

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

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Beaufort West Municipality set out on pages 3 to 101, which comprise the statement of financial position as at 30 June 2022, 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 Beaufort West Municipality as at 30 June 2022, and its financial performance and cash flows for the year then ended in accordance with the Standards 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 9 of 2021 (Dora).

Basis for qualified opinion

Revenue from exchange transactions – service charges

3. I was unable to obtain sufficient and appropriate audit evidence that revenue from exchange transactions – service charges had been properly accounted for due to the poor quality of the accounting records. I was unable to confirm revenue from exchange transactions – service charges by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the revenue from exchange transactions – service charges, stated at R131,1 million (2020-21: R121,1 million) in note 27 to the financial statements. Additionally, I was also unable to determine whether any adjustment was necessary to the receivables from exchange transactions, stated at R21,2 million (2020-21: R20,0 million) in note 10 to the financial statements.

Revenue from non- exchange transactions

4. I was unable to obtain sufficient and appropriate audit evidence that revenue from non-exchange transactions – property rates had been properly accounted for due to the poor quality of the accounting records. I was unable to confirm revenue from non-exchange transactions – property rates by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the revenue from non-exchange transactions – property rates, stated at R45,5 million in note 23 to the financial statements.
5. I was unable to obtain sufficient and appropriate audit evidence that revenue from non-exchange transactions – fines, penalties and forfeits had been properly accounted for due to

the status of the accounting records. I was unable to confirm revenue from non-exchange transactions – fines, penalties and forfeits by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the revenue from non-exchange transactions – fines, penalties and forfeits, stated at R30,6 million in the financial statements.

6. Consequently, I was also unable to determine whether any adjustment was necessary to the receivables from non-exchange transactions, stated at R73,8 million in note 11 to the financial statements.

Receivables from non-exchange transactions

7. The municipality did not write off traffic fines that have been outstanding for more than 18 months and where no summons have been issued as instructed by the National Prosecuting Authority (NPA). Additionally, the municipality did not provide a fair estimate of the provision for the impairment loss of fines in accordance with GRAP 108, Statutory receivables. Consequently, receivables from non-exchange transactions are overstated by R30,4 million and the bad debts written off/impairment loss are understated by R30,4 million. Additionally, there was an impact on the surplus for the period and on the accumulated surplus in the financial statements.
8. The municipality did not disclose the ageing of debtors from fines as required by GRAP 104, Financial instruments. This has resulted in the amounts disclosed in note 11 to the financial statements for ageing of other receivables from non-exchange being understated by R260,6 million.

Taxes

9. I was unable to obtain sufficient and appropriate audit evidence that taxes had been properly accounted for due to the poor quality of the accounting records. I was unable to confirm the taxes by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the taxes, stated at R10,6 million (2020-21: 9,8 million) in note 21 to the financial statements.

Property, plant and equipment

10. The impairments of property, plant and equipment were not reviewed at each reporting date in accordance with GRAP 17. There was no reversal of impairment that occurred in prior years where there was evidence that the asset recoverable amount has increased. Consequently, property, plant and equipment was understated by R5,4 million (2020-21: R3,9 million). Additionally, there was an impact on the surplus for the period and on the accumulated surplus in the financial statements.

Irregular expenditure

11. The municipality did not include all irregular expenditure in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. This was due to payments amounting to R6,7 million (2020-21: R3,9 million) made in contravention of the supply chain management requirements, which were not disclosed as irregular expenditure in note 48.3 to the financial statements.

Purchases from members in service of the state

12. The municipality did not include all awards made to members in service of the state in the notes to the financial statements, as required by section 125(2)(f) of the MFMA. This was due to awards amounting to R3,4 million made in members in the service of the state, which were not disclosed as purchases from members in service of the state in note 49.10 to the financial statements.

Corresponding figures for 30 June 2021

Revenue from exchange transactions – Interest earned

13. During the 2020-21 financial year, I was unable to obtain sufficient and appropriate audit evidence that revenue from exchange transactions – interest earned from service charges had been properly accounted for due to the status of the accounting records. I was unable to confirm the revenue from exchange transactions – interest earned from service charges by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the revenue from exchange transactions – interest earned from service charges, stated at R9,6 million in note 31 to the financial statements corresponding figures for 30 June 2022.

Trade and other payables from exchange transactions

14. During the 2020-21 financial year, the municipality did not recognise all outstanding amounts meeting the definition of a liability in accordance with GRAP 1, *Presentation of financial statements*. The municipality did not have adequate systems to maintain records of trade and other payables from exchange transactions for goods and services received, but not yet paid for. This resulted in trade and other payables from exchange transactions corresponding figures for 30 June 2022 being overstated by R5 million.

Expenditure

15. During the 2020-21 financial year, expenditure was materially misstated by R5,5 million due to the cumulative effect of individually immaterial uncorrected misstatements in the following items:
- Bulk purchases, contracted services, employee related cost and operational costs was overstated by R4,8 million due to management not having adequate systems to record expenditure transactions.
 - Contracted services and operational expenditure were in aggregate overstated by R0,7 million due to management not having adequate processes in place to determine the appropriate classification of expenditure transactions.
16. My audit opinion on the financial statements for the period ended 30 June 2021 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of these matters on the comparability of the revenue from exchange transactions – interest earned, trade and other payables from exchange transactions and expenditure for the current period.

Context for the opinion

17. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.
18. 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.
19. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Material uncertainty relating to going concern

20. I draw attention to the matter below. My opinion is not modified in respect of this matter:
21. I draw attention to the statement of financial performance, which indicates that the municipality incurred a net loss of R10,3 million (2020-21: net loss of R32,4 million) during the year ended 30 June 2022 and, as of that date, the municipality's current liabilities exceeded its current assets by R56,5 million (2020-21: R58,6 million). These events or conditions, along with other matters as stated in disclosure note 55 to the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matters

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

Restatement of corresponding figures

23. As disclosed in note 43 to the annual financial statements, the corresponding figures for 30 June 2021 were restated as a result of errors identified in the financial statements of the municipality at, and for the year ended, 30 June 2022.

Material Impairment

24. As disclosed in note 10 to the annual financial statements, the municipality provided for the impairment of receivables from exchange transactions amounting to R109,8 million (2020-21: : R85,9 million).
25. As disclosed in note 11 to the annual financial statements, the municipality provided for the impairment of receivables from non-exchange transactions amounting to R235,5 million (2020-21: : R232,9 million).

Material Losses

26. As disclosed in note 49.8 to the financial statements, material electricity losses of 18 731 951 kWh (2020-2021: 8 164 594 kWh) was incurred, which represents 35.42% (2020-2021: 14.77%) of total electricity purchased. Electricity losses are due to electricity theft on pre-paid meters.

Material understatement of capital budget

27. As disclosed in the statement of comparison of budget and actual – cash flow statement, the municipality materially underspent the capital budget by 36% due to unspent conditional grants.

Other matters

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

Unaudited disclosure note

29. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA 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

30. The supplementary information set out on pages 102 to 112 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, we do not express an opinion thereon.

Responsibilities of the accounting officer for the financial statements

31. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with GRAP and the requirements of the MFMA and the DORA 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.
32. 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.

Auditor-general's responsibilities for the audit of the financial statements

33. 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.

34. 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

Introduction and scope

35. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected strategic objectives presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
36. My procedures address the usefulness and reliability of the reported performance information, which must be based on the municipality's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the municipality enabled service delivery. My procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
37. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected strategic objective presented in the municipality's annual performance report for the year ended 30 June 2022 :

Strategic Objective	Pages in the annual performance report
Strategic Objective 4 - Provision of the basic services to all the people in the municipal area	Page 13-16

38. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
39. The material findings on the usefulness and reliability of the performance information of the selected strategic objectives are as follows:

Strategic Objective 4 - Provision of the basic services to all the people in the municipal area

Various indicators

40. The achievements below were reported in the annual performance report for the listed indicators. However, some supporting evidence provided materially differed from the reported achievement, while in other instances we were unable to obtain sufficient appropriate audit evidence. This was due to the lack of accurate and complete records. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any further adjustments were required to these reported achievements.

Indicator description	Reported achievement
TL6- Number of formal residential properties that receive piped water (credit and prepaid water) that is connected to the municipal water infrastructure network and which water have been billed or have prepaid meters as at 30 June 2022	16 523
TL 7 - Number of formal residential properties that are connected to municipal electrical infrastructure network (credit and prepaid electrical metering) (excluding Eskom areas) and which are billed for electricity or have prepaid meters (excluding Eskom areas) as at 30 June 2022	16 523

41. The achievements reported in the annual performance report materially differed from the supporting evidence provided for the indicators listed below:

Indicator description	Reported achievement
TL 8 – Number of formal residential properties connected to the municipal waste water sanitation/sewerage network for sewerage service, irrespective of the number of water closets (toilets) which are billed for sewerage as at 30 June 2022	16 523
TL 9 - Number of formal residential properties for which refuse is removed once per week and which are billed for refuse removal as at 30 June 2022	16 523

Other matter

42. I draw attention to the matter below.

Achievement of planned targets

43. Refer to the annual performance report on pages 13 to 16 for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraph(s) 40 to 41 of this report.

Introduction and scope

44. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the municipality's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

45. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statement

46. 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 disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and/or the supporting records were provided subsequently, but the uncorrected material misstatements and/ or supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Revenue Management

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

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

Human Resource Management

49. Financial interest was not disclosed by the municipal manager within 60 days from date of appointment, as required by regulation 36(1)(a) on appointment and conditions of employment of senior managers.

50. The municipal manager and senior managers did not sign performance agreements within the prescribed period, as required by section 57(2)(a) of the MSA.

Expenditure Management

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

52. Payments were made from the municipality's bank accounts without the approval of a properly authorised official, as required by section 11(1) of the MFMA.

53. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the irregular expenditure could not be quantified as indicated in the basis for qualification paragraph.

54. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R9,0 million, as disclosed in note 48.2 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest and penalties incurred on overdue accounts.
55. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R24,4 million, as disclosed in note 48.1 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.

Consequence management

56. 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.
57. 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.
58. 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

Procurement and Contract Management

59. 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). Similar non-compliance was also reported in the prior year.
60. 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). Similar non-compliance was also reported in the prior year.
61. Some of the invitation to tender for procurement of commodities designated for local content and production, did not stipulated the minimum threshold for local production and content as required by the 2017 Preferential Procurement Regulation 8(2). Similar non-compliance was also reported in the prior year.
62. 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. Similar non-compliance was also reported in the prior year.

Other information

63. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report, The other information does not include the financial statements, the auditor's report and those selected strategic objectives presented in the annual performance report that have been specifically reported in this auditor's report.

64. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion on it.
65. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected strategic objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
66. I did not receive all the other information prior to the date of this 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 matters to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to report on it in the auditor's report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

67. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
68. 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 allowing the municipality to build stable capacity, enhance the skills of officials and create a culture of good financial and performance disciplines and compliance.
69. Leadership did not provide sufficient oversight over the implementation and monitoring of a sound control environment and the development of policies and procedures. 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 many of the findings recurring.
70. Leadership did not put measures in place to reduce continuous reliance on consultants, by implementing processes to ensure that staff were sufficiently and adequately trained and that the performance of staff was monitored. Additionally, there was no transfer of skills and knowledge from consultants to staff to reduce reliance on consultants in future. Consequently, any improvements made in addressing audit findings of prior periods by the reliance placed on consultants, may not be sustainable.
71. Management did not implement the required financial disciplines such as proper record keeping, monthly reconciliations and the review of accounting records as well as ensuring financial statements adhere to the accounting framework. The material misstatements were exacerbated by the fact that management did not ensure that information was timeously gathered and filed appropriately to support information reported on. There was no regular

preparation of financial statements to enable an adequate and regular review thereof throughout the year in order to identify areas of issues relating to the reporting framework.

72. Governance structures, i.e the audit committee and the internal audit, were not effective in ensuring that good governance practices were in place by engaging management to prepare and monitor action plans to address the previous years audit issues, as well as proper implementation thereof.

Material irregularities

73. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit and on the status of the material irregularities reported in the previous year's auditor's report.

Material irregularities identified during the audit

74. The material irregularities identified are as follows:

Employee remunerated in excess of the remuneration policy

75. The municipality appointed a Manager: Administrative services for a contract period from 16 July 2018 to 30 November 2019. This manager was not remunerated in accordance with the remuneration policy as determined by the municipal council which is in contravention of section 66(1)(c) of the Municipal Systems Act 32 of 2000. The manager was paid at various rates and hours throughout the contract period (16 July 2018 to 30 November 2019) for both administration services and project management to a total value of R1 456 160.
76. The appointment of the employee is likely to result in a material financial loss as the remuneration paid is significantly higher than the remuneration attached to the position.
77. The accounting officer was notified of the material irregularity on 24 June 2022 and invited to make a written submission on the actions taken and that will be taken to address the matter.
78. The accounting officer has not taken appropriate action in response to being notified of the material irregularity. I recommend that the accounting officer should take the following actions to address the material irregularity, which should be implemented by 14 July 2023.
- The non-compliance should be investigated to determine if any official might have committed an act of financial misconduct or an offence in terms of Chapter 15 of the MFMA, for purposes of recovering the loss.
 - Disciplinary proceedings should commence, without undue delay, against all officials who have allegedly committed an act of financial misconduct or an offence, as required by section 62(1)(e) of the MFMA and the manner prescribed by the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings.
 - If a senior manager of the municipality has allegedly committed an act of financial misconduct, the accounting officer must report the allegation to the municipal council, the

Provincial Treasury and the National Treasury as required by Regulation 3(1) of the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings.

- If it appears that the municipality suffered the financial loss through criminal acts or possible criminal acts or omission, this must be reported to the South African Police Service, as required by section 32(6) of the MFMA.
- The financial loss should be quantified and all person(s) liable for the losses should be identified and appropriate action should commence to recover the financial loss. The recovery process should not be unduly delayed.

Status of previously reported material irregularities

79. I identified a material irregularity during the prior year audit and notified the accounting officer, as required by material irregularity regulation 3(2). By the date of this auditor's report, I had not yet completed the process of evaluating the response from the accounting officer.

Auditor General

Cape Town

28 January 2023



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

1. 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 strategic objectives and on the municipality's compliance with respect to the selected subject matters.

Financial statements

2. 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 by the accounting officer
 - conclude on the appropriateness of the accounting officer's 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 Beaufort West 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

3. 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.
4. I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence, and to 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.