

AUDIT & PERFORMANCE COMMITTEE CHARTER



NDLAMBE MUNICIPALITY 2014

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1. OVERALL OBJECTIVES

The Audit and Performance Committee (“Committee”) is appointed by Council in terms of the Municipal Finance Management Act No. 56 of 2003 (“the Act”) to assist Council, as required by this Charter (“the Charter”), in discharging its oversight responsibilities. The Committee will advise Council, Council's political office-bearers, Council's Municipal Manager (“the MM”) and the management staff of the Ndlambe Municipality (“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; compliance with the Act, the annual Division of Revenue Act and any other applicable legislation; performance evaluation; and any other issues referred to it by the Municipality either in the Charter itself or by specific request from time to time.

The Committee will also:

- 1.1 review the annual financial statements to provide Council 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 Act, the annual Division of Revenue Act and any other applicable legislation;
- 1.2 respond to Council on any issues raised by the Auditor-General in the audit report;
- 1.3 carry out such investigations into the financial affairs of the Municipality as Council may request; and
- 1.4 Perform such other functions as may be prescribed by regulation under the Act.

In performing its duties, the Committee will maintain effective working relationships with Council, its political office bearers, the MM and the management staff, will have access to the financial records and other relevant information of the Municipality and must liaise with the internal audit unit of the Municipality and the person designated by the Auditor- General to audit the financial statements of the Municipality.

Members of the Committee are expected to take a keen interest in the affairs of the Municipality, to keep abreast of the activities of Council, the Mayoral Committee and Council’s committees and proactively to give timeous advice, as and when appropriate in terms of its mandate under this Charter.

The Committee has an independent role with accountability to the Council. It does not assume the functions of management, which remain the responsibility of the Mayor, Councillors, Municipal Manager and Management Team.

2. AUTHORITY

The audit and performance committee 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 will be made available to the audit and performance committee to perform its functions as agreed in its charter.

Council authorises the Committee, or a member delegated by the Committee or the Chairperson, within the scope of its responsibilities, to:

- 2.1 Communicate with the council, municipal manager or the internal and external auditors of the municipality;
- 2.2 Have access to municipal records containing information that is needed to perform its duties or exercise its powers;
- 2.3 Request any relevant person to attend any of its meetings, and, if necessary, to provide information requested by the committee; and
- 2.4 Conduct investigations into the financial affairs of the municipality or municipal entity, as may be requested by the council of the municipality.

3. ORGANISATION

Membership and Independence

- 3.1 Council will appoint the Committee members.
- 3.2 The Chairperson (“Chairperson”) of the Committee will be nominated by the members of the Committee and approved by Council.
- 3.3 The Committee will comprise at least 3 and no more than 5 members and all members shall be independent.
- 3.4 A quorum of any meeting will be at least half of the members of the Committee, with a minimum of 2.
- 3.5 Each member should have skills and experience appropriate to the municipality’s business. Members are required to keep up to date with developments affecting the required skill-set.
- 3.6 An audit and performance committee member shall declare conflicting private and business interest if it is relevant to an item on the agenda of an audit and performance committee meeting.
- 3.7 Each member shall be financially literate; at least one member must have accounting or related financial expertise; at least one member must have expertise in performance management; and the Committee members should have a collective understanding of matters such as sustainability reporting, internal and financial controls, internal and external audit processes, major accounting practices and public sector reporting, treatment of allegations and investigations, service delivery priorities, municipal law, risk management, information technology as it relates to integrated reporting, and governance processes within the municipality and of community affairs.

3.8 Members will be appointed for a term of office of three years. Members of the audit and performance committee may not serve for more than two terms of office consecutively. After serving consecutively for two terms, a member shall only be eligible for appointment after a further period of two years. Should a member be appointed mid-term for any reason, such a member shall serve for the remainder of the term.

3.9 The secretary of the Committee will be the Director: Corporate Services of the Municipality, or his nominee.

Meetings

Only Committee members are automatically entitled to attend meetings. The Committee may invite such other persons to its meetings as it deems necessary.

Meetings shall be held not less than 4 times a year, with at least one meeting per quarter, and should as far as possible correspond with the municipality's financial reporting cycle.

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.

The secretary shall circulate the agenda and supporting documentation to the Committee members 7 days in advance of each meeting.

Within 7 days of a meeting of the Committee, the secretary shall circulate the minutes of meetings to members of the Committee, the head of internal audit and the external auditor where appropriate.

As a minimum, the Chairperson or another member of the Committee shall attend the Council meeting at which Council's Financial Statements are approved.

Members of the Committee should strive to attend every meeting of the Committee.

Termination of Membership

Council may terminate the membership of a member or members of the Committee should such member or members, in Council's opinion, by any acts or omissions be making it difficult for the Committee to function efficiently.

A committee member should give two months' notice prior to resignation.

Any member, who is absent without leave of absence from two consecutive Audit and performance committee meetings, may be removed from the Audit and performance committee by Council, unless an acceptable excuse has been tabled and accepted by the Audit and performance committee, at the Audit and performance committee meeting following the second absence.

4. ROLES AND RESPONSIBILITIES

The Committee as far as is necessary and relevant to meet its objectives under the Charter will, inter alia:

Internal Control

- 4.1 Evaluate whether management is setting the appropriate “control culture” by communicating the importance of internal control and management of risk.
- 4.2 Understand the internal controls systems implemented by management for the approval of transactions and the recording and processing of financial data.
- 4.3 Understand the controls and processes implemented by management to ensure that the Financial Statements comply with relevant standards and requirements, and are subject to appropriate management review.
- 4.4 Evaluate the overall effectiveness of the internal control and risk management frameworks and consider whether recommendations made by the internal and external auditors have been implemented by management.
- 4.5 Consider how management performs in regard to the security of computer systems and applications, and the contingency plans for processing financial information in the event of a systems breakdown or to protect against computer fraud or misuse.
- 4.6 Comment in the annual financial statements on the financial statements, the accounting practices and the effectiveness of the internal financial controls

Financial Reporting

- 4.7 Review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on financial reports.
- 4.8 Monitor the financial reporting process implemented by management and review the annual financial statements prior to their release to Council.
- 4.9 Meet with management to review the financial statements.

Compliance with Laws and Regulations

- 4.10 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 fraudulent acts or non-compliance.
- 4.11 Be satisfied that all regulatory compliance matters, related to the business of the municipality, have been considered in the preparation of the Financial Statements.

Combined Assurance

- 4.12 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:
 - ensure that the combined assurance received is appropriate to address all the significant risks facing the Municipality; and
 - monitor the relationship between the external assurance partners and the Municipality.

Finance Function

- 4.13 The Committee shall review the expertise, resources and experience of the municipal finance function, and disclose the results of the review in the annual report.
- 4.14 The Committee shall also consider and satisfy itself annually of the suitability of the expertise and experience of the Director: Financial Services.

External Audit

- 4.15 Discuss with the external auditor any audit problems encountered in the normal course of audit work.
- 4.16 Monitor and report on the independence of the external auditor in the annual financial statements insofar as the Auditor-General outsources the external audit function.
- 4.17 The committee shall ensure that a process is in place for it to be informed of any Reportable Irregularities (as defined in the Auditing profession Act, 2005) identified and reported by the external auditor.
- 4.18 The Committee shall review the quality and effectiveness of the external audit process.
- 4.19 The Committee shall take cognizance of the scope of work undertaken by the external auditor and the extent of co-ordination with the internal audit unit.
- 4.20 The Committee shall review annual external audit plans, audit fees and other compensation.

- 4.21 Ensure that significant findings and recommendations made by the external auditors and management’s proposed response are received, discussed and appropriately acted on.
- 4.22 Discuss with the external auditor the appropriateness of the accounting policies applied in the municipality’s financial reports and whether they are considered as aggressive, balanced or conservative.
- 4.23 Meet with the external auditors to discuss any relevant matters and must do so at least once per annum without management being present.

Internal Audit

The audit and performance committee must in relation to internal audit:

- 4.24 Ensure that the charter, independence and activities of the internal audit function are clearly understood and respond to the objectives of the municipality and the legal framework.
- 4.25 Regularly review the functional and administrative reporting lines of the internal auditor to ensure that the organizational structure is consistent with the principles of independence and accountability.
- 4.26 Review and approve the internal audit charter, including internal audit strategic plan.
- 4.27 Confirm that the annual audit plan makes provision for critical risk areas in the municipality and its entities.
- 4.28 Advise the municipality on resources allocated to give effect to the work outputs of the internal audit function.
- 4.29 Ensure that there is support for the internal audit unit and external auditors from senior management.
- 4.30 Confirm with management that internal audit findings are submitted to the audit and performance committee on a quarterly basis.
- 4.31 Confirm actions taken by management in relation to the audit plan.
- 4.32 Consider and review reports relating to difficulties encountered during the course of the audit engagement, including any scope limitation or access to information reported to the accounting officer that remain unresolved.
- 4.33 Evaluate the performance of internal audit activity in terms of the agreed goals and objectives as captured in the audit plan.
- 4.34 Ensure that the head of internal audit has reasonable access to the chairperson of the audit and performance committee.
- 4.35 Concur with any appointment and termination of the services of the chief audit executive.
- 4.36 Ensure that the internal audit function is subject to an independent quality review, as and when the Committee deems it appropriate.
- 4.37 Meet regularly with internal audit to discuss any relevant matters and must do so at least once per annum without management being present.

Risk Management

4.38 The Committee is an integral component of the risk management process and specifically that the Committee must oversee:

- ✚ financial reporting risks;
- ✚ internal financial controls;
- ✚ fraud risks as it relates to financial reporting; and
- ✚ IT risks as it relates to financial reporting.

Performance Management

- ✚ Carry out the functions of a performance audit and performance committee and must:
 - ✓ review the quarterly reports submitted to it and the MM by the internal auditors;
 - ✓ review the Municipality's performance management system and make recommendations in this regard to Council; and
 - ✓ at least twice during a financial year submit a performance management audit report to Council.

In reviewing the Municipality's performance management system, the Committee must focus on economy, efficiency, effectiveness and impact in so far as the key performance indicators and performance targets set by the Municipality are concerned.

4.39 Carry out its functions as a performance audit and performance committee by:

- ✓ communicating directly with Council, the MM or the internal and external auditors of the Municipality;
- ✓ accessing any municipal records containing information that is needed to perform its duties or exercise its powers;
- ✓ requesting any relevant person to attend any of its meetings, and, if necessary, to provide information requested by the Committee; and
- ✓ investigating any matter it deems necessary for the performing of its duties and the exercising of its powers.

4.40 The Chairperson of the Committee shall be a member of the evaluation panels established in terms of the regulations issued under the Municipal Systems Act to evaluate the performance of the MM and the managers directly accountable to the Municipal Manager.

Compliance with Municipal Finance Management Act

4.42 Perform any specific duties required by the Municipal Finance Management Act which are not already addressed in the Charter.

Effective Governance

In addition to any other responsibilities that may appear appropriate in relation to effective governance:

4.43 Be responsible for monitoring the Municipality's performance in ensuring the ethical behaviour of the Municipality, its management and officials, including compliance with any supply chain management policy and code of conduct which may be applicable. In doing so, the Committee will:

- a) Review any policies on ethical standards or requirements for the Municipality and give input into such standards and requirements.
- b) Review arrangements by which staff of the Municipality may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters, with a view to ensuring that arrangements are in place for the appropriate and independent investigation of such matters and for appropriate follow-up action.
- c) Review compliance with the law and regulations of any applicable statute and of controlling bodies as they relate to ethical standards.
- d) Raise questions about and obtain explanations for any violations of ethical conduct that may come to its attention.
- e) Review the process for communicating the code of conduct to Municipality personnel, and for monitoring compliance therewith.
- f) Review any situations that arise relating to potential conflict of interest or questionable situations of a material nature that it becomes aware of and as soon as possible make appropriate recommendations.
- g) Periodically receive reports on the prevention, detection and investigation of fraudulent activity or misconduct within the Municipality and the related management responses.

4.44 Review the effectiveness of the Municipality's policies and practices in promoting public participation and ensuring effective law enforcement in the governance of the Municipality.

Reporting Responsibilities

In addition to any other reporting responsibilities contained in the Charter or the Act:

4.45 Regularly update Council about committee activities and make appropriate recommendations.

4.46 Ensure Council is aware of matters that may significantly impact on the financial condition or affairs of the municipality.

4.47 The audit and performance committee shall prepare a report annually which will be incorporated into the municipality's annual report and those of its entities covering:

- Describing the functions performed by the audit and performance committee and meetings attended;
- Resolutions taken by council and implementation status of recommendations made; and
- Other relevant comments that may enhance governance and accountability.

Evaluating Performance

4.48 Council must perform an annual evaluation of the effectiveness of the Committee and assess the achievement of the objectives and duties specified in the Charter.

Review of the Committee Charter

4.49 Review the Charter annually and propose any required changes to Council.

4.50 Ensure that the Charter is approved or re-approved by Council with (if required) or without amendments.

5. COMPENSATION

Council will determine the basis on which members of the Committee will be compensated for their services, and for costs incurred by them, in carrying out their duties under the Charter.