



AUDITOR-GENERAL
SOUTH AFRICA

REPORT OF THE AUDITOR-GENERAL

Newcastle Municipality

For the year ended 30 June 2023

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the Council on Newcastle Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Newcastle Municipality set out on pages 335 to 419, which comprise the statement of financial position as at 30 June 2023, statement of financial performance, statement of changes in net assets and cash flow statement and statement of comparison of budget and actual information 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 Newcastle Municipality as at 30 June 2023 and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act No. 5 of 2022 (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.

Material uncertainty relating to going concern

6. I draw attention to the matter below. My opinion is not modified with respect to this matter.
7. I draw attention to note 48 to the financial statements, which indicates that a net loss of R357,99 million was incurred during the year ended 30 June 2023 and, as of that date the current liabilities exceeded current assets by R265,43 million. These events or conditions, along with other matters as set forth in the afore-mentioned 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

8. I draw attention to the matters below. My opinion is not modified with respect to these matters.

Contingencies

9. As disclosed in note 45 to the financial statements, the municipality has disclosed various pending legal matters. The ultimate outcome of these matters could not be determined and no provision for any liability that may result was made in the financial statements.

Material impairment – Receivables from non-exchange transactions

10. As disclosed in note 10 to the financial statements, the municipality made a material provision for impairment of R57 million (2021-2022: R52,75 million) on receivables from non-exchange transactions, as a result of poor collectability of outstanding traffic fines.

Material impairments – Consumer debtors

11. As disclosed in note 11 to the financial statements, the municipality made a material provision for impairment of R1,02 billion (2021-2022: R765,19 million) on consumer debtors, as a result of poor collectability of outstanding consumer debts.

Material losses – Bad debts

12. As disclosed in note 37 to the financial statements, the council approved the write-off of consumer and indigent debtors amounting to R102,30 million (2021-2022 R24,49 million) due to incentive schemes encouraging payments of municipal bills.

Material losses – water

13. As disclosed in note 38 to the financial statements, the municipality incurred material technical water losses of R58,89 million (2021-2022: R51,44 million), which represents 37% (2021-2022: 39%) of total water purchased. These losses were due to real and apparent losses, which are based on the system input volume and the authorised consumption.

Unspent conditional grants and receipts

14. As disclosed in note 16 to the financial statements, the municipality significantly underspent on its conditional grants for the year. The majority of this amount relates to the housing grant, which was underspent by R94,17 million (2021-2022: R152,57 million).

Unauthorised expenditure

15. As disclosed in note 49 to the financial statements, unauthorised expenditure of R202,38 million was incurred, due to overspending of the approved budgeted amounts.

Other matters

16. I draw attention to the matters below. My opinion is not modified with respect to these matters.

Unaudited disclosure notes

17. 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

18. The supplementary information set out on pages XX to XX do 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

19. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with SA Standards of 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.
20. 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

21. 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
22. 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

23. In accordance with the Public Audit Act No. 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 key performance area (KPA) presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

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

Key performance area	Page numbers	Purpose
Basic service delivery	329	The purpose of this key performance area is the overall delivery of basic and infrastructural services and products.

25. I evaluated the reported performance information for the selected KPA 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 of its mandate and objectives.

26. 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 reasons provided for measures taken to improve performance.

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

28. I did not identify any material findings on the reported performance information for the selected KPA of basic service delivery.

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.

31. The municipality plays a key role in delivering services to South Africans. The table that follows provides information on the achievement of planned targets and lists the key service delivery indicators that were not achieved as reported in the annual performance report. The reasons for any underachievement of targets and measures taken to improve performance are included in the annual performance report on pages 287 to 334.

<i>Targets achieved: 74%</i> <i>Budget spent 100%</i>		
Key service delivery indicators not achieved	Planned target	Reported achievement
1. BS003 - Limit the water losses to below $\leq 40\%$	40%	37,05%
2. BS015 - Km's of OB1 Link Road Stormwater installed	Completion of 0,86 Km's of OB1 Link Road Stormwater installation	0,78 Km's of OB1 Link Road Stormwater installed
3. BS019 - Construction of Blaauwbosch Bulk Water Supply	Completion of 4,7 Km's of trench excavations and pipe laying for 450ND steel gravity main water supply pipeline from Braakfontein to Blaauwbosch	3,07 Km's of trench excavations and 3,84 Km's of pipe laying for 450ND steel gravity main water supply pipeline from Braakfontein to Blaauwbosch completed
4. BS020 - Upgrade of Madadeni Wastewater Treatment Plant	Construction of Inlet Structures and dividing walls in existing aeration basin	Construction of Inlet Structures and dividing walls in existing aeration basin was not achieved and is still in progress
5. BS021 - Upgrade of the Newcastle Wastewater Treatment Works for Viljoen Park Bulk Water and Sanitation (Phase2)	Refurbishment - installation of chlorine dosing equipment Installation of pipeline at Ncandu rising main pipeline - appointment of the contractor, site handover, site establishment and excavating trenches for 200m.	Refurbishment - installation of chlorine dosing equipment in progress and Installation of pipeline - Contractor is not appointed, site handover, site establishment and excavating trenches for 200m not completed
6. BS022 - Achieve 90% wastewater quality (green drop) score in terms of SANS 241	90%	87,51%

<i>Targets achieved: 74%</i> <i>Budget spent 100%</i>		
Key service delivery indicators not achieved	Planned target	Reported achievement
7. BS026 - Number of completed Top-structures to roof level	200	176
8. BS032 - Km's of roads upgraded from gravel to blacktop including stormwater for ME26 & ME27	Completion of 1 Km gravel roads upgraded from gravel to blacktop including 0,85 Km's of stormwater for ME26 and ME27	1 Km base layer and 0,85 Km's of stormwater completed. Surfacing for ME26 and ME27 roads is not complete
9. BS038 - Installation of 1,4 km's of pipeline in ward 5, excavations and pipe laying for Ward 2 & 25	Installation of 1,4 km's of pipeline in ward 5,4 km's of trench excavation and pipe laying for Ward 2 and 4,5 kms of trench excavation and pipe laying for Ward 25	10,55 Km's of pipeline installed in ward 5, Contractor appointed and site establishment in progress for ward 2 and 6,1 Km's of trench excavations and pipelaying installed for ward 25
10. BS044 - Compilation of design report for the sewer line at Lyle Street in Newcastle by June 2023	Compilation of design report for sewer line at Lyle Street in Newcastle by June 2023	Design report for the sewer line at Lyle Street in Newcastle is not compiled due to Geotechnical information that is still outstanding
11. BS046 - Completion of connection of Sewer and water service to the Crawford Park Ablution facility and completion connection of sewer to the Dry cut Cemetery.	Completion of connection of sewer and water service to the Crawford Park Ablution facility and completion connection of sewer to the Dry cut Cemetery.	Sewer and water service to the Crawford Park Ablution facility and sewer to the Dracut Cemetery not completed. Contractor appointed for sewer connection at Dracut Cemetery

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:

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 current assets and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

37. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
38. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R13,03 million as disclosed in note 50 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed aforesaid expenditure was caused by interest incurred on late payments made to suppliers.

Other information in the annual report

39. 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 the selected KPA presented in the annual performance report that have been specifically reported on in this auditor's report.
40. 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.
41. 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 KPA presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
42. I have nothing to report in this regard.

Internal control deficiencies

43. 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.
44. The matters reported below are limited to the significant internal control deficiencies that resulted in the material findings on compliance with legislation included in this report.
45. It is crucial that accounting officer ensures that all financial and performance data is carefully collated, reviewed and quality assured by management, internal audit and the audit committee before being reported on. Additionally, leadership must ensure that the accounting and legislative prescripts are complied with due diligence and demonstrate a decisive approach to consequence management where non-compliance is identified. This will lead to further improvements in the municipality's audit outcomes and more time for leadership and management to focus on matters that impact the lived realities of the citizens as well as the overall financial viability of the municipality.

Material irregularities

46. 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.

Status of previously reported material irregularities

Salary payments to terminated employees

47. The municipality did not comply with section 65(2)(a) of the MFMA which state that the accounting officer must take reasonable steps to ensure that the municipality has and maintains an effective system of expenditure control including procedures for the approval, authorisation, withdrawal and payment of funds.
48. The municipality failed to ensure that terminated employees were exited timeously by the human resources department, thus resulting in the employees being paid months after they had left the municipality for the 2015-2016 to 2019-2020 financial years. This resulted in a financial loss which amounted to R1,22 million. The salary overpayments were disclosed as fruitless and wasteful expenditure in note 52 of the 2019-2020 financial statements. The accounting officer was notified of the material irregularity on 14 April 2021.
49. The following actions have been taken to address the material irregularity:
- The accounting officer strengthened the control environment to prevent re-occurrence of salary overpayments on termination of employment.
 - The matter was investigated by the internal audit unit on the instruction of the accounting officer. The investigation was concluded, and the recommendation was accordingly implemented. Some overpayments were recovered, and the amounts that were deemed irrecoverable were written off accordingly.

50. The actions taken by the accounting officer have adequately addressed the material irregularity and accordingly, the material irregularity is resolved.

Other reports

51. In addition to the investigations relating to material irregularities, I draw attention to the following engagements conducted by various parties. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
52. Various investigations are being undertaken by independent consultants at the request of the municipality, relating to matters involving suspensions, theft, fraud allegations and financial misconduct covering the 2021 to 2023 years. The investigations were still in progress at the date of this report.
53. Furthermore, there are 10 different matters that are being investigated by the Special Investigating Unit (SIU) and the Directorate for Priority Crime Investigations of the South African Police Service (Hawks), relating to supply chain management transgressions covering the period 2013 to 2022. These matters were still in progress at the date of this report.
54. Additionally the Hawks had investigated one allegation of payroll fraud at the municipality. This matter has been finalised and criminal proceedings have been undertaken.

Pietermaritzburg

29 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 the selected KPA and on the municipality's compliance with selected requirements in key legislation.

Financial statements

In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made
- conclude on the appropriateness of the use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the municipality to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease operating as a going concern
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003	Section 1 - Paragraphs (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) & (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 122(2), 126(1)(a), 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), Sections 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, Sections 171(4)(a), 171(4)(b)
MFMA: Municipal Budget and Reporting Regulations, 2009	Regulations 71(1), 71(2), 72
MFMA: Municipal Investment Regulations, 2005	Regulations 3(1)(a), 3(3), 6, 7, 12(2), 12(3)
MFMA: Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014	Regulations 5(4), 6(8)(a), 6(8)(b), 10(1)
MFMA: Municipal Supply Chain Management Regulations, 2017	Regulations 5, 12(1)(c), 12(3), 13(b), 13(c), 13(c)(i), 16(a), 17(1)(a), Regulations 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(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), 93J(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)
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)