



Audit & Performance Committee Charter 2021/2022

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1. Introduction

- 1.1. The Audit and Performance Committee (A&PC) plays an important role in providing oversight of Langeberg Municipality's governance, risk management and internal control processes. This oversight mechanism also serves to provide confidence in the integrity of these processes. The A&PC performs its role by providing independent oversight to Council and therefore the A&PC operates as a committee of the Council
- 1.2. A Charter is the written terms of reference approved by the Council which outlines the mandate of the A&PC. The Charter becomes the policy of the A&PC which then informs the contracts of the A&PC members.
- 1.3. Following approval, the A&PC Charter should be published on the municipal website to promote awareness to all stakeholders.

2. Abbreviations

<u>Abbreviation</u>	<u>Definition</u>
A&PC	Audit and Performance Committee
AGSA	Auditor General South Africa
CAE	Chief Audit Executive
CFO	Chief Financial Officer
FARMCO	Fraud and Risk Management Committee
IAA	Internal Audit Activity
ICT	Information Communication Technology
IIA	Institute of Internal Auditors
ISPPIA	International Standards for the Professional Practises of Internal Audit (<i>Standards</i>)
MFMA	Local Government: Municipal Finance Management Act, 2003
MM	Municipal Manager
MPAC	Municipal Public Accounts Committee
MSA	Local Government: Municipal Systems Act, 2000
QAIP	Quality Assurance Improvement Program
SCM	Supply Chain Management
SMT	Strategic Management Team

3. Purpose

- 3.1. The purpose of this document is to assist the A&PC (A&PC) in fulfilling its oversight responsibilities for the financial and performance reporting process, the system of internal controls, the audit processes, and the municipality's process for monitoring compliance with laws and regulations, ethics and the code of conduct.
- 3.2. The Charter is used to guide the activities of the A&PC on an ongoing basis. The A&PC 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.
- 3.3. The Charter should be used as a basis for:
 - Preparing the A&PC's annual work plan;
 - Setting the agenda for meetings;
 - Obtaining the relevant skills and expertise when appointing A&PC members;
 - Setting up remuneration of A&PC members

- Making recommendations to the Municipal Manager (MM) and municipal council;
- Assessing the A&PC's performance by its members, municipal council, management, Auditor-General South Africa (AGSA) and internal auditors; and
- Contributions and participation at meetings.

4. Mandate, authority & independence

4.1. Mandate

4.1.1. The A&PC performs the responsibilities assigned to it in terms of the Local Government: Municipal Finance Management Act, 2003 (MFMA), the Local Government: Municipal Systems Act, 2000 (MSA), the Local Government: Municipal Planning and Performance Management Regulations, 2001 and the corporate governance responsibilities delegated to it under this Charter by Council.

4.1.2. Section 166 of the MFMA states that:

“(1) Each municipality must have an audit committee subject to subsection (6).

(2) An audit committee is an independent advisory body which must-

- a) 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 control 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
- b) 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.
- c) Respond to the Council on any issues raised by the Auditor-General in the audit report.
- d) Carry out such investigations into the financial affairs of the municipality as the council of the municipality may request.
- e) Perform such other functions as may be prescribed.”

4.2. Authority

4.2.1. The A&PC shall have the authority to perform functions, and to obtain any information and advice, from within or outside the municipality, in order to perform its functions as legislated. Appropriate resources must be made available to the A&PC to perform its functions as agreed in this Charter.

4.3. Rights

4.3.1. In performing its functions, the A&PC:

- has access to the financial records, personnel and other relevant information of the municipality; and
- must liaise with the Internal Audit Activity (IAA) of the municipality; and
- the person designated by the AGSA to audit the financial statements of the municipality.

4.3.2. The Municipal Public Accounts Committee (MPAC), in discharging its responsibilities, may make use of

any information provided by the A&PC to avoid duplication of effort.

4.4. Powers

4.4.1. The A&PC is also empowered to, but not limited to the following:

- Communicate with the Council, MM, internal and external auditors of the municipality;
- Have access to municipal records containing information that is needed to perform its duties or exercise its powers;
- 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 MM and Supply Chain Management (SCM) tender processes;
- Request any relevant person to attend any of its meetings, and, if necessary, to provide information requested by the A&PC;
- Resolve any disagreements between management and the External Auditors;
- Pre-approve all auditing and non-audit services; and
- Conduct investigations into the financial affairs of the municipality.

4.5. Independence

4.5.1. The A&PC must be independent and safeguarded from undue influence in exercising its responsibilities in an objective manner. To enhance the A&PC's functioning, the following is required:

- The A&PC is directly accountable to Council in discharging its responsibilities.
- The Chairperson of the A&PC and members should be independent of the municipality.
- The Chairperson of the A&PC and members should not be biased but exhibit an independence of mental attitude during deliberations;
- All A&PC members should declare private and business interest in every meeting.
- All members should not carry out any business with the municipality.

5. Composition and term of office

5.1. Council will appoint the A&PC members in writing.

5.2. The A&PC will comprise of three to five members with appropriate experience and which are not employees of the Langeberg Municipality.

5.3. One of the members, who are not in the employ of the municipality, must be appointed as the Chairperson of the A&PC.

5.4. The A&PC members and its Chairperson must be appointed by Council. If the Chairperson is not available, the A&PC members present at a meeting will elect an acting Chairperson for the day.

5.5. The A&PC 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.

5.6. No Councillor may be a member of the A&PC.

5.7. All appointed members should enter into a contract with the Municipality according to the approved terms of reference.

5.8. To enhance independence of the A&PC, 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 A&PC. 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.

- 5.9. The Chief Audit Executive (CAE) must maintain records of A&PC members' contracts and ensure recruitment is undertaken as mentioned above.
- 5.10. Recruitment of members should be staggered to prevent a loss of knowledge and skills in the A&PC. The recruitment process of new members should be concluded at least three months in advance of the expiry of existing members term.
- 5.11. Council must ensure that the A&PC members do not serve on more than three local government audit committees.
- 5.12. All members of the A&PC shall have working familiarity with basic finance and accounting practices and at least one member of the A&PC shall have accounting or related financial management expertise. The A&PC members shall be knowledgeable about the affairs of the municipality and where appropriate, specific skills shall be represented on the A&PC.
- 5.13. The appointed A&PC members should collectively possess the following skills:
- Private and public sector experience;
 - An understanding of the service delivery priorities;
 - Good governance and/or financial management experience;
 - An understanding of the role of Council and councillors;
 - An understanding of the operations of the municipality;
 - A familiarity with risk management practices;
 - An understanding of internal controls;
 - An understanding of major accounting practices and public sector reporting requirements;
 - An understanding of public sector reforms;
 - Familiarity with legislation applicable to municipalities
 - An understanding of the roles and responsibilities of internal and external auditors
 - Understanding of the treatment of allegations and investigations; and
 - An understanding of the performance management systems.

6. Termination of membership

- 6.1. A&PC members can be dismissed by the Municipal Council under certain circumstances. The MM or Council should consult the Charter when dismissing members of the A&PC. Reasons for dismissal amongst others would normally be detailed in the letter of appointment and contract agreement, such as:
- where an on-going conflict of interest exists;
 - where a member has not performed to expectations; and
 - where a member has breached confidentiality.
- 6.2. The official dismissal processes as they relate to the municipality should be adhered to by the MM and Municipal Council when an A&PC member is being dismissed.
- 6.3. The dismissal of a member should be performed by the Municipal Council and the outcome of the dismissal process should be in writing. The date of dismissal should be minuted by the secretariat of the A&PC.
- 6.4. A&PC members should give two months' notice prior to resignation. The A&PC members who resigns should have the opportunity to have an exit meeting with the Council to discuss the reason for leaving and to provide feedback on their experience on the A&PC as well as any other issues. The date of resignation should be minuted by the secretariat of the audit committee.
- 6.5. Any member, who is absent without leave of absence from two consecutive A&PC meetings, may be removed from the Committee by Council, unless an acceptable reason has been tabled and accepted by

the A&PC, at the Committee meeting following the second absence.

7. Induction of members

- 7.1. A formal process of induction must be facilitated by the CAE in consultation with the Municipal Manager. During the induction of members, the roles and responsibilities of the A&PC must be clarified. The induction process should entail sufficient briefings and information on their roles, responsibilities, accountability and management's expectations.
- 7.2. New members should meet and be briefed by the MM, Chief Financial Officer (CFO), Chairperson of the A&PC and the CAE. 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 A&PC operates within this structure;
 - Copy of the A&PC's Charter, including any policies, recent A&PC minutes, audit opinion, including details of outstanding issues and recommendations presented to the municipal Council;
 - Copies of and / or references to the relevant legislation;
 - Copies of and / or references to 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, amongst others.

8. Meetings

- 8.1. The A&PC 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.
- 8.2. 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.
- 8.3. If there is no quorum, the meeting will continue with no binding resolutions and will be ratified at a later stage.
- 8.4. All A&PC members are expected to physically attend all meetings. Under certain circumstances A&PC members may be allowed to attend meetings electronically.
- 8.5. The A&PC will invite members of management, auditors, or others to attend meetings and provide pertinent information as necessary.
- 8.6. Special meetings may be convened as required and any member of the A&PC 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.
- 8.7. The A&PC 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.
- 8.8. If a member wants to dissent or protest against a decision he or she may request that it is recorded in the minutes.
- 8.9. The secretary shall circulate the agenda and relevant discussion papers to the A&PC members 5 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 A&PC member at least 48 hours prior to the meeting.

- 8.10. Within 7 days of a meeting of the A&PC, the secretary shall circulate the minutes of meetings to members of the A&PC, Strategic Management Team (SMT) the CAE and the external auditors where appropriate.

9. Attendance

- 9.1. In addition to the A&PC members, the following persons shall be standing invitees for the A&PC meetings:

- CAE;
- MM;
- Managers, reporting directly to the Municipal Manager;
- Chairperson of the Fraud and Risk Management Committee (FARMCO);
- External Auditors (Auditor – General); and
- Any other person on invitation by the A&PC

10. Secretariat function

- 10.1. The CAE is responsible for making available the service of a secretary for drawing up the A&PC records, agendas and keeping minutes of the A&PC meetings.

11. Conflict of interest

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

12. Confidentiality

- 12.1. The principle of confidentiality imposes an obligation on all A&PC members to refrain from:
- Disclosing outside the municipality confidential information acquired as a result of professional and business relationships without proper and specific authority, unless there is a legal or professional right or duty to disclose; and
 - Using confidential information acquired because of professional and business relationships to their personal advantage or the advantage of third parties.

13. Remuneration

- 13.1. A&PC 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.
- 13.2. No remuneration for participating in A&PC 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.
- 13.3. The Chairperson of the A&PC shall be paid additional remuneration for such attendance and for services related to the A&PC.
- 13.4. Remuneration shall be determined in line with guidelines issued by National Treasury and Council. The reimbursement for 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.

14. Roles and responsibilities

- 14.1. The A&PC is accountable to Council for execution of its responsibilities. The A&PC does not replace established management responsibilities and delegations. All A&PC members will respect the value and ownership of information they receive and will not disclose information without appropriate authority unless there is a legal or professional obligation to do so. The Committee will carry out amongst others the following responsibilities:

14.2. Financial Statements

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

14.3. Control Environment

- Consider the effectiveness of the municipality's system of internal controls, including information technology security, governance and control;
- Establish whether relevant policies and procedures are in place and that these are adequate, effective and regularly updated;
- Assess steps taken by management to encourage ethical, lawful behaviour and financial discipline.
- 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.

14.4. Internal Audit

- Review with management and the CAE, the Internal Audit Charter, risk-based internal audit plans, internal audit activities, staffing, and organisational structure of the IAA;
- The A&PC must approve the Internal Audit Charter; risk based internal audit plan, internal audit time budget and resource plan.
- The A&PC concur on the appointment and/or removal of the CAE.
- Ensure there are no unjustified restrictions or limitations placed on the CAE;
- Ensure there are no inappropriate scope or resource limitations placed on the IAA;
- Review the effectiveness of IAA, including conformance with the Institute of Internal Auditors' (IIA's) International Standards for the Professional Practice of Internal Auditing (ISPPA);
- On a regular basis, meet separately with the CAE to discuss any matters that the A&PC or IAA believes should be discussed privately;
- Ensure that the IAA reports functionally to the A&PC and administratively to the MM.
- Evaluate the performance of the IAA in terms of the agreed goals and objectives as captured in the audit plan.
- Conduct an annual high-level review of IAA to ascertain whether the IAA complies with the ISPPA.
- Evaluate the performance of the CAE on a quarterly basis.
- Assist with resolving any significant disagreements between auditors and management.
- Review of the Internal Audit Methodology to ensure that the IAA complies with the ISPPA.
- The A&PC should ensure safeguards are in place to limit and address potential impairments to the IAA's independence or individual objectivity arising from expected roles and responsibilities performed by the CAE (risk management, compliance and business continuity management).
- The A&PC should perform an oversight role in the Quality Assurance and Improvement Program (QAIP) and ensure that all issues raised in the QAIP are addressed by relevant parties.

14.4.1. The IAA is accountable to the A&PC as follows:

- Maintain open and effective communication with the A&PC;
- 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 A&PC for review and approval;

- Report on the implementation and results of the annual audit plan including special tasks requested by management and the A&PC;
- Assist in drafting the agenda and documentation, and facilitate the distribution thereof to the A&PC in advance of meetings;
- Cooperate with the A&PC as they conduct annual reviews of the performance of the IAA;
- Submit the Internal Audit Charter to the A&PC for review and approval on an annual basis or as necessary.

14.5.External Audit

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

14.6.Compliance

- 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;
- Review the findings of any examinations by regulatory agencies and any auditor observations;
- Obtain regular updates from management regarding compliance matters;
- Be satisfied that all regulatory and compliance matters have been considered in the preparation of the financial statements;
- Respond to Council on any compliance issues raised by the AGSA in the audit report;
- Carry out such investigations into the financial affairs of the municipality as the Council may request; and
- Review the impact of new or proposed legislation or governmental regulations.

14.7.Risk Management

- The A&PC is responsible for risk management oversight;
- The A&PC should evaluate whether management treats risk management as integral in the way it makes decisions and execute its duties;
- 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;
- The A&PC should consider the need to obtain periodic independent assurance on the effectiveness of risk management;
- Provide an independent and objective view of the effectiveness of the municipality's risk management processes; and
- Provide feedback to the MM and Council on the adequacy of risk management in the municipality.

14.8.Performance Management

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

14.9.Corporate Governance

- Ensure that the code of conduct of the municipality is in writing and that it is communicated to all employees and councillors;
- 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

- Review the process for monitoring compliance with the code of conduct.

14.10.Information Communication Technology (ICT) Governance

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

15.Reporting responsibilities

- 15.1.Regularly report to Council about Committee activities, issues and related recommendations;
- 15.2.Provide an open avenue of communication between the Internal Audit Activity, the external auditors, and management;
- 15.3.Review any other reports that the municipality issues relating to committee responsibilities;
- 15.4.Perform other activities related to this Charter as requested by the Council;
- 15.5.Institute and oversee special investigations as needed;
- 15.6.Review and assess the adequacy of the A&PC Charter annually, requesting Council's approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation;
- 15.7.Confirm annually that all responsibilities outlined in this Charter have been carried out,
- 15.8.The Chairperson of the A&PC will report on a quarterly basis to Council on the operations of the IAA and the A&PC; and
- 15.9.The A&PC shall prepare a report annually which will be incorporated into the municipality's annual report covering:
 - Describing the functions performed by the A&PC and meetings attended;
 - And other relevant comments that may enhance governance and accountability.

16.Combined assurance

- 16.1.The A&PC shall ensure that a combined assurance model is developed and applied to provide a coordinated approach to all assurance activities, and in particular, the A&PC must:
 - Ensure that the combined assurance received is appropriate to address all the significant risks facing the municipality;
 - Evaluate the effectiveness of the organisation's assurance functions and services, with particular focus on combined assurance arrangements, including external assurance service providers, internal audit and the finance function; and
 - Monitor the relationship between external assurance partners and the municipality.

17.Annual report

- 17.1.The A&PC shall prepare a report annually, which will be incorporated into the municipality's annual report covering:
 - The number of meetings attended by the A&PC members;
 - Describe the functions performed by the A&PC;
 - The effectiveness of the internal control system;
 - The risk areas of the entity's operations covered in the scope of internal and external audits;
 - The adequacy, reliability and accuracy of financial information provided by management;
 - Accounting and auditing concerns identified as a result of internal and external audits;
 - The entity's compliance with legal and regulatory provisions;

- The effectiveness and activities of IAA; and
- Any matter which the A&PC considers necessary to be reported to Council

18. Evaluation of committee activities

- 18.1. The A&PC 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 A&PC with reference to the particular skills the member has brought to the A&PC as a whole.
- 18.2. The aim of the self-assessment is to ensure that the A&PC is meeting its objectives effectively and efficiently. The Chairperson should present the findings of the self-assessment to Council.
- 18.3. Where the self-assessment highlights a need for enhancements to the role, operational processes or membership of the A&PC, the Chairperson of the A&PC should take action to ensure that such enhancements are implemented. The Chairperson may need to consult with Council to obtain appropriate support to ensure all enhancements are implemented.
- 18.4. Where the A&PC is not performing in accordance with this Charter and this has been observed by various stakeholders such as for example, the IAA, external audit or management, it would be appropriate for this or other issues to be brought to the attention of the Council.

19. Review period

This Charter will be reviewed on an annual basis and submitted to the A&PC for acceptance and the Council for approval. The Charter should be published on the Municipality's website subsequent to Council approval. This document will remain effective until a new one is approved.

Acknowledgement of Approval

Accepted by the A&PC

Position: Chairperson ACTING

Name in print: R. NICHOLLS

Signature: _____

Date: 19 JULY 2021

Approved by the Council Resolution

Report number: A4186

Date: 31 August 2021