of and implement measures from their side to comply.

Management comment on the recommendation:

Management will continue to train the staff on the SCM policy and will also continue to issue memorandums on SCM processes.

Remedial action:

<u>What actions will be taken:</u>	<u>By whom:</u> CFO	<u>By when:</u> 31 May 2018	
Management will review the approval process			
If the above findings affects an amount (s) disclosed in the financial statements:	YES	NO	
Please give an indication of whether the correcting journal entry shall be processed:	YES	NO	N/A
If yes, please indicate the accounting entry:			
If no, please provide the reason why such a conclusion:			

**Auditor's conclusion**

**With regard to Prentec:** The auditor disagrees with management. Management has not provided documented proof that the municipal manager was aware of the case, and therefore gave prior verbal approval. This should have been documented on the memo by the municipal manager.

**With regard to Element consulting engineers:** The auditor disagrees with management. Management has not provided documented proof that the municipal manager was aware of the case, and therefore gave prior verbal approval. This should have been documented on the memo by the municipal manager.

The irregular expenditure disclosed was verified and the matters mentioned above that were not adjusted were taken to the schedule of uncorrected misstatements (R7 016 795,56 – R3 527 135,80) = R3 489 659,00.

