

# UMZIMVUBU LOCAL MUNICIPALITY



**UMZIMVUBU**  
— LOCAL MUNICIPALITY —

## **AUDIT AND PERFORMANCE COMMITTEE CHARTER 2019/2020**

## TABLE OF CONTENTS

<b>2. LEGISLATIVE MANDATE .....</b>	<b>3</b>
<b>3. OBJECTIVE AND MISSION .....</b>	<b>3</b>
<b>4. SCOPE.....</b>	<b>4</b>
<b>5. MEMBERSHIP .....</b>	<b>4</b>
<b>6. INDEPENDENCE .....</b>	<b>4</b>
<b>7. AUTHORITY .....</b>	<b>5</b>
<b>8. RESPONSIBILITY .....</b>	<b>6</b>
8.1. INTERNAL AUDITORS .....	6
8.2. EXTERNAL AUDITORS.....	6
8.3. CONTROL AND RISK MANAGEMENT .....	7
8.4. FINANCIAL STATEMENTS REVIEW .....	7
8.5. COMMUNICATION WITH AUDITORS .....	9
8.6. REPORTING RESPONSIBILITY .....	10
8.7 PERFORMANCE MANAGEMENT .....	10
<b>9. OPERATING PROCEDURES .....</b>	<b>11</b>
9.1. MEETING PROCEDURES .....	11
9.2. SECRETARIAL MATTERS.....	11
9.3. REMUNERATION .....	12
9.4. EVALUATION .....	12
<b>10. RECOMMENDED FOR APPROVAL.....</b>	<b>13</b>

## **1. PURPOSE**

The Audit and Performance Committee (APC) is non-executive committee in an independent advisory capacity to the municipal council, the political office bearers, Municipal Manager (MM) and the management staff of the municipality. The committee is primarily responsible for oversight over the municipality's governance, internal control and risk management processes.

The purpose of this charter is to set out the membership, authority, responsibility, and status of the APC within the municipality. The Audit and Performance Committee of the municipality shall perform its activities in line with this charter and the charter shall be reviewed at least annually to ensure its relevance.

## **2. LEGISLATIVE MANDATE**

Umzimvubu Local Municipality has established an Audit and Performance Committee in accordance with the Municipal Finance Management Act no. 56 of 2003 Section 166 and the Municipal Planning and Performance Management Regulations of 2001; regulation 14 respectively.

## **3. OBJECTIVE AND MISSION**

The primary objective of the Audit and Performance Committee is to assist the municipal council, the political office bearers, municipal manager and the management staff in the effective discharge of their responsibilities with the ultimate aim of the achievement of the municipality's objectives. The APC oversees the functions of risk management, control, governance and performance management.

The mission of the Audit and Performance Committee is to provide the municipality with an oversight to governance, control and risk management processes by reviewing financial statements, reports from the internal and external auditors, status of internal control and risk management and thus providing meaningful advice. The Audit and Performance Committee shall provide the internal audit activity (IAA) with the status and level of independence it requires to effectively perform its responsibilities, as the IAA will report functionally to the Audit and Performance Committee.



#### **4. SCOPE**

The Audit and Performance Committee shall review the financial reporting process, the system of internal control; risk management, governance, the audit process, and the municipality's process for monitoring compliance with laws and regulations and its own code of conduct.

#### **5. MEMBERSHIP**

The Audit and Performance Committee shall consist of at least 3 members with appropriate experience, who shall not be in the employ of the municipality.

The chairperson shall be an independent person, knowledgeable of the status of the position, has the requisite business, financial and leadership skills and may not be a political office bearer.

The term of office of the committee shall be at the discretion of the Council but in compliance with the Municipal Finance Management Act Circular 65. Each member should be capable of making a valuable contribution to the committee. Members should be knowledgeable in financial matters and local government issues. In order to assure the necessary expertise in key financial and legal matters it would be advisable to have at least one Chartered Accountant, a Certified Internal Auditor and an individual with performance management expertise to serve as members on the Audit and Performance Committee.

The internal and external auditors should be invited to make presentations to the Audit Committee as appropriate.

Any member failing to attend three consecutive meetings will be automatically dismissed and the Council will be required to appoint an alternative. A member not in attendance shall send the comments for the documents to be discussed via email.

#### **6. INDEPENDENCE**

The Audit and Performance Committee will be constituted so as to ensure independence and its membership will be disclosed in the municipality's annual report.

The Audit and Performance Committee has a non-executive status in an advisory capacity to the municipal council, the political office bearers, municipal manager and the management staff. Under no circumstances will the Audit and Performance Committee assume executive powers with regard to the findings and recommendations on any operational aspects of the management and control of the municipality. Its role is that of an independent oversight function of activities within the municipality.

## 7. AUTHORITY

The Audit and Performance Committee is authorised to:

- Investigate any activity within its terms of reference as set out below.
- Seek independent advice, and to secure the attendance of outsiders with relevant experience and expertise, in Audit Committee meetings if it considers this to be necessary.
- Seek any information that it requires from any employee or councillor of the municipality.
- All employees and councillors are directed to cooperate with any request made by the committee, and
- To have direct access to the council, political office bearers, municipal manager, management, and the municipality's internal and external auditors.

The authority of the Audit and Performance Committee may be terminated and / or amended by the council from time to time if deemed necessary; within the confines of applicable legislation however caution should be exercised to ensure that the committee is not restricted from achieving its legislated mandate within the confines of the legislation.

## **8. RESPONSIBILITY**

### **8.1. INTERNAL AUDITORS**

In discharging its responsibility to control and direct the internal audit activity the Audit and Performance Committee shall:

- Participate in the appointment or dismissal of the Assistant Manager: Internal Audit. Ensure there are no unjustified restrictions or limitations; and review and concur in the appointment, replacement or dismissal of the Assistant Manager: Internal Audit
- Review and endorse the Internal Audit charter before it is submitted to the council for approval;
- Review the scope and depth of the internal audit coverage and effectiveness of the IAA;
- Review the appropriateness of funding, staffing and operational independence of internal auditors;
- Review quarterly reports from Internal Audit;
- On a regular basis; meet separately with the Internal Auditors to discuss any matters that the committee or internal auditors believes should be discussed privately;
- Ensure that significant findings and recommendations made by the internal auditors are received and discussed on a timely basis; that management responds to recommendations by the internal auditors on a timely basis.
- Ensure that the performance management system, the key performance indicators and the performance target monitoring and measurement have been reviewed by internal audit annually.

### **8.2. EXTERNAL AUDITORS**

The Audit and Performance Committee is responsible for communicating with the Internal Audit Activity and the Office of the Auditor-General. In its oversight role, the Committee shall focus on:

- Reviewing the scope and results of external audit and its cost effectiveness;
- Encouraging communication between the municipal manager, internal Audit and the external auditors; and
- Interacting separately with the external auditors to discuss any matters that the Committee or Auditors believes should be discussed privately.



### **8.3. CONTROL AND RISK MANAGEMENT**

The Audit and Performance Committee shall have an oversight responsibility over governance, control and risk management processes. The Audit and Performance Committee shall have a degree of understanding to which the internal and external auditors review controls, the risks to which the entity is exposed and how they are managed. The Audit and Performance Committee shall:

- Evaluate the policies and procedures implemented by management to ensure that the accounting and information systems, related controls and security are adequate and effective;
- Evaluate the adequacy, and effectiveness of the risk management process;
- Review the process for monitoring the attainment of specific goals and objectives developed by management in the strategic operational plans;
- Evaluate and review managements attitude towards IAA and determine whether recommendations made by the IAA are adhered to and taken into consideration for the improvement of internal control structure;
- Review the significant cases of employee conflict, misconduct and resolution of these cases;
- Review processes for monitoring compliance with the municipality's code of conduct with the emphasis on business ethics, corporate governance and disclosure of conflict of interest;
- Review any unresolved issues and matters that exist between the internal and external auditors and management, encourage methods to resolve these incidents; and
- Conduct follow-up activities and monitor how management has addressed and adhered to the internal and external audit findings.

### **8.4. FINANCIAL STATEMENTS REVIEW**

The Audit and Performance Committee is responsible for evaluating the financial statements and annual report, acting under the guidance of the external auditors and National Treasury. The objective of the review is to ensure that disclosure is adequate and that fair presentation is achieved, including contingent liabilities, such as any outstanding litigation. As part of the financial statements review, the Audit and Performance Committee should:

- Obtain explanations for all significant variances in financial statements, between years;
- Review the municipality's accounting policies or major changes in policies, which management should consider making or have already implemented;
- Enquire about all outstanding litigations, contingencies and claims and how these matters are reflected in the municipality's financial statements;
- Examine the effect of changes in reporting standards;
- Enquire about any significant financial reporting issues discussed between management and internal audit during the accounting period and how they were resolved;
- Assess significant judgmental decisions that had a major impact on financial statements;
- Review any significant adjustments resulting from the audit;
- Examine compliance with generally accepted municipal accounting standards, generally recognized accounting practices and other regulatory requirements;
- Review significant transactions that are not normal part of the municipality's business;
- Review the adequacy of doubtful debts and stock provisions;
- Review how outstanding litigations, contingencies and claims are reflected in the entities financial statements;
- Review the extent, nature, and disclosure of exceptional or extraordinary items;
- Discuss all significant proposed changes in the municipality's financial statements and any concerns over the disclosure of any item;
- Understand the extent to which the financial information accompanying the audited financial statements have been audited;
- Review legal and regulatory matters that may have a material impact on the financial statements, related departmental compliance policies and programs and reports received from the regulators; and
- Evaluate and attest to the reliability and accuracy of financial information provided to management and to other users of financial information.



## 8.5. COMMUNICATION WITH AUDITORS

In its review process and discussions with the auditors, the Audit and Performance Committee shall ensure that the following matters are addressed:

- Reports by auditors on whether the scope of the audit was restricted by management;
- Problems and reservations arising from the interim and final audits and any material points raised in the audit reports issued since the previous meetings and management responses thereto;
- Review of the municipality's statement on internal control;
- Report back from auditors on major weaknesses in internal control as well as steps taken to rectify problem areas;
- Assessment of the effectiveness of the IAA. This would involve ensuring that the IAA is adequately resourced and has appropriate standing within the municipality;
- Areas of significant disagreement between management and the auditors;
- Major findings of engagements and management's response;
- Report on incidents of fraud and/or irregularities and/or losses since the previous meeting;
- Steps taken to review the municipality's information technology procedures and controls at major installations;
- Review areas where management believes the costs of implementing additional or changed controls outweigh the risk of making no changes; and
- All qualifications noted on audit packs, irrespective of their nature, materiality or subsequent clearance, and the circumstances giving rise to the qualifications fully explained.

## **8.6. REPORTING RESPONSIBILITY**

The Audit and Performance Committee shall prepare a report for inclusion in the annual report that describes the Committee's composition and responsibilities and how responsibilities were discharged. It shall be disclosed in the municipality's annual report whether or not the Audit- and Performance Committee has adopted its terms of reference and whether the committee satisfied its responsibilities for the year, in compliance with its terms of reference. In addition, the audit committee shall report on:

- The effectiveness of internal control;
- The quality of in-year management and monthly/quarterly reports submitted in terms of the Municipal Finance Management Act and Division of Revenue Act; and
- Its evaluation of the annual financial statements.

## **8.7 PERFORMANCE MANAGEMENT**

The Audit and Performance Committee shall:

- Ensure that the municipality has an effective performance management system that is:
  - a) commensurate with the resources;
  - b) best suited to its circumstances; and
  - c) in line with the priorities, objectives, indicators and targets contained in the Integrated Development Plan.
- Promote a culture of performance management within the municipality and all its internal stakeholders.
- Monitor the performance management system by reviewing internal audit reports relating to performance audits and performing any other duties it deems appropriate to fulfil its responsibilities.
- Ensure that performance bonuses paid to municipal employees are in line with Service Delivery and Budget Implementation Plan, Performance Score Cards and targets detailed therein.

## **8.8 OVERSIGHT RESPONSIBILITY ON *m*SCOA IMPLEMENTATION**

Management can expect the Audit Committee to oversee and provide advice on the risk management of such significant reform in the municipality. The audit committee needs to review:

- Whether management has a comprehensive risk management framework guiding the management of *m*SCOA project risks;
- Whether a sound and effective approach has been followed in developing the strategic risk management plan for the *m*SCOA project;
- The impact of the municipality's risk management framework on particularly the control environment of the *m*SCOA project.

## **9. OPERATING PROCEDURES**

### **9.1. MEETING PROCEDURES**

The Audit and Performance Committee shall meet at least 4 times per annum. The Chairperson may convene special meetings at the request of any member where necessary. The presence of at least 50%+1 members shall constitute a quorum. If a quorum is not met at a meeting, the meeting may proceed with the understanding that the decisions taken will be subject to ratification by the ensuing Audit Committee meeting, which shall require a proper quorum.

The Chairperson may request any staff member to attend any particular meeting. Parties to a meeting can be requested to leave a meeting for any length of time. The members shall declare any conflict of interest that they have or be seen to have after they have reviewed the items for discussions in the agenda. The Chairperson shall allow such chance for declaration at the beginning of every Audit Committee meeting.

### **9.2. SECRETARIAL MATTERS**

The Council support shall provide secretarial services to the Audit and Performance Committee. Complete agenda papers must be distributed at least seven days prior to the date of the meeting. Any person who is going to attend a meeting may, not less than seven days prior to the meeting, request the



Secretariat to add such items, as deemed necessary, to the agenda.

Draft minutes of the meeting shall be prepared for review by the Chairperson of the Audit and Performance Committee within 14 days of the sitting of the meeting and emailed to members for comments.

### **9.3. REMUNERATION**

The Audit and Performance Committee members shall be paid remuneration for attendance and for services related to the Audit and Performance Committee.

The Municipal Council shall determine the remuneration, which shall be subject to review on an annual basis.

### **9.4. EVALUATION**

The Audit and Performance Committee shall be subject to an annual evaluation. Such evaluation shall include: Self-evaluation by Audit and Performance Committee members, evaluation by Council and evaluation by external auditors.

## 10. RECOMMENDED FOR APPROVAL

The Audit and Performance Committee terms of reference as set out on this charter are hereby approved by of Umzimvubu Local Municipality Speaker.

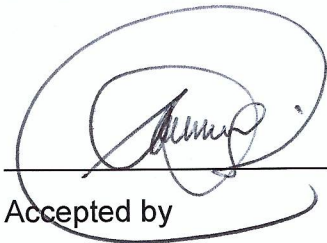


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Recommended by  
**Municipal Manager**  
**Mr G.P.T Nota**

20 June 2019

Date



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Accepted by  
**Audit and Performance Committee Chairperson**  
**Mr M.A Nkosi**

20 June 2019

Date



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Approved by  
**Speaker on behalf of the Municipal Council**  
**Ms. N.F Ngonyolo**

20 June 2019

Date