



Zululand District Municipality

Audit and Performance Management Committee Charter

2015/2016

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1. Introduction

- 1.1. The Municipal Finance Management Act, the King Report on Corporate Governance for South Africa as well as other applicable legislation require that a municipality to establish an Audit Committee.
- 1.2. The Local Government Municipal Planning and Performance Management Regulations require a municipality to appoint, as an integral part of its mechanisms, systems and processes for auditing the results of performance measurements, a Performance Audit Committee. These regulations further state that a municipality may utilise its Audit Committee, established in terms of other applicable legislation, as the Performance Audit Committee.
- 1.3. Based on the above, Zululand District Municipality has considered it appropriate for its Audit Committee to also perform the functions of the Performance Audit Committee and has established an Audit and Performance Audit Committee.

The Audit and Performance Audit Committee is a non-executive committee in an independent advisory capacity and oversight to the Municipal Council, the political office-bearers, the Accounting Officer and the management staff of Zululand District Municipality.

2. Purpose Statement

The purpose of the Audit and Performance Audit Committee charter is to set out the status, authority, roles and responsibilities of the Audit and Performance Audit Committee within Zululand District Municipality. The status, authority, roles and responsibilities are in accordance with section 166 of the MFMA, the Local

Government Municipal Planning and Performance Management Regulations and as delegated by the Municipality's Council. Consideration has also been given to the recommendations contained in the King Report on Governance for South Africa 2009 (King III).

This charter guides the Audit and Performance Audit Committee in fulfilling its obligations and shall be reviewed at least annually to ensure its relevance.

3. Authority of Audit and Performance Audit Committee

The Audit and Performance Audit Committee of Zululand District Municipality is authorised, in terms of this charter, to perform the duties and functions required to ensure compliance to the provisions of the MFMA, the applicable provisions of the Municipal Planning and Performance Management Regulations, Municipal Systems Act, Municipal Structures Act and other applicable regulations.

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

The Council authorises the Audit and Performance Audit Committee, within the scope of its responsibilities and with the knowledge and cooperation of the Accounting Officer, to:

- Seek any information it requires from any employee and councillor or from external parties;

- Obtain outside legal or other professional advice within the scope of its responsibilities and allocated budget provision;
- Have direct access to Executive Management, the Accounting Officer, and the Municipality's Internal and External Auditors;
- Require Council officers to be present at meetings, where appropriate.

In order to enable the Audit and Performance Audit Committee to exercise its responsibilities, all employees are directed to cooperate with any request it may make.

The authority of the Audit and Performance Audit Committee may be terminated and/or amended by Council from time to time if deemed necessary; however caution should be exercised to ensure that the committee is not restricted from achieving its legislated mandate.

4. Role of Audit and Performance Audit Committee

The role of the Audit and 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 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) the alignment and non-contradiction of financial and non-financial information contained in the integrated report;
 - (vi) performance management;
 - (vii) effective governance;
 - (viii) compliance with the MFMA , the annual Division of Revenue Act (DORA) and any other applicable legislation;
 - (ix) application of a co-ordinated combined assurance model to all assurance activities;
 - (x) performance evaluation; and
 - (xi) any other issues referred to it by the Municipality;
- (b) review the annual financial statements and the non-financial information contained therein (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 MFMA, the annual DORA and any other applicable legislation;
- (c) report and update 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 Audit and Performance Audit Committee

The Audit and 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.

The Audit and Performance Audit Committee does not assume the functions of management which remain the responsibility of the Executive Committee (Exco) and the delegated officials.

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 and 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 areas of 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 changes in accounting policies.
- 5.8 Review any legal matters which could significantly impact the financial statements.

b) Annual Financial Statements

- 5.9 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.
- 5.10 Ensure that there is no conflict between the financial and non-financial information contained in the integrated report.
- 5.11 Pay particular attention to complex and/or unusual transactions.
- 5.12 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.
- 5.13 Meet with management and the external auditors to review the financial statements and the results of the audit prior to presentation to the Exco and Council.
- 5.14 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.

These financial statements should have been reviewed by the audit committee two weeks before submission to the Auditor-General. The process and timelines for audit committee meetings should be changed accordingly. The auditor and auditee should plan this process carefully to meet the determined timelines.

The audit committee must review the annual financial statements to provide the municipality, or in the case of a municipal entity, the council of the parent municipality and the board of directors of the entity with an authoritative and credible view of the financial position of the municipality or municipal entity 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 and its entities to ensure that the quality, integrity and content is consistent with applicable standards and compliant with the legal framework;

Evaluating the annual financial statement of the municipality and its entities 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 that of its entities; and

Reviewing efficiency and effectiveness of internal controls over AFS preparation and reporting

Specifically with regards to Annual Financial Statements, the Audit Committee should review and challenge where necessary:

- Arithmetical accuracy and consistency;
- Consistency of, and any changes to, accounting policies, comparing to prior years;
- Methods used to account for significant or unusual transactions where different approaches are possible;
- Whether the Municipality has followed appropriate accounting standards and made appropriate estimates and judgments, taking into account previous audit outcomes;
- The quality of disclosure in the Municipality's financial reports and the context in which statements are made;

- All material information presented with the financial statements, such as the operating and financial review and the corporate governance statement (in so far as it relates to the audit and risk management);
- All material issues in prior reports by the AGSA have been appropriately accounted for, resulting in fair presentation;
- Conduct Analysis of trends and other financial ratio calculations e.g. year-on-year comparisons and composition of primary group e.g. salaries as a component of operations, whether operations are undertaken on a yearly basis.

Internal Audit

The audit committee must in relation to internal audit:

- 5.15 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;
- 5.16 Regularly review 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;
- 5.17 Review and approve the internal audit charter, including internal audit strategic plan;
- 5.18 Confirm that the annual audit plan makes provision for critical risk areas in the municipality and its entities;
- 5.19 Advise the municipality on resources allocated to give effect to the work outputs of the internal audit function;

- 5.20 Ensure that there is support for the internal audit unit and external auditors from senior management;
- 5.21 Confirm with management that internal audit findings are submitted to the audit committee on a quarterly basis;
- 5.22 Confirm actions taken by management in relation to the audit plan;
- 5.23 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;
- 5.24 Evaluate the performance of internal audit activity in terms of the agreed goals and objectives as captured in the audit plan;
- 5.25 Ensure that the head of internal audit has reasonable access to the chairperson of the audit committee;
- 5.26 Conduct a high-level review of internal audit on an annual basis, to ascertain whether the internal audit unit complies with the International Standards for the Professional Practice of Internal Auditing;
- 5.27 Concur with any appointment and termination of the services of the chief audit executive;

Internal audit unit is accountable to the audit committee as follows:

- 5.28 Maintain open and effective communication with the audit committee;

- 5.29 Develop a flexible annual audit plan using a risk based methodology, addressing any weaknesses in risks or controls identified;
- 5.30 Submit the audit plan to the audit committee for review and approval;
- 5.31 Report on the implementation and results of the annual audit plan including special tasks requested by management and the audit committee;
- 5.32 Assist in drafting the agenda and documentation, and facilitate the distribution thereof to the audit committee in advance of meetings;

External Audit

- 5.33 Take cognizance of the scope of work undertaken by the external auditor and the extent of co-ordination with the internal audit unit;
- 5.34 Review annual external audit plans, audit fees and other compensation;
- 5.35 Review reports and monitor management's implementation of audit recommendations and municipal council resolutions in the new financial year;
- 5.36 Review the report on the financial statements and matters raised therein for reasonability and accuracy;
- 5.37 Review any interim reports issued in order to take cognizance of the issues raised in determining the follow up work of the internal audit;
- 5.38 Conduct a review of the extent to which previously reported findings by the external auditor have been addressed by the municipal council;

- 5.39 Provide advice to the accounting officer on actions taken relating to significant matters raised in external audit reports;
- 5.40 Liaise with the external auditors on any matter that the audit committee considers appropriate to raise with the external auditor;
- 5.41 Ensure that the external auditors have reasonable access to the management and chairperson of the audit committee;
- 5.42 Address any potential restrictions or limitations with the accounting officer and council; and
- 5.43 Address outstanding matters raised by the external auditors and any findings are dealt with conclusively in an expeditious manner.

Compliance with Laws and Regulations

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

Performance Management

- 5.48 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).
- 5.49 Review the Municipality's performance management system and make recommendations in this regard to the Council.
- 5.50 At least twice during a financial year submit an audit report to the municipal council concerned.
- 5.51 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.

Performance Management

Part of the responsibilities of the audit committee includes the review of the performance management. The municipality must review its committees to ensure that in cases where there is an audit committee and a performance audit committee, that these are combined into one committee for effective management, oversight and reporting, as envisaged by section 166 of the MFMA. During the transition the chairperson of the performance audit committee should report progress on a quarterly basis to the audit committee.

The audit committee members need to have a good understanding of the performance of the municipality and its entities.

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 and performance agreements;
- Review and comment on relevance of indicators to ensure they are measureable and relate to services performed by the municipality and its entities;
- Reviews compliance with in-year reporting requirements;
- Review the quarterly performance reports submitted by internal audit;
- Reviews and comments on municipality's and entities annual financial statements and timely submission to the Auditor-General by 31 August, each year;
- Review and comment on the municipality's and entities annual reports within the stipulated timeframes; and
- Review and comment on the municipality's performance management system and make recommendations for its improvement.

Reporting Responsibilities

- 5.52 The Audit and Performance Audit Committee shall prepare a quarterly report for consideration by the Exco and Council.
- 5.53 The chairperson of the Audit and Performance Audit Committee shall be allowed to attend at least two Executive Committee meetings during the financial year.

- 5.54 Ensure that the Exco and Council are aware of matters which may significantly impact the financial condition or affairs of the Municipality.

Risk Management

- 5.55 Consider the Municipality's key risk management strategy and policy and provide appropriate advice.

Specifically, the Committee must oversee:

- i financial reporting risks;
- ii internal financial controls;
- iii fraud risks as it relates to financial reporting; and
- iv Information technology risks as it relates to financial reporting.

- 5.56 Review the risk management plan including the disaster recovery plans for the year and provide advice of focus areas.

- 5.57 Consider the risk management reports and assess measures in place to mitigate the inherent risks identified.

- 5.58 Review the opinion of Internal Audit function regarding the Municipality's risk management systems.

Control Environment

The audit committee members need to have a good understanding of the control environment, in fulfilling this responsibility the committee should:

- Ensure that 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;
- Assess steps taken by management to encourage ethical and lawful behavior; financial discipline and accountability for use of public resources.

Information Technology (IT) Governance

The audit committee also needs to provide advice on IT governance, controls, access, safeguarding of information in the municipality and its entities.

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.

6. Constitution and Membership

- 6.1 The Audit and Performance Audit Committee shall be appointed by Council. The Audit and Performance Audit Committee will comprise of at least three 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.
- 6.2 The term of office of appointment of the Audit and Performance Audit Committee shall be for three years.

- 6.3 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 Audit and Performance Audit Committee.
- 6.4 A quorum for any meeting will be in excess of 50% of the members.
- 6.5 The Chairperson (who is not in the employ of the Municipality) shall be elected by the Audit and Performance Audit Committee.
- 6.6 No councilor may be a member of the Audit and Performance Audit Committee.
- 6.7 The committee may invite such other persons to its meetings as it deems necessary.
- 6.8 The internal and external auditors should be invited to make presentations to the Audit and Performance Audit Committee as appropriate.
- 6.9 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.
- 6.10 The proceedings of all meetings will be minuted/ recorded.

- 6.11 The minutes and recommendations of the Audit and Performance Audit Committee meetings should be submitted to the Exco and Council for consideration.
- 6.12 Any member failing to attend three consecutive meetings without good cause will be automatically dismissed and Council will be required to appoint an alternative.
- 6.13 The Audit and Performance Audit Committee members of the Zululand District Municipality shall be remunerated for their services based on the preparation of the meetings and the meetings attended. Remuneration shall be approved by Council and shall be determined using the guidelines issued by National Treasury.
- 6.14 On a regular basis review its own effectiveness against pre-set criteria such as, number of meetings held, members' participation in meeting discussion, cooperation of internal audit function, management and office of the Auditor-General.

7. Confidentiality and conflict of interests

A member of the Audit and Performance Audit Committee 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.

Every member, appointed, coopted, or full time employee of the Municipality, involved in the Audit and Performance Audit Committee meetings, deliberation and resolutions, is obliged to declare any conflict of interest and may not:

- Use his or her position to promote any special financial or other interest, including but not limited to the interest of any individual, company or other entity;
- Act in a manner that is inconsistent with his or her membership and the role of the Audit and Performance Audit Committee ;
- Expose himself or herself to any situation involving the risk of a conflict between his or her official and / or professional responsibilities and a personal interest;
- Use his or her position or any information entrusted to him or her or obtained as a result of his or her involvement in the Audit and Performance Audit Committee to enrich himself or herself or improperly benefit any other person or entity; and
- Act in a manner that may compromise the credibility, workings and integrity of the Audit and Performance Audit Committee and the Municipality.

8. Attendance by officials and other parties

Invitations to attend the Audit and Performance Audit Committee Meetings will be extended to the following:

- The Accounting Officer
- All Heads of Departments
- The Head of Internal Audit
- The Auditor General
- Representative from the Department of Cooperative Governance and Traditional Affairs (Municipal Finance Unit and Performance Management Unit)

- Representative from Provincial Treasury (Internal Audit Unit and Municipal Finance Unit)
- Chairperson of MPACC

Furthermore any person may be requested to attend a meeting of the Audit and Performance Audit Committee when the need may arise. Officials must give the Audit and Performance Audit Committee their full co-operation. Invitees may not vote on any matter before the committee.

Relationship with Stakeholders

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

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

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 Audit and Performance Audit Committee and as determined in terms of Council policy.

10. Effectiveness of the Audit and Performance Audit Committee

- 10.1 In order for the Committee to remain effective, its objectives and responsibilities should come under annual performance evaluation Council to ensure that:
- Its activities meet the Municipality's needs; and
 - Changes in the environment in which the Municipality operates are taken into account on timely basis.
- 10.2 Members of the Committee should also assess themselves bi-annually using the designed Audit and Performance Audit Committee assessment questionnaire.
- 10.3 Auditor General will independently report on the effectiveness and efficiency of the Committee every year.
- 10.4 The Provincial and National Treasuries as a monitoring function also conduct evaluations based on good governance principles on an annual basis.

10.5 The Chair of the Audit and Performance Audit Committee will ensure that the relationship between the Committee and Council, once established, is sustained through assistance by the Exco or equivalent.

11. Conclusion

The role of the Audit and Performance Audit Committee is to assist the Zululand District Municipality in achieving its strategic goals and objectives, by helping to maintain effective internal controls, risk management, accurate financial reporting and corporate governance principles.

These terms of reference shall be reviewed from time to time, but at least annually and amended as required, subject to the approval of the Exco and Council.

12. Approval

ON BEHALF OF THE AUDIT AND PERFORMANCE AUDIT COMMITTEE:

Chairperson of the APMC:  _____

Date: 28/5/2015

APPROVED BY:

Chairperson of Council:  _____

Council Resolution No: ZDMC 15/318 Date: 28 MAY 2015