



AUDITOR-GENERAL
SOUTH AFRICA



REPORT OF THE AUDITOR-GENERAL

Newcastle Municipality

For the year ended 30 June 2024

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 annual financial statements of the Newcastle Municipality as set out on pages xx to xx, which comprise the statement of financial position for the year ended 30 June 2024, statement of financial performance, statement of changes in net assets and cash flow statement and the 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 annual financial statements present fairly, in all material respects, the financial position of the Newcastle Municipality as at 30 June 2024 and its financial performance and cash flows for the year then ended in accordance with the South African 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 5 of 2023 (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.

Emphasis of matters

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

Restatement of corresponding figures

7. As disclosed in note 58 to the financial statements, the corresponding figures for 30 June 2023 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2024.

Contingencies

8. As disclosed in note 46 to the financial statements, the municipality has disclosed various pending legal matters. The 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

9. As disclosed in note 39 to the financial statements, the municipality incurred material water losses of R61,93 million (2022-23: R59,73 million), which represents 36% (2022-23: 37%) of total water purchased. These losses were due to unauthorised consumption and other technical losses.

Material impairments – Statutory receivables – Traffic fines

10. As disclosed in note 10 to the financial statements, the municipality made a material provision for the impairment of statutory receivables – traffic fines of R49,13 million (2022-23: R42,71 million) due to the poor collectability of the outstanding traffic fines.

Material impairments – Consumer debtors

11. As disclosed in note 11 to the financial statements, the municipality made a material provision for the impairment of consumer debtors of R1,44 billion (2022-23: R1,02 billion) due to the poor collectability of the outstanding debts.

Material losses – Consumer debtors: Bad debts

12. As disclosed in note 38 to the financial statements, the council approved the write-off of consumer debtors for R80,52 million (2022-23 R102,30 million) due to incentive schemes encouraging municipal bill payments and the write-off of historical indigent debts.

Underspending of conditional grants

13. As disclosed in note 16 to the financial statements, the municipality underspent significantly on all its housing grants. The unspent balance at year-end was R65,97 million (2022-23: R94,17 million).

Going concern

14. I draw attention to note 49 to the financial statements, which indicate that the municipality incurred a net deficit of R320,69 million during the year under review and, as of that date the current liabilities exceeded current assets by R453,83 million. These events or conditions, along with other matters as set forth in the afore-mentioned note, indicate that an uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Other matters

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

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.

Unaudited supplementary schedules

17. 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 for the financial statements

18. 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 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 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 the 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. This description, which is located at pages 10 to 11, forms part of our 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 key performance area (KPA) presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.
23. I selected the following KPA presented in the annual performance report for the year ended 30 June 2024 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	XX	The purpose of this key performance area is the overall delivery of basic and infrastructural services and products

24. 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.
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
 - all the indicators relevant for measuring the municipality’s performance against its primary mandated and prioritised functions and planned objectives are included
 - 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 and is comparable and understandable
 - 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. I did not identify any material findings on the reported performance information for the basic service delivery KPA.

Other matters

28. I draw attention to the matter below.

Achievement of planned targets

29. The annual performance report includes information on reported achievements against planned targets and provides explanations for measures taken to improve performance.
30. 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 measures taken to improve performance are included in the annual performance report on pages xx to xx.

Basic service delivery

Targets achieved: 61%		
Budget spent: 67%		
Key indicators not achieved	Planned target	Reported achievement
1. TLSDBIP-BS004 – Achieve 90% wastewater quality as per general authorisation limits in terms of section 39 of the National Water Act	90%	82.59%
2. TLSDBIP-BS016 – Number of new households connected to the electricity grid at Siyahlala la	440	395
3. TLSDBIP-BS018 – Finalisation of a detailed design report by the consultant, for the construction of 1132/11 kV substation – Equarand by 30 June 2024	Finalisation of detailed design report by the consultant by 30 June 2024	The consultant did not finalise the detailed design report by 30 June 2024
4. TLSDBIP-BS019 – kms of 450ND steel gravity main water supply pipeline installed from Braakfontein to Blaauwbosch	Completion of 2,4 kms of trench excavations and 3,4 kms of pipeline for the installation 450ND steel gravity main water supply from Braakfontein to Blaauwbosch	1,70 kms of trench excavations and 1,76 kms of pipeline for the installation 450ND steel gravity main water supply from Braakfontein to Blaauwbosch completed
5. TLSDBIP-BS021- Submission of a sewer master plan and water use licence application (WULA) to the Department of Water and Sanitation (DWS) for the installation of the sewer rising main pipeline at Viljoenpark – Ncandu by 31 March 2024	Submission of sewer master plan and water use licence application (WULA) to the Department of Water and Sanitation (DWS) by the Consultant by 31 March 2024	The sewer master plan and water use licence application (WULA) were not submitted to the Department of Water and Sanitation (DWS)

Targets achieved: 61%

Budget spent: 67%

Key indicators not achieved	Planned target	Reported achievement
6. TLSDBIP-BS022 – submission of a sewer master plan and water use licence application (WULA) to the Department of Water and Sanitation (DWS) for the upgrade and installation of bulk sewer pipeline from Siyahlala-la to Voortrekker Pump Station by 31 March 2024	Submission of sewer master plan and water use licence application (WULA) to the Department of Water and Sanitation (DWS) by the Consultant by 31 March 2024	The sewer master plan and water use licence application (WULA) were not submitted to the Department of Water and Sanitation (DWS)
7. TLSDBIP-BS025 – installation and completion of 38,75 kms of excavations and pipelaying in wards 2, 34 & 5	Final completion of 27,17 kms of pipeline installation in (Ward 2 = 12,19 kms and Ward 34 = 14,98 kms) and completion of 11,58 kms of trench excavations and pipelaying in (Ward 5 = 11,58 kms)	33,27 kms of pipeline installation in (ward 2 = 12,19 kms and ward 34 = 21,08 kms) completed. Wards 2 and 34 are not finally complete. 11,58 kms of trench excavations and pipelaying in (ward 5 = 11,58 kms) completed
8. TLSDBIP-BS026 – kms of road upgraded from gravel to blacktop including stormwater for JR 2 road	Completion of 1,00 km of roadbed, 1,00 km of sub-base layer and 0,5 kms of stormwater installation for JR2 road	0,60 kms of roadbed preparation and 0,50 kms of stormwater pipe laying completed. The sub-base layer was not done for the JR2 road
9. TLSDBIP-BS027 – kms of roads upgraded from gravel to blacktop including stormwater for ME roads	Final completion of 1,30 kms of gravel roads upgraded from gravel to blacktop including 1 km of stormwater installation for ME roads	0,40 kms of sub-base layer completed and 0,90 Km's of stormwater installed. 1,30 kms of gravel roads upgraded from gravel to blacktop and 0,10 kms of stormwater installation for ME roads was not done
10. TLSDBIP-BS029 – preparation and submission of the scoping report for the establishment of a new landfill site to Environmental Affairs by 30 June 2024	Preparation and submission of the scoping report for the establishment of a landfill site to Environmental Affairs by 30 June 2024	Preparation and submission of a scoping report for the establishment of a landfill site to Environmental Affairs were not done
11. TLSDBIP-BS032 – number of top structures constructed to roof level in wards 1, 6, 12 & 19 by 30 June 2024	40	2
12. TLSDBIP-BS041 – percentage implementation of the road maintenance plan	100% (212/212)	97% (205/212)
13. TLSDBIP-BS042 – installation of a chlorine equipment at Viljoen Park - Newcastle Wastewater Treatment Works by 30 June 2024	Finalisation of the installation of chlorine equipment by 30 June 2024	Installation of chlorine equipment is in progress and was not finalised by 30 June 2024
14. TLSDBIP-BS048 – overhaul and re-commissioning of 20Mva transformer by 30 June 2024	Overhaul and re-commissioning of 20Mva transformer by 30 June 2024	Overhaul and re-commissioning of 20Mva transformer commenced in June 2024
15. TLSDBIP-BS049 – replacement of sewer pump for the rehabilitation of Newcastle Pump Station 2 by 30 June 2024	Replacement of sewer pump at Newcastle Pump Station by 30 June 2024	Contractor appointed. Replacement of the sewer pump at Newcastle Pump Station 2 is in progress by 28 June 2024. The project is practically completed

Report on compliance with legislation

31. 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.
32. 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.
33. 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.
34. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statements

35. The financial statements submitted for auditing were not fully prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of liabilities and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

36. Reasonable steps were not taken to prevent unauthorised expenditure of R173,94 million (2022-23: R202,38 million), as disclosed in note 50 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure were caused by overspending of the approved budget on debt impairment, finance costs and other expenditure.
37. Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R24,04 million (2022-23: R13,03 million), as disclosed in note 51 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure were caused by service providers charging interest and penalties on late payments of their invoices.

Other information in the annual report

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

Internal control deficiencies

42. 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.
43. 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.
44. Management has not ensured that all data supporting the financial statements were carefully collated, reviewed and quality-assured to enable credible reporting. Furthermore, the municipality's cash management strategy was not fully implemented leading to material non-compliances regarding expenditure management.

Other reports

45. 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.
46. The municipality appointed several independent consultants to perform investigations relating to allegations of theft, fraud, financial misconduct and gender-based violence covering the period 2021 to 2023. These investigations were still in progress at the date of this report.

47. The Special Investigating Unit (SIU) and the Directorate for Priority Crime Investigations of the South African Police Service (HAWKS) are investigating 10 different allegations relating to supply chain management transgressions covering the period 2019 to 2022. These investigations were still in progress at the date of this report.

Auditor-General.

Pietermaritzburg

29 November 2024



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 key performance area 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 the 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	Sections: 1, 11(1), 13(2), 14(1), 14(2)(a & b), 15, 24(2)(c)(iv), 28(1), 29(1), 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b), 32(6)(a), 32(7), Sections: 53(1)(c)(ii), 54(1)(c), 62(1)(d), 63(2)(a), 63(2)(c), 64(2)(b), 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), 72(1)(a)(ii), Sections: 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), 122(2), 126(1)(a), 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, 171(4)(a), 171(4)(b)
MFMA: Municipal budget and reporting regulations, 2009	Regulations: 71(1)(a), 71(1)(a & b), 71(2)(a & b), 71(2)(d), 72(a, b & c)
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), 16(a), 17(1)(a), 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), 27(2)(e), 28(1)(a)(i), 29(1)(a), 29(1)(b), 29(5)(a)(ii), 29(5)(b)(ii), Regulations: 32, 36(1), 36(1)(a), 38(1)(c), 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43, 44, 46(2)(e), 46(2)(f)
Construction Industry Development Board Act 38 of 2000	Section: 18(1)
Construction Industry Development Board Regulations, 2004	Regulations: 17, 25(7A)
Division of Revenue Act	Sections: 11(6)(b), 12(5), 16(1); 16(3)
Municipal Property Rates Act 6 of 2004	Section: 3(1)
Municipal Systems Act 32 of 2000	Sections: 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 34(a & b), 38(a), 41(1)(a & b), 41(1)(c)(ii), 42, 43(2), Sections: 54A(1)(a), 56(1)(a), 57(2)(a), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 96(b)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations: 5(2), 5(3), 5(6), 8(4)
MSA: Municipal Planning and Performance Management Regulations, 2001	Regulations: 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 7(1), 8, 9(1)(a), 10(a), 12(1), 15(1)(a)(i) & (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)

Legislation	Sections or regulations
MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations: 17(2), 36(1)(a)
MSA: Municipal Staff Regulations	Regulations: 7(1),31
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section: 34(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), 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5), 9(1), 10(1), 10(2), 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)