

HARRY GWALA DISTRICT MUNICIPALITY

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PERFORMANCE AND AUDIT COMMITTEE CHARTER FOR 2017/2018 FINANCIAL YEAR

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1. Introduction

The Harry Gwala District Municipality has established a Performance & Audit Committee in accordance with section 166 of the Municipal Finance Management Act no. 56 of 2003 and regulation 14 of Municipal Planning and Performance Management Regulations, 2001 respectively. The performance & audit committee is shared with Harry Gwala development agency.

2. Purpose Statement

The purpose of the Performance & Audit Committee charter is to set out the status, authority, roles and responsibilities of the Performance & Audit Committee of the Municipality. The status, authority, roles and responsibilities are in accordance with section 166 of the Municipal Finance Management Act no. 56 of 2003 and regulation 14 of Municipal Planning and Performance Management Regulations, 2001 respectively and as delegated by the Harry Gwala Municipality's Council. This charter guides the Audit Committee in fulfilling its obligations.

3. Authority of Performance & Audit Committee

The Performance & Audit Committee of the Harry Gwala District 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 applicable regulations.

In carrying out its mandate, the Performance & Audit Committee must have regard to the strategic goals of the Harry Gwala District Municipality, strategic focus areas as outlined in the Integrated Development Plan (IDP) and the Service Delivery Budget Implementation Plan (SDBIP).

4. Role of Performance & Audit Committee

The role of the Performance & Audit 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:

- (a) Advise the municipal council, the political office-bearers, the accounting officer and the management staff of the municipality or board of directors and the management staff of the parent municipality and the entity, on matters relating to :

- (i) internal financial control and internal audits;
 - (ii) risk management;
 - (iii) accounting policies;
 - (iv) the adequacy, reliability and accuracy of financial reporting and information;
 - (v) performance management;
 - (vi) effective governance;
 - (vii) compliance with the Municipal Finance Management Act , the annual Division of Revenue Act and any other applicable legislation;
 - (viii) performance evaluation; and
 - (ix) any other issues referred to it by the municipality;
- (b) 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 Municipal Finance Management Act, the annual Division of Revenue Act and any other applicable legislation;
 - (c) respond to the council on any issues raised by the Auditor-General in the audit report;
 - (d) carry out such investigations into the financial affairs of the municipality as the council of the municipality may request; and
 - (e) perform such other functions as may be prescribed.

In performing its duties, the committee will maintain effective working relationships with the Council, management, and the internal and external auditors. To perform their duties effectively, each committee member will obtain an understanding of the detailed responsibilities of committee membership as well as the Council's business, operations and risks.

5. Responsibilities of Performance & Audit Committee

The Performance & Audit Committee is required to consider any matters relating to the financial affairs of the municipality, 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.

Internal Control

- 5.1 Assess and monitor the extent to which the Council's "control culture" is adequate in terms of the importance of internal control, the management of risk.
- 5.2 Assess and report on the security of computer systems and applications, and the contingency plans for processing financial information in the event of a systems breakdown.
- 5.3 Monitor the responses of the Council to internal control recommendations made by the internal and external auditors, with a view to enhancing appropriate accountability.

Financial Reporting

a) General

- 5.4 Consider the current areas of greatest financial risk and how management is managing these effectively.
- 5.5 Consider with the internal and external auditors any fraud, illegal acts, deficiencies in internal control, or other similar issues.
- 5.6 Review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- 5.7 Review any legal matters which could significantly impact the financial statements.

b) Annual Financial Statements

- 5.8 Review the annual financial statements and determine whether they are complete and consistent with the information known to committee members; assess whether the financial statements reflect appropriate

- accounting principles. Consider if disclosure in the financial statements is appropriate and complies with legislation and the requirements of the Auditor-General.
- 5.9 consider if accounting policies followed are similar or better to those followed by other municipalities.
- 5.10 consider changes in accounting policies or their application, the reasons for changes, the effect of the changes on the current and future financial statements, and the Provincial Auditor-General's views on these.
- 5.11 consider differences of opinion between management and the auditors, and their resolution
- 5.12 review material adjustments made because of the audit
- 5.13 review reasons for results different to those suggested by information such as budgets, forecasts and prior year results
- 5.14 review developments likely to affect financial reporting, for example:
- proposed changes in format of financial statements
 - new accounting standards and disclosure requirements
 - changes in accounting policies
 - any new or proposed legislation which will affect the financial statements
 - changes in activity which may require new accounting policies or expanded disclosure in the accounts
 - political, economic and foreign currency exposure and potential financial effects.
- 5.15 Pay particular attention to complex and/or unusual transactions.
- 5.16 Focus on judgmental areas, for example, those involving valuation of assets and liabilities; warranty, product or environmental liability; litigation reserves; and other commitments and contingencies.
- 5.17 Meet with management and the external auditors to review the financial statements and the results of the audit prior to presentation to the Executive Committee.

- 5.18 Review the other sections of the annual report before its release and consider whether the information is understandable and consistent with members' knowledge about the Council and its operations.

Internal Audit

- 5.19 Review and approve the annual risk based internal audit plan and the three year strategic plan. Review the activities and organisational structure of the internal and external audit function and ensure no unjustified restrictions or limitations are made.
- 5.20 Review the qualifications of internal audit personnel and concur in the appointment, replacement, reassignment or dismissal of the Head-Internal Audit.
- 5.21 Review the overall effectiveness and efficiency of the internal audit function.
- 5.22 Meet separately with the Head - Internal Audit to discuss any matter that the committee or auditors believe should be discussed privately.
- 5.23 Ensure that significant findings and recommendations made by the internal auditors are received and discussed on a timely basis.
- 5.24 Ensure that management responds to recommendations by the internal auditors on a timely basis.
- 5.25 Ensure that the performance management system, the key performance indicators and the performance target monitoring and measurement have been reviewed by internal audit annually.

External Audit

- 5.26 Review the overall audit plan of the Auditor-General and ensure no unjustified restrictions or limitations have been placed on the scope.
- 5.27 Confirm that any difficulties experienced with regard to the "Audit Steering Committee" are appropriately dealt with.
- 5.28 Meet separately with the Auditor-General to discuss any matters that the committee or auditors believe should be discussed privately.
- 5.29 Ensure that significant findings and recommendations by the Auditor-General are received and discussed on a timely basis.

- 5.30 Ensure that management responds to recommendations by the Auditor-General on a timely basis.

Compliance with Laws and Regulations

- 5.31 Obtain regular updates from management and Council's Legal Advisor regarding compliance matters.
- 5.32 Review the effectiveness of the system by which management investigates and follows-up any fraudulent acts or non-compliance.
- 5.33 Be satisfied that all regulatory compliance matters have been considered in the preparation of the financial statements.
- 5.34 Review the findings of any examinations by regulatory agencies.

Performance Management

- 5.35 Review the quarterly reports submitted to it by internal audit in terms of sub regulation (1) (c) (ii) of the Municipal Planning and Performance Management Regulations (2001)
- 5.36 Review the municipality's performance management system and make recommendations in this regard to the council
- 5.37 At least twice during a financial year submit an audit report to the municipal council concerned.
- 5.38 In reviewing the municipality's performance management system, the committee will focus on economy, efficiency, effectiveness and impact in so far as the key performance indicators and performance targets set by the municipality are concerned.

Reporting Responsibilities

- 5.39 Regularly report to the Council about committee activities and make appropriate recommendations on a quarterly basis.
- 5.40 Ensure that the Council is aware of matters which may significantly impact the financial condition or affairs of the municipality.

Risk Management

- 5.41 Consider the Municipality's key risk management strategy and policy and provide appropriate advice.
- 5.42 Review the risk management plan for the year and provide advice of focus areas.
- 5.43 Consider the risk management reports and assess measurers in place to mitigate the inherent risks identified.
- 5.44 Review the opinion of Internal Audit function regarding the municipality's risk management systems.

6. Authority

The Council authorizes the Performance & Audit Committee, within the scope of its responsibilities and with the knowledge and co-operation of the Accounting Officer, to:

- Seek any information it requires from any employee and councilor or from external parties;
- Obtain outside legal or other professional advice within the scope of its responsibilities and allocated budget provision;
- Require Council officers to be present at meetings, where appropriate.

In order to enable the Audit Committee to exercise its responsibilities, all employees are directed to co-operate with any request it may make.

7. Constitution and Membership

- 7.1 The Performance & Audit Committee shall be appointed by the Council. The Performance & Audit Committee will comprise of at least three and not more than five members, all members should have the necessary knowledge and expertise to expedite the working of the committee. One of whom should have the necessary expertise in performance management.
- 7.2 The term of office of the committee shall be at the discretion of the Council but in compliance with circular 65 of the MFMA.
- 7.3 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 one legal expert and an individual with performance management expertise to serve as members on the Performance & Audit Committee.

- 7.4 A quorum for any meeting will be in excess of 50% of members including the Chairperson.
- 7.5 The Chairperson (who is not in the employ of the Municipality) shall be elected by the Performance & Audit Committee, the former being one of the members from the private sector.
- 7.6 The committee may invite such other persons to its meetings as it deems necessary.
- 7.7 The internal and external auditors should be invited to make presentations to the Performance & Audit Committee as appropriate.
- 7.8 Meetings shall be held not less than four times a year. Special meetings may be convened as required. Internal audit or the external auditors may request a meeting to be convened if they consider that it is necessary.
- 7.9 The proceedings of all meetings will be minuted.
- 7.10 The minutes or recommendations of the Performance & Audit Committee meetings should be submitted to the Council for consideration.
- 7.11 Any member failing to attend three consecutive meetings will be automatically dismissed and the Council will be required to appoint an alternative.
- 7.12 The Performance & Audit Committee members of the Harry Gwala District Municipality should receive remuneration for services rendered as per rates approved by the Council in compliance with SAICA rates and National Treasury rates for audit committees.

8. Attendance by officials and other parties

Invitations to attend the Performance & Audit Committee Meetings must be extended to the following:

- The Accounting Officer
- All Heads of Departments
- The Head of Internal Audit
- Legal Advisor
- The Auditor General
- Provincial Treasury

- Provincial Department of Cooperative Governance and Traditional Affairs
- MPAC Chairperson

Furthermore any person may be requested to attend a meeting of the Performance & Audit Committee when the need therefore may arise. Officials must give the Performance & Audit Committee their full co-operation.

9. Secretariat

- 9.1 The dates of meetings should be agreed upon at the commencement of each financial year. Notice of each meeting shall be given in writing to all members of the Committee and other invited parties, at least 14 days prior to the date of the meeting.
- 9.2 The agenda of the meeting together with the audit pack shall be prepared and distributed at least 7 days prior to the meeting date.
- 9.3 The secretariat shall keep minutes of all meetings and shall circulate the minutes of the meeting to all members of the Performance & Audit Committee and as determined in terms of Council policy.
- 9.4 The Performance & Audit Committee shall prepare a quarterly report for consideration by the Council.

10. Maintenance and approval of the charter

- 10.1 The reviewing and amending of the Performance & Audit Committee charter is the responsibility of the Performance & Audit Committee in conjunction with the internal audit function and subject to the approval of the Council.