



**AUDIT AND PERFORMANCE  
AUDIT COMMITTEE CHARTER  
2015/16**

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## **1. AUDIT AND PERFORMANCE AUDIT COMMITTEE**

The Audit & Performance Audit Committee Charter (APAC) for Eden District Municipality (EDM) comprises of the following:

- Overview
- Objectives
- Authority and Independence
- Organisational requirements
- Roles and Responsibilities
- Reporting & Accountability
- Meetings
- Evaluation of APAC Performance
- Relationship with stakeholders

### **1.1 OVERVIEW**

- The APAC operates as a committee of the council and performs the responsibilities assigned to it by the MFMA section 165 and 166, and the corporate governance responsibilities delegated to it under its Charter by the EDM Council.
- This document is the written terms of reference approved by the EDM Council which outlines the mandate of the APAC. It becomes the policy of the APAC which then informs the contracts of the APAC members.

### **1.2 OBJECTIVES**

The objectives of the APAC are the following:

- To evaluate that effective, efficient and transparent systems of financial management, risk management and internal control are maintained by council, which contribute to the efficient and effective utilisation of resources, safeguarding of assets and the accomplishment of established goals for operations or programs.
- To promote the efficiency and effectiveness of accounting and management information systems.
- To create a distinct and clear communication channel between the council, management, external auditors and the internal audit unit.
- To inform the council regarding material matters which need to be addressed when considering the preparation and discussion of the financial statements.
- To monitor the effectiveness of the internal audit function.

- To enhance the objectivity and credibility of reporting to the previously mentioned stakeholders within EDM.

### **1.3 AUTHORITY AND INDEPENDENCE**

The committee shall have the authority to perform its functions, as stipulated in this charter, and to obtain any information and advice, from within or outside the municipality, in order to perform its functions as legislated. Appropriate resources will be made available to the APAC to perform its functions as agreed in its charter.

The APAC may:

- Communicate with the council, municipal manager or the internal and external auditors of EDM;
- Conduct or authorise investigations into any matters within its scope of responsibility;
- Access information, records and personnel as it requires to fulfill its responsibilities;
- Request the attendance of any executive or employee, at APAC meetings;
- Conduct meetings with the external auditors (Auditor-General) and internal auditors as necessary;
- Obtain advice from external parties as necessary;
- Resolve any disagreements between management and the auditor regarding financial reporting; and
- Play an oversight role in the awarding of audit and non-audit services.

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

- The APAC chairperson and members should be independent of the municipality;
- The APAC chairperson and members should not be biased but exhibit an independence of mental attitude during deliberations;
- All committee members should declare private and business interests at each meeting; and
- No members should carry out any business with the municipality.

### **1.4 ORGANISATIONAL ARRANGEMENT**

#### **1.4.1 Appointment & Composition of Members**

Section 166(5) of the MFMA requires that the members of an audit committee must be appointed by the council of the municipality. One of the members, who are not in the employ of the municipality, must be appointed as the chairperson of the APAC.

The committee will comprise of at least four (4) members with the appropriate skills and experience, whom may not be an employee of the municipality. In addition, no councilor may be a member of the committee

A quorum of any meeting will be at least half of the members of the committee.

#### **1.4.2 Induction of Members**

A formal process of induction must be facilitated by the chief audit executive (CAE) in consultation with the accounting officer. During the induction of members, the roles and responsibilities of the APAC must be clarified. The induction process should entail sufficient briefings and information on their roles, responsibilities, accountability and management's expectations. Induction of members can also be facilitated by Provincial or National Treasury, upon request.

The information to be provided to new members should include:

- EDM's governance and operational structures and how the APAC operates within these structures;
- Copy of the APAC charter, including any policies, recent APAC minutes, AGSA Management Letter and Report, audit opinion, which includes details of outstanding issues;
- Council resolutions and recommendations presented to EDM's council;
- Copies of relevant legislation;
- Copies of EDM's IDP, Annual Report, Annual Financial Statements, Budget, SDBIP, in-year reports, code of conduct, performance agreements, risk register and risk management plans;
- Information from management and the internal audit unit on the risk profile, status of internal controls and system of delegation; and
- A copy of the internal audit charter and annual work plans, among others.

#### **1.4.3 Qualities of Members**

One of the elected APAC members should be appointed as the chairperson, after the following factors have been considered:

- Has a good standing ability to lead discussions;
- Creates vision and provides direction at meetings;
- Builds municipal capabilities by guiding management based on expert knowledge and skills;
- Promotes and achieve quality outcomes at meetings;
- Has the ability to speedily and effectively advise EDM's council of any impeding non-compliance with the legislative framework;

- Has the ability to encourage other members to participate in APAC meetings; and
- Conducts meetings in a manner that demonstrates a desire to establish effective communication with all stakeholders.

In determining suitable candidates for the APAC and maintaining a balanced composition, the accounting officer should seek to appoint candidates that have the ability to:

- Perform the role as advisor to management;
- Communicate effectively to management;
- Carefully review information received and obtain clarification from management as and when appropriate;
- Raise relevant questions, evaluate responses and follow up on any matter that is unclear;
- Conduct responsibilities in the context of the municipality's strategic objectives and overall corporate governance of EDM's council;
- Act independently and be proactive in advising the accounting officer regarding issues that require further management attention;
- Encourage openness and transparency;
- Build relations with management;
- Have a professional approach to performing duties, including commitment of time and effort; and
- Each committee member must be independent and appropriately skilled.

#### **1.4.4 Skills & Experience**

Members should be selected from different areas of expertise to enhance the APAC's overall knowledge of EDM and the ability to discharge its obligations and provide appropriate recommendations to EDM's council.

The appointed members should collectively possess the following skills and experience:

- Private and public sector experience;
- An understanding of service delivery priorities;
- Good governance and/or financial management experience;
- An understanding of the role of EDM's council and councilors;
- Familiarity with risk management practices;
- An understanding of internal controls;
- An understanding of major accounting practices and frameworks (ISO 9001) and public sector reporting requirements;
- Familiarity with legislation applicable to municipalities;

- And understanding of the roles and responsibilities of internal and external auditors;
- An understanding of the treatment of allegations and investigations;
- An understanding of the performance management system; and
- At least one member must have expertise in performance management.

A member of the APAC may not serve on more than three audit committees at the same time.

#### **1.4.5 Term of Office**

The members of the APAC are appointed for periods not exceeding three years with the option of being reappointed for a further term based on performance. Reappointment is not guaranteed.

The Chairperson of the APAC should be appointed for a minimum of three years.

Members of the APAC should not be contracted continuously for a period exceeding six years. After serving consecutively for six years, a cooling off period of two years should be provided for, before appointing the same member to the APAC

#### **1.4.6 Resignation of Members**

A committee member should give two months' notice prior to resignation. The committee member should have the opportunity to have an exit meeting with the council to discuss the reason for leaving and to provide feedback on their experience on EDM's APAC as well as any other issues.

#### **1.4.7 Dismissal of Members**

Committee members can be dismissed by the municipal council under certain circumstances, including:

- Where an on-going conflict of interest exists.
- Where a member has not performed to expectations.

The official dismissal processes of EDM should be adhered to by the accounting officer and municipal council when an APAC member is being dismissed. The dismissal of a member should be performed by the municipal council and the outcome of the dismissal process should be in writing.

#### **1.4.8 Remuneration of Members**

The members of the APAC shall be remunerated for time spent in attendance of the APAC meetings, as well as other meetings/workshops where the attendance of an APAC member/chairman is required. EDM may utilise the rates provided by National Treasury, from time to time. Should the accounting officer deem

it necessary, he or she can, in consultation with the municipal council, determine other remuneration, provided that the charter properly define the time and cost.

Remuneration will only be applicable to officials employed outside the public service. No remuneration for participating in the APAC will be payable to officials employed at national, provincial and local government, its agencies or other entities regarded as falling within the definition of an organ of state, except for out of pocket expenses which may be reimbursed.

The reimbursement of all members for travel expenditure must be determined in accordance with the approved council policy.

In the event that a senior official from one municipality is requested to serve as a member of an audit committee of another municipality, such senior official must first obtain written consent from the accounting officer before accepting such nominations. The remuneration discussion earlier will apply.

Council approved monthly remuneration payable to the APAC members is as follows:

- R4000.00 chairperson
- R2800.00 other members

Council may approve an increase in the monthly remuneration on an annual basis.

## **1.5 ROLES & RESPONSIBILITIES**

The APAC's primary objective is oversight of the financial reporting process and effective internal control.

The APAC's success in objective oversight of financial reporting and effective internal control depends largely on its ability to communicate effectively with management, internal and external auditors. The APAC is reliant on the reviews and evaluations made by the independent external auditors and the internal auditors in meeting their objectives.

The roles of the APAC are categorised according to the key areas of responsibility:

### **Financial Statements / Financial Services**

- Review the appropriateness of accounting policies;
- Review the appropriateness of assumptions made by Management in preparing the financial statements;
- Review the significant accounting and reporting issues, and understand their impact on the financial statements.



- Review the annual financial statements, and consider whether they are complete, consistent with prescribed accounting and information known to Committee members;
- Review with management and the external auditors the results of external audit, including any significant issues identified; and
- Review the annual report and related regulatory filings before release and consider the accuracy and completeness of the information.

In terms of the Financial Services department and the CFO, the APAC shall:

- Review the expertise, resources and experience of the municipal finance function, and disclose the results of the review in the annual report.
- Consider and satisfy itself annually of the suitability of the expertise and experience of the Director: Financial Services.

### **Corporate Governance**

The corporate governance responsibility of the APAC is to provide reasonable assurance in respect of the following:

- Reasonable assurance that employees comply with relevant laws and regulations
- That all municipal employees is conducting its affairs ethically
- That EDM is maintaining an effective and efficient system of internal control in order to prevent and detect conflicts of interest and prevent the possibility of fraud.

### **Risk Management**

The APAC must in relation to risk management:

- Provide an independent and objective view of the effectiveness of the municipality's risk management;
- Review the recommendations made by the Risk Management Committee and consider these in line with the APAC's charter;
- Provide feedback to the accounting officer and municipal council on the adequacy and effectiveness of risk management in the municipality;
- Review the risk management framework for identifying, assessing, monitoring and managing significant risks;
- Delegate one APAC member to serve as a member of the Risk Committee; and
- Review minutes of the risk committee meetings as a standing item on the APAC agenda.

## **Control Environment / Compliance**

APAC members need to have a good understanding of the control environment. In fulfilling this responsibility the committee should:

- Review the adequacy of the internal control system, including information technology security and control;
- Understand the scope of internal and external auditors' review of internal control over financial reporting, good governance and effective internal control systems and obtain reports on significant findings and recommendations, together with management's responses;
- Review whether relevant policies and procedures are in place and up to date, and whether they are complied with;
- Determine whether appropriate processes are followed and complied with on a regular basis;
- Review whether the financial, governance and internal controls are operating efficiently, effectively and economically;
- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any fraudulent acts or non-compliance; and
- Be satisfied that all regulatory compliance matters have been considered in the preparation of the financial statements.

## **Performance Management**

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

- Review EDM's compliance with the performance management and reporting systems in compliance with the statutory requirements as well as the 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 and performance agreements;
- Review whether performance management systems reflect EDM's purpose and objectives;
- Review whether the performance reporting and information uses appropriate targets and benchmarks in relation to EDM's mandate and services rendered;
- Review the quarterly performance reports submitted by internal audit;

- Review and comment on EDM's financial statements and the timely submission thereof to the Auditor-General by 31 August each year;
- Review and comment on EDM's annual report within the stipulated timeframes;
- The chairperson of the APAC shall be a member of the evaluation panels established in terms of the regulations issued under the Municipal Systems Act to evaluate the performance of the municipal manager and the managers directly accountable to him/her; and
- At least twice during a financial year submit a performance management audit report to council.

### **Internal Audit**

The APAC must in relation to internal audit:

- Review and approve the Internal Audit Charter, including internal audit strategic plan;
- Review and approve the annual internal audit plan, its scope and any major changes to it, ensuring that it covers the key risks and that there is appropriate co-ordination with the external auditor (Auditor-General);
- Review and concur in the appointment, replacement or dismissal of the Chief Audit Executive (CAE);
- Resolve any difficulties or unjustified restrictions or limitations on the scope of internal audit work;
- Mediate and/or follow up on any significant disagreements between the auditors and management;
- Review significant findings and recommendations by internal audit and management responses thereof;
- Review implementation of internal audit recommendations by management;
- Review the performance of the CAE;
- Advise the municipality on resources allocated to give effect to the work outputs of the internal audit function;
- Review the effectiveness of the internal audit function, including compliance with The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing;
- Evaluate the performance of internal audit activity in terms of the agreed goals and objectives as captured in the audit plan; and
- Meet separately with the CAE to discuss any issues that the APAC or internal audit believes should be discussed privately.

The internal audit unit is accountable to the APAC as follows:

- Maintain open and effective communication with the APAC;
- Develop a flexible annual audit plan using a risk based methodology, addressing any weaknesses in risks or controls identified;
- Submit the audit plan to the APAC for review and approval;

- Report on the implementation and results of the annual audit plan including special tasks requested by management and the APAC;
- Assist in drafting the agenda and documentation, and facilitate the distribution thereof to the APAC in advance of meetings;
- Meet periodically with the chairperson of the APAC to discuss whether the material and information furnished meets the requirements of the APAC;
- Obtain advice from the APAC whether the frequency and time allocated to the committee is sufficient to attend effectively to all matters;
- Cooperate with the APAC as they conduct annual reviews of the performance of the internal audit function; and
- Submit the internal audit charter to the APAC for review and approval on an annual basis and as necessary.

### **External Audit**

The APAC must in relation to external audit:

- Take cognizance of the scope of work undertaken by the external auditor and the extent of coordination with the internal audit unit;
- Review the external auditors' proposed audit scope, approach and audit fees for the year;
- Review the findings and recommendations by the external auditor and monitor management's implementation of audit recommendations and council resolutions in the new financial year;
- Address outstanding matters raised by the external auditors and ensure any findings are dealt with conclusively in an expeditious manner.
- Review implementation of external auditor's recommendations by management on previously reported audit findings;
- Provide advice to the accounting officer of EDM on proposed actions to be taken which relates to significant matters raised in external audit reports;
- Liaise with the external auditors on any matter that the APAC considers appropriate to raise with the external auditors;
- Review the performance of the external auditors; and
- The committee shall confirm that a process is in place for it to be informed of any Reportable Irregularities (as defined in the Auditing profession Act, 2005) identified and reported by the external auditor.

## **ICT Governance (Information and Communication Technology)**

The APAC needs to provide advice on IT Governance, controls, access and safeguarding of information in EDM.

Specific expertise may be required from within or outside EDM from time to time, to assist internal audit and the APAC in formulating recommendations on systems and controls. The APAC may have to advise on the appropriateness of the disaster recovery and continuity plans supporting IT risks, regular testing and evaluation of plans, systems and processes.

### **Combined Assurance**

The APAC should ensure that a combined assurance model is developed and applied, to provide a coordinated approach towards assuring that relevant assurance activities are effective and efficient.

In particular the APAC must:

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

## **1.6 REPORTING AND ACCOUNTABILITY**

The chairperson of the APAC will report bi-annually, or more frequently if required, to EDM's council on the operations of the internal audit unit and the APAC. The reports should include:

- A summary of the work performed by the internal audit unit and the APAC 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 and APAC.

The APAC shall prepare a report annually which will be incorporated into EDM's annual report, which will cover the following:

- Description of the functions performed by the APAC and meetings attended;
- Resolutions taken by council and implementation status of recommendations made; and
- Other relevant comments that may enhance governance and accountability.

The abovementioned report must be submitted to the Municipal Public Accounts Committee (MPAC) on an annual basis.

The MPAC, in discharging its abilities, may make use of any information provided by the APAC to avoid duplication of effort.

## **1.7 MEETINGS**

The APAC should meet as often as is required to perform its functions, but must meet four times within a given financial year.

The CAE, in consultation with the APAC secretariat within EDM, must ensure that the required preparation for the meeting of the APAC is finalised and that the agenda is circulated, together with all supporting documents required, at least seven days before the commencement of the meeting and that substantive work would be undertaken for the duration of the meeting.

The following persons have a standing invitation to the APAC:

- Municipal Manager;
- CAE of EDM;
- Executive Managers, reporting directly to the Municipal Manager;
- External Auditors (Auditor General);
- Provincial and National Treasury;
- Risk Officer; and
- Any other person on invitation by the chairperson if the APAC.

The CAE, in consultation with the chairperson of the APAC, must determine the time frames of all meetings. In light of the financial implications, the accounting officer in consultation with the chairperson of the APAC, must agree if meetings go beyond a one day sitting.

The APAC must meet with the internal and external auditors at least once a year.

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

## **1.8 EVALUATION OF APAC PERFORMANCE**

The APAC must assess its performance and achievements against its charter on an annual basis. This can be done by way of self-assessment. The aim of the self-assessment is to ensure that the APAC is meeting its objectives efficiently and effectively.

Where the self-assessment highlights a need for enhancements to the role, operational processes or membership of the committee, the chair should take action to ensure that such enhancements are implemented.

It may be beneficial for the APAC to use an external facilitator to provide assistance with, or to supervise the self-assessment process. It is up to the APAC to decide whether the services of an external facilitator are required.

The APAC should conduct continuous self-assessment in order to measure its performance. Input from management, internal audit and external audit is part of the assessment process.

Evaluation criteria includes the following:

- Expertise and know how
- Inquiring attitude, objectivity and independence
- Judgement
- Knowledge of government and its objectives
- Understanding of and commitment to the APAC's duties and responsibilities
- Devotion of time in order to participate effectively in committee deliberations and decisions
- Timely responses
- Attendance of meetings

The findings of the self-assessment should be presented by the chairperson to the municipal manager and council.

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

## **1.9 RELATIONSHIP WITH STAKEHOLDERS**

The APAC is required to maintain good relations with key stakeholders, such as:

- Municipal Council
- Municipal Public Accounts Committee
- Finance Committee
- Accounting Officer
- Management and staff
- Internal and External Auditors
- Provincial and National Treasury

## **2. REVIEW OF THE CHARTER**

The APAC will annually review its Charter to ensure that it remains relevant with the APAC's authority, objectives and responsibilities. All changes or amendments to the Charter will be discussed and approved by the accounting officer.

## **3. APPROVAL OF THE CHARTER**

EDM's APAC Charter is approved by the APAC and Council.

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APAC Chairman

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Date

Council Resolution Number: