

Report of the auditor-general to Western Cape Provincial Parliament and council on 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 95, 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 possible effects of the matter described in the basis for qualified opinion section of this report, the financial statements present fairly, in all material respects, the financial position of the Beaufort West municipality as at 30 June 2023 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 Division of Revenue Act 5 of 2022 (Dora).

Basis for qualified opinion

Revenue from exchange transactions – Basic Charges: Electricity

3. The municipality did not adequately account for basic charges on electricity for retail and industrial properties. As a result, some retail and industrial properties were either not adequately charged in line with the municipality's tariff schedule or not charged at all. Consequently, I was unable to determine the impact on revenue from exchange transactions and receivables from exchange transactions as well as the comparative figures, as it was impracticable to do so.

Context for opinion

4. 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.
5. 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.
6. 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

7. I draw attention to the matter below. My opinion is not modified in respect of this matter.
8. I draw attention to note 54 to the financial statements, which indicates that the municipality's current liabilities exceeded its current assets by R65,4 million (2021-22: R53,2 million). As stated in the note, these events or conditions, along with the other matters as set forth in the note, 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

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

Restatement of corresponding figures

10. As disclosed in note 43 to the financial statements, the corresponding figures for 30 June 2022 were restated as a result of errors identified in the financial statements of the municipality at, and for the year ended, 30 June 2023.

Material impairment

11. As disclosed in note 10 to the financial statements, the municipality provided for the impairment of receivables from exchange transactions amounting to R124,6 million (2021-22: R109,9 million).
12. As disclosed in note 11 to the financial statements, the municipality provided for the impairment of receivables from non-exchange transactions amounting to R291,0 million (2021-22: R255,6 million).

Material losses

13. As disclosed in note 48.8 to the financial statements, material electricity losses of 6 637 653 Kwh (2021-22: 18 731 951 Kwh) was incurred, which represents 14.18% (2021-22: 35.42%) of total electricity purchased. Electricity losses were due to electricity theft on pre-paid meters.
14. As disclosed in note 48.8 to the financial statements, material water distribution losses of 2 044 082 KI (2021-22: 504 110 KI) was incurred, which represents 63.66% (2021-22: 15.86%) of total water purchases. Water losses were due to pipe bursts and field leakages.

Other matters

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

Unaudited disclosure note

16. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particular of non-compliance with the MFMA in the financial statements. The 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

17. The supplementary information set out on pages 96 to 106 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 thereon.

Responsibilities of the accounting officer for the financial statements

18. 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 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.
19. 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

20. 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.
21. 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

22. 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 strategic objectives presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.
23. I selected the following strategic objective presented in the annual performance report for the year ended 30 June 2023 for auditing. I selected strategic objective that measure the

municipality's performance on its primary mandated functions and that is of significant national, community or public interest.

Strategic Objective	Page numbers	Purpose
Strategic objective 1	6-12	Provide, maintain and expand basic services to all the people in the municipal area

24. I evaluated the reported performance information for the selected strategic objective 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.

25. 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.

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

27. The material findings on the reported performance information for the selected strategic objective are as follows:

Strategic objective 1 – Provide, maintain and expand basic services to all the people in the municipal area

Various indicators

28. Some supporting evidence was not provided for auditing; and, where it was, I identified material differences between the actual and reported achievements. Consequently, the

achievements might be more or less than reported and were not reliable for determining if the targets had been achieved.

Indicator description	Target	Reported achievement
TL 6 – Number of formal residential properties that receive piped water (credit and prepaid water) that is connected to the municipal water infrastructure network and which are billed for water or have pre-paid meters as at 30 June 2023.	11 510	15 341
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 2023.	11 346	11 896
TL 10 – Provide free basic water to active indigent households as defined in paragraph 9(1) of the Municipality's Credit Control and Debt Collection Policy as at 30 June 2023.	5 600	6 866
TL 11 - Provide free basic electricity to active indigent households as defined in paragraph 9(1) of the Municipality's Credit Control and Debt Collection Policy as at 30 June 2023.	5 094	4 593

Other matters

29. I draw attention to the matter 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.

Material misstatements

31. 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 – provide, maintain and expand basic services to all the people in the municipal area. Management did not correct the misstatements and I reported material findings in this regard.

Report on compliance with legislation

32. 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.
33. 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.
34. 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.
35. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual Financial Statements

36. 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 liabilities, revenue, expenditure and 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.
37. The oversight report adopted by the council on the 2021/22 annual report was not made public, as required by section 129(3) of the MFMA.

Revenue Management

38. An effective system of internal control for revenue was not in place, as required by section 64(2)(f) of the MFMA.
39. I was unable to obtain sufficient appropriate audit evidence that revenue due to the municipality was calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

Expenditure Management

40. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
41. Reasonable steps were not taken to prevent irregular expenditure amounting to R203,4 million as disclosed in note 47.3 to the annual financial statements, as required by section 62(1)(d) of the MFMA.

42. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R19,1 million, as disclosed in note 47.2 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.
43. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R169,1 million, as disclosed in note 47.1 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.

Consequence Management

44. 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.
45. Irregular 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. 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

47. Some of the invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM Regulation 22(1) and 22(2).
48. 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 in the annual report

49. 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 strategic objectives presented in the annual performance report that have been specifically reported on in this auditor's report.
50. 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.
51. 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 strategic objectives presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
52. 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

53. 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.
54. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion the material findings on the annual performance report and the material findings on compliance with legislation included in this report.
55. Leadership did not provide sufficient oversight over the implementation and monitoring of a sound control environment and the development of policies and procedures.
56. Not all of our audit recommendations made in the prior year were implemented, resulting in similar audit findings being reported on compliance with laws regulations.
57. 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.
58. Governance structures, ie 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 year's audit issues, as well as proper implementation thereof.

Material irregularities

59. 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 material irregularities as previously reported in the auditor's report.

Material irregularities in progress

60. I identified a material irregularity during the prior year audit and notified the accounting officer, as required by material irregularity regulation 3(2). Subsequently, a new accounting officer was permanently appointed on 8 November 2023. By the date of this auditor's report, I had not yet completed the process of evaluating the response from the accounting officer.

Status of previously reported material irregularities

Employee remunerated in excess of the remuneration policy

61. 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.
62. 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.
63. I recommended that the accounting officer should take the following actions to address the material irregularity, 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.
 - That disciplinary proceedings 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.

64. The AGSA's Material Irregularity Committee, duly delegated by the Auditor-General to make decisions on material irregularities, approved an extension to 6 March 2024 for the implementation of the recommendations.

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 strategic 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

1. 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, 2005	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)(i), 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)
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)

Legislation	Sections or regulations
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2), 5(3), 5(6), 8(4)
Annual Division of Revenue Act	Section 11(6)(b), 12(5), 16(1); 16(3)
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)