

( A4032 )



***Audit & Performance Committee Charter 2020/2021***

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## **1. PURPOSE**

- 1.1 The purpose of this document is to assist the Audit & Performance Committee (Committee) in fulfilling its oversight responsibilities for the financial and performance reporting process, the system of internal controls, the audit process, and the municipality's process for monitoring compliance with laws and regulations and the code of conduct.
- 1.2 The charter is used to guide the activities of the Audit & Performance Committee on an ongoing basis. The Audit & Performance Committee charter sets out the objectives, roles and responsibilities, composition, structure and membership requirements, relationships with other stakeholders, authority for the committee to conduct enquiries and access municipal records and personnel, outlines procedures for meetings, addresses the confidentiality and independence of committee members, and provides for ethical conduct and reporting

## **2. AUTHORITY & INDEPENDENCE**

### **2.1 Authority**

The Audit & Performance Committee performs the responsibilities assigned to it by the Municipal Finance Management Act, no 56 of 2003 (the MFMA), Municipal Systems Act, no 32 of 2000 (the MSA), Municipal Planning and Performance Management Regulations, and the corporate governance responsibilities delegated to it under this charter by council.

- 2.1.1 The Committee according to section 166 of the Municipal Finance Management Act, No. 56 of 2003 is an independent advisory which must:
- 2.1.1.1 Advise the municipal council, the political office-bearers, the accounting officer and the management staff of the municipality on matters relating to:
- (i) internal financial controls and internal audits;
  - (ii) risk management;
  - (iii) accounting policies;
  - (iv) the adequacy, reliability and accuracy of financial reporting and information;
  - (v) performance management;
  - (vi) effective governance;
  - (vii) compliance with this Act, the annual Division of Revenue Act and any other applicable legislation;
  - (viii) performance evaluation; and
  - (ix) any other issues referred to it by the municipality or municipal entity.
- 2.1.1.2 Review the annual financial statements to provide the council of the municipality with an authoritative and credible view of the financial position of the municipality, its efficiency and effectiveness and its overall level of compliance with the Municipal Finance Management Act, the annual Division of Revenue Act and any other applicable legislation.
- 2.1.1.3 Respond to the council on any issues raised by the Auditor-General in the audit report.
- 2.1.1.4 Carry out such investigations into the financial affairs of the municipality as the council of the municipality may request.

## **2.2 Rights**

2.2.1 In performing its functions, the Committee:

- (a) has access to the financial records and other relevant information of the municipality; and
- (b) must liaise with the internal audit unit of the municipality; and
- (c) the person designated by the Auditor-General to audit the financial statements of the municipality.

2.2.2 The Municipal Public Accounts Committee (MPAC), in discharging its responsibilities, may make use of any information provided by the Audit & Performance Committee to avoid duplication of effort.

## **2.3 Powers**

2.3.1 The Committee is also empowered to, but not limited to the following:

- (a) Communicate with the council, municipal manager, internal and external auditors of the municipality;
- (b) Have access to municipal records containing information that is needed to perform its duties or exercise its powers;
- (c) Obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary. Any such appointments should be made subject to the approval of the Accounting Officer and Supply Chain Management tender processes;
- (d) Request any relevant person to attend any of its meetings, and, if necessary, to provide information requested by the Committee;
- (e) Resolve any disagreements between management and the External Auditors;
- (f) Pre-approve all auditing and non-audit services; and
- (g) Conduct investigations into the financial affairs of the municipality.

## **2.4 Independence**

The Audit & Performance Committee must be independent and safeguarded from undue influence in exercising its responsibilities in an objective manner. To enhance the Audit & Performance Committee functioning, the following is required:

2.4.1 The Committee is directly accountable to Council in discharging its responsibilities.

2.4.2 The Chairperson of the Committee and members should be independent of the Municipality.

2.4.3. The Audit & Performance Committee chairperson and members should not be biased but exhibit an independence of mental attitude during deliberations;

2.4.4 All Committee members should declare private and business interest in every meeting.

### **3. COMPOSITION & TERM OF OFFICE**

- 3.1 Council will appoint the Committee members.
- 3.2 The Audit & Performance Committee will consist of at least three members with appropriate experience of which the majority will not be employees of the municipality to be served.
- 3.3 The Committee members and its Chairperson must be appointed by Council. If the Chairperson is not available, the Committee members present at the meeting will elect an acting Chairperson for the day.
- 3.4 The Committee members should serve at least for a minimum of three years with an option to renew for another three years, based on performance. After serving consecutively for two terms, a member shall only be eligible for appointment after a further period of two years.
- 3.5 No Councillor may be a member of the Audit & Performance Committee.
- 3.6 All appointed members should enter into a contract with the Municipality according to the approved terms of reference.
- 3.7 To enhance independence of the Audit & Performance Committee, the term of office for members must be strictly adhered to. The Chairperson should be appointed for a minimum of three years to ensure that he/she contributes most effectively and provides stability to the Audit and Performance Committee. Where a member is appointed as a Chairperson while serving a second term that member should be appointed as a Chairperson for the remaining period of the second term.
- 3.8 The Chief Audit Executive (CAE) must maintain records of Audit & Performance Committee member contracts and ensure recruitment is undertaken as mentioned above.
- 3.9 The Council must ensure that Committee members do not serve on more than three local government audit committees.
- 3.9 All members of the Committee shall have working familiarity with basic finance and accounting practices and at least one member of the Committee shall have accounting or related financial management expertise. The members of the Committee shall be knowledgeable about the affairs of the municipality and where appropriate, specific skills shall be represented on the Committee.
- 3.10 The appointed members should collectively possess the following skills:
- (a) Private and public sector experience;
  - (b) An understanding of the service delivery priorities;
  - (c) Good governance and/or financial management experience;
  - (d) An understanding of the role of Council and councillors;
  - (e) An understanding of the operations of the municipality;
  - (f) A familiarity with risk management practices;
  - (g) An understanding of internal controls;
  - (h) An understanding of major accounting practices and public sector reporting requirements;
  - (i) An understanding of public sector reforms;

- (j) Familiarity with legislation applicable to municipalities
- (k) An understanding of the roles and responsibilities of internal and external auditors
- (l) Understanding of the treatment of allegations and investigations; and
- (m) An understanding of the performance management systems.

#### **4. TERMINATION OF MEMBERSHIP**

- 4.1 Committee members can be dismissed by the Municipal Council under certain circumstances. The Municipal Manager or Municipal Council should consult the charter when dismissing members of the Committee. Reasons for dismissal amongst others would normally be detailed in the letter of appointment and contract agreement, such as:
- a) where an on-going conflict of interest exists;
  - b) where a member has not performed to expectations; and
  - c) where a member has breached confidentiality.
- 4.2 The official dismissal processes as they relate to the municipality should be adhered to by the Accounting Officer and Municipal Council when an Audit and Performance Committee member is being dismissed.
- 4.3 Any member, who is absent without leave of absence from two consecutive Audit & Performance Committee meetings, may be removed from the Committee by Council, unless an acceptable excuse has been tabled and accepted by the Audit and Performance Committee, at the Committee meeting following the second absence.

#### **5. INDUCTION OF MEMBERS**

- 5.1 A formal process of induction must be facilitated by the Chief Audit Executive. During the induction of members, the roles and responsibilities of the Audit & Performance Committee must be clarified. The induction process should entail sufficient briefings and information on their roles, responsibilities, accountability and management's expectations.

New members should meet and be briefed by the accounting officer, chief financial officer, chairperson of the Audit & Performance Committee and the head of internal audit. New members should also be introduced to the external auditors. The information to be provided to new members should include:

- The municipality's governance and operational structures and how the Audit & Performance Committee operates within this structure;
- Copy of the Audit & Performance Committee's charter, including any policies, recent Audit & Performance Committee minutes, audit opinion, including details of outstanding issues and recommendations presented to the municipal council;
- Copies of the relevant legislation;
- Copies of the latest municipality's annual report, annual financial statements, integrated development plan, budgets, service delivery and budget implementation plans, in-year reports, code of conduct, performance agreements, risk register and risk management plans;
- Information from management and the internal auditor on the risk profile, status of internal controls and system of delegation; and
- A copy of the internal audit charter and annual work plans, among others

#### **6. MEETINGS**

- 6.1 The Committee shall meet at least four times a year, with at least one meeting per quarter, and with authority to convene additional meetings, as circumstances require.
- 6.2 The majority of members shall form a quorum, and if the Chairperson is absent, the members that are present, will elect one of the members as Chairperson for that meeting.
- 6.3 If there is no quorum, the meeting will continue with no binding resolutions and will be ratified at a later stage.
- 6.4 All committee members are expected to attend all meetings.
- 6.4.1 Members of the Audit and Performance Committee are allowed electronic attendance when a member cannot physically be present in a meeting and/or circumstances are present which prohibits or discourages physical contact meetings. i.e. by telephone or through other electronic means of communication (which are available to all attended parties)
- 5.5 The Committee will invite members of management, auditors, or others to attend meetings and provide pertinent information as necessary.
- 6.6 Special meetings may be convened as required and any member of the Committee may call such a meeting, after consultation with the Chairperson. The secretary will convene a meeting on receipt of a request by the Chairperson or the external or internal auditors.
- 6.7 The members are the only persons with voting rights. Voting shall be by a show of hands unless decided by all members that it be by ballot. The Chairperson shall have a casting vote.
- 6.8 If a member wants to dissent or protest against a decision he or she may request that it is recorded in the minutes.
- 6.9 The secretary shall circulate the agenda and relevant discussion papers to the Committee members 7 days in advance of each meeting. In the case of a special meeting, the agenda and the relevant discussion papers should be circulated to each Committee member at least 48 hours prior to the meeting.
- 6.10 Within 7 days of a meeting of the Committee, the secretary shall circulate the minutes of meetings to members of the Committee, the Chief Audit Executive and the external auditor where appropriate.

## **7. ATTENDANCE**

- 7.1 In addition to the Committee members, the following persons shall be standing invitees for the Committee meetings:
- (a) Chief Audit Executive and Internal Audit staff members
  - (b) Municipal Manager
  - (c) Directors of the municipality
  - (d) Senior Manager: Executive Support Services
  - (e) Chairperson of the Risk Committee
  - (f) External Auditor
  - (g) Any other person on invitation by the Committee

## **8. SECRETARIAT FUNCTIONS**

8.1 The Chief Audit Executive is responsible for making available the service of a secretary for drawing up the agendas and keeping minutes of the Committee meetings.

## **9. CONFLICT OF INTEREST**

9.1 Members of the Committee should make declarations of interest at all meetings. Should any member of the Committee have any personal interest or gain resulting from any matter to be discussed by the Committee at a meeting, such a member may not participate in the discussion; and may, at the discretion of the Chairperson of the Committee be asked to leave the meeting for the purposes of the discussion.

## **10. CONFIDENTIALITY**

10.1 The principle of confidentiality imposes an obligation on all Audit and Performance Committee members to refrain from:

- (a) Disclosing outside the municipality confidential information acquired as a result of professional and business relationships without proper and specific authority or unless there is a legal or professional right or duty to disclose; and
- (b) Using confidential information acquired because of professional and business relationships to their personal advantage or the advantage of third parties.

## **11. REMUNERATION**

11.1. Audit and Performance Committee members not holding executive office in the organisation or not being in the public sector shall be remunerated for their services based on meetings attended.

11.2 No remuneration for participating in Audit & Performance Committee meetings will be payable to officials employed at national, provincial and local government, its agencies or other entities regarded as falling within the definition of an organ of state, except for out of pocket expenses which may be reimbursed.

11.3 The Chairperson of the Audit and Performance Committee shall be paid additional remuneration for such attendance and for services related to the Committee.

11.4 Remuneration shall be determined in line with guidelines issued by National Treasury and Council. The reimbursement of all members for travel expenditure will be determined in accordance with the approved council policy or the rate per kilometre as published and updated by the National Department of Transport.



## **12. ROLES AND RESPONSIBILITIES**

12.1 The Audit and Performance Committee is accountable to the Council for the exercise of its responsibilities. The Committee does not replace established management responsibilities and delegations. All Committee members will respect the value and ownership of information they receive and will not disclose information without appropriate authority unless there is a legal obligation to do so. The Committee will carry out amongst others the following responsibilities:

### **12.1.1 Financial Statements**

- a) Review the annual financial statements and consider whether they are fairly presented, complete and reflect appropriate accounting principles;
- b) Review other sections of the annual report before release and consider the accuracy and completeness of the information;
- c) Review with management and the external auditors all matters required to be communicated to the Committee under the standards or legislation;
- d) Understand how management develops interim financial information, and the nature and extent of internal and external auditor involvement; and
- e) Review the implementation of the audit action plan to address all material issues raised by the Auditor-General in the audit of financial statements.

### **12.1.2 Control Environment**

- a) Consider the effectiveness of the organisation's system of internal controls, including information technology security, governance and control;
- b) Establish whether relevant policies and procedures are in place and that these are adequate, effective and regularly updated;
- c) Assess steps taken by management to encourage ethical, lawful behaviour and financial discipline.
- d) Understand the scope of internal and external auditors' review of internal controls over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.

### **12.1.3 Internal Audit**

- a) Review with management and the Chief Audit Executive the internal audit charter, risk-based internal audit plans, internal audit activities, staffing, and organisational structure of the Internal Audit Activity;
- b) The Audit & Performance Committee must approve the internal audit charter; risk based internal audit plan, internal audit time budget and resource plan.
- c) The Audit & Performance Committee concur on the appointment and/or removal of the Chief Audit Executive.
- d) Ensure there are no unjustified restrictions or limitations placed on the Chief Audit Executive;
- e) Ensure there are no inappropriate scope or resource limitations placed on the internal audit function;
- f) Review the effectiveness of Internal Audit Activity, including compliance with the IIA's International Standards for the Professional Practice of Internal Auditing;
- g) On a regular basis, meet separately with the CAE to discuss any matters that the committee or internal audit believes should be discussed privately;

- h) Ensure that internal audit reports functionally to the Committee and administratively to the Municipal Manager.
- i) Evaluate the performance of the Internal Audit Activity in terms of the agreed goals and objectives as captured in the audit plan.
- j) Conduct an annual high-level review of Internal Audit to ascertain whether the Internal Audit Activity complies with the International Standards.
- k) Assist with resolving any significant disagreements between Auditors and Management.
- l) Review of the Internal Audit Methodology to ensure that the internal audit unit complies with the International Standards for the Professional Practice of Internal Auditing.
- m) The Audit and Performance Committee should ensure safeguards are in place to limit and address potential impairments to the internal audit activity's independence or individual objectivity arising from expected roles and responsibilities performed by the CAE (risk management and compliance activities).
- n) The Audit and performance Committee should perform an oversight role in the quality assurance and improvement program.

Internal audit unit is accountable to the Audit & Performance Committee as follows:

- Maintain open and effective communication with the Audit & Performance Committee;
- Develop an agile annual audit plan using a risk based methodology, addressing any weaknesses in risks or controls identified;
- Submit the audit plan to the Audit & Performance Committee for review and approval;
- Report on the implementation and results of the annual audit plan including special tasks requested by management and the Audit & Performance Committee;
- Assist in drafting the agenda and documentation, and facilitate the distribution thereof to the Audit & Performance Committee in advance of meetings;
- Cooperate with the Audit & Performance Committee as they conduct annual reviews of the performance of the internal audit function;
- Submit the internal audit charter to the Audit & Performance Committee for review and approval on an annual basis and as necessary.

#### **12.1.4 External Audit**

- a) Review the external auditors' proposed audit scope and approach, plan and fees, including coordination of audit effort with internal audit;
- b) On a regular basis, meet separately with the external auditors to discuss any matters that the committee or auditors believe should be discussed privately.
- c) Review findings and recommendations by External Auditors and management responses thereof.

#### **12.1.5 Compliance**

- a) Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of non-compliance;
- b) Review the findings of any examinations by regulatory agencies and any auditor observations;
- c) Obtain regular updates from management and legal counsel regarding compliance matters;
- d) Be satisfied that all regulatory and compliance matters have been considered in the preparation of the financial statements;
- e) Respond to Council on any issues raised by the Auditor-General in the audit report;

- f) Carry out such investigations into the financial affairs of the municipality as the Council may request; and
- g) Review the impact of new or proposed legislation or governmental regulations.

#### **12.1.6 Risk Management**

- a) Setting strategic direction with regards to the establishment of Risk Management Strategy;
- b) Evaluate whether management is setting the right tone to ensure that all employees and councillors have an understanding of their roles and responsibilities with regard to risk management;
- c) Provide an independent and objective view of the effectiveness of the municipality's risk management processes and
- d) Provide feedback to the Municipal Manager and Council on the adequacy of risk management in the Municipality.

#### **12.1.7 Performance Management**

- a) Review quarterly performance reports submitted by Management;
- b) Review and comment on the Municipality's performance management system; and make recommendations for its improvements; and
- c) Review compliance with in-year reporting requirements.

#### **12.1.8 Corporate Governance**

- a) Ensure that the code of conduct of the Municipality is in writing and that it is communicated to all employees and councillors;
- b) Evaluate whether management is communicating the importance of the code of conduct and guidelines for acceptable and ethical behaviour and that fraud & corruption management strategy is compiled and implemented; and
- c) Review the process for monitoring compliance with the code of conduct.

#### **12.1.9 Information Technology (IT) Governance**

- a) Provide advice on IT governance, controls, access, safeguarding of information in the municipality; and
- b) Advice on the appropriateness of the disaster recovery and continuity plans, IT risks, regular testing and evaluation of plans, systems and processes.

### **13. REPORTING RESPONSIBILITIES**

- a) Regularly report to Council about Committee activities, issues and related recommendations;
- b) Provide an open avenue of communication between Internal Audit Activity, the external auditors, and management;
- c) Review any other reports that the municipality issues relating to committee responsibilities;
- d) Perform other activities related to this charter as requested by the Council;
- e) Institute and oversee special investigations as needed;
- f) Review and assess the adequacy of the Committee charter annually, requesting Council's approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation;

- g) Confirm annually that all responsibilities outlined in this charter have been carried out, and
- h) The Chairperson of the Audit & Performance Committee will report on a quarterly basis to Council on the operations of the Internal Audit Unit and the Committee.
- i) The Audit & Performance Committee shall prepare a report annually which will be incorporated into the municipality's annual report covering:
  - o Describing the functions performed by the Audit & Performance Committee and meetings attended;
  - o And other relevant comments that may enhance governance and accountability.

#### **14. COMBINED ASSURANCE**

14.1 The Committee shall ensure that a combined assurance model is developed and applied to provide a coordinated approach to all assurance activities, and in particular, the Committee must:

- a) Ensure that the combined assurance received is appropriate to address all the significant risks facing the municipality; and
- b) Monitor the relationship between external assurance partners and the municipality.

#### **15. ANNUAL REPORT**

15.1 The Audit & Performance Committee shall prepare a report annually, which will be incorporated into the municipality's annual report covering:

- a) The number of meetings attended by the Audit and Performance Committee members;
- b) Describe the functions performed by the Audit and Performance Committee;
- c) The effectiveness of the internal control system;
- d) The risk areas of the entity's operations covered in the scope of internal and external audits;
- e) The adequacy, reliability and accuracy of financial information provided by management;
- f) Accounting and auditing concerns identified as a result of internal and external audits;
- g) The entity's compliance with legal and regulatory provisions;
- h) The effectiveness and activities of Internal Audit Activity; and
- i) Any matter which the Audit and Performance Committee considers necessary to be reported to Council

#### **16. EVALUATION OF COMMITTEE ACTIVITIES**

16.1 The Audit & Performance Committee should assess its performance and achievements against its charter on an annual basis. The assessment would cover the performance of the individual member as part of the overall Audit & Performance Committee with reference to the particular skills the member has brought to the Audit & Performance Committee as a whole.

16.2 The aim of the self-assessment is to ensure that the Audit & Performance Committee is meeting its objectives efficiently and effectively. The chairperson should present the findings of the self-assessment to the municipal council.

16.3 Where the self-assessment highlights a need for enhancements to the role, operational processes or membership of the committee, the chair should take action to ensure that such enhancements are implemented. The chairperson may need to consult with the municipal council to obtain appropriate support to ensure all enhancements are implemented.

16.4 Where the Audit & Performance Committee is not performing in accordance with their charter and this has been observed by various stakeholders such as for example, internal audit, external audit or management, it would be appropriate for this or other issues to be brought to the attention of the municipal council.

## **17. REVIEW PERIOD**

17.1 This charter will be reviewed on an annual basis and submitted to Council for approval and Audit and Performance Committee for acceptance. The charter should be published on the Municipality's website. This document will remain effective until a new one is approved.

### **Acknowledgement of Approval**

#### **Accepted by the Audit & Performance Committee**

Position:	Chairperson
Name in print:	Ebrahim Abrahams
Signature:	<u><i>Ebrahim Abrahams</i></u>
Date:	<u>15 July 2020</u>

#### **Approved by the Council Resolution**

Report number:	<u>A4032</u>
Date:	<u>25 August 2020</u>