



TSWELOPELE
LOCAL MUNICIPALITY
A MUNICIPALITY IN PROGRESS

**AUDIT COMMITTEE CHARTER
2017/2018**



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Abbreviations:

AGSA	–	Auditor General South Africa
CoGTA	–	Department of Corporate Governance and Traditional Affairs
AFS	–	Annual Financial Statement
APC	–	Audit and Performance Committee
MM	–	Municipal Manager
CFO	–	Chief Financial Officer
TLM	–	Tswelopele Local Municipality
SCM	–	Supply Chain Management
PMS	–	Performance Management System
KPI	–	Key Performance Indicator
MFIP	–	Municipal Finance Improvement programme
MSCOA	–	Municipal standard chart of accounts

1 PURPOSE

The purpose of the Audit and Performance Committee is the following:

1. To ensure that effective, efficient and transparent systems of financial and risk management and internal control are maintained by the Council, which contribute to the efficient and effective utilization of resources, safeguarding of assets and the accomplishments of established goals for operations or programs.
2. To promote the efficiency and effectiveness of accounting and management information systems.
3. To ensure that, in accordance with the Municipal Council's public accountability, that justifiable decisions pertaining to Municipal service delivery are taken as indicated in policy statements and best practices.
4. To create a distinct and clear communications channel between the Council, management, external auditors and internal auditors.
5. To inform the Management and Municipal Council regarding challenges which must be addressed concerning the preparation of the financial statements and performance report.
6. To monitor the effectiveness of the Internal Audit Unit.
7. To enhance the objectivity and credibility of reporting to stakeholders.

2 LEGAL FRAMEWORK

2.1 The Constitution of the Republic of South Africa

(Act 108 of 1996) Section 195 (1) Public administration must be governed by the democratic values and principles enshrined in the Constitution, including the following principles:

1. A high standard of professional ethics must be promoted and maintained.
2. Efficient, economic and effective use of resources must be promoted.
3. Public administration must be development-orientated.
4. Services must be provided impartially, fairly, equitably and without bias.
5. People's needs must be responded to, and the public must be encouraged to participate in policy-making.
6. Public administration must be accountable.
7. Transparency must be fostered by providing the public with timely, accessible and accurate information.
8. Good human-resource management and career-development practices, to maximize human potential, must be cultivated.
9. Public administration must be broadly representative of the South African people, with employment and personnel management practices based on ability, objectivity, fairness, and the need to redress the imbalances of the past to achieve broad representation.

2.2 Local Government: Municipal Structures Act. (No. 117 of 1998)

(Part 5: Other committees of municipal councils)

Section 79 Establishment:

1. A municipal council may:
 - a) Establish one or more committees necessary for the effective and efficient performance of any of its functions or the exercise of any of its powers;

- b) Appoint the members of such a committee from among its members; and
- c) Dissolve a committee at any time.

2. The municipal council:

- a) Must determine the functions of a committee;
- b) May delegate duties and powers to it in terms of section 32;
- c) Must appoint the chairperson;
- d) May authorize a committee to co-opt advisory members who are not members of the council within the limits determined by the council;
- e) May remove a member of a committee at any time.
- f) May determine a committee's procedure.

2.3 Municipal Finance Management Act No. 56 Of 2003.

Section 166: Audit committees

- 1. Each municipality must have an audit committee.
- 2. The audit committee must:
 - a) Consist of at least three members with appropriate experience, of whom the majority may not be in the employment of the municipality,
 - b) Meet as often as is required to perform its functions, but at least four times a year.
- 3. The members of the committee must be appointed by the municipal council. One of the members, who is not in the employment of the municipality must be appointed as the chairperson of the audit and performance committee. No councilors may be members of the committee.

3 INDEPENDENCE OF THE AUDIT AND PERFORMANCE COMMITTEE

An Audit and Performance Committee is an independent body established to advise the Municipal Council. Its primary responsibilities are to assist the Municipal Council and the Management in carrying out their duties with relation to the municipality's accounting policies, internal control, financial reporting practices, compliance with legislation, risk management practices and municipal performance.

Effective Audit and Performance Committees should have the following characteristics:

1. Independence and competency of appointed members.
2. Adequate training and resources.
3. Frequency of meetings and special meetings.
4. Evaluation of:
 - a) Risk management;
 - b) Internal control systems;
 - c) internal audit; and
 - d) external audit;
5. Unrestricted access to internal and external audit.
6. Unrestricted access to Municipal documents.

Some of the benefits of an effective Audit and Performance Committee are the following:

1. Improved communication channel between Councilors, Senior Management, Internal and External auditors.
2. Users of the municipality's financial information are reassured about the credibility and objectivity of financial statements and standards of corporate governance.
3. It strengthens the independence of the internal and external audit functions.
4. It promotes improved effectiveness, efficiency and economy of operations.
5. It promotes better financial management.
6. It helps councilors and management fulfil their legal responsibilities.

4 COMPOSITION

The Audit and Performance Committee of Tswelopele Local Municipality is composed of four (4) independent members. One of the appointed members serves as the Chairperson of the Audit and Performance Committee.

Each committee member will be independent, financially literate and have the knowledge of municipal performance activities. At least one member shall be designated as the "financial and risk expert," as defined by applicable legislation and regulation.

Members shall also be qualified in different fields such as (Accounting, Financial Management, Municipal Finance, Performance Audit, Internal and External Audit, Information and Technology Communication, Risk Management and Legal Background).

5 MEETINGS

5.1 Frequency of the meeting:

1. The committee will meet at least four times a year, with authority to convene additional meetings, as circumstances require.
2. All committee members are expected to attend all the meetings arranged by the chairperson of the committee. Should one of the committee members be absent in two consecutive meetings, the chairperson will have to take reasonable steps stipulated in the Standing Rules and Orders of the Council to ensure appropriate attendance of the scheduled meetings.

5.2 Invitation:

The following officials must have a standing invitation to the Audit and Performance Committee and attendance all meetings:

1. Municipal Manager;
2. Chief Financial Officer;
3. Director Corporate Services;
4. Director Community Services;
5. Director Technical Services;
6. External Auditor;
7. Provincial Treasury;
8. Risk and Compliance Officer;
9. Strategic Services Manager.

The committee will have access to hold private meetings with External Auditors and Executive Committees.

The secretariat of the Audit and Performance Committee must ensure that the required preparation for the meeting of the Audit and Performance Committee is finalised at least 7 days before the commencement of the meeting and that substantive work would be undertaken for the duration of the meeting.

5.3 Secretariat

The secretariat responsibilities of the Audit and Performance Committee are to be performed by the Internal Audit Unit or otherwise as determined by the Accounting Officer. This include:

1. all administrative support to the Audit and Performance Committee meetings;
2. sending invitations and documentation to members;
3. coordinating and compiling of Audit and Performance Committee meeting documentation;
4. taking minutes of the Audit and Performance Committee meetings;
5. preparing all logistical arrangements relating to Audit and Performance Committee meetings;
6. Special confidential meetings should be at the discretion of the chairman of the audit and Performance committee.

5.4 Quorum

The quorum requirement for the Audit and Performance Committee will be 50% plus 1, i.e. three members of the Audit and Performance Committee out of four members.

5.5 Remuneration of members

Audit and Performance Committee members shall be remunerated in line with applicable National Treasury's Regulation 20.2.2 as yearly revised.

6 AUTHORITY

The Audit and Performance Committee is authorized to:

1. Pre-approve all internal audit (consulting) activities;
2. To oversee the work performed by the Internal Audit Unit of the municipality;
3. To resolve any disagreement between Management and Internal Audit Unit;
4. To resolve any disagreement between Management, External Auditors (Auditor General of South Africa) regarding financial reporting;
5. To gather any relevant information it requires from internal or external sources;
6. To request legal advice and professional advice, in consultation with the Municipal Manager when required;
7. Investigate any activity within its terms of reference;
8. To initiate special investigations per Municipal Finance Management Act, Section 166 in consultation with the Municipal Manager; and
9. To have free access to municipal financial records and other relevant information of the municipality it needs for its mandate and will safeguard all information supplied to it, in full compliance with the law.
10. To have direct and unobstructed lines of communication to all relevant stakeholders within the Municipality including the Internal Audit Function.

7 ROLES AND RESPONSIBILITIES OF THE AUDIT AND PERFORMANCE COMMITTEE

The audit and performance committee as independent advisory body must:

1. Advise the Municipal Council, the Political Office Bearers, the Accounting Officer, and Management Staff of the municipality, on matters relating to:
 - a) Internal financial controls and internal audits;
 - b) Risk management;
 - c) Accounting policies;
 - d) The adequacy, reliability and accuracy of financial reporting information;
 - e) Performance management;
 - f) Effective governance;
 - g) Compliance with acts, Division of Revenue Act, and any other applicable legislation;
 - h) Performance evaluation;
 - i) Information and Communication Technology; and
 - j) Any other issues referred to by the municipality.

2. Advise the Municipal Council, the Political Office Bearers, the Accounting Officer, and Management Staff of the municipality, on matters relating to:
 - a) 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, effectiveness and its overall level of compliance to applicable principles and legislation;
 - b) Respond to council on any issues raised by the Auditor General in their audit report; and
 - c) Perform any other function as may be prescribed.

8 INTERNAL AUDIT

The Audit and Performance Committee must in relation to the Internal Audit:

1. 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;
2. 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;
3. Review and approve the internal audit charter, including internal audit strategic plan; confirm that the annual audit plan makes provision for critical risk areas in the municipality;
4. Advise the municipality on resources allocated to give effect to the work outputs of the internal audit function;
5. Ensure that there is support for the internal audit unit and external auditors from senior management;
6. Confirm with management that internal audit findings are submitted to the audit and performance committee on a quarterly basis;
7. Confirm actions taken by management in relation to the audit plan;
8. Consider and review reports relating to difficulties encountered during the course of audit engagements, including any scope limitation or access to information reported to the accounting officer that remain unresolved;
9. Evaluate the performance of internal audit activity in terms of the agreed goals and objectives as captured in the audit plan;
10. Ensure that senior internal audit has reasonable access to the chairperson of the audit and performance committee; and
11. Conduct a high-level review of internal audit on an annual basis; to ascertain whether the internal audit unit complies with the International Standards for the Professional Practice of Internal Auditing.

9 EXTERNAL AUDIT

The Audit and Performance Committee must in relation to external audit:

1. Take cognisance of the scope of work undertaken by the external auditor and the extent of co-ordination with the internal audit unit;
2. Review annual external audit plans, audit fees and other compensation;
3. Review reports and monitor management's implementation of audit recommendations and municipal Council resolutions in the new financial year;
4. Review any interim reports issued in order to take cognizance of the issues raised in determining the follow up work of the internal audit;
5. Conduct a review of the of the extent to which previously reported findings by the external auditor have been addressed by the municipal council;
6. Provide advice to the accounting officer on actions to be taken relating to significant matters raised in external audit reports;
7. Liaise with the external auditors on any matter that the audit and performance committee considers appropriate to raise with the external auditor;
8. Ensure that the external auditors have reasonable access to the management and Chairperson of the audit and performance committee;
9. Address any potential restrictions or limitations with the accounting officer and council; and
10. Address outstanding matters raised by the external auditors and ensure that all findings are dealt with conclusively in an expeditious manner.

10 ANNUAL FINANCIAL STATEMENTS

The audit and performance committee must review the annual financial statements to provide assurance to the municipality by:

1. Confirming if the municipal audit file is prepared in line with the applicable standards and guidance contained in MFMA Circular 50, or as updated;
2. Reviewing the unaudited annual financial statements of the municipality and to ensure that the quality, integrity and content is consistent with applicable standards and compliant with the legal framework;
3. Evaluating the annual financial statement of the municipality for reasonableness, completeness and accuracy, and provide comment thereon, on a timely basis;
4. Reviewing efficiency and effectiveness of internal controls over AFS preparation and reporting.

Specifically with regards to Annual Financial Statements, the Audit and Performance Committee should:

Review and challenge where necessary:

1. Arithmetical accuracy and consistency;
2. Consistency of, and any changes to, accounting policies, comparing to prior years;
3. Methods used to account for significant or unusual transactions where different approaches are possible;
4. Whether the Municipality has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account previous audit outcomes;
5. The quality of disclosure in the Municipality's financial reports and the context in which statements are made;
6. All material information presented with the financial statements, such as the operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management);

7. All material issues in prior reports by the AGSA have been appropriately accounted for, resulting in fair presentation;
8. Conduct analysis of trends and other financial ratio calculations e.g. year-on-year comparisons and composition of primary group e.g. salaries as a component of operations, whether operations are undertaken on a sustainable basis, operations at surplus or deficit, efficiency and solvency ratios, etc.

11 RISK MANAGEMENT ACTIVITIES

The responsibilities of the Audit and Performance Committee with respect to risk management include the following.

1. It is expected that the Audit and Performance Committee will provide an independent and objective view of the effectiveness of the municipality's risk management.
2. The Audit and Performance Committee will be required to review recommendations made by the Risk Committee and consider these in line with the Audit and Performance Committee Charter.
3. The Audit and Performance Committee must also provide feedback to the Accounting Officer and municipal council on the adequacy and effectiveness of risk management in the municipality.
4. The Audit and Performance Committee should approve the Municipal Risk register on an annual basis or as and when it is reviewed.

12 CONTROL ENVIRONMENT

The audit and performance committee members need to have a good understanding of the control environment, in fulfilling this responsibility the committee should:

1. Ensure that management follows a sound process to draw conclusions on the adequacy and effectiveness of the system of internal control;
2. Establish whether management has relevant policies and procedures in place and that these are adequate, effective and regularly updated;
3. Determine whether appropriate processes are followed and complied with on a regular basis;
4. Consider measures applied on any required changes to the design or implementation of internal controls;
5. Assess steps taken by management to encourage ethical and lawful behaviour; financial discipline and accountability for use of public resources.

13 PERFORMANCE MANAGEMENT

The audit and performance committee members need to have a good understanding of the performance of the municipality. These include:

1. Review and comment on compliance with statutory requirements and performance management best practices and standards;
2. Review and comment on the alignment of the Integrated Development Plan, the Budget, Service Delivery and Budget Implementation Plan and performance agreements;
3. Review and comment on relevance of indicators to ensure they are measurable and relate to services performed by the municipality;
4. Reviews compliance with in-year reporting requirements;
5. Review the quarterly performance reports submitted by internal audit;
6. Reviews and comments on municipality's annual financial statements and timely submission to the Auditor-General by 31 August, each year;

7. Review and comment on the municipality's annual reports within the stipulated timeframes; and
8. Review and comment on the municipality's performance management system and make recommendations for its improvement.

14 INFORMATION TECHNOLOGY (IT) GOVERNANCE

The audit and performance committee also needs to provide advice on IT governance, controls, access and safeguarding of information in the municipality.

Specific expertise may be required from within or outside the municipality from time to time, to assist the internal audit unit and audit and performance committee formulate recommendations on systems and controls.

The committee may have to advise on the appropriateness of disaster recovery and continuity plans supporting IT risks, regular testing and evaluation of plans, systems and processes.

15 RELATIONSHIP WITH STAKEHOLDERS

The audit and performance committee is required to maintain good relations with key stakeholders, such as:

1. Municipal Council;
2. Municipal Public Accounts Committee;
3. Finance Committee;
4. Accounting Officer;
5. Management and staff;
6. Internal Auditors and External Auditors;
7. Provincial Treasury; and
8. National Treasury.

16 PERFORMANCE EVALUATION

It is important for the audit and performance committee to assess its impact on the effectiveness to Council, Management, the municipality and ultimately the community. This should be done by way of Management, Council Committee (MPAC) and self – evaluation in line with National Treasury Regulations and Guidelines.

An effective audit and performance committee should conduct continual self-assessments in order to measure its performance.

Evaluation criteria will include the following:

1. Expertise;
2. Inquiring attitude, objectivity, and independence;
3. Judgment;
4. Knowledge of local government and its objectives;
5. Understanding of and commitment to the committee's duties and responsibilities;
6. Devotion of time in order to participate effectively in committee deliberations and decisions;
7. Timely responses; and
8. Attendance at meetings.

The results of the performance should be reviewed by the audit and Performance committee and Council in order to determine what actions if necessary are to be taken.

Evaluations that are carried out properly demonstrate the committee's intention to meet its objectives in an effective and efficient manner.

17 REPORTING

The reporting requirements of the Audit and Performance Committee are as follows:

1. The Audit and Performance Committee should report to Council about committee activities and make appropriate recommendations on a quarterly basis as well as on an annual basis.
2. The Audit and Performance Committee should inform the Council in respect of matters, which may significantly impact the financial condition or affairs of the municipality as and when necessary.

18 CONFLICT OF INTEREST

The conflict of interest will always be on the agenda of each audit and performance committee meeting to determine if there is any and the nature thereof.

19 TERM OF OFFICE OF MEMBERS

To enhance independence of the Audit and Performance Committee, the term of office for members must be strictly adhered to:

1. Audit and Performance Committee Members will be appointed by Council for a term of three years.
2. At the discretion of Council, the contract of Audit and Performance Committee Members may be extended up to a maximum of three additional years.

3. Audit and Performance Committee Members should not be contracted continuously for a period exceeding six years in any capacity.
4. After serving consecutively for six years, a cooling off period of two years should be provided for, before appointing the same member to the same audit and performance committee.
5. The Audit and Performance Committee Members shall appoint a Chairperson amongst themselves.
6. The Chairperson shall serve a maximum of three years to ensure that he/she contributes most effectively and provides stability to the Audit and Performance Committee.
7. Rotation of members is encouraged as it enhances the independence of the Audit and Performance Committee and Members are encouraged not to terminate their contracts until they have shared their knowledge with other new members.

20 REVIEW OF THE CHARTER

The reviewing and amending of the Audit and Performance Committee Charter is the responsibility of the Audit and Performance Committee in conjunction with the internal audit function. Therefore, it should be reviewed annually (or when the need arises) and be approved by Municipal Council.

Glossary

1. Code of Ethics

The Code of Ethics of The Institute of Internal Auditors (IIA) are Principles relevant to the profession and practice of internal auditing, and Rules of Conduct that describe behaviour expected of internal auditors. The Code of Ethics applies to both parties and entities that provide internal audit services. The purpose of the Code of Ethics is to promote an ethical culture in the global profession of internal auditing.

2. Control

Any action taken by management to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

3. Adequate Control

Present if management has planned and organized (designed) in a manner that provides reasonable assurance that the organization's risks have been managed effectively and that the organization's goals and objectives will be achieved efficiently and economically.

4. Engagement

A specific internal audit assignment, task, or review activity, such as an internal audit, control self-assessment review, fraud examination, or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.

5. Engagement Objectives

Broad statements developed by internal auditors that define intended engagement accomplishments.

6. Independence

The freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.

7. Objectivity

An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others.

8. Engagement Opinion

The rating, conclusion, and/or other description of results of an individual internal audit engagement, relating to those aspects within the objectives and scope of the engagement.

9. Assurance Services

An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Examples may include financial, performance and compliance engagements.

10. Consulting Services

Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training.

11. Governance

The combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives.

12. Conflict of Interest

Any relationship that is, or appears to be, not in the best interest of the organization. A conflict of interest would prejudice an individual's ability to perform his or her duties and responsibilities objectively.

Signed on behalf of Internal Audit Unit:

R Rampai
INTERNAL AUDIT

DATE

Signed on behalf of Tswelopele Local Municipality:

MRE Mogopodi
MUNICIPAL MANAGER

DATE

Signed on behalf of the Audit and Performance Committee:

V. Vapi
CHAIRPERSON: AUDIT AND PERFORMANCE COMMITTEE

DATE