

OVERBERG

DISTRICT MUNICIPALITY

AUDIT AND PERFORMANCE AUDIT COMMITTEE CHARTER

Updated: February 2018



Council Resolution No:
Date:
Municipal Manager:
Executive Mayor
Reference No:
Municipal Code No:

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1. CONSTITUTION

Every municipality is obliged to establish an Audit Committee to assist the Council in discharging its duties relating to the safeguard of assets, the operation of adequate systems, control processes and the preparation of accurate financial reporting and statements in compliance with all applicable legal requirements and prescribed accounting standards. At the municipality, the Audit and Performance Audit Committee (Committee) is deemed to be the Audit Committee of Council.

The Committee provides a forum for discussing business risk and control issues for developing relevant recommendations for consideration by the Executive Mayoral Committee for its approval or final decision. The membership, resources, responsibilities and authorities (composition, functions and operation) of the Committee to perform its role effectively, is stipulated in this charter. The Committee is constituted in terms of the requirements of sound corporate governance practises and operates within that framework.

The role of the Committee is to provide independent oversight of, among others:

- The effectiveness of the organisation's assurance functions and services, with particular focus on combined assurance arrangements, including external assurance providers, internal audit and the finance function; and
- The integrity of the financial statements, performance reports and annual reports.

The Committee should not perform any management functions or assume any management responsibilities.

2. DEFINITIONS

“Committee” means the Audit and Performance Audit Committee of the municipality.

“Council” means the Council of the municipality.

“Municipality” means Overberg District Municipality.

3. MEMBERSHIP

The Audit and Performance Audit Committee is a Statutory Committee of Council and therefore Council appoints its members. Council must appoint an independent, non-executive member of the Committee as Chairperson of the Committee.

The Committee shall consist of at least three and maximum five independent audit specialists/professionals. The members of the Committee should, as a whole, have the necessary financial literacy, skills and experience to execute their duties effectively.

Members should be appointed for a term of three years and, if re-elected, may serve for only one further three year term;

When a member of the Committee cannot for any reason continue as a member he/she shall be replaced. Such a replacement shall serve a full three year period. The replacement shall be at the discretion of the Council on the recommendation of the Municipal Manager in conjunction with Internal Audit.

No Committee member may be re-elected after their second term of office.

Should a member of the Committee request to be relieved of his/her responsibilities, a replacement must be sought to replace the vacancy on the Committee without delay.

4. RESPONSIBILITIES OF THE COMMITTEE

The committee must monitor the timelines for the submission of documents relating to the financial statements, annual reports and performance reports.

The Committee must review and recommend the audit policy for approval.

The Committee must review the quality of financial information, annual reports, financial statements and audit reports

Responsibilities with regard to the Office of the Auditor-General

The Committee will:

- Be informed of the timing and nature of reports from the Auditor-General;
- Consider any problems identified regarding the municipality as a going concern or statement in internal control;
- Make suggestions as to risk areas, objectives, audit plan, scope and rotation that the audit can address;
- Review the Auditor-General's reports and the Council and Managements responses thereto with a view to ensuring satisfactory responses and corrective action, where necessary;

- Consider any accounting treatments, significant unusual transactions, or accounting judgements, that could be contentious;
- Review the objectives and operations of the Auditor-General, in respect of, audit plan, scope and rotation, including Auditor-General outsourced audit coverage.
- Identify key matters arising in the current year's audit report and executive summary of the management letters and satisfy itself that these are being properly followed up;
- Consider whether any significant ventures, investments or operations should be subjected to an independent audit;
- Review overall audit role, to explore objectives, minimize duplication, discuss implications of new auditing standards and ensure that the external audit fee will sustain a proper audit and provide value for money;
- Obtain assurance from the Auditor-General that the Annual Financial Statements are a fair reflection of the Councils financial position, results and cash flows.

Responsibilities with regard to the Financial Statements

The Committee will examine and review the audited annual financial statements and Auditor-General's audit report, prior the submission to and approval by the Executive Mayoral Committee/Council, focusing particularly on:

- The implementation of new systems;
- Tax and litigation matters involving uncertainty;
- Any changes in accounting policies and practices;
- Major judgement areas;
- Significant adjustments resulting from the audit;
- The basis on which the Council has been determined as a going concern, financially sustainable and compliant with financial conditions of loan covenants;
- Internal control;
- Compliance with prescribed accounting standards, local and international;
- Compliance with relevant legislative requirements;
- Reviewing special documents as and when prepared.

The Committee will:

- Review the annual financial statements to provide the council of the municipality with an authoritative and credible view of the financial position of the municipality or municipal entity, its efficiency and effectiveness and its overall level of compliance with the MFMA, the annual Division of Revenue Act and any other applicable legislation.

- Review the annual report and Financial Statements taken as a whole to ensure they present a balanced and understandable assessment of the financial position, results and cash flows of the Council;
- Discuss problems and reservations arising from the audit, and any matters the auditor(s) may wish to discuss (in the absence, where requested by the Committee, of Management and any other person that is not a member of the Committee);
- Review the Auditor-General's Executive Management letters and management response, where needed and/or as the need arises;
- Review the credibility, independence and objectivity of the financial consultants performing non statutory services, taking into account their audit and non-audit fees.

Responsibilities with regard to the annual and performance reports

The Committee will:

- Review the Municipality's Annual Report and performance reports before publishing to enhance corporate disclosure that promotes transparency and public accountability.

Internal Control

The Committee shall provide an objective overview of the operational effectiveness of the Council's systems in internal control and reporting and will:

- Review the effectiveness of Council's systems of internal control, including internal financial control, business risk management and corporate governance and to maintain effective internal control systems;
- Assess whether proper and adequate accounting records have been maintained;
- Review Management Reports relating to the spending of public funds to facilitate clean administration by highlighting and holding accountable Councillors and staff who do not adhere to good business practice pertaining to financial management resulting in financial misconduct and repercussions thereof;
- Review compliance with Legislation, Policy and Procedure by the business unit under review;
- Assess whether the Councils goals and objectives (Integrated Development Plan), by the business unit under review have been accomplished;
- Review the reliability and integrity of information under review;
- Review the effective use of resources for business units under review;
- Review the overall operational and financial reporting environment;
- Assess whether Council assets have been properly safeguarded and used;
- Review the Council's policies for preventing and/or detecting fraud;
- The Council's policies for ensuring that the relevant regulatory and legal requirements are complied with;

- The operational effectiveness of the financial policies and procedures;
- Investigation into matters within its scope, for example, evaluation of the effectiveness of the Council's internal control structure in respect of reviewing cases of employee and Councillor fraud, misconduct or conflict in interest;
- Other relevant matters referred to it by the Executive Mayoral Committee/ Council.

Internal Audit

An important role of the Committee will be to monitor and supervise the effective functioning of the internal audit activity, ensuring that the roles and functions of the Auditor-General and internal audit are sufficiently clarified and co-ordinated. This will include:

- Evaluating the performance of the internal audit function;
- Reviewing the internal audit activity/function's compliance with its mandate as approved by the Executive Mayoral Committee/Council;
- Concurring with the appointment, replacement and/or dismissal, of the head of the Internal Audit unit. In the event of replacement, dismissal, resignation or early retirement of the head of the Internal Audit unit, the full detail of the circumstances surrounding the action must be revealed to the Committee.
- Reviewing and approving the internal audit charter, internal audit plans and internal audit's conclusions with regard to internal control;
- Reviewing the adequacy of corrective action taken in response to significant internal audit findings;
- Reviewing significant matters reported by the internal audit activity;
- Reviewing the objectives and operations of the internal audit activity, including audit plan, scope and rotation of work;
- Assessing the adequacy of performance of the internal audit activity, and adequacy of available internal audit resources;
- Reviewing the co-operation and co-ordination between the internal and external activities and co-ordinating the formal internal audit work plan with Auditor-General to avoid unnecessary duplication of work;
- Reviewing significant differences of opinion between management and the internal audit activity;
- Review the measurement goals, set by management, and review results identified by Internal Audit;
- Ensuring the independence and effectiveness of Internal Audit;
- Consider whether or not the objectives, staffing plans, financial budgets, audit plans and standing of the internal audit activity provide adequate support to enable the Committee to meet its objectives;

- Review the results of work performed by the internal audit activity in relation to financial reporting, corporate governance, internal control, and any significant investigations and management responses;
- Review significant cases of employee conflicts of interest, misconduct, fraud, of any other unethical activity by employees and Councillors.

Ethics

There are a number of statutory, common law and other requirements that cover the ethical behaviour of managers and officers of municipalities, including the King Code on Governance IV. In addition, the Council can establish a clearly defined and documented code of conduct. The Councillors and Officials must declare the nature and extent of their interest in contracts.

The Committee will be responsible for:

Reviewing any statements on ethical standards or requirements for the Council and assisting in developing such standards and requirements;

The Committee will also make recommendations on any potential conflict of interest or questionable situations of a material nature;

Performance Management

The Committee will review reports from internal audit and the Office of the Auditor-General in respect of Performance Management and make recommendations to the Executive Mayoral Committee, where appropriate. In terms of Regulation 4 of the Municipal Planning and Performance Management Regulations, 2001 the Committee will:

- Review the quarterly reports submitted to it by internal audit;
- Review the Council's performance management systems, focusing on economy. Efficiency, effectiveness and impact in so far as the key performance indicators and performance targets set by the Council are concerned;
- At least twice during a financial year, submit an audit report to the municipal council regarding the performance management system.

Integrated Sustainability Reporting

The Committee will:

- Review the Council's actions under Economic, Social and Environmental Performance – “Triple Bottom Line”;
- Review annually the report of the Council on the nature and the extent of its social, transformation, ethical, safety, health and environmental management policies and practise.
- Ensure that the public disclosure of non-financial information is governed by the principles of reliability, relevance, clarity, comparability, timeliness and verifiability in line with the Global Reporting Initiative Sustainable Reporting Guidelines on economic, environmental and social performance.

Risk Management

The Committee shall review:

- The activities of risk management committees;
- The Municipality's process of risk management;
- The procedure for identifying business risks and controlling their impact on the Council;
- The risk management plans to treat, transfer, tolerate and/or terminate potential risks; and
- Reports and dashboard reports received from the risk management committee.

One member of the Audit and Performance Audit Committee should also serve on the Risk Management Committee.

IT Governance

The Audit and Performance Audit 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 committee to 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.

5. REPORTING AND ACCOUNTABILITY

The chairperson of the Committee shall report to the Executive Mayoral Committee for its activities and make recommendations to the Executive Mayoral Committee concerning the adoption of the

annual financial statements by the Executive Mayoral Committee and any other matters arising from the above responsibilities;

The chairperson (or, in his/her absence, an alternate member) of the Committee shall attend the relevant Executive Mayoral Committee meeting to answer questions concerning matters falling within the ambit of the Committee.

The Committee shall report to Council as frequently as the Council considers appropriate.

6. DISCLOSURE

The Committee shall disclose the following in the annual report:

- Its overall role and associated responsibilities and functions
- Its composition, including each member's qualifications and experience
- Any external advisors or invitees who regularly attend committee meetings
- Key areas of focus during the reporting period
- The number of meetings held during the reporting period and attendance at those meetings
- Whether the Committee is satisfied that it has fulfilled its responsibilities in accordance with its charter for the reporting period.

7. MEETINGS

Meetings of the Committee will be held as frequently as the Committee considers appropriate, but it will normally meet not less than four times a year.

Reasonable notice of meetings and the business to be conducted shall be given to the members of the Committee.

The quorum for decisions of the Committee shall be two members of the Committee. Whenever during a meeting there is no quorum, the proceedings shall be suspended and adjourned to the next week at the same time;

Meetings shall be attended by the Audit Committee members; the Municipal Manager; Head Internal Audit; Chief Risk Officer; Performance Manager; Chief Financial Officer; Directors and any other manager as required.

Whenever the Chairperson and Deputy Chairperson are absent or unable to exercise or perform his/her powers, functions and duties, or whenever the Chairperson so requests, the Committee, if a quorum is present, will elect one of the members as Chairperson for that meeting;

The function of the Chairperson is to ensure that meetings are conducted in a dignified and orderly manner;

The Chief Audit Executive shall have unrestricted access to the Chairperson or any other member of the Committee as required and within reason;

Voting on any motion or proposal or any matters shall be by a show of hands unless otherwise decided. Voting by ballot may be called for but shall take place only as decided upon before a matter is put to the vote or where required by law;

A member may, when he/she is in the minority on a question which has been decided, request that his/her dissent or protest be entered in the minutes in which the decision is recorded, and such dissent or protest shall be entered accordingly;

The minutes of all meetings of the Committee, or summaries thereof, shall be submitted to the Executive Mayoral Committee.

8. PROCEEDINGS

Unless varied by this charter, meetings and proceedings of the Committee will be governed by the municipal guidelines regulating the meetings and proceedings of committees;

The Committee Clerk shall serve as Committee Secretary, and take minutes of meetings. These shall be reviewed and approved by the members of the Committee;

9. AUTHORITY OF THE COMMITTEE AND RESOURCES AVAILABLE

The Committee, in carrying out its tasks under this charter:

- Is authorised to investigate any activity within the determinations of the charter;
- May require other employees of the Council to attend meetings or parts of meetings;
- May consult with and seek any information it requires from any employees, and all employees shall be required to co-operate with any request made by the Committee in the course of its duties;
- Shall at least once a year meet with the Office of the Auditor-General without any officials/politicians in attendance;
- Shall at least once a year meet with the Internal Audit Management without any officials/politicians in attendance;

The Committee shall not perform any management functions or assume any management responsibilities.

The Committee shall monitor, review and request any investigation, into any matter within the scope of its duties and responsibilities, including projects as requested by the Executive Mayor, the Executive Mayoral Committee and Council.

The Committee shall:

- Have direct access to Internal Audit;
- Have direct access to the Executive Committee of the Council;
- Have access to the Office of the Executive Mayor;
- Have access to the Office of the Municipal Manager;
- Have access to the Councillors, with good reason;
- Have access to the Council Statutory Committees, with good reason and with the intension of fulfilling their responsibilities arising out of their terms of reference.

10. GENERAL

The Committee, in carrying out its tasks under this charter, may obtain such outside or other independent professional advice as it considers necessary to carry out its duties;

The Executive Mayoral Committee will ensure that the Committee will have access to professional advice both inside and outside the Council in order to perform it duties;

Any disagreements or areas of conflict between the Executive Mayoral Committee or council and the committee shall firstly be addressed through engagement between the parties.

The committee shall be consulted on matters that directly affect its functioning and existence.

The Executive Mayoral Committee (EMC) and the Committee shall maintain a professional working relationship, characterised by an open channel of communication between the council and the committee.

11. REVIEW

This charter will be reviewed periodically and updated as needed. The review report and updated charter must be submitted to the Audit and Performance Audit Committee for recommendation to Council.

This charter may be amended as required, subject to the approval by Council.