



AUDITOR - GENERAL
SOUTH AFRICA

Mr V Govender
The acting accounting officer
Newcastle Municipality
Private bag X6621
Newcastle
2940

04 March 2021

Reference: 60633REG19-20

Dear Sir

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Newcastle Municipality for the year ended 30 June 2020

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Municipal Finance Management Act of South Africa (MFMA).
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.
6. Please notify the undersigned Business Executive well in advance of the date on which the annual report containing this audit report will be tabled.

7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely


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Business Executive: KwaZulu-Natal

Enquiries: Sinenhlanhla Sibiya
Telephone: (033) 264 7400

Auditor-General of South Africa

Newcastle Municipality Audit Report 2019-20

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 ... to ..., which comprise the appropriation statement, the statement of financial position as at 30 June 2020, statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the 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 2020, 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 the Revenue Act of South Africa (Act No.16 of 2019)(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 this auditor's 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 financial sustainability

6. I draw attention to the matter below. My opinion is not modified in respect of this matter.
7. I draw attention to note 51 to the financial statements, which indicates that the municipality had an accumulated deficit of R353 million during the year ended 30 June 2020 and, as of that date the municipality's current liabilities exceeded its current assets. As stated in note 51, these events or conditions, 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.

Uncertainty relating to the future outcome of exceptional litigation

9. With reference to note 46 to the financial statements, the municipality is the defendant to various lawsuits. The ultimate outcome of these matters could not be determined and no provision of any liability that may result was made in the financial statements.

Restatement of corresponding figures

10. As disclosed in note 48 to the financial statements, the corresponding figures for 30 June 2019 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2020.

Debt impairments

11. As disclosed in note 12 to the financial statements, the municipality recognised an impairment on receivables from non-exchange transactions of R45,16 million (2019: R36,86 million) as the recoverability of these amounts were doubtful.

12. As disclosed in note 13 to the financial statements, the municipality recognised an allowance for impairment on consumer debtors of R1,11 billion (2019: R933,90 million) as the recoverability of these amounts were doubtful.

Material losses - water

13. As disclosed in note 60 to the financial statements, the municipality incurred material water losses of 12 551 693 kilolitres (2018-19: 14 788 167 kilolitres) which resulted in revenue losses of R43,68 million (2018-2019: R45,10 million). The losses were mainly due to leaks and burst pipes, unauthorised consumption and illegal connections.

Other matter

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

Unaudited disclosure notes

15. 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

16. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the 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.

17. 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

18. 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.
19. 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

20. 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.
21. 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 also do not extend to any disclosures or assertions relating to 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.
22. 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 as presented in the municipality's annual performance report for the year ended 30 June 2020.
23. 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.

24. The material findings in respect of the usefulness and reliability of the basic service delivery objective are as follows:

Objective: basic service delivery

Various indicators

25. The planned targets for the indicators listed below were not specific and measurable in clearly identifying the nature and required level of performance.

Reported indicators per APR	Planned targets per APR
Purchasing of 1,75m3 containers	Purchasing of 1,75m3 containers
Purchase of Recycling Bins	Purchase of recycling bins

Other matters

26. I draw attention to the matters below.

Achievement of planned targets

27. The annual performance report on pages xx to xx 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 and reliability of the reported performance information in paragraph 25 of this report.

Adjustment of material misstatements

28. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for 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. Those that were not corrected are reported above.

Report on the audit of compliance with legislation

Introduction and scope

29. 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.
30. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements

31. 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. A material misstatement in the prior period error note identified by the auditors in the submitted financial statements was subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Strategic planning and performance management

32. Performance targets were not set for each of the key performance indicators for the financial year, as required by section 41(1)(b) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) and Municipal Planning and Performance Management Regulation 12(1).

Procurement and contract management

33. Some of the contracts were not awarded in an economical manner and the prices of the goods or services were not reasonable as required by MFMA section 62(1)(a).
34. Some of the competitive bids were adjudicated by a bid adjudication committee that was not composed in accordance with Municipal Supply Chain Management Regulation 29(2). Similar non-compliance was also reported in the prior year.

Expenditure management

35. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
36. Reasonable steps were not taken to prevent irregular expenditure amounting to R96,48 million as disclosed in note 55 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by payments made on contracts where supply chain management processes were not followed.
37. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R12,60 million, as disclosed in note 54 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by late payments on expenditure accounts.

Other information

38. 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 has been specifically reported in this auditor's report.
39. 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.

40. 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 objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
41. I did not receive the other information prior to the date of this auditor's 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 matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

42. 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.
43. Leadership did not exercise adequate oversight responsibility regarding financial, performance reporting and compliance with legislation. The accounting officer did not adequately implement reporting requirements; as per the SA standards of GRAP and the framework for managing performance information to support the achievement of credible financial and performance reporting and compliance with legislative requirements.
44. Management did not undertake routine monthly reconciliations and reviews, to support amounts reported in the financial statements and the annual performance report. This was due to management not fully understanding the requirements of the financial and performance reporting frameworks as well as poor records management. Moreover, management did not adhere to policies and procedures relating to supply chain management requirements.

Material irregularities

45. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit.

Material irregularities in progress

46. I identified material irregularities during the audit and notified the accounting officer of these, as required by material irregularity regulation 3(2). By the date of this auditor's report, the response of the accounting officer was not yet due. These material irregularities will be included in the next year's auditor's report.

Other reports

47. In addition to the investigations relating to material irregularities, I draw attention to the following engagement 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.
48. An investigation into allegations of fraud around the payroll system has been undertaken by the Hawks covering the period July 2014 to June 2020. The investigation was still in progress at the date of this auditor's report.

Auditor-General

Pietermaritzburg

04 March 2021



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