



Auditor-General of South Africa

Newcastle Municipality - Audit
report 2014-15

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

Report on the financial statements

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 2015, the 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, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (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.

Auditor-general's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Basis for qualified opinion

Infrastructure assets

6. I was unable to obtain sufficient appropriate audit evidence for infrastructure assets due to inadequate underlying records to support this amount. I could not confirm this amount by alternative means. Consequently, I was unable to determine whether any adjustment relating to infrastructure assets stated at R2,82 billion (2014: R2.96 billion), included in note 4 to the financial statements was necessary.

Qualified opinion

7. In my opinion, except for the possible effects of the matter described in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Newcastle Municipality as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

I draw attention to the matters below.

Significant uncertainties

8. With reference to note 42 to the financial statements, the municipality is the defendant in a number of civil lawsuits. The municipality is opposing the claims as it believes the claims to be invalid. The ultimate outcome of these matters cannot presently be determined and no provision for any liability that may result had been made in the financial statements.

Restatement of corresponding figures

9. As disclosed in note 45 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of an error discovered on infrastructure assets during 30 June 2015 in the financial statements of the Newcastle Municipality at, and for the year ended, 30 June 2014.

Material impairments and losses

10. As disclosed in note 14 to the financial statements, the municipality provided for debt impairments of R400,96 million (2014: R472,69 million), arising from the annual review of consumer debtors.
11. As disclosed in note 56 to the financial statements, water losses of R32,32 million (2014: R25,34 million) were incurred as a result of distribution losses.
12. As disclosed in note 57 to the financial statements, electricity losses of R 21,46 million (2014: R20,25 million) were incurred as a result of distribution losses.

Additional matter

13. I draw attention to the matter below.

Unaudited supplementary schedules

14. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Report on other legal and regulatory requirements

15. 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 findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

16. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for ■technical services; ■electrical and mechanical services; ■community services; and ■development planning and human settlements presented in the annual performance report of the municipality for the year ended 30 June 2015.
17. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2015.
18. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
19. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information*.
20. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
21. I did not identify any material findings on the usefulness and reliability of the reported performance information for the selected objectives.

Additional matters

22. Although I identified no material findings on the usefulness and reliability of the reported performance information for the selected objectives, I draw attention to the following matters:

Achievement of planned targets

23. Refer to the annual performance report on annexures 2.2, 2.4, 2.5 and 2.7 for information on the achievement of planned targets for the year.

Adjustment of material misstatements

24. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information of the technical services; electrical and mechanical services; and community services objectives. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Unaudited supplementary schedules

25. The supplementary information set out on pages XX to XX does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report thereon.

Compliance with legislation

26. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows.

Annual financial statements

27. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of current assets identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Strategic planning and performance management

28. The annual performance objectives and indicators for the municipal entity were not established by agreement with the uThukela Water (Pty) (Ltd) and included in the municipal entity's multi-year business plan, as required by section 93C(a) (iv) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000).

Asset management

29. An effective system of internal control for assets was not in place, as required by section 63(2) (c) of the MFMA.

Expenditure management

30. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1) (d) of the MFMA.

Internal control

31. I considered internal control relevant to my audit of the financial statements, performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion and the findings on compliance with legislation included in this report.

Leadership

32. Oversight over financial reporting and compliance with legislation, was inadequate, as the positions of the accounting officer and chief financial officer were vacant for a greater part of the year. Leadership did not act swiftly enough to fill these key vacancies to support management in the fulfilment their functions.

Financial management

33. The importance of routine daily and monthly processes, and stringent records management was not understood by officials. Management did also not devote sufficient time and effort to address significant internal control deficiencies on asset and supply chain management.

Governance

34. The importance of risk assessment and the responses thereto was not sufficiently understood by leadership and management. The slow response by management to address the concerns of internal audit and the audit committee compromised the quality of financial and compliance reporting.

Other reports

Investigations

35. Management performed an investigation regarding two employees. The investigation is in progress with the two employees awaiting the outcomes of the hearing which is still in progress.
36. Cooperative Governance and Traditional Affairs (COGTA) performed an investigation which covered a period from 1 July 2013 to 30 June 2014. The investigation was based on an allegation of the municipality paying for cellphone devices that were never received from a service provider they had a contracted with. The investigation was completed on 31 July 2014 with the Council taking a resolution that the amount should be recouped from the service provider.

Auditor-General

Pietermaritzburg

30 November 2015



