



AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

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# FINAL MANAGEMENT REPORT

**Dawid Kruiper Local Municipality**

**30 June 2017**

**Communicated to the accounting officer on: 30 November 2017**





## MANAGEMENT REPORT

Dawid Kruiper Local Municipality

30 June 2017

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## MANAGEMENT REPORT TO THE ACCOUNTING OFFICER ON THE AUDIT OF THE DAWID KRUIJER LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 June 2017

### INTRODUCTION

1. The purpose of the management report is to communicate audit findings and other key audit observations to the accounting officer and does not constitute public information. This management report includes audit findings arising from the audit of the financial statements, performance information and compliance with legislation for the year ended 30 June 2017.
2. These findings were communicated to management and the report details management's response to these findings. The report includes information on the internal control deficiencies that we identified as the root causes of the matters reported. Addressing these deficiencies will help to improve the audit outcome.
3. In accordance with the terms of engagement, our responsibility in this regard is to:
  - express an opinion on the financial statements
  - express a conclusion in the management report on the usefulness and reliability of the reported performance information for selected objectives, and report the material findings in the auditor's report
  - report on material findings raised on compliance with specific requirements in key applicable legislation, as set out in the general notice issued in terms of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA).

Our engagement letter sets out our responsibilities and those of the accounting officer in detail.

4. This management report consists of the overall message arising from the audit, summary of key findings and observations, annexures containing the detailed audit findings, annexures to the report on the audit of performance information as well as the annexure to internal control deficiencies reported.
5. The auditor's report is finalised only after the management report has been communicated. All matters included in this report that relate to the auditor's report remain in draft form until the final auditor's report is signed. In adherence to section 50 of the PAA, we do not disclose any information obtained during the audit and contained in this management report.
6. This management report consists of the overall message arising from the audit, summary of key findings and observations, annexures containing the detailed audit findings, annexures to the report on the audit of performance information as well as the annexure to internal control deficiencies reported.
7. The auditor's report is finalised only after the management report has been communicated. All matters included in this report that relate to the auditor's report remain in draft form until the final auditor's report is signed. In adherence to section 50 of the PAA, we do not disclose any information obtained during the audit and contained in this management report.
8. The **figure** that follows provides a pictorial summary of the audit results and our key messages on how to improve the audit outcomes with the focus on the following:



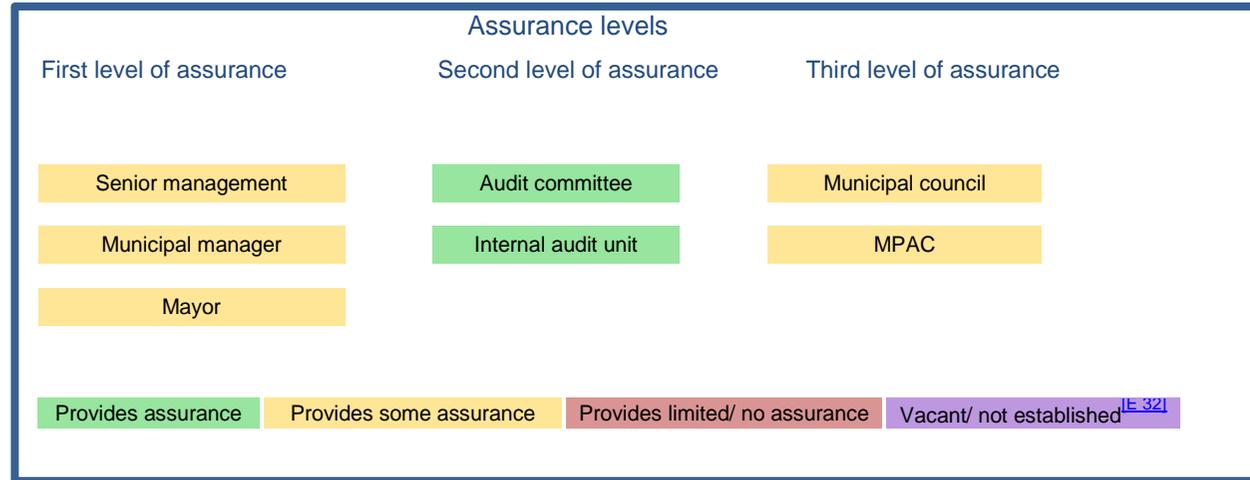
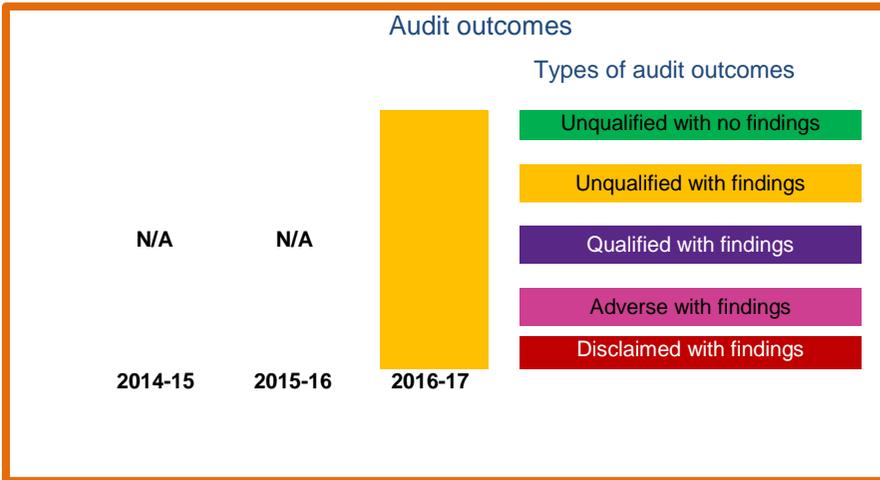
- Status of the audit outcomes
- Status of the level of assurance provided by key role players
- Status of the drivers of internal controls
- Status of risk areas
- Root causes to be addressed

The tick mark or legends on the figure mean the following:

 /  Improved

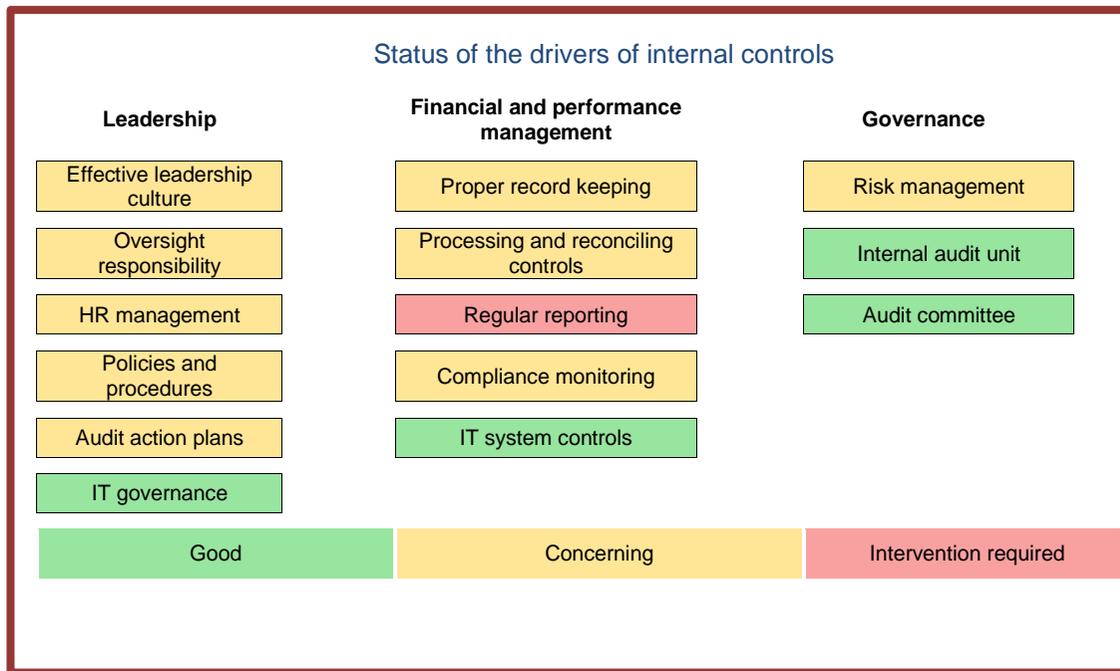
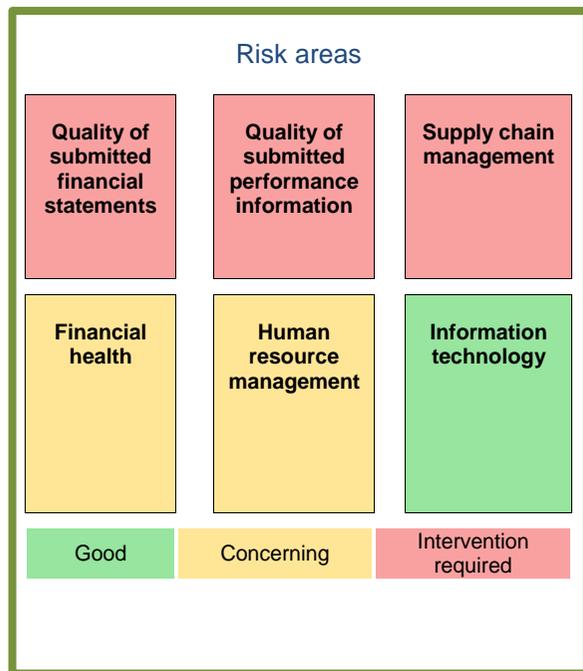
 /  Unchanged/slight improvement/slight regression

 /  Regressed



#### Root causes should be addressed

- Slow response by management
- Slow response by political leadership.



## OVERALL MESSAGE

9. The controls in the municipality are not functioning to its optimum resulting in the financial statements and annual report being subjected to material amendments and non-compliance being reported. There is a qualification on one of the development priorities that could not be prevented.

## SECTION 1: Interactions with stakeholders responsible for oversight and governance

10. During the audit cycle, we met with the following key stakeholders responsible for oversight and governance to communicate matters relating to the audit outcome of the municipality:

Key stakeholder	Purpose of interaction	Number of interactions
Municipal council	Feedback audit opinion.	2
Municipal public accounts committee	Feedback audit opinion.	1
Mayor	Feedback audit process.	3
Municipal manager	Feedback audit process.	3
Audit committee	Feedback audit opinion and progress	2

11. At these interactions, we shared the following key matters affecting audit outcomes and the auditee:

- Audit strategy and engagement letter
- Weekly progress of the Audit
- Key risks identified by internal audit
- Audit findings raised
- Concerns of management and the auditors
- Key controls

12. Some stakeholders made commitments to implement initiatives that can improve the audit outcome. The commitments given and the progress of previous commitments are included in section 3.2, which deals with the assessment of assurance providers.

## SECTION 2: Matters relating to the auditor's report

### 2.1 AUDIT OF THE FINANCIAL STATEMENTS

13. We identified material misstatements in the financial statements during the audit. These misstatements were not prevented or detected by the municipality's system of internal control. These material misstatements also constitute non-compliance with section 122 of the Municipal Finance Management Act (MFMA).

14. The misstatements that were corrected form the basis for the unqualified opinion on the financial statements.

Financial statement item	Material misstatement		Impact R current year	Impact R previous year
	Finding	Occurred in prior year (Insert Yes/No)		
<b>Material misstatements corrected</b>				
Non-current assets	Immovable assets difference AFS and Asset register (ISS:2)	No	R6 782 341	n/a
Non-current assets	Properties in Mier not fair value adjusted (ISS: 38)	No	R17 258 988	n/a
Non-current liabilities	Quarries not discounted (ISS: 12)	No	R13 475 500	n/a



## 2.2 MATTERS TO BE BROUGHT TO THE ATTENTION OF USERS

### Emphasis of matter paragraphs

15. The following emphasis of matter paragraph will be included in our auditor's report to draw the users' attention to matter presented or disclosed in the financial statements:

#### **Material losses – Water**

16. As disclosed in note 41.02 to the financial statements, material water losses to the amount of R9 683 218 was incurred which represents 44% of total water purchased.

### Other matter paragraphs

17. The following other matter paragraphs will be included in our auditor's report to draw the users' attention to matters regarding the audit, the auditor's responsibilities and the auditor's report:

#### **Unaudited supplementary schedules**

18. The supplementary information set out on pages X to X 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.

#### **Unaudited disclosure notes**

19. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon."

## 2.3 AUDIT OF THE ANNUAL PERFORMANCE REPORT

20. In terms of the AG directive the opinion on the audit of reported information will be included in the management report. The report is included below to enable management and those charged with governance to see what the report will look like once it is published in the auditor's report. I will report all the audit findings included under the basis for opinion and the other matter sections of this report in the auditor's report.

### Introduction and scope

21. I have undertaken a reasonable assurance engagement on the reported performance information for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2017:

Development priorities	Pages in annual performance report	Opinion	Movement
Development Priority 2: Water Resources and Services	X – X	Unqualified	n/a
Development priority 3: Sewerage	X – X	Unqualified	n/a
Development priority 5: Energy and Electricity	X – X	Unqualified	n/a
Development priority 6: Roads, Transport and Storm water Drainage	X – X	Unqualified	n/a
Development priority 7: Sanitation, Waste Management and Refuse Removal	X – X	Qualified	n/a

22. I conducted my reasonable assurance engagement in accordance with the International Standard on Assurance Engagements, ISAE 3000: *Assurance engagements other than audits or reviews of historical financial information*.

23. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for my opinions.

### Development Priority 2: Water Resources and Services

#### Opinion

24. In my opinion, the reported performance information for water resources and services is useful and reliable, in accordance with the applicable criteria as developed from the performance management and reporting framework as set out in annexure D to this report.

### Development Priority 3: Sewerage

#### Opinion

25. In my opinion, the reported performance information for Sewerage is useful and reliable, in accordance with the applicable criteria as developed from the performance management and reporting framework as set out in annexure D to this report.

### Development Priority 5: Energy and Electricity

#### Opinion

26. In my opinion, the reported performance information for Energy and Electricity is useful and reliable, in accordance with the applicable criteria as developed from the performance management and reporting framework as set out in annexure D to this report.

### Development Priority 6: Roads, Transport and Storm water Drainage

#### Opinion

27. In my opinion, the reported performance information for Roads, Transport and Storm water Drainage is useful and reliable, in accordance with the applicable criteria as developed from the performance management and reporting framework as set out in annexure D to this report.

### Development Priority 7: Sanitation, Waste Management and Refuse Removal (ISS: 14)

#### Qualified opinion

28. In my opinion, except for the possible effects of the matter described in the basis for qualified opinion section of my report, the reported performance information for Sanitation, Waste Management and Refuse Removal is useful and reliable in accordance with the applicable criteria as developed from the performance management and reporting framework set out in annexure D of this report.

#### Basis for Qualified opinion (ISS: 14)

**Indicator: KPI 70 - Rendering of Vacuum tank services on request – 95% of requests executed per quarter (Satellite area):**

29. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the target to execute 95% of the tank service requests. This was due to a lack of technical indicator descriptions and proper performance management systems that predetermined how the achievement would be measured, monitored and reported, as required by the Framework for managing programme performance information. I was unable to confirm that the reported achievement of this indicator was reliable by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement stating “Documentation not timeously submitted.”

## Other matters

I draw attention to the matters below. My opinions are not modified in respect of these matters.

### Achievement of planned targets

30. Refer to the annual performance report on pages x to x; x to x for information on the achievement of planned targets for the year and explanations provided for the under and overachievement of a significant number of targets. This information should be considered in the context of the qualified opinion expressed on the usefulness and reliability of the reported performance information in paragraph 29 of this report.

### Adjustment of material misstatements

31. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Development Priority 2, Water Resources and Services, Development priority 3: Sewerage, Development priority 5: Energy and Electricity, Development priority 6: Roads, Transport and Storm water Drainage and Development priority 7: Sanitation, Waste Management and Waste Removal. As management subsequently corrected only some of the misstatements, I raised a material finding on the usefulness and reliability of the reported performance information. The finding that was not corrected is included in the basis for qualified opinion paragraph.

### Unaudited Supplementary Schedules

32. The supplementary information set out on pages X to X 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.

## Responsibilities of the accounting officer for the reported performance information

33. The accounting officer is responsible for the preparation of the annual performance report in accordance with the prescribed performance management and reporting framework, as set out in annexure D to this report and for such internal control as the accounting officer determines is necessary to enable the preparation of performance information that is free from material misstatement in terms of its usefulness and reliability.

## Auditor-general's responsibilities for the reasonable assurance engagement on the reported performance information

34. My objectives are to obtain reasonable assurance about whether the reported performance information for the selected development priorities presented in the annual performance report is free from material misstatement, and to issue a management report that includes my opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that the assurance engagement conducted in accordance with the relevant assurance standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if they could reasonably be expected to influence the relevant decisions of users taken on the basis of the reported performance information.

35. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the appropriateness of the performance indicators established and included in the planning documents. My procedures do not extend to any disclosures or assertions relating to planned performance strategies and information relating to future periods that may be included as part of the reported performance. Accordingly, my opinion does not extend to these matters.
36. A further description of my responsibilities for the reasonable assurance engagement on reported performance information is included in annexure E to this report.

## 2.4 AUDIT OF COMPLIANCE WITH LEGISLATION

37. Included below are material findings on compliance with selected specific requirements of applicable legislation, as set out in the general notice issued in terms of the PAA.

### Annual financial statements

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

### Budgets:

39. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R105 621 000 as disclosed in note 35.10 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by over expenditure on capital votes due to the capitalisation of Landfill Sites and Quarries not budgeted for in the financial period.

### Expenditure management

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

41. Effective steps were not taken to prevent irregular expenditure amounting to R11 749 741 as disclosed in note 35.08 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the disclosed irregular expenditure for the current year was caused by supply chain processes not followed in previous years on the following projects:

- Project to install street lights – R1 434 355.46
- Project to provide houses with electricity connections – R3 664 596.87
- Asset consultants – R2 329 625.00

### Procurement and contract management

42. Awards were made to providers who were in the service of other state institutions, in contravention of MFMA 112(j) and Supply Chain Management (SCM) regulation 44. No effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM regulation 38(1). **(ISS: 20)**

## 2.5 OTHER INFORMATION

43. The Dawid Kruiper Local Municipality's 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 those selected development priorities presented in the annual performance report that have been specifically reported in the auditor's report.
44. 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 thereon.
45. 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 development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
46. 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.

## 2.6 INTERNAL CONTROL

47. The significant deficiencies in internal control which led to our overall assessment of the status of the drivers of key controls, is described below. The detailed assessment of the implementation of the drivers of internal control in the areas of financial statements, performance reporting and compliance with legislation is included in annexure F.

### Leadership

#### Effective leadership culture

48. Leadership was not able to prevent the non-compliance identified from occurring as the financial statements and the support to it was not sufficiently reviewed. There is however no ethical issues affecting management that we are aware of.

#### Oversight responsibility

49. Leadership did not communicate and enforce management assertions (completeness and accuracy) related to the balances and disclosures in the financial statements of the municipality. This caused the municipality to have material misstatements in the annual financial statements that had to be corrected. Material performance management and non-compliance matters were identified that could have been evaded had proper controls been implemented.

#### Human resource management

50. The overall vacancy rate at year end was 7.5%. There were positions that became vacant close to year end that affected this figure.

##### Management of Vacancies

51. The senior management vacancy rate at year end was 14%. The position of the Municipal Manager was filled after year end.

##### Appointment process

52. Appointments were made in posts that had not been advertised. **(ISS: 16)**

53. The prescribed selection and approval processes were not followed for all appointments. **(ISS: 16)**

#### Policies and procedures

54. Documented policies and procedures, relevant to both the financial and non-financial environment, are not always implemented to guide the operations of the entity to comply with relevant legislation and regulations. The processes in place are not adequate to prevent and detect unauthorised and irregular expenditure. The municipality did not develop and implement proper performance planning and management practices to provide for the development of performance indicators and targets.

### **Action plans to address internal control deficiencies**

55. The municipality developed a plan to address internal and external audit findings, but the sufficiently monitor the adherence to the plan in a timely manner to prevent issues from re-occurring. The action plan of the municipality did not ensure that the performance reporting of Mier municipality was sufficiently incorporated in the systems used to evaluate performance.

### **Financial and performance management**

#### **Proper record keeping**

56. The municipality did not have a proper record management system to maintain information that supports the reporting on pre-determined objectives. This resulted in development objective 7 receiving a qualified opinion.

#### **Daily and monthly processing and reconciling of transactions**

57. There were material findings on non-compliance with laws and regulations, which is evident of the weaknesses in controls over daily and monthly processing and reconciliation of transactions. Information to support the reporting of pre-determined objectives was not readily available.

#### **Regular, accurate and complete financial and performance reports**

58. The financial statements and annual report contained misstatements that were corrected. This was mainly due to staff members not fully applying the requirements of the financial reporting framework.
59. Deviation register is not updated and reviewed on a monthly basis and investigated to ensure the complete disclosure at year end.

#### **Compliance monitoring**

60. Non-compliance is not addressed in a timely manner. Non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored.
61. Not all instances of non-compliance were identified, which resulted in irregular expenditure not being complete at year end.

### **Governance**

#### **Risk management activities and risk strategy**

62. A risk management strategy was developed and a comprehensive risk assessment was conducted by the risk management department. Certain errors still occurred due to risks that were not effectively managed.

### **Summary**

63. The matters above, as they relate to the basis for the opinion, findings on the annual performance report and findings on compliance with legislation, will be summarised in the auditor's report as follows:

- Leadership did not take appropriate action with regard to a lack of controls in the finance and supply chain management directorates, resulting in non-compliance with applicable legislation and irregular expenditure. Management should implement more preventative measures.
- Leadership did not exercise sufficient oversight over the information used for performance reporting to enable the reliable measurement of indicators.
- The annual financial statements and annual report were subjected to material amendments that can be attributed to weakness relating to the review of the usefulness of indicators and review of the mentioned reports.
- A risk management strategy was developed and a comprehensive risk assessment was conducted by the risk management department. Certain errors still occurred due to risks that were not effectively managed.

## SECTION 3: Assurance providers and status of implementation of commitments and recommendations

### 3.1 ASSESSMENT OF ASSURANCE PROVIDERS

64. The annual report is used to report on the financial position of auditees, their performance against predetermined objectives and overall governance. One of the important oversight functions of the municipal council is to consider auditees' annual reports. To perform this oversight function, they need assurance that the information in the annual report is credible. To this end, the annual report includes our auditor's report, which provides assurance on the credibility of the financial statements and the annual performance report, as well as on the auditee's compliance with legislation.
65. Our reporting and oversight processes reflect on past events, as they take place after the end of the financial year. However, management, the leadership and those charged with governance contribute throughout the year to the credibility of financial and performance information and compliance with legislation by ensuring that adequate internal controls are implemented.
66. We assess the level of assurance provided by these assurance providers based on the status of internal controls (as reported in section 2.6) and the impact of the different role players on these controls. We provide our assessment for this audit cycle below.

#### First level of assurance

##### Senior management: provides some assurance

- The opinion of the municipality indicates that the financial statements were appropriately presented, but there are still compliance and performance information matters that must be addressed. There were material amendments on the financial statements and the annual performance report. Senior management is readily available to engage with the auditors on issues affecting the municipality.

##### Accounting officer: provides some assurance

- The municipal manager holds his staff accountable. The opinion of the municipality indicates that the financial statements were appropriately presented, but there are still compliance and performance information matters that must be addressed. There were material amendments on the financial statements and the annual performance report. The municipal manager is active and committed in engagements to improve the audit outcome.

##### Mayor: provides some assurance

- The public perception of the Mayor is good. The Mayor holds the accounting officer accountable for the management of the municipality and any findings raised on any of the three areas reported on. The mayor attended quarterly key control meetings but her involvement did not yield significant improvement in the assessment of key controls and the audit opinion.

## Second level of assurance

### Internal audit unit: provides assurance

- Legislation in South Africa requires the establishment, roles, and responsibilities of internal audit units. Internal audit units form part of the internal control and governance structures of the municipality and play an important role in its monitoring activities. Internal audit provides an independent assessment of the municipality's governance, risk management and internal control processes.
- The internal audit unit of a municipality's must prepare a risk-based audit plan and internal audit programme for each financial year. It must advise the accounting officer and report to the audit committee on implementing the internal audit plan and matters relating to internal audit; internal controls; accounting procedures and practices; risk and risk management; performance management; loss control and compliance with the MFMA. The internal audit unit must also perform such other duties as may be assigned by the accounting officer.
- The municipality is using a well capacitated and resourced internal audit unit. Internal auditors are independent from the operational divisions that they audit and act objectively. The internal audit unit did perform internal audits during the financial year. Recommendations were included in the internal reports submitted to the municipality. The internal audit unit also committed themselves to assist the municipality by performing internal audits on progress on the action plan and annual financial statements prior to it being submitted to the AGSA.

### Audit committee: provides assurance

- The audit committee is an independent advisory body to the accounting officer and the management and staff of the municipality on matters relating to internal financial control and internal audits; risk management; accounting policies; the adequacy, reliability and accuracy of financial reporting and information; performance management; effective governance; the MFMA and any other applicable legislation; performance evaluation; and any other issues.
- The audit committee is also expected to review the annual financial statements to provide an authoritative and credible view of the municipality, its efficiency and effectiveness and its overall level of compliance with the applicable legislation.
- The audit committee members are well balanced with regards to skill and public sector experience and have a good understanding of major accounting practices and public sector reporting requirements. The audit committee report directly to council as required by the MFMA and influenced good governance and clean administration within the municipality.

## Third level of assurance

### Municipal council: provides some assurance

- Municipal council is holding staff as well as the mayor accountable. Council did not take decisions that led to qualifications, irregular expenditure, unauthorised expenditure or fruitless and wasteful expenditure. The municipality is functioning in a political stable environment. However, oversight was not properly exercised to prevent material adjustments that resulted in further non-compliance.

## Municipal public account committee (MPAC): provides some assurance

- The extent to which the council adopted the MPAC guides has been considered in the assessment of MPAC as an assurance provider.
- MPAC is politically stable and keeps the Mayor accountable. MPAC had monthly meetings in which reports regarding irregular, unauthorised and fruitless expenditure were tabled. MPAC was however not able to influence the municipality in such a way that all irregular and fruitless expenditure could be prevented.

### 3.2 STATUS OF IMPLEMENTING COMMITMENTS AND RECOMMENDATIONS

67. Below is our assessment of the progress in implementing the commitments made by the municipality to address the previous and current years' audit findings.

No.	Commitment	Made by	Date	Status
1.	An action plan will be drawn up and implemented to address prior period audit findings.	MM	March 2017	Implemented
2.	The annual financial statements will be reviewed by all levels required before submission for audit purpose.	Mayor/MM	March 2017	Partially implemented

## SECTION 4: Focus areas

### 4.1 FINANCIAL VIABILITY

68. Our audit included a high-level overview of the municipality's financial viability as at year-end. The financial viability assessment provides useful information for accountability and decision-making purposes and complements the financial statements by providing insights and perspectives. The financial viability assessment is expected to enhance timely remedial decision-making and policy reforms where financial viability may be at risk. It will also highlight to management those issues that may require corrective action and the urgency and magnitude of the reforms and decisions necessary to maintain operations. The information should be used to complement, rather than substitute, management's own financial assessment.

Financial viability assessment			
(Limitation = unable to obtain sufficient appropriate information to assess the indicator)		As at 30 June 2017	As at 30 June 2016
<b>Expenditure management</b>			
1.1	Creditor payment period	141.6 Days	n/a
<b>Revenue management</b>			
2.1	Debt-collection period (after impairment)	53.3 Days	n/a
2.2	Debt impairment provision as a percentage of accounts receivable	25.7%	n/a
	• Amount of debt impairment provision	R 18 408 800	n/a
	• Amount of accounts receivable*	R 71 620 309	n/a
<b>Asset and liability management</b>			
3.1	A deficit for the year was realised (total expenditure exceeded total revenue)	Yes	n/a
	• Amount of the surplus/(deficit) for the year	(R36 449 543)	n/a
3.2	A net current liability position was realised (total current liabilities exceeded total current assets)	Yes	n/a
	• Amount of net current assets/(liability) position	(R57 461 012)	n/a
3.3	A net liability position was realised (total liabilities exceeded total assets)	No	n/a
	• Amount of net asset/(liability) position	R1 982 110 071	n/a
<b>Cash management</b>			
4.1	The year-end bank balance was in overdraft	No	n/a

<b>Financial viability assessment</b>			
<b>(Limitation = unable to obtain sufficient appropriate information to assess the indicator)</b>		<b>As at 30 June 2017</b>	<b>As at 30 June 2016</b>
	<ul style="list-style-type: none"> <li>Amount of year-end bank balance (cash and cash equivalents)</li> </ul>	<b>R43 754 318</b>	<b>n/a</b>
4.2	Net cash flows for the year from operating activities were negative	<b>No</b>	<b>n/a</b>
	<ul style="list-style-type: none"> <li>Amount of net cash in/(out) flows for the year from operating activities</li> </ul>	<b>R78 066 627</b>	<b>n/a</b>
4.3	Creditors as a percentage of cash and cash equivalents	<b>195.8%</b>	<b>n/a</b>
	<ul style="list-style-type: none"> <li>Amount of creditors (accounts payable)</li> </ul>	<b>R85 691 141</b>	<b>n/a</b>
	<ul style="list-style-type: none"> <li>Amount of cash and cash equivalents/(bank overdraft) at year-end</li> </ul>	<b>R43 754 318</b>	<b>n/a</b>
<b>Overall assessment</b>			
		<b>Yellow (Concerning)</b>	

### High-level comments

69. The municipality made a net deficit for the year under review. The creditor and debtor payment periods are problematic and the municipality realised a negative net current liability/asset for the year.

## 4.2 PROCUREMENT AND CONTRACT MANAGEMENT

### Irregular expenditure

70. R11 749 741 (100%) **(ISS: 20)** of irregular expenditure incurred in the current financial year was as a result of the contravention of SCM legislation. The root cause of the lack of effective prevention and detection are inadequate review and monitoring of compliance with applicable laws and regulations.

### Awards to persons in the service of the state

71. Regulation 44 prohibits awards to persons in the service of the auditee (i.e. employees and councillors), persons in the service of any other state institution and entities owned/managed by them. The audit included the identification of such prohibited awards. Further testing was also performed to determine whether the legislated requirements with regard to declarations of interest were adhered to. **(ISS: 20)**

72. The findings were as follows :

Finding	Number and value of awards made	Number and positions of official/ councillor identified	Number of suppliers identified	Further non-compliance or irregularities regarding the awards			
				Supplier did not submit declarations of interest	Supplier did not declare interest (false declaration)	Official/ councillor or did not declare interest	Official/ councillor was involved in awarding the contract/ quotation
Awards to persons in the service of other state institutions	Number of awards: 1) 1 2) 1054 Value: 1) R28 910 2) R1 131 137	Number of state officials: 1) Natascha Bezuidenhout (Receptionist) 2) Gift van Staden: MEC Social Development	2	X	✓		

Procurement processes

73. The table below is a summary of findings identified on procurement processes:

	Total		Quotations		Contracts	
	Number	Value	Number	Value	Number	Value
<b>Awards selected for testing</b>	58	R41 089 385	43	R2 767 452	15	R38 321 934
<b>Expenditure incurred on selected awards – current year</b>		R34 153 046		R2 767 452		R31 385 595
<b>Limitations – awards selected but could not be tested</b>	0	0	0	0	0	0
<b>Awards on which non-compliance was identified</b>	0	0	0	0	0	0
<b>Irregular expenditure identified</b>	0	0	0	0	0	0
<b>Instances of irregular expenditure where goods/ services were not received</b>	0	0	0	0	0	0

Procurement processes – general

74. 1 055 awards with a value of R1 160 049 were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state **(ISS: 20)**

Internal control deficiencies

75. The tender register is not regularly reviewed to ensure that all tenders are recorded on the tender register **(ISS: 21)**

### 4.3 FRAUD AND CONSEQUENCE MANAGEMENT

76. The primary responsibility for preventing and detecting fraud rests with management and those charged with governance. We are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and to issue an auditor's report that includes our opinion. Due to the inherent limitations of an audit, there is a risk that some material misstatements, including fraud, may not be detected.
77. The MFMA and its regulations clearly stipulate that matters such as incurring unauthorised, irregular and fruitless and wasteful expenditure; the possible abuse of the SCM system (including fraud and improper conduct); and allegations of financial misconduct should be investigated. Disciplinary steps should be taken based on the results of the investigations. Our audits included an assessment of the municipality's management of consequences. The significant findings are provided below:

#### Transgressions reported to management for investigation

78. During the previous year's audit, we reported findings relating to transgressions by officials or other role players, for management to investigate. During the current year audit, we performed follow-up tests to determine whether the matters reported were dealt with by management.
79. The table below provides a summary of the transgressions reported in the previous year and the year under review that must be investigated and disciplinary steps taken based on the results of the investigations.

Finding	Findings raised in the previous year			Findings reported in current year	
	Number of instances	Number of instances investigated	Number of instances resolved from those investigated	Number of instances	Value
<b>A: Improper conduct in SCM by suppliers</b>					
Supplier submitted false declaration of interest	1	1	1	2	1 160 049

80. Unauthorised, irregular and fruitless and wasteful expenditure disclosed in note 35.10, 35.08 and 35.09 to the financial statements must be investigated to determine whether any official is liable for losses incurred as a result of this expenditure. Disciplinary steps must be taken against officials who caused or permitted the unauthorised, irregular and fruitless and wasteful expenditure and losses incurred must be recovered from the person liable.

## 4.4 USE OF CONDITIONAL GRANTS

81. For the financial year under review, the audit included an assessment of the effectiveness of the municipality's use of the following conditional grants received:

- MIG grant
- EPWP grant
- INEP grant

82. For each of the grants tested above, we selected key projects funded by the grant and audited the use of grants on these projects. Listed below are the audit findings raised on each project.

<b>Key projects/initiatives funded by the grant</b>			
<b>Summary of selected key project and result of testing</b>	<b>Details</b>	<b>Details</b>	<b>Details</b>
<b>Name of grant</b>	<i>MIG</i>	<i>EPWP</i>	<i>INEP</i>
<b>Project/initiative funded by the grant</b>	<ol style="list-style-type: none"> <li>1. <i>Construction of access road – Leseding</i></li> <li>2. <i>Construction of access road – Kalksloot</i></li> <li>3. <i>Raaswater</i></li> <li>4. <i>Prepayment water meters installation</i></li> </ol>	<ol style="list-style-type: none"> <li>1. <i>Installation of Communal Standpipes in Various Areas</i></li> <li>2. <i>Installation of Pre-Paid Water Meters at Mier (NDR104)</i></li> <li>3. <i>Swartkopdam Park</i></li> </ol>	<ol style="list-style-type: none"> <li>1. <i>Electrification of New Developments - Dakota Road</i></li> </ol>
<b>Audit findings</b>	(For each project, tick ✓ applicable findings below)		
No issues identified regarding the projects of the grant.	n/a	n/a	n/a
Reported performance/achievement of targets as per the project evaluation report was inaccurate	n/a	n/a	n/a
The municipality did not evaluate performance of the project	n/a	n/a	n/a
Findings were identified on the procurement of goods and services for the project	n/a	n/a	n/a

Key projects/initiatives funded by the grant			
Summary of selected key project and result of testing	Details	Details	Details
<b>Name of grant</b>	<i>MIG</i>	<i>EPWP</i>	<i>INEP</i>
<b>Project/initiative funded by the grant</b>	<ol style="list-style-type: none"> <li>1. <i>Construction of access road – Leseding</i></li> <li>2. <i>Construction of access road – Kalksloot</i></li> <li>3. <i>Raaswater</i></li> <li>4. <i>Prepayment water meters installation</i></li> </ol>	<ol style="list-style-type: none"> <li>1. <i>Installation of Communal Standpipes in Various Areas</i></li> <li>2. <i>Installation of Pre-Paid Water Meters at Mier (NDR104)</i></li> <li>3. <i>Swartkopdam Park</i></li> </ol>	<ol style="list-style-type: none"> <li>1. <i>Electrification of New Developments - Dakota Road</i></li> </ol>
<b>Audit findings</b>	(For each project, tick ✓ applicable findings below)		
Misstatements were identified on the accounting for the expenditure	n/a	n/a	n/a
Payments were made for goods/services not received	n/a	n/a	n/a
Misstatements were identified on the accounting of funds used through implementing agents	n/a	n/a	n/a
Process for appointing implementing agents did not comply with legislation	n/a	n/a	n/a
Implementing agents failed to comply with SCM prescripts when spending the funds	n/a	n/a	n/a

## 4.5 USE OF CONSULTANTS

83. The audit included an assessment of the effective use of consultants. In the local government environment, the partnership between the private and public sectors has become important in driving strategic goals.

84. The total expenditure on consultants was R2 734 319.

## 4.6 WATER AND SANITATION

85. The audit included an assessment of the water and sanitation service delivery objective of the municipality. We focused on the following:

- Management of grant funding for water and sanitation infrastructure
- Management processes for water and sanitation infrastructure projects
- Maintenance of water infrastructure
- Water losses

86. A summary of the significant findings from the audit are as follows:

### Water losses

The municipality disclosed water losses to the value of R9 683 218 or extent of 3 440 599 kilo litres.

## 4.7 ROADS INFRASTRUCTURE

87. The audit included an assessment of the roads infrastructure service delivery objective. Procedures were performed in relation to the following:

- New and refurbished projects, including planning, project management and commissioning
- Maintenance of roads infrastructure

## SECTION 5: Using the work of internal audit

- The auditing standards allow external auditors the optional use of the work of internal audit for external audit purposes and for direct assistance.
- We have determined that it will not be possible to use the work performed by the internal auditors for the purposes of modifying the nature and timing or reducing the extent of our audit procedures at the internal audit plan does not include any matters of relevance to the external audit. The work performed by internal audit was therefore only used for risk identification during the audit of the financial period under review.

## SECTION 6: Emerging risks

### 6.1 Accounting, performance management/reporting and compliance matters

#### New pronouncements

#### Standards of GRAP

88. The ASB has issued the following GRAP pronouncements, with effective dates as indicated:

GRAP pronouncement	Effective date
<i>Conceptual framework for general purpose financial reporting</i>	Applicable once published
GRAP 20, <i>Related party disclosures</i>	To be determined
GRAP 32, <i>Service concession arrangements: grantor</i>	To be determined
GRAP 34, <i>Separate financial statements</i>	To be determined
GRAP 35, <i>Consolidated financial statements</i>	To be determined
GRAP 36, <i>Investments in associates and joint ventures</i>	To be determined
GRAP 37, <i>Joint arrangements</i>	To be determined
GRAP 38, <i>Disclosure of interests in other entities</i>	To be determined
GRAP 108, <i>Statutory receivables</i>	To be determined
GRAP 109, <i>Accounting by principals and agents</i>	To be determined
GRAP 110, <i>Living and non-living resources</i>	To be determined
IGRAP 17, <i>Service concession arrangements where a grantor controls a significant residual interest in an asset</i>	To be determined
IGRAP 18, <i>Recognition and derecognition of land</i>	1 April 2019
IGRAP 19, <i>Liabilities to pay levies</i>	1 April 2019
Directive 12, <i>The selection of an appropriate reporting framework by public entities</i>	1 April 2018
<i>Guideline on accounting for housing arrangements</i>	Applicable once published

## Municipal SCOA

89. The Dawid Kruiper Municipality was aware of the MSCOA requirements and this enabled them to implement mSCOA by the due date of 1 July 2017.

### 6.2 Subsequent events

90. The Municipal Manager resigned on before the end of the financial year on 17 May 2017 and a new Municipal Manager was appointed on the 1 July 2017.

### 6.3 Audit findings on the annual performance report that may have an impact on the audit opinion in future

For the 2016-17 cycle, the planned and reported performance information of selected development priorities was audited against additional criteria as developed from the Performance Management Reporting Framework.

Audit findings in relation to the additional criteria do not have an impact on the audit opinion for 2016-17 (reported in the management report), however, going forward findings arising from the audit against the additional criteria may have an impact on the audit opinion.

No findings were identified during the 2016-17 audit in relation to the following additional criteria tested:

#### 91. Consistency:

- Reported achievement is consistent with the planned and reported indicator and target.

#### 92. Presentation and disclosure:

- Actual performance compared to planned targets and previous year's performance is disclosed.
- Measures taken to improve performance are disclosed.
- Measures taken to improve performance are supported by corroborating source documentation.
- Overall presentation of the performance information in the APR is relevant, comparable and understandable.

## SECTION 7: Ratings of detailed audit findings

For the purposes of this report, the detailed audit findings included in annexures A to C have been classified as follows:

93. Matters to be included in the auditor's report: these matters should be addressed as a matter of urgency.
94. Other important matters: these matters should be addressed to prevent them from leading to material misstatements of the financial statements or material findings on the performance report and compliance with legislation in future.
95. Administrative matters: these matters are unlikely to result in material misstatements of the financial statements or material findings on the performance report and compliance with legislation.

## SECTION 8: Conclusion

96. The matters communicated throughout this report relate to the three fundamentals of internal control that should be addressed to achieve sustained clean administration. Our staff remains committed to assisting in identifying and communicating good practices to improve governance and accountability and to build public confidence in government's ability to account for public resources in a transparent manner.

Yours faithfully

Orlando Fredericks  
Senior Manager: NCBU

30 November 2017

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**Distribution:**  
Audit committee  
Head of internal audit unit

**SECTION 9: Summary of detailed audit findings**

Page no.	Finding	Classification					Rating			Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters		
	Refer to annexure										



## Annexure D: Performance management and reporting framework

The Performance Management and Reporting Framework (PMRF) consists of the following:

- Legislation applicable to performance planning, management and reporting, which includes the following:
  - Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA)
  - Municipal Systems Act (Act No. 31 of 2000)
  - *Regulations for planning and performance management*, 2001, issued in terms of the Municipal Systems Act.
  - *Municipal performance regulations for municipal managers and managers directly accountable to municipal managers*, 2006, issued in terms of the Municipal Systems Act.
- The Framework for Managing Programme Performance Information (FMPPI), issued by the National Treasury. This framework is applicable to all spheres of government, excluding parliament and provincial legislatures
- Circulars and guidance issued by the National Treasury regarding the planning, management, monitoring and reporting of performance against predetermined objectives.

**Annexure D – Criteria developed from the performance management and reporting framework**

Criteria	References to PMRF per entity
	Municipalities
<b><i>Consistency: Objectives, performance measures / indicators and targets are consistent between planning and reporting documents.</i></b>	
1. Reported strategic or development objectives are consistent or complete when compared to planned objectives.	MFMA 121(3)(f) MSA sec 41 (a) - (c) & 46
2. Changes to strategic or development objectives are approved	MSA sec 25(2)
3. Reported measures or indicators are consistent or complete when compared to planned measures or indicators	MFMA 121(3)(f) MSA sec 41 (a) - (c) & 46
4. Changes to measures or indicators are approved	MSA sec 25(2)
5. Reported targets are consistent or complete compared to planned targets	MFMA 121(3)(f) MSA sec 41 (a) - (c) & 46
6. Changes to targets are approved	MSA sec 25(2)
<b><i>Measurability: Performance measures / indicators are well defined and verifiable, and targets are specific, measurable and time bound.</i></b>	
1. A performance measure or indicator is well defined when it has a clear definition so that data will be collected consistently and is easy to understand and use.	FMPPI chapter 3.2 issued by NT
2. A performance measure/indicator is verifiable when it is possible to validate or verify the processes and systems that produce the indicator.	FMPPI chapter 3.2 issued by NT
3. A target is specific when the nature and required level of performance of the target is clearly identifiable.	FMPPI chapter 3.2 issued by NT



Criteria	References to PMRF per entity
	Municipalities
4. A target is measurable when the required performance can be measured.	FMPPI chapter 3.2 issued by NT
5. A target is time bound when the timeframes for achievement of targets are indicated.	FMPPI chapter 3.2 issued by NT
<b><i>Relevance: Performance measures / indicators relate logically and directly to an aspect of the entity's mandate and the realisation of its strategic goals and objectives.</i></b>	
1. The performance measure/ indicator and target relates logically and directly to an aspect of the entity's mandate and the realisation of its strategic goals and objectives.	FMPPI chapter 3.2 issued by NT
<b><i>Reliability: Recording, measuring, collating, preparing and presenting information on actual performance / target achievements is valid, accurate and complete.</i></b>	
1. Reported performance occurred and pertains to the reporting entity.	MSA sec 45
2. Reported performance is recorded and reported accurately.	FMPPI chapter 5
3. All actual performance is recorded and included in the reported performance information.	



## Annexure E: Auditor-general's responsibility for the audit of the reported performance information

1. As part of my engagement conducted in accordance with ISAE 3000, I exercise professional judgement and maintain professional scepticism throughout my reasonable assurance engagement on reported performance information for selected development priorities.
2. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) together with the 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.

### Quality control relating to assurance engagements

3. In accordance with the International Standard on Quality Control 1, the Auditor-General of South Africa maintains a comprehensive system of quality control that includes documented policies and procedures on compliance with ethical requirements and professional standards.

### Reported performance information

4. In addition to my responsibility for the assurance engagement on reported performance information as described in the auditor's report, I also:
  - identify and assess risks of material misstatement of the reported performance information, 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. In making those risk assessments, I consider internal control relevant to the management and reporting of performance information per selected development priority 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 documentation maintained by the municipality that supports the generation, collation, aggregation, monitoring and reporting of performance indicators and their related targets for the selected development priorities.
  - evaluate and test the usefulness of planned and reported performance information, its consistency with the approved performance planning documents of the municipality and whether the indicators and related targets were measurable and relevant.
  - evaluate and test the reliability of information on performance achievement to determine whether it is valid, accurate and complete.

**Communication with those charged with governance**

5. 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 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 bear on my independence and, where applicable, related safeguards.

## Annexure F: Assessment of internal controls

Below is our assessment of implementing the drivers of internal control based on significant deficiencies identified during our audit of the financial statements, the annual performance report and compliance with legislation. Significant deficiencies occur when internal controls do not exist, are not appropriately designed to address the risk, or are not implemented. These either had caused, or could cause, the financial statements or the annual performance report to be materially misstated, and material instances of non-compliance with legislation to occur.

The internal controls were assessed as follows:

	The required preventative or detective controls were in place.
	Progress was made on implementing preventative or detective controls, but improvement is still required, or actions taken were not or have not been sustainable.
	Internal controls were either not in place, were not properly designed, were not implemented or were not operating effectively. Intervention is required to design and/or implement appropriate controls.

The movement in the status of the drivers from the previous year-end to the current year-end is indicated collectively for each of the three audit dimensions under the three fundamentals of internal control. The movement is assessed as follows:

	Improved
	Unchanged
	Regressed

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
<b>Leadership</b>						
<b>Overall movement from previous assessment</b>						
<ul style="list-style-type: none"> <li>Provide effective leadership based on a culture of honesty, ethical business practices and good governance, and protecting and enhancing the best interests of the entity</li> </ul>		n/a		n/a		n/a
<ul style="list-style-type: none"> <li>Exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal</li> </ul>		n/a		n/a		n/a

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
controls						
<ul style="list-style-type: none"> <li>Implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored</li> </ul>		n/a		n/a		n/a
<ul style="list-style-type: none"> <li>Establish and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities</li> </ul>		n/a		n/a		n/a
<ul style="list-style-type: none"> <li>Develop and monitor the implementation of action plans to address internal control deficiencies</li> </ul>		n/a		n/a		n/a
<ul style="list-style-type: none"> <li>Establish and implement an information technology governance framework that supports and enables the business, delivers value and improves performance</li> </ul>		n/a		n/a	n/a	n/a
<b>Financial and performance management</b>						
<b>Overall movement from previous assessment</b>						
<ul style="list-style-type: none"> <li>Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting</li> </ul>		n/a		n/a		n/a
<ul style="list-style-type: none"> <li>Implement controls over daily and monthly processing and reconciling transactions</li> </ul>		n/a		n/a		n/a
<ul style="list-style-type: none"> <li>Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information</li> </ul>		n/a		n/a		n/a
<ul style="list-style-type: none"> <li>Review and monitor compliance with applicable legislation</li> </ul>		n/a		n/a		n/a
<ul style="list-style-type: none"> <li>Design and implement formal controls over information technology systems to ensure the reliability of the systems and the availability, accuracy and protection of information</li> </ul>		n/a	n/a	n/a	n/a	n/a
<b>Governance</b>						
<b>Overall movement from previous</b>						

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
<b>assessment</b>						
<ul style="list-style-type: none"> <li>Implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of information technology risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored</li> </ul>		n/a		n/a		n/a
<ul style="list-style-type: none"> <li>Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively</li> </ul>		n/a		n/a		n/a
<ul style="list-style-type: none"> <li>Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and overseeing the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislation</li> </ul>		n/a		n/a		n/a