

**UBUHLEBEZWE MUNICIPALITY
AUDIT AND PERFORMANCE AUDIT COMMITTEE CHARTER**

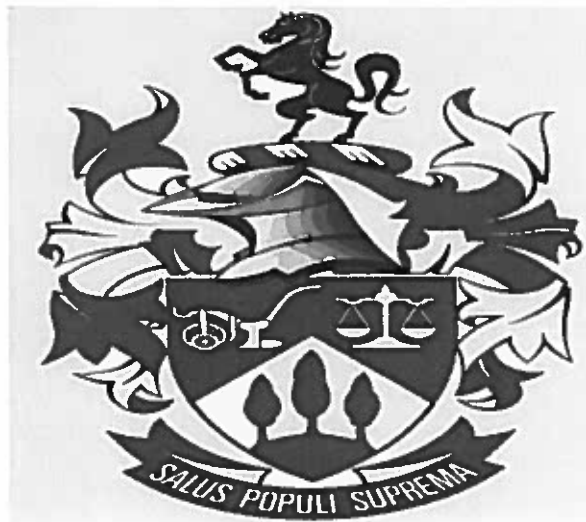
UBUHLEBEZWE LOCAL MUNICIPALITY

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**AUDIT AND PERFORMANCE AUDIT
COMMITTEE CHARTER**

UBUHLEBEZWE LOCAL MUNICIPALITY

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**AUDIT AND PERFORMANCE
AUDIT COMMITTEE CHARTER
(APAC)**

A. INTRODUCTION

1. The Code of Practices and Conduct published in the King III Report on Corporate Governance requires management to publicly confirm that they have reviewed the effectiveness of the internal control, risk management, corporate governance and financial reporting of the organizations. The implementation of control and information systems is essential to the effective discharge of Management's responsibilities.
2. Management continuously reviews current trends and best practice in relation to corporate governance. As part of management's plan to fulfil its obligations to demonstrate greater accountability and ensuring higher quality of service, Management has decided to address internal control through the establishment of an Audit Committee.
3. The charter sets out the specific responsibilities delegated by the member of the Executive Committee and the Accounting Officer to the Audit Committee and details the manner in which the Audit Committee will operate.
4. Section 10 of the Local Government Transition Act (Act 209 of 1993) as incorporated into the Municipal Structures Act (Act 177 of 1998) and sections 165 and 166 of the Municipal Finance Management Act (Act 56 of 2003), state that each municipality must establish an Internal Audit Activity and an Audit Committee.
5. It is for these reasons therefore that Council resolved to appoint an Audit Committee.

B. PURPOSE OF THE CHARTER

6. This Charter sets out the specific responsibilities delegated by the Council to the Audit and Performance Audit Committee (APAC) and spells out the manner in which the Committee will operate.
7. To assist Council in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process, and the Municipality's process for monitoring compliance with laws and regulations and the code of conduct.
8. The Charter is subject to annual review.

C. EXPECTATIONS OF COUNCIL PERTAINING TO THE APAC

9. The implementation of risk management, performance management, corporate governance principles, accurate financial reporting, control and financial systems is essential for the effective discharge of management's responsibilities.
10. Council has the expectation that the Audit and Performance Audit Committee will add value to Council's ensuring that:
 - The best possible financial, administrative and technical systems are in place to support management in their endeavours to fulfil the vision and mission statements of Council.
 - Credible audit reports which represents a true reflection of Council's performance in the delivery of services to the community, in terms of the IDP (Integrated Development Plan) and the PMS
 - Credible audit reports in terms of Council's financial statements, internal control and the supply chain management (procurement of goods and services)

11. Only the Council may authorise the premature termination of the services of a member of the Audit Committee.

D. ROLE OF THE AUDIT AND PERFORMANCE AUDIT COMMITTEE

12. The Committee will assist council by providing inputs to ensure effective systems that complement service delivery, safeguarding of municipal assets, the maintenance of financial records, risk management, corporate governance and an effective internal control system.
13. The Committee shall consider any matters relating to the financial affairs of the Council and to the internal and external audit function, which is desirable. The Committee shall also investigate any other matters referred to it by Council or the Municipal Manager, provided that such request is legitimate and within the scope of the Committee's duties.

E. AUTHORITY AND POWERS OF THE APAC

14. In terms of section 166 (2) of the Municipal Finance Management Act, the Committee is an independent advisory body with no executive powers.
15. The Committee shall function as a sub-committee of Council
16. The Committee will not perform any management functions or assume any management responsibilities.
17. The Committee will make recommendations to management via Council, resulting from activities carried out by the Committee in terms of its reference.
18. The Committee has authority to conduct or authorize investigations into any matters within its scope of responsibility.

F. COMPOSITION OF THE AUDIT AND PERFORMANCE AUDIT COMMITTEE

19. Section 166 (4) (a) of the MFMA states that 'an Audit Committee must consist of at least three persons with appropriate experience, of whom the majority may not be in the employ of the municipality.
20. The members should possess knowledge in Accounting, Human Resources Management, Performance Management Systems and Law.
21. Council must appoint the members of the Committee to serve for at least three years.
22. The following non-members will on invitation attend Committee meetings:
- 1) The Municipal Manager or his/her nominee;
 - 2) The Chief Financial Officer or his/her nominee;
 - 3) Senior Management Staff;
 - 4) The Internal Auditor or his/her nominee;
 - 5) A representative from the Office of the Auditor General;

G. VACANCY

23. In the event of a vacancy occurring amongst the members of the Audit and Performance Audit Committee, the municipality must fill that vacancy for the un-expired portion of the vacating member's term of appointment.

H. OBJECTIVES

24. In order to fulfil its role, the Committee will have the following objectives in terms of section 166 (2) (a) (I to IX) of the Municipal Finance Management Act No. 56 of 2003:

25. Advise the municipal Council, the political office-bearers, the accounting officer and the management staff of the municipality, on matters relating to:
- a) Internal financial control and internal audit;
 - b) Risk management
 - c) Accounting policies;
 - d) The adequacy, reliability and accuracy of financial reporting and information;
 - e) Performance management
 - f) Effective governance
 - g) Compliance with the MFMA, Division of Revenue Act (DORA) and any other applicable legislation;
 - h) Performance evaluation; and
 - i) Any other issues referred to it by the municipality.
26. Section 14 (2) (c) of the Local Government Municipal Planning and Performance Management Regulations (R796 dated 24 August 2001) states that a municipality may utilize any Audit Committee established in terms of other applicable legislation as the Performance Audit Committee of the said municipality.
27. An External Audit and Performance Audit Committee is appointed to fulfil the following objectives:
- a) To advise Council on the functionality of the performance management system
 - b) To advise Council whether the PMS complies with the Act
 - c) To advise Council on the extent to which the municipality's performance measures are reliable in measuring performance
 - d) To advise Council on the effectiveness of the financial administrative system in terms of systems auditing as well as making recommendations with regard to perceived shortcomings.
 - e) To ensure effective functioning of the Internal Audit Activity.

I. FUNCTIONS

28. In order to reach the objectives, the Audit and Performance Audit Committee will have the following functions as prescribed in section 166 (2) (a-e) of the Municipal Finance Management Act, 2003, Local Government Municipal and Performance Management Regulation, 2001 and the office of the Auditor-General:
- a) To advise the Council on all matters related to compliance and effective governance;
 - b) To review the annual financial statements to provide Council with an authoritative and credible view of the financial position of the municipality, its efficiency and its overall level of compliance with the MFMA, the annual DORA and 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 council may request;
 - e) To perform such other functions as may be prescribed to it by council;
 - f) To review the quarterly reports submitted to it by the internal audit;
 - g) To evaluate audit reports pertaining to financial, administrative and technical systems;
 - h) To evaluate the compliance to existing policies and relevant legislation;
 - i) To evaluate audited financial statements and reports with regard to the procurement of items and services;
 - j) The compilation of reports to Council, at least twice during a financial year;
 - k) To review the performance management system and make recommendations in this regard to Council;
 - l) To assess whether the performance indicators are sufficient;
 - m) To determine possible reasons for discrepancies between performance and targets;
 - n) To identify major risks to which Council is exposed and determine the extent to which risks

- have been minimized;
- o) To review significant transactions that does not normally form part of Council's business;
 - p) To review the disaster recovery plans;
 - q) To review the annual report of the municipality;
 - r) Investigating cases of fraud, misbehaviour and conflict of interest involving employees;
 - s) To focus on and review changes in the accounting policies.
 - t) Making recommendations to Council and also carrying out its responsibility to implement the recommendations.
 - u) Investigate any matter it deems necessary for the performance of its duties and the exercise of its powers.
- 28.1 On a regular basis, review its own effectiveness against pre-set criteria such as:
- a) Did the Audit and Performance Audit Committee have enough meetings?
 - b) Did all members participate fully in the discussions at the meeting?
 - c) How good was the co-operation with the internal Audit Activity, Management and the Office of the Auditor-General?
29. Review the plans of the Internal Audit Activity and in so doing; ensure that the plan addresses the high-risk areas and ensure that adequate resources are available.
30. Review audit results and action plans implemented by management.
31. Provide support to the Internal Audit Activity.
32. Ensure that no restrictions or limitations are placed on the Internal Audit Activity.
33. Evaluate the activities of the Internal Audit Activity in terms of their role as prescribed by legislation.
-
34. Provide council with comments and recommendations with regard to the proposed budget for the following year.
35. Consider the effectiveness of the Municipality's internal control system, including information technology security and control.
36. Understand the scope of internal and external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.
- The audit 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 committee with reference to the particular skills the member has brought to the audit committee as a whole.

J. RISK MANAGEMENT

38. Reviews written reports furnished by the Manco Risk Management Committee detailing the adequacy and overall effectiveness of the institutional Risk Committee's function and its implementation by management.
39. Review risk philosophy, strategy, policies and processes recommended by the Risk Management Committee and consider reports by the Manco Risk Management Committee on implementation and communication to ensure incorporation into the culture of the institution.
40. Ensure that risk definitions and contributing factors, together with risk policies, are formally reviewed on an annual basis.
41. Review the acceptability of the risk profile in conjunction with the overall risk appetite of the institution, taking into account all risk mitigation factors, including, but not limited to, internal controls, business continuity and disaster recovery planning, etc.
42. Ensure compliance with the risk policy and framework.
43. Oversee the Manco Risk Management Committee of the institution to ensure they are operating effectively and to receive periodic reports (quarterly) on their respective activities.

44. Reviews the completeness of the risk assessment process implemented by management to ensure that all possible categories of risks, both internal and external to the institution, have been identified during the risk assessment process. This includes an awareness of emerging risks pertaining to the institution.
45. Facilitates and monitors the coordination of all assurance activities implemented by the institution.
46. Reviews and recommends any risk disclosures in the annual financial statements;
47. Provides regular feedback to Council on the effectiveness of the risk management process implemented by the institution.
48. Reviews and ensures that the internal audit plans are aligned to the risk profile of the institution.
49. Reviews the effectiveness of the internal audit assurance activities and recommends appropriate action to address any shortcomings.
50. Review and recommend disclosures on matters of risk and risk management in the annual report;
51. Satisfy itself that it has appropriately addressed the following areas:
 - a) financial reporting risks, including the risk of fraud;
 - b) internal financial controls; and
 - c) IT risks as they relate to financial reporting.

K. COMPLIANCE

52. Review whether Management has considered legal and compliance risks as part of the Institution's risk assessments;
53. Review the effectiveness of the system for monitoring compliance with laws and regulations;
54. Review the findings of any examinations by regulatory agencies, and any auditor observations;
55. Review the process for communicating the code of conduct to the Institution's personnel, and for monitoring compliance therewith; and
56. Obtain regular updates from Management regarding compliance matters.

L. ACCESS TO INFORMATION

57. The committee in carrying out its tasks under these terms of reference must, through the office of the Municipal Manager, have unrestricted access to the financial records and other relevant information of the municipality.

M. REPORTING RESPONSIBILITIES

57. If required, the Committee reports directly to the Mayor, Executive Committee and Council. In any event the minutes of audit and performance audit committee meetings must be included in management reports to Council.
58. Written reports should be submitted after each meeting of the Committee if deemed necessary; alternatively the Committee shall submit reports to Council bi-annually.

59. The Chairperson of the committee shall, at the end of each financial year submit an annual report to be included in the uBuhlebezwe Local Municipality's Annual Report, summarizing its activities and recommendations during the previous financial year.

59.1 The Audit and Performance Audit Committee must, in the annual report of the institution comment on;

- 1) the effectiveness of the internal Control;
- 2) the quality of in year management and monthly reports submitted in terms of the MFMA and the Division of Revenue Act, and;
- 3) Its evaluation of the financial statements

59.2 Responsibilities in respect of the appointment and discharge of the Internal and External Auditor.

The Audit and Performance Audit Committee should be advised in terms of appointing and discharging of the Head of Internal Audit personnel.

In the case where a service of external auditors is required the Audit and Performance Audit Committee will be consulted by the Office of the Municipal Manager (except in the case of AG).

59.3 Specialized Investigation

When deemed necessary due to certain facts that may come to the notice of the Audit and Performance Audit Committee, coupled with the special nature and/or technical requirements of the situation at hand, the Audit Committee may consult with the Municipal Manager, (on the basis of authorized procedures and within budgetary limits and restrictions) for the procurement of forensic, computer and other experts, to shed some light on specific problematic and/or complex issues.

N. COMMUNICATION

60. There should be a direct line of communication between the Audit and Performance Audit Committee and the Internal Audit Activity, the office of the Auditor-General and Council.
61. The Internal Audit Activity must submit quarterly reports to the Committee pertaining to their audits and investigations. These reports must be part of the agenda of the Committee.

O. ADMINISTRATIVE PROCEDURES

62. The directorate of the Municipal Manager is responsible for all administrative matters pertaining to the Committee.
63. The office of the Municipal Manager will provide reports to the Committee and will see to it that reports from the Committee serve before Council.
64. The Chairperson of the Committee or his/her representative may attend the meetings of the Finance Committee, Procurement Committee, Executive Committee and Council, when

reports of the Committee serve before such Committees.

- 65. The Committee may initiate its own reports to serve before Council, in relation to its terms of reference (section 166 of the MFMA, 2003).
- 66. All meetings of the Committee will be recorded and the minutes will be circulated to all members, the Municipal Manager and members of the Executive Committee.

P. MEETINGS

- 67. In terms of section 166. (4) (b) of the Municipal Finance Management Act, an Audit and Performance Audit Committee must meet as often as required to perform its function, but at least four times a year.
- 68. Council has resolved that the Committee must meet four times a year, but any member of the Audit and Performance Audit Committee may call a special meeting of the Audit Committee.
- 69. A quorum shall consist of two thirds of its members and will be needed to constitute a meeting.
- 70. Notice in writing shall be given to all members of the committee and other interested parties of each meeting to be held at least 14 days prior to the date on which such meetings is to be held.

Q. AGENDA OF MEETINGS

- 71. At least five days prior to each meeting an agenda of items to be discussed at the meeting shall be prepared and distributed to all members of the Audit and Performance Audit Committee.
- 72. Any person who is going to attend a meeting may, not less than two days prior to the meeting, request the secretary of the Audit and Performance Audit Committee to add such items, as he/she deems necessary to the agenda.

R. MINUTES OF MEETINGS

- 73. The Audit and Performance Audit Committee shall keep minutes of its meetings, which conform to the requirements of committees of a municipal council, but the minutes must be made available to all attendees within 14 days after the sitting.

S. CONFIDENTIALITY

- 74. A member of the committee shall maintain strict confidentiality in respect of any information of a confidential nature to which he/she may become privy at meetings of the committee, and shall only disclose such information as may become necessary or required for the proper performance of his/her duties and functions.

T. REMUNERATION OF MEMBERS

- 75. A member of the Audit Committee from outside the public sector is entitled to remuneration for attendance of meetings. In addition members are entitled to payment of the kilometre

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travelled at a rate, which may be determined from time to time by the Accounting Officer using guidelines issued by the National Department of Transport.

The current remuneration for the members of the Audit Committee of the department is in accordance with paragraph 20.2.2 of the Treasury Regulation.

These rates are reviewed annually by National Treasury and should be affected to the remuneration benefits of Audit Committee members.

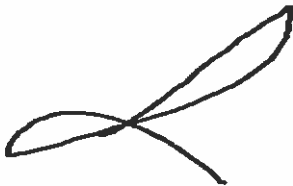
U. REVIEW OF CHARTER

76. Consideration for the review of this charter should be given on an annual basis, should changes in legislation or functional circumstances necessitate such review.

V. APPROVAL


_____ : Municipal Manager
Mr. GM Siseke

05/06/17
Date



Committee Chairperson
Dr PS Zulu

05/06/17
Date


_____ : Speaker
Councillor CZ Mngonyama

02/08/17
Date