

# **NEWCASTLE MUNICIPALITY**



## **AUDIT AND PERFORMANCE COMMITTEE CHARTER 2017/2018**

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## **1. INTRODUCTION**

The requirement for municipalities and municipal entities to establish Audit and Performance Committee is contained in Section 166 of the Municipal Finance Management Act 56 of 2003 and article 14 (2)(a) of the Municipal Planning and Performance Management Regulations 2001.

The Audit and Performance Committee is an independent advisory body, appointed by Council to advise the municipal council, the political officebearers, the accounting officer and the management 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;
- Performance management
- Effective governance

The Audit and performance Committee Charter outlines the role, responsibilities, composition and operating guidelines of the Audit Committee

## **2. OBJECTIVES**

- 2.1 Maintaining oversight responsibilities of all financial and performance reporting.
- 2.2 Seek reasonable assurance that the operations of the municipality are conducted efficiently, effectively and economically.
- 2.3 Seek reasonable assurance that the Council has developed and complies with its policies, plans, procedures.
- 2.4 Seek assurance that the Council complies with relevant legislation, regulations and professional pronouncements.

## **3. AUTHORITY**

The Audit and Performance Committee is authorised, within the scope of its responsibilities to;

- 3.1 conduct or authorize investigations into any matters within its scope of responsibility;
- 3.2 access information, records and personnel as it requires to fulfill its responsibilities;
- 3.3 request the attendance of any executive or employee, at Committee meetings;

- 3.4 conduct meetings with External Auditors (Auditor-General) and Internal Auditors as necessary;
- 3.5 obtain advice from external parties as necessary;
- 3.6 Resolve any disagreements between management and the auditor regarding financial reporting; and
- 3.7 Pre-approve all auditing and non-audit services.

The Audit and Performance Committee shall not perform any management functions or assume any management roles.

#### **4. ROLES AND RESPONSIBILITIES**

In order for the Audit and Performance Committee to meet the broad objectives, it will be required to attend to the following responsibilities;

##### **4.1 Internal Audit**

- 4.1.1 Review the Internal Audit Charter, budget, activities, staffing, skills and organizational structure of the Internal Audit;
- 4.1.2 Review and approve the 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);
- 4.1.3 Review and concur in the appointment, replacement, or dismissal of the Chief Audit Executive (CAE);
- 4.1.4 ulties or unjustified restrictions or limitations on the scope of Internal Audit work;
- 4.1.5 Resolve any significant disagreements between Auditors and Management;
- 4.1.6 Review significant findings and recommendations by Internal Audit and Management responses thereof;
- 4.1.7 Review implementation of Internal Audit recommendations by Management;
- 4.1.8 Review the performance of the CAE;

- 4.1.9 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; and
- 4.1.10 Meet separately with the CAE to discuss any issues that the Committee or Internal Audit believes should be discussed privately.

## **4.2 Internal Control**

- 4.2.1 Review the adequacy of the internal control system, including information technology security and control
- 4.2.2 Understand the scope of internal and external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses;
- 4.2.3 Review whether relevant policies and procedures are in place and up to date, and whether they are complied with; and
- 4.2.4 Review whether the financial internal controls are operating efficiently, effectively and economically

## **4.3 Performance Management and Reporting**

- 4.3.1 Review the effectiveness of the performance management system terms of monitoring, measurement and review of the key performance indicators and performance targets set and to make recommendations in this regard.
- 4.3.2 Review the quarterly performance reports submitted by internal audit.
- 4.3.3 Review the external auditors management letter and audit report and ensure recommendations are implemented.
- 4.3.4 Review the performance management information contained in the Annual Report of Council
- 4.3.5 Assess whether proper and adequate accounting records are being maintained.
- 4.3.6 Review the Institution's compliance with the performance management and reporting systems;

- 4.3.7 Review whether performance management systems reflect the Institution's purpose and objectives; and
- 4.3.8 Review whether the performance reporting and information uses appropriate targets and benchmarks.

#### **4.4 Financial Reporting**

- 4.4.1 Review the appropriateness of accounting policies
- 4.4.2 Review the appropriateness of assumptions made by Management in preparing the financial statements;
- 4.4.3 Review the significant accounting and reporting issues, and understand their impact on the financial statements.
- 4.4.4 Review the annual financial statements, and consider whether they are complete, consistent with prescribed accounting and information known to Committee members;
- 4.4.5 Obtain assurance from Management with respect to the accuracy of the financial statements;
- 4.4.6 Review with management and the external auditors the results of external audit, including any significant issues identified; and
- 4.4.7 Review the annual report and related regulatory filings before release and consider the accuracy and completeness of the information

#### **4.5 External Audit**

- 4.5.1 Review the audit scope and plan of the External Auditors to ensure critical risk areas are addressed.
- 4.5.2 Review the management letter from the external auditors and management responses thereto to ensure that responses are satisfactory and that corrective action is taken.
- 4.5.3 Ensure that issues raised by the Auditor General in the audit report are addressed.
- 4.5.4 Respond to Council on any issues raised by the Auditor-General in the audit report.
- 4.5.5 Discuss with external auditors the appropriateness of accounting policies applied to the municipal financial reports and any other relevant matters.

#### **4.6 Other**

- 4.6.1 Perform other activities related to this Charter as requested by the Accounting Officer / Authority.
- 4.6.2 Safeguard all the information supplied to it within the ambit of the law;
- 4.6.3 Investigate matters within its powers as identified in this Charter; and
- 4.6.4 Confirm annually that all responsibilities outlined in this Charter have been carried out.

### **5 RISK MANAGEMENT**

In terms of Section 166. (2) of the Municipal Finance Management Act 56 of 2003 (MFMA), An audit and performance committee is an independent advisory body which must—

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

The following are the functions of the Audit and Performance Committee with regard to monitoring the effective implementation of the risk management system in the Municipality:-

- i) Provide advice to the Council relating to the compliance and implementation of the Risk Management Process
- ii) Advise on the adequacy of the municipality's risk management framework.
- iii) Review the extent to which management has established an effective enterprise-wide risk management system within the Municipality.
- iv) Review the risk management policy of the Municipality.
- v) Ensure that management has developed an appropriate level of awareness of risk management throughout the Municipality.
- vi) Review whether management has established clear accountability for the risk management process in the Municipality.
- vii) Ensure that all the necessary information required to facilitate the Committee evaluation of risk management processes and its implementation is provided by management to ensure Committee's satisfaction with:

- › Effective implementation of risk management actions,
- › Continuous identification of emerging risks,
- › Continuous monitoring of achievements of set target for addressing significant risks within the Municipality.

viii) Advise council about significant risks facing the Municipality as contained in the Municipal Risk register, and other external reports, including the effectiveness of the system of internal control in managing those risks.

## **6. MEMBERSHIP**

- 6.1 The Audit and Performance Committee is an independent advisory body and its members shall be appointed by Council.
- 6.2 The Audit and Performance Committee will comprise five independent members of whom one shall be appointed as Chairperson. A quorum for a meeting shall be three members.
- 6.3 Audit and Performance Committee members will be remunerated as per the council resolution.
- 6.4 Audit and Performance Committee Members shall be appointed for a period of three years at the conclusion of which they can be reappointed for a further period of three years only.
- 6.5 On receipt of the letter of resignation from an existing committee member, Council will advertise for a replacement and that member will be appointed for a full three year term.
- 6.6 Any member of the Audit and Performance Committee who fails to attend three consecutive meetings without valid reason will be automatically dismissed and Council will be required to advertise and appoint a replacement.
- 6.7 members will be required to declare and sign a declaration of interest at each meeting
- 6.8 members employed in the service of the state must declare such employment to the accounting officer and council

## **7. DISQUALIFICATION FROM MEMBERSHIP**

No councillor shall be a member of the Audit and Performance Committee.



## **8. MEETINGS**

8.1 Meetings shall be held at least quarterly during the financial year and will correspond with the municipal financial and performance reporting cycle. Special meetings may be convened by the Chairperson as required.

8.2 The following persons must attend all meetings of the Audit and Performance Committee;

- Municipal Manager
- Chief Financial Officer
- Chief Audit Executive
- Chief Risk Officer
- The Audit and Performance Committee may excuse any of the non-members from the meeting, if it deems it necessary.

The following representatives shall be standing invitees to the audit and performance committee:

- Auditor General
- Provincial Treasury
- COGTA
- Chairperson or representative of MPAC

8.3 The Audit and Performance Committee may invite other officials of the Municipality or any other persons, as it deems necessary, to attend audit and performance committee meetings.

8.4 The provision of secretarial support to the audit and performance committee is the responsibility of the Administration Directorate.

8.5 The agenda will be prepared by the Chief Audit Executive in consultation with the Chairperson of the Audit and Performance Committee and distributed with all relevant documentation, at least seven days prior to the meeting date.

8.6 The report of the Audit and Performance Committee must be submitted to the Council for consideration.

8.7 The secretary should prepare and submit audit and performance committee minutes and resolution register within 10 days after the audit and performance committee meeting.

## **9. AUDIT AND PERFORMANCE COMMITTEE CHARTER, REVIEW, REPORTING AND ACCOUNTABILITY**

- 9.1 The audit and performance committee must review the charter in May of each year and forward to council of each financial year for adoption.
- 9.2 The Chairperson of the audit and performance committee shall attend the Council meetings quarterly where audit and performance committee reports have been submitted and report on management response to audit and performance committee recommendations.
- 9.3 The Chairperson should immediately notify the Speaker if he/she becomes aware of any significant issues or material findings that may have a negative impact to the municipality.
- 9.4 The chairperson of the Audit and Performance Committee shall attend the Council meetings when the annual financial statements and annual report are tabled by the Auditor General and should be available to discuss and provide advice to Council.
- 9.5 The chairperson of the Audit and Performance Committee or its nominated member shall attend MPAC meetings when invited as part of intergovernmental relations.
- 9.6 The chairperson of the audit and performance committee shall report to council at least 4 times in a financial year or as and when necessary in accordance with the MFMA.

## **10. CRITERIA FOR APPOINTMENT TO AUDIT AND PERFORMANCE COMMITTEE**

- 10.1 The Committee collectively should have an understanding of:

- 10.1.1 The Public Sector Environment and Accountability Structures;
- 10.1.2 Governance Processes
- 10.1.3 Financial Reporting;
- 10.1.4 Performance Management;
- 10.1.5 Risk Management;
- 10.1.6 Internal Control;
- 10.1.7 External Audit Process;
- 10.1.8 Internal Audit Process;
- 10.1.9 Legal Process; and
- 10.1.10 Information Technology.

The Chairperson possesses sound communication and strong leadership skills. Senior management and the external and internal auditors shall have independent access to the Chairperson of the Committee at any time.

#### **11 ASSESSMENT OF AUDIT AND PERFORMANCE COMMITTEE BY COUNCIL**

Council must assess the performance of the audit and performance committee annually.

**APPROVED BY THE AUDIT AND PERFORMANCE COMMITTEE**

  

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**SIGNED BY THE CHAIRPERSON: ON-BEHALF OF THE AUDIT AND PERFORMANCE COMMITTEE**

**DATE: 8<sup>th</sup> December 2017**