

**REPORT OF THE AUDITOR-GENERAL
OF SOUTH AFRICA**

For the year ended 30 June 2022

Newcastle Municipality



**AUDITOR-GENERAL
SOUTH AFRICA**

Auditing to build public confidence

Report of the auditor-general to 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 ... to ..., which comprise the statement of financial position as at 30 June 2022, the statement of financial performance, statement of changes in net assets, 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 2022, 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 of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2021 (Act No. 9 of 2021) (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 auditor-general's responsibilities 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 in respect of this matter.
7. I draw attention to note 47 to the financial statements, which indicates that the municipality incurred a net deficit of R244 million during the year ended 30 June 2022 and, as of that date the municipality's current liabilities exceeded its current assets by R89,08 million. As stated in note 47, these events or conditions, along with other matters as set forth in note 47, 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 in respect of these matters.

Restatement of corresponding figures

9. As disclosed in note 57 to the financial statements, the corresponding figures for 30 June 2021 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2022.

Irregular expenditure

10. As disclosed in note 50 to the financial statements, the municipality incurred irregular expenditure of R109,99 million (2020-2021: R31,63 million), as it did not follow the appropriate procurement processes for certain transactions.

Contingencies

11. As disclosed in note 44 to the financial statements, the municipality is a defendant in various litigation and other claims. 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 losses – water

12. As disclosed in note 38 to the financial statements, material water losses of R51,44 million (2020-2021: R41,82 million) was incurred, which represents 39% (2020-2021: 34%) of total water purchased. These were as a result of real and apparent water distribution losses.

Material impairments – Debt

13. As disclosed in note 36 to the financial statements, material losses of R115,77 million (2020-2021 R183 million) was incurred as a result of impairment of consumer debtors. This was due to the low collection rate of outstanding debts from consumers.

Other matter

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

Unaudited supplementary schedules

15. 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.

Unaudited disclosure notes

16. 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.

Responsibilities of the accounting officer for the financial statements

17. 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 the financial statements that are free from material misstatement, whether due to fraud or error.
18. 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

19. 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.
20. 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

21. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 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 the selected objective presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
22. 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.

23. 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 *basic service delivery objective* presented on pages xx to xx of the municipality's annual performance report for the year ended 30 June 2022.
24. 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.
25. The material finding on the usefulness of the performance information of the selected objective is as follows:

Objective - Basic service delivery

BS007 - To finalise and submit the Environmental Impact Assessment Report to the Department of Economic Development, Tourism and Environment Affairs for the approval of the Landfill Site

26. There was no clear link on how the indicator and target for indicator BS007 will contribute to achieving the planned outcomes to which it relates. The indicator focused on finalisation and submission of the environmental impact assessment report, while the intended output was ongoing discussions with the estate agent regarding the acquisition of the farm for environmental investigations.

Other matters

27. I draw attention to the matters below.

Achievement of planned targets

28. The annual performance report on pages ... to ... sets out 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 of the reported performance information in paragraph 26 of this report.

Adjustment of material misstatements

29. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of the *basic service delivery objective*. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. That which was not corrected is reported above.

Report on the audit of compliance with legislation

Introduction and scope

30. 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.
31. The material findings on compliance with specific matters in key legislation are as follows:

Financial statements

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

Procurement and contract management

33. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by Municipal Supply Chain Management (MSCM) Regulation 19(a).
34. Awards were made to providers whose directors were in the service of other state institutions in contravention of section 112(1)(j) of the MFMA and MSCM Regulation 44.

Expenditure management

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

Other information

36. 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 the selected objective presented in the annual performance report that have been specifically reported upon in this auditor's report.
37. 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.
38. 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 objective presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

39. If, based on the work I have performed, I conclude that there is a material misstatement in this other information, I am required to report that fact.
40. I have nothing to report in this regard.

Internal control deficiencies

41. 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 findings on the annual performance report and the findings on compliance with legislation included in this report.
42. Management has not adequately implemented certain requirements of the financial reporting framework to ensure that the accounting treatment was effected as prescribed. Furthermore, leadership did not implement effective oversight over performance reporting and compliance with applicable legislation, which resulted material findings on usefulness in the annual performance report and compliance with legislation.

Material irregularities

43. 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.

Status of previously reported material irregularities

Interest and penalties incurred on SARS Account: Payroll taxes

44. The municipality failed to ensure that the payments due to SARS were made within seven days after the end of the month during which the amount was deducted or withheld from employees for the period June 2019 to June 2020, in contravention with paragraph 2(1) of the Fourth Schedule of the Income Tax Act 58 of 1962. The non-compliance has resulted in a material financial loss for the Newcastle Municipality of R8,26 million and this has been disclosed as fruitless and wasteful expenditure in note 52 of the 2019-20 annual financial statements.
45. The accounting officer was notified of the material irregularity on 26 February 2021. The following actions have been taken to resolve the material irregularity:
- The accounting officer planned to ensure that the payments to SARS are made with the required timeframes, with zero interest and penalties charged by SARS and to strengthen controls over creditors and to prioritize third party payments and reconcile monthly. Third party payments are now made within the required timeframes, with no interest and penalties charged by SARS by 30 June 2022.

- On 25 August 2021, the accounting officer presented to council the section 52(d) of the MFMA report for 30 June 2021, file reference T6/1/1-2020/2021, confirming that the municipality has been experiencing cash flow challenges due to weak controls over expenditure management and low collection rates and that no official could be held liable for the financial loss.

46. The material irregularity is resolved.

Salary payments to terminated employees

47. 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 financial years 2015-16 to 2019-20, in contravention with section 65(2)(a) of the MFMA. The likely financial loss related to the non-compliance amount to R1,22 million as the municipality is in the process of investigating the issues and possibly recovering the debts from the terminated employees. The salary overpayments are disclosed as fruitless and wasteful expenditure in note 52 of the 2019-20 annual financial statements.
48. 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 committed to strengthen controls to reduce the occurrence of salary overpayments on termination and to investigate and report the findings and recommendations to council for possible recovery, write-off or condonation.
 - On 16 April 2021, the accounting officer issued circular 6 of 2021, a memorandum to all strategic executive directors relating to the communication of all employee exits.
 - On 09 August 2021, the accounting officer, engaged the internal audit unit to investigate unauthorised, irregular and fruitless and wasteful expenditure for 2017-18 to 2020-21 as per council resolution taken on 3 March 2021. The internal audit reported the outcomes of the investigation on 13 September 2021. The accounting officer plans to take the necessary actions based on the outcomes of the report and the council resolutions. The investigations have resulted in the recovery of certain overpayments and a write off for certain amounts.
50. I will follow up on the progress of the matter during my next audit.

Other reports

51. In addition to the investigations relating to material irregularities, I draw attention to the following engagements conducted which had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. 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 an independent consultant relating to matters involving suspensions, maladministration and financial misconduct at the request of the municipality, covering the period 2020-21 to 2021-22. The investigations were still in progress at the date of this report.
53. Furthermore, there are ten different matters that are being undertaken by the Special Investigating Unit and the South African Police Service relating to supply chain management transgressions covering the period 2013 to 2021. These matters were still in progress at the date of this report.

Auditor - General.

Pietermaritzburg

30 November 2022



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 the selected objective 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 Newcastle 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.