

MAKHUDUTHAMAGA LOCAL MUNICIPALITY

AUDIT AND PERFORMANCE AUDIT COMMITTEE CHARTER

2014/2015



Makhuduthamaga Local Municipality

Audit and Performance Audit Committee Charter 2014/2015

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2014/2015

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1. INTRODUCTION

The Code of Corporate Practices and Conduct published in the King Report requires the Municipal Council to publicly confirm that it has reviewed the effectiveness of the internal control of their organisation. The implementation of sound information and internal control systems is essential to Management's effective discharge of its executive responsibilities for running an organisation, and in turn is fundamental to the Municipal Council's responsibilities of supervision and oversight.

Section 166 of the Municipal Finance Management Act, 2003 (Act 56/2003) requires the Municipal Council to establish an Audit Committee complying and operating in accordance with the Act, and Treasury Regulations 27.1 and 27.2.

In terms of TR 27.1.6 of the Treasury Regulations, the Audit Committee must establish written terms of reference which deal adequately with its membership, authority, duties and responsibilities, and which will guide its modus operandi.

The Objective of this Charter is to set out the specific responsibilities delegated to the Audit Committee by the Municipal Council, in consultation with the Sector Departments and Provincial Treasury, and to record the manner in which the Audit Committee will operate.

The Objective of this Charter is also to assist the Municipal Council and Executive Management in carrying out their own functions and responsibilities as prescribed in the Municipal Finance Management Act and the Treasury Regulations.

2. CONSTITUTION

- 2.1** The audit committee is constituted as a statutory committee of Makhuduthamaga Local Municipality in respect of its statutory duties in terms of section 166 of the MFMA, 2003 and a committee of the Council in respect of all other duties assigned to it by the Council.
- 2.2** The duties and responsibilities of the members of the committee as set out in this document are in addition to those duties and responsibilities that they have as members of the Council. The deliberations of the committee do not reduce the individual and collective responsibilities of Council members in regard to their fiduciary duties and responsibilities, and they must continue to exercise due care and judgment in accordance with their legal obligations as Public Office Bearers.

3. FUNCTIONS

- 3.1 The overall function of the committee is to advise the directors in discharging their responsibilities relating to the safeguarding of assets, the operation of adequate and effective systems and control processes, the preparation of fairly presented financial statements in compliance with all applicable legal and regulatory requirements and accounting standards, and the oversight of the external and internal audit appointments and functions.
- 3.2 The committee is an advisory committee and not an executive committee. As such it must not perform any management functions or assume any management responsibilities and shall have an objective and independent role.
- 3.3 The audit committee will also serve to carry out the duties of the performance audit committee as per section 14 of the Municipal Planning and Performance Management Regulation.

4. MEMBERSHIP

- 4.1 The committee must comprise of at least three members to be appointed by Council.
- 4.2 Members of the committee must be non-executive directors and meet all applicable independence requirements and be suitably skilled.
- 4.3 The Council shall appoint a Chairperson to the committee who is an independent non executive director.
- 4.4 The members of the committee should collectively have sufficient qualifications and experience to fulfill their duties, including an understanding of the following:
 - 4.4.1 Financial and sustainability reporting
 - 4.4.2 Internal financial controls
 - 4.4.3 External audit process
 - 4.4.4 Internal audit process
 - 4.4.5 Corporate law
 - 4.4.6 Risk management
 - 4.4.7 Sustainability issues
 - 4.4.8 IT governance and other governance processes
 - 4.4.9 Performance Management
- 4.5 The Council must fill vacancies on the committee within 40 business days after the vacancy arises.

5. STATUTORY DUTIES

5.1 The Audit Committee must:

In terms of Section 166 of the MFMA the following are the functional areas of the Audit Committee:

(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 council the 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 this 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: and

(e) perform such other functions as may be prescribed.

(3) In performing its functions, an audit committee-

(a) has access to the financial records and other relevant information of the municipality; and

(b) must liaise with –

(i) the internal audit unit of the municipality; and

(ii) the person designated by the Auditor-General to audit the financial statements of the municipality

5.1.1 Liaise with external audit to ensure the elimination of audit duplication.

5.1.2 Prepare a report, to be included in the annual financial statements for that financial year-

(a) Describing how the audit committee carried out its functions;

(b) Commenting in any way the committee considers appropriate on the financial statements, the accounting practices and the internal financial control of the municipality;

5.1.3 Receive and deal appropriately with any concerns or complaints, whether from within or outside the municipality, or in its own initiative, relating to –

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- (a) The accounting practices and internal audit of the municipality;
- (b) The content or auditing of the municipality's financial statements;
- (c) The internal financial controls of the municipality or
- (d) Any related matter

5.1.4 Make submissions to the Council on any matter concerning the municipality's accounting policies, financial control, records and reporting; and

5.1.5 Perform any other functions determined by the Council, including the development and implementation of a policy and plan for a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes within the municipality.

6. DELEGATED DUTIES

6.1 External auditor

The audit committee shall:

- (a) Meet with the auditor at the commencement of the audit to review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement.
- (b) Be satisfied that the audit plan makes provision for effectively addressing the critical risk areas in the business.
- (c) Meet with the auditor not more than a month before the Council meets to approve the financial statements in order to consider matters which appear to the auditor or the audit committee to be of importance and relevant to the proposed financial statements and to the affairs of the municipality generally.
- (d) Review the findings of the audit with the auditor, this shall include but not be limited to the following:
 - (i) A discussion of any major issues which arose during the audit.
 - (ii) Any accounting and audit judgments; and
 - (iii) Levels of errors identified during the audit.
- (e) Provide an open avenue of communication between the external auditor, internal auditor and the Council.
- (f) Consider the appropriateness and quality of all critical accounting policies and practices including any accounting treatments, significant unusual transactions or accounting judgments that could be contentious.
- (g) Review any representation letters requested by the auditor before they are signed by management.
- (h) Review the management letter and management's response to the auditor's findings and recommendations.
- (i) Ensure that there is a process for the audit committee to be informed of any Reportable Irregularities (as required by the Auditing Professions Act, 2005) identified and reported by the external auditor.
- (j) Ensure that the lead engagement partner within the appointed firm is rotated every five years in accordance with the current requirements; and

- (k) Review the quality and effectiveness of the external audit process, and evaluate the performance of the auditor.

6.2 Financial statements

The committee will review the annual financial statements, the interim and preliminary announcements, the accompanying reports to the public and any other announcements regarding the municipality's results or the other financial information to be made public, prior to submission and approval by the Council.

This will be focussed particularly on:

- (a) The impact of significant or new financial systems;
- (b) Tax and litigation matters;
- (c) The appropriateness of accounting policies adopted and any changes in accounting policies and practices;
- (d) Significant financial estimates based on judgment which are included in the financial statements;
- (e) The impact and disclosure of significant, complex and/or unusual transactions, especially where the accounting treatment is open to different interpretations;
- (f) The appropriateness of major adjustments processed at year end;
- (g) The basis on which the municipality and the group had been determined a going concern;
- (h) Capital concern;
- (i) The clarity of disclosure in the municipality's financial reports and the context in which statements are made;
- (j) Reviewing the directors' statement to be included in the annual financial statements, including the statement on effectiveness of the systems of internal control;
- (k) Compliance with the financial conditions of loan covenants;
- (l) Reviewing special documents such as prospectuses as and when prepared; and
- (m) Earning press releases, as well as financial information and earnings guidance provided to analysts and rating agencies.

6.3 Integrated reporting

The committee shall oversee integrated reporting. In particular the committee shall:

- (a) Have regard to all factors and risks that may impact on the integrity of the integrated report, including factors that may impact fair presentation of the significant judgments and reporting decision made, monitoring or enforcement actions by a regulatory body, any evidence that brings into question previously published information, forward-looking statements or information;
- (b) Review the annual financial statements, interim reports, preliminary or provisional results announcements, summarized integrated information, any other intended release of price sensitive information and prospectuses, trading statements and similar documents;
- (c) Comment in the annual financial statement on the financial statements, the accounting practices and the effectiveness of the internal financial controls;

- (d) Review the disclosure of sustainability issues in the integrated report to ensure that it is reliable and does not conflict with the financial information;
- (e) Recommend to the Council whether or not to engage an external assurance provider on material sustainability issues;
- (f) Recommend the integrated report for approval by the Council;
- (g) Consider the frequency for issuing interim results
- (h) Consider whether the external auditor should perform assurance procedures on the interim results
- (i) Review the content of the summarized information for whether it provides a balanced view; and
- (j) Engage the external auditors to provide assurance on the summarized financial information

6.4 Combined Assurance

The committee ensures that a combined assurance model is applied to provide a coordinated approach to all assurance activities, and in particular the committee shall-

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

6.5 Risk oversight

The committee is an integral component of the risk management process and specifically the committee shall oversee:

- (a) Financial reporting risks
- (b) Internal financial control
- (c) Fraud risk as it related to financial reporting; and
- (d) IT risks as it relates to financial reporting.
- (e) Assess effectiveness and functionality of Risk Management Committee
- (f) Assess the effectiveness of Risk Mitigations

6.6 Internal audit

The committee is responsible for overseeing internal audit, and in particular the committee shall:

- (a) Be responsible for the appointment, performance assessment and/or dismissal of the Chief Audit Executive – The Head of Internal Audit Activity,
- (b) Approve the internal audit plan;
- (c) Oversee the staffing and objectives of the function;
- (d) Ensure that the internal audit function is subject to an independent quality review, as and when the committee determines it appropriate;
- (e) Review and approve the internal audit charter;

- (f) Consider and review with management and the internal auditors, significant findings during the year and management's responses thereto in relation to reliable reporting, corporate governance and adequate and effective internal control;
- (g) Ensure that the internal audit function has the necessary resources and access to information to enable it to fulfill its programme and to perform its duties in accordance with the appropriate professional standards for internal auditors;
- (h) Ensure that the internal audit objectives and goals, staffing, budgets and plans provide adequate support for the goals and objectives of the Audit and Performance Audit Committee, as well as for the fulfillment of the internal audit charter;
- (i) Review the co-operation and co-ordinating between the internal and external audit functions and co-ordinating the formal internal audit work plan with external auditors to avoid unnecessary duplication of work;
- (j) Review significant differences of opinion between management and the internal audit function;
- (k) Monitor the maintenance of proper and adequate accounting records;
- (l) Monitor the overall operational and financial reporting environment;
- (m) Monitor and evaluate the performance of the internal audit function in terms of agreed goals and objectives;
- (n) Consider and review any difficulties encountered in the course of the audits, including any restriction on the scope of internal audit's work or access to required information
- (o) Consider any changes required in the planned scope of the internal audit coverage;
- (p) Meet the Chief Audit Executive or internal audit service provider at least once a year, without the presence of management, to discuss their role and any issues arising from the internal audits carried out; and
- (q) Ensure that the Chief Audit Executive or internal audit service provider unrestricted access to the Chairperson of the Audit and Performance Audit Committee and the Mayor.

6.7 Compliance with laws and regulations

The committee must consider the legal and regulatory requirements to the extent that it may have an impact on the financial statements.

The committee shall:

- (a) Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up of any
- (b) instances of non-compliance;
- (c) Review the findings of any examinations by regulatory agencies, and any auditor observations;
- (d) Obtain regular updates from the committee responsible for compliance matters, including tax compliance, litigation, disputes and claims; and
- (e) Obtain reports from management, the internal auditor and the external auditor regarding compliance with all applicable legal and regulatory requirements

6.8 Performance Review

The functional areas in which the Performance Audit Committee will operate in terms of the Local Government: Municipal Planning and Performance Management Regulations, 2001 are:

- 14(1) (b) Any auditing in terms of paragraph (a) must include assessments of the following:
- (i) The functionality of the municipality's performance management system;
 - (ii) whether the municipality's performance management system complies with the Act;
 - (iii) the extent to which the municipality's performance measurements are reliable in measuring performance of municipalities on indicators referred to in regulation 9 and 10.
- 14(3) (a) A performance audit committee must meet at least twice during the financial year of the municipality concerned.
- (b) A special meeting of the performance audit committee may be called by any member of the committee.
- 14(4) (a) A performance audit committee must -
- (i) review the quarterly reports submitted to it in terms of sub-regulation (1)(c)(ii);
 - (ii) review the municipality's performance management system and make recommendations in this regard to the Council of that municipality; and
 - (iii) at least twice during a financial year submit an audit report to the municipal council concerned.
- 14(4)(c) A performance audit committee may -
- (i) communicate directly with the Council, Municipal Manager or the internal and external auditors of the municipality concerned;
 - (ii) access any municipal records containing information that is needed to perform its duties or exercise its powers;
 - (iii) request any relevant person to attend any of its meetings, and if necessary to provide information requested by the committee; and
 - (iv) investigate any matter it deems necessary for the performance of its duties and the exercise of its powers.

7. MEETINGS AND PROCEDURES

7.1 Agenda and minutes

- The committee must establish an annual plan for each year to ensure that all relevant matters are covered by the agendas of the meetings scheduled for the year.
- The annual plan must ensure proper coverage of the matters laid out in the Audit and Performance Audit Committee charter: the more critical the matters will need to be attended to each year while other matters may be dealt with on a rotation basis. The number, timing and length of meetings, and the agendas are to be determined in accordance with the annual plan.

- A detailed agenda, Audit and Performance Audit Committee packs, together with supporting documentation, must be circulated, at least 7 working days prior to each scheduled meeting, to the members of the committee and other invitees.
- Committee members must be fully prepared for committee meetings, to provide appropriate and constructive input on matters discussed.
- The minutes must be completed as soon as possible after the meeting and circulated to the chairperson and members of the committee for review thereof within 7 working days.

Matters to be covered in the minutes include:

- (a) Proceedings and resolutions of all meetings of the committee
- (b) The names of those present and in attendance
- (c) Any conflict of interest
- Once approved, these minutes should be distributed to all the members of the Council for information purposes.

7.2 Frequency

- The committee must hold sufficient scheduled meetings to discharge all its duties as set out in these terms of reference but subject to a minimum of four meetings per year.
- Reasonable notice of meetings confirming the venue, time and date, together with an agenda of items to be discussed, shall be forwarded timeously to each member of the committee, and any other person required attending the meeting.
- Meetings in addition to those scheduled may with approval of the Chairperson, be held at the request of the external auditor, the Accounting Officer, Chief Financial Officer, Chief Audit Executive or other members of senior management or at the instance of the Council
- The committee must meet with internal and external auditors at least once a year without management being present.

7.3 Attendance

- Committee members shall attend all scheduled meetings of the committee, including meetings called on an ad hoc-basis for special matters, unless prior apology, with reasons, has been submitted to the Chairperson or the Chief Audit Executive.
- When an Audit and Performance Audit Committee member fails to attend three consecutive meetings without an apology, that member is no longer considered to be part of the committee and membership will be terminated automatically and a new member has to be appointed.
- The Chief Audit Executive is the secretary to this committee.

- If the nominated Chairperson of the committee is absent from a meeting, the members present must elect one of the members present to act as Chairperson.
- The Municipal Manager, Chief Financial Officer, Chief Audit Executive, representatives from the external auditors (The Auditor General of SA), other assurance providers, professional advisors and Council members may be in attendance at committee meetings, but by invitation only and they may not vote. Chairperson of Municipal Public Accounts Committee (MPAC) should also form part of the meetings to ensure synergy between the AC and MPAC. Although participation in meetings is allowed, the MPAC chairperson does not have any voting rights.
- The Chief Financial Officer, Chief Audit Executive and External Auditor shall have unrestricted access to the Chairperson or any other member of the committee as is required in relation to any matter falling within the remit of the committee.

7.4 Quorum

- A representative quorum for meetings is a majority of members of the committee. Individuals in attendance at committee meetings by invitation may participate in discussions but do not form part of the quorum for committee meetings.
- A duly convened meeting of the committee at which a quorum is presented shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the committee.

8. REPORTING

- 8.1 The Chairperson of the committee shall report to the Council on its proceedings after each meeting on all significant matters within its duties and responsibilities as set out in this charter.
- 8.2 The committee shall compile a report to Council on its activities to be included in the municipality's annual report.

9. AUTHORITY OF THE COMMITTEE AND RESOURCES AVAILABLE

- 9.1 The committee has decision making responsibilities in terms of its statutory duties with respect to, fees and terms of engagement of the auditor.
- 9.2 The committee, in carrying out its tasks under these terms of reference:
 - (a) Has unrestricted access to all information, including records, property and personnel of the group, and must be provided with adequate resources in order to fulfil its responsibilities;
 - (b) Is authorised to investigate any activity within its terms of reference;

- (c) May require other employees of the municipality to attend meetings or parts of meetings;
- (d) May consult with and seek any information it requires from an employee, and all employees shall be required to co-operate with any request made by the committee in the course of its duties;
- (e) May invite external professional advisers to attend any meeting if it considers this necessary or appropriate; and
- (f) May delegate its authority and duties to sub- committees or individual member of the committee as it deems appropriate, provided it is not precluded by legal or regulatory requirements from doing so. .

9.3 In addition, the audit committee is allowed to consult with specialists or consultants to assist it with the performance of its functions, subject to a Council approved process being followed. Such specialists or consultants are not members of the committee and are not entitled to vote on any matters.

10. REMUNERATION

10.1 Having regard to the functions performed by the members of the committee in addition to their functions as members and in relation to the activities of the committee and pursuant to the specific power conferred upon the Council, the municipality, members of the committee shall be paid such special remuneration in respect of their appointment as shall be determined by Council. Chairperson and members of Audit and Performance Audit Committee shall be remunerated in line with National Treasury for sitting allowance and maximum of 3 hours in terms of SAICA rates.

11. GENERAL

11.1 The members of the committee shall be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members as may be necessary.

11.2 The committee should, on an annual basis, review its own performance and that of its members, constitution and terms of reference to ensure it is operating at maximum effectiveness.

11.3 The Council must also perform an evaluation of the effectiveness of the committee every year.

11.4 This terms of reference shall be reviewed annually and amended as required, subject to the approval of the Council.

12. GLOSSARY OF TERMS

"Accounting officer" means the Municipal Manager of Makhuduthamaga Local Municipality.

"Act" means Municipal Finance Management Act (Act No. 56 of 2003,


"CAE" means Chief Audit Executive

"Municipal Council" mean the Council members of Makhuduthamaga Local Municipality who are responsible for implementation of the Act.

"TR" means Treasury Regulations

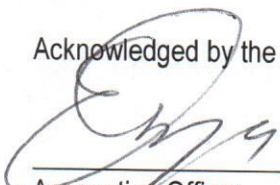
13 ACKNOWLEDGEMENT AND APPROVAL

Reviewed by the Audit Committee


Chairperson of the Audit Committee

Date: 28/10/2014

Acknowledged by the Accounting Officer


Accounting Officer

Date: 28/10/2014

Approved by the Council


Chairperson of the Council

Date: 25.02.2015