



**MTUBATUBA
MUNICIPALITY**
PROFESSIONALISM, TRANSPARENCY AND INNOVATIVENESS

Mtubatuba Local Municipality

Audit and Performance Committee Charter

2015/2016

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1 INTRODUCTION

- 1.1 This charter sets out the terms of reference and governance for the Audit and Performance Committee of Mtubatuba Local Municipality.
- 1.2 The purpose of the charter is to set out the status, authority, roles and responsibilities of the Audit and Performance Committee of the Municipality.

2 LEGISLATION

- 2.1 The status, authority, roles and responsibilities are in accordance with section 166 of the Municipal Finance Management Act, Act no 56 of 2003 and as delegated by Mtubatuba Local Municipality's Council.
- 2.2 It also fulfils the functions of a performance committee as constituted in terms of Regulation 14(2) of the Local Government: Municipal Planning and Performance Management Regulations, 2001.

3 AUTHORITY

- 3.1 The Audit and Performance Committee of the Mtubatuba Local Municipality is authorized, in terms of this charter, to perform the duties and functions required to ensure adherence to the provisions of the Municipal Finance Management Act, the applicable provisions of the Municipal Systems Act and the Municipal Structures Act and other applicable regulations.
- 3.2 In carrying out its mandate, the Audit and Performance Committee must have regard to the strategic goals and focus areas of the Mtubatuba Local Municipality as outlined in the Integrated Development Plan (IDP) and the Service Delivery Budget Implementation Plan (SDBIP).

4 ROLE OF THE AUDIT AND PERFORMANCE COMMITTEE

The role of the Audit and Performance Committee is to assist the Council and the Accounting Officer in fulfilling its oversight responsibilities with regard to the integrity of internal control and accounting function, internal auditing and external auditing and reporting practices of the municipality and other such duties as may be directed by the Council and Accounting officer, and in so doing shall:

- 4.1 Advise the municipal council, the political office-bearers, the accounting officer and the management staff of the municipality on matters relating to:
 - Internal financial control and internal audits;
 - Risk management;
 - Accounting policies;
 - The adequacy, reliability and accuracy of financial reporting and information;

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- The alignment and non-contradiction of financial and non-financial information contained in the integrated report;
 - Performance management;
 - Effective governance;
 - Compliance with the Municipal Finance Management Act , the annual Division of Revenue Act and any other applicable legislation;
 - Application of a coordinated combined assurance model to all assurance activities; and
 - Performance evaluation and any other issues referred to it by the municipality.
- 4.2 Review the annual financial statements and the non-financial information contained in the integrated report 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 Municipal Finance Management Act, the annual Division of Revenue Act and any other applicable legislation.
- 4.3 Respond to the council on any issues raised by the Auditor General in the audit report.
- 4.4 Carry out such investigations into the financial affairs of the municipality as the council of the municipality may request.
- 4.5 Perform such other functions as may be prescribed.
- 4.6 In performing its duties, the committee will maintain effective working relationships with the Council, management and the internal and external auditors.

5 REPONSIBILITIES OF THE AUDIT AND PERFORMANCE COMMITTEE

The Audit and Performance Committee is required to consider any matters relating to the financial affairs of the municipality as well as internal and external audit matters. The committee must review and assess the qualitative aspects of financial reporting, the municipality's processes to manage business and financial risk, governance processes and compliance with applicable legal, ethical and regulatory requirements.

5.1 PERFORMANCE MANAGEMENT

- 5.1.1 The Audit and Performance Committee shall consider matters relating to performance management at least four times per annum in order to discharge the responsibilities prescribed in terms of Regulation 14(4) of the Local Government: Municipal Planning and Performance Management Regulations, 2001.

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5.1.2 The Audit and Performance Committee members need to have a good understanding of the performance management system, policy and strategy of the municipality. These include:

- Review and comment on compliance with statutory requirements and performance management best practices and standards;
- Review and comment on the alignment of the Integrated Development Plan, the Budget, Service Delivery and Budget Implementation Plan, performance agreements, alignment with Provincial and National Government frameworks;
- Review and comment on whether the “SMART” principles have been applied on the indicators to ensure they are measurable and relate to services performed by the municipality and its entities;
- Reviews compliance with in-year reporting requirements;
- Reviews the quarterly performance reports submitted by the Internal Audit function;
- Reviews and comment on municipality’s and entities annual financial statements and timely submission to the Auditor-General by 31st August, each year;
- Reviews and comment on the municipality’s and entities annual reports within the stipulated timeframes;
- Reviews and comment on the municipality’s performance management system and make recommendations for its improvement; and
- The Chairperson, or a member in his absence, shall attend the formal evaluation of Section 56 and 57 employees.

5.2 INTERNAL AUDIT

5.2.1 An important role of the committee will be to monitor, assess and report on the effective functioning of internal audit, ensuring that the roles and functions of the external audit with internal audit are sufficiently clarified and co-ordinated in order to provide an objective overview of the operational effectiveness of the municipality’s systems of internal control and reporting. The Audit and Performance Committee must in relation to internal audit:

- 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;
- Regularly advise on 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;
- Review and approve the internal audit charter, including the internal audit strategic plan;
- Confirm that the annual audit plan makes provision for addressing critical risk areas in the municipality;

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- Advise the municipality on resources allocated to give effect to the work outputs of the internal audit function;
- Confirm whether there is support for the internal audit unit and external auditors from senior management;
- Confirm with management that internal audit findings are submitted to the Audit and Performance Committee on a quarterly basis;
- Confirm actions taken by management in relation to the audit plan;
- Consider and review reports relating to difficulties encountered during the course of the audit engagement, including any scope limitation or access to information reported to the Accounting Officer that remain unresolved;
- Ensure that the Chief Audit Executive has reasonable access to the chairperson of the Audit and Performance Committee; and
- Conduct a high-level review on an annual basis, to ascertain whether the Internal Audit function complies with the International Standards for the Professional Practice of Internal Auditing.

5.3 CONTROL ENVIRONMENT

5.3.1 The Audit and Performance Committee members need to have a good understanding of the control environment, in fulfilling this responsibility the committee should:

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

5.4 RISK MANAGEMENT

5.4.1 The Accounting Officer is responsible for the establishment of effective risk management within the municipality.

5.4.2 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.

5.4.3 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.

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5.5 EXTERNAL AUDIT

5.5.1 The Audit and Performance Committee will attend to the following matters in conjunction with duly authorised representatives from the Office of the Auditor-General. The Audit and Performance Committee must in relation to external audit:

- Take cognizance of the scope of work undertaken by the external auditor and the extent of co-ordination with the Internal Audit function;
- Review annual external audit plans, audit fees and other compensation;
- Review reports and monitor management's implementation of audit recommendations and Municipal Council resolutions;
- Review the report on the financial statements and matters raised therein for reasonability and accuracy;
- Review any interim reports issued in order to take cognizance of the issues raised in determining the follow up work of the Internal Audit function;
- Conduct a review of the extent to which previously reported findings by the external auditor have been addressed by the Municipal Council;
- Provide advice to the Accounting Officer on actions taken relating to significant matters raised in external audit reports;
- Liaise with the external auditors on any matter that the Audit and Performance Committee considers appropriate to raise with the external auditor;
- Confirm whether the external auditors have reasonable access to the management and chairperson of the Audit and Performance Committee;
- Address any potential restrictions or limitations with the Accounting Officer and Council; and
- Address outstanding matters raised by the external auditors and that any findings are dealt with conclusively in an expeditious manner.

5.6 ANNUAL FINANCIAL STATEMENTS

5.6.1 The financial statements must be reviewed by the Audit and Performance Committee at least two weeks before submission to the Auditor-General. The process and timelines for Audit and Performance Committee meetings should be changed accordingly.

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5.6.1 The Audit and Performance Committee must review the annual financial statements to provide the municipality with an authoritative and credible view of the financial position of the municipality by:

- Confirming if the municipal audit file is prepared in line with the applicable standards and guidance contained in MFMA Circular 50, or as updated;
- Reviewing the unaudited annual financial statements of the municipality to confirm that the quality, integrity and content is consistent with applicable standards and compliant with the legal framework;
- Evaluating the annual financial statements of the municipality for reasonableness, completeness and accuracy and provide comment thereon, on a timely basis;
- Considering the Auditor-General's opinion on the quality and appropriateness of the municipality's accounting policies; and
- Reviewing efficiency and effectiveness of internal controls over AFS preparation and reporting.

5.7 COMPLIANCE WITH LAWS, REGULATION AND ETHICS

5.7.1 The Audit and Performance Committee shall assess whether the management of the municipality has the necessary mechanisms in place to ensure that there is compliance with pertinent laws and regulations and is conducting its affairs ethically.

5.7.2 This must include maintaining effective controls against conflicts of interest, fraud and corrupt practices. The specific steps involved in carrying out this responsibility include:

- Reviewing policy documents which should incorporate compliance with laws, regulations, ethics, policies and rules regarding conflict of interest;
- Monitoring compliance with policy documents;
- Taking note of significant cases of conflicts of interest, misconduct, or fraud and the resolution of such cases;
- Make recommendations regarding any potential conflicts of interest or questionable situations of a material nature, which are brought to its attention.
- Reviewing the Internal and External Auditor's written reports concerning the scope of reviews of compliance, any significant findings, and the resolution and follow-up on findings and recommendations;
- Monitoring developments and changes in the law relating to the responsibilities and liabilities of management and to monitor and review the extent to which the management is meeting its obligations;
- monitoring developments and changes in the various rules, regulations and laws which relate generally to the Municipal operations and to monitor and review the extent to which the municipality is complying with such laws;

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- reviewing the process for communicating the code of conduct to the Municipality's personnel and for monitoring compliance therewith; and
- obtaining regular updates from management and where necessary, legal counsel regarding compliance matters.

5.8 INFORMATION TECHNOLOGY AND GOVERNANCE

5.8.1 The Audit and Performance Committee also needs to provide advice on IT governance, controls, access and safeguarding of information in the municipality and its entities.

5.8.2 Specific expertise may be required from within or outside the municipality from time to time, to assist the Internal Audit function and Audit and Performance 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 and systems and processes.

5.9 COMBINED ASSURANCE

5.9.1 The Audit and Performance Committee should confirm whether an effective, combined assurance model is applied to provide a coordinated approach to all assurance activities, and in particular the committee should:

- Review whether the combined assurance received is appropriate to address all the significant risks facing the municipality; and
- Monitor the relationship between the external assurance providers and the municipality.

6 REPORTING AND ACCOUNTABILITY

6.1 The chairperson of the Audit and Performance Committee will report on a quarterly basis, or more frequently if required, to the Municipal Council on the operations of the Internal Audit function and the Audit and Performance Committee. The written report should include:

- A summary of the work performed by the Internal Audit function and the Audit and Performance Committee against the annual work plan;
- Effectiveness of internal controls and additional measures that must be implemented to address identified risks;
- A summary of key issues dealt with, such as significant internal and external audit findings, recommendations and updated status thereof;
- Progress with any investigations and their outcomes;
- Details of meetings and the number of meetings attended by each member; and
- Other matters requested of the Internal Audit function and Audit and Performance Committee.

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7 COMMITTEE COMPOSITION

- 7.1 The Audit and Performance Committee should comprise of three independent members with appropriate experience and skills, which are not in the employ of the municipality, to enable the committee to discharge the responsibilities set out in section 166(2) of the MFMA.
- 7.2 The members of the Audit and Performance Committee must collectively have sufficient qualifications, skills and experience to fulfill their duties.
- 7.3 The skills and qualifications of Audit and Performance Committee members are mapped and recorded by means of a Skills Matrix, and are aligned with the recommendations and identified skills priorities of the King III Report 2009.
- 7.4 The Council appoints the independent members as well as the Chairperson and shall determine the period of office.
- 7.5 During the appointment process the Council must determine whether an applicant is serving on more than three other Local Government Audit Committees, being the limit as recommended by National Treasury in MFMA Circular 65.

8 TERMS OF OFFICE AND TERMINATION OF SERVICE

- 8.1 The chairperson should be appointed for a minimum of three years to ensure that he/she contributes most effectively and provides stability to the Audit and Performance Committee.
- 8.2 Other committee members should serve at least a minimum of three years with an option to renew for another three years, based on performance. Recruitment of members should be staggered to prevent a loss of knowledge and skills in the committee.
- 8.3 Members should be encouraged not to terminate their contracts until they have shared their knowledge with other new members.
- 8.4 An Audit and Performance Committee member should give two months' notice prior to resignation.
- 8.5 The Accounting Officer or Municipal Council should consult the charter when dismissing members of the Audit and Performance Committee. Reasons for dismissal amongst others would normally be detailed in the letter of appointment and contract agreement, such as:
 - Where an on-going conflict of interest exists;
 - Where a member has not performed to expectations; and
 - Excessive non-attendance of meetings by members.
- 8.6 The official dismissal processes as they relate to the municipality must be adhered to by the Accounting Officer and Municipal Council when an Audit and Performance Committee member is being dismissed. Where appropriate, the dismissal process must be linked to the charter and member's performance assessment process. The dismissal of a member must be performed by the Municipal Council and the outcome of the dismissal process should be in writing.

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- 8.7 The appointment of a member will be terminated if he/she is declared bankrupt or found guilty of fraud or corruption or any offence where dishonesty is an element, in a court of law, during his/her term of office.
- 8.8 The Municipal Council must concur with any premature termination of services of a member of the Audit and Performance Committee.

9 MEMBERSHIP AND INDEPENDENCE

9.1 The Audit and Performance Committee should be independent and safeguarded from undue influence in exercising its responsibilities in an objective manner. To enhance the Audit and Performance Committee functioning, the following is required:

- The Audit and Performance Committee chairperson and members should be independent of the municipality;
- The Audit and Performance Committee chairperson and members should not be biased but exhibit an independence of mental attitude during deliberations;
- All Audit and Performance Committee members should declare private and business interest in every meeting; and
- Members should not carry out any business with the municipality.
- All members 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.

10 MEETINGS AND PROCEDURE FOR CONDUCTING MEETINGS

10.1 FREQUENCY

10.1.1 Meetings of the Audit and Performance Committee will be held as frequently as the committee considers appropriate, but not less than four times a year.

10.1.2 Any member of the Audit and Performance Committee may call special meetings when deemed necessary.

10.1.3 The Audit and Performance Committee must meet with internal and external auditors at least once a year without management being present.

10.1.4 Performance management matters need to be addressed on at least two meetings per annum. Additional meetings to address performance management matters may be scheduled.

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10.2 ATTENDANCE

10.2.1 Reasonable notice of meetings and the business to be conducted shall be given to the members of the committee and relevant management.

10.2.2 If the appointed chairperson is absent from a meeting, the members present must elect a member present to act as chairperson.

10.3 PROCEEDINGS

10.3.1 Unless varied by these terms of reference, meetings and proceedings of the Audit and Performance Committee will be governed by the Municipality's code regulating the meetings and proceedings of the Council and sub-committees of the Council

10.4 AGENDA AND MINUTES

10.4.1 The Audit and Performance Committee must establish an annual work plan for each year to ensure that all relevant matters are covered by the agendas of the meetings planned for the year.

10.4.2 The annual plan must ensure proper coverage of the matters laid out in the Audit and Performance Committee charter.

10.4.3 The number, timing and length of meetings, and the agendas are to be determined in accordance with the annual plan.

10.4.4 The dates of meetings should be determined at least six months in advance and submitted to members as well as the invitees.

10.4.5 A detailed agenda, together with supporting documentation, must be circulated, at least one week prior to each meeting to the members of the committee and other invitees.

10.4.6 Minutes of meetings shall be taken by the Secretariat and shall be reviewed and approved by the members of the Committee.

10.4.7 The minutes must be formally approved by the Audit and Performance Committee at its next scheduled meeting.

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10.5 QUORUM

10.5.1 The quorum for the Committee meetings shall be at 75% of the members appointed.

10.5.2 The quorum for decisions of the Committee shall be the majority of members present at the meeting of the committee where the decisions are approved.

11 PERFORMANCE ASSESSMENTS

11.1 The Audit and Performance 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 committee with reference to the particular skills the member has brought to the committee as a whole.

11.2 It may be beneficial for the Audit and Performance Committee to use an external facilitator to provide assistance with, or to supervise the self-assessment process. An external facilitator can provide an impartial and objective view and can approach the evaluation process without bias or preconceived ideas.

11.3 Members of the Committee should also assess themselves bi-annually using the designed Audit and Performance Committee assessment questionnaire.

11.4 The Auditor General will independently report on the effectiveness and efficiency of the committee every year.

11.5 Where the Audit and Performance Committee is not performing in accordance with their charter and this has been observed by various stakeholders for example, internal audit, external audit or management, it would be appropriate for this or other issues to be brought to the attention of the Accounting Officer and municipal council.

11.6 If an individual member of the committee is not performing, then the member must be given an opportunity to address such with the municipal council. If it is considered necessary to terminate the services of an committee member prior to the end of the term of appointment, proper procedures should be followed.

12 REMUNERATION

12.1 Having regard to the functions performed by the members of the Audit and Performance Committee, and pursuant to the powers of the Council, members of the committee shall be paid such remuneration in respect of their appointment as shall be fixed by the Council from time to time.

12.2 Council is informed by the Remuneration Regulations and Guidelines set out by the National Treasury, and revised on an annual basis.

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12.3 Remuneration will only be applicable to persons employed outside the public service except for out of pocket expenses which may be reimbursed.

12.4 The reimbursement of all members for travel expenditure must be determined in accordance with the approved Council policy or the rate per kilometre as published and updated by the National Department of Transport.

13 REVIEW OF CHARTER

13.1 This charter must be updated at least once a year but more frequently as circumstances may necessitate subject to the approval of Council.

14 APPROVAL AND ACCEPTANCE

14.1 The Mtubatuba Municipality Audit and Performance Committee charter is hereby duly approved and accepted by the following signatories:

Duly approved by

Chairperson: Audit and Performance Committee

Date

Municipal Manager (duly authorised thereto by resolution of the Council)

Date