



MBHASHE LOCAL MUNICIPALITY

All correspondence to be directed to the office of the Municipal Manager
454 Streatfield Street, Dutywa, Eastern Cape Province
Tel: 047 489 5864/34 • Email: info@mbhashemun.gov.za
www.mbhashemun.gov.za

MBHASHE LOCAL MUNICIPALITY REVIEWED AUDIT AND PERFORMANCE AUDIT COMMITTEE CHATER POLICY

2018-2019



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1. GENERAL DEFINITIONS

1.1 General definitions

1.1.1 In this Audit Committee and Performance Audit Committee Charter, unless the context indicates otherwise, a word or expression to which a meaning has been given, has the same meaning, and –

“Accounting Officer”	means the Municipal Manager, referred to in section 60 of the Act
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“Act”	means the Municipal Finance Management Act 56 of 2003 as amended
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“Committee”	means the Audit Committee and Performance Audit Committee established in terms of Section 166 of the Act
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"Chief Financial Officer"	means the employee designated in terms of section 80(2)(a) of the Act
"Local Municipality"	means a municipality that shares municipal executive and legislative authority in its area with a district municipality within whose area it falls, and which is described in section 155(1)(b) of the Constitution of the Republic of South Africa, 1996 as a category B municipality
"Employee"	means a person in the employ of the Local Municipality as defined by section 213 of the Labour Relations Act 66 of 1995
"External Auditors"	means the Auditor-General as established in terms of section 188 of the Constitution of the Republic of South Africa, 1996
"Internal Audit Function"	means an outsourced or co-sourced service provider or internal appointed audit staff
"S&T"	Subsistence and Travelling



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2. INTRODUCTION AND PURPOSE

- 2.1 The Committee is constituted in terms of Section 166 of the Municipal Finance Management Act.
- 2.2 Audit committee is a committee of Council to assist the Municipality in the execution of its duties. The Committee performs an advisory role to the Municipality and is accountable to Council to properly consider and evaluate any matter that it has to deal with or is referred to it.
- 2.3 The purpose of the Committee is to assist and advise Council in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control over financial reporting, the audit process, performance management and evaluation, Council's process for monitoring compliance with laws and regulations and Council's code of conduct.
- 2.4 This Charter sets out the specific responsibilities assigned to the Committee by the Act and the Local Government: Municipal Planning and Performance Management Regulations, 2001 and details the manner in which the Committee will operate. The Charter is subject to annual review by the Council.

3. THE COMMITTEE'S MANDATE

The broad objectives of the Committee are the following: -

- a. The Committee is advisory in nature and does not have any executive powers.
- b. The Committee will consider matters relating to management and the Council in the discharge of its duties to safeguard assets, operate adequate internal control systems, and review Annual Financial Statements, and on matters relating to performance management and performance evaluation.
- c. The Committee will not perform any management functions or assume any management responsibilities as this could prejudice the objectivity of the Committee. The Committee will make recommendations to Council in respect of the activities which form part of the Committee's terms of reference/ responsibilities (*as set out in section 3 below*).

Specific duties of the Committee shall include:

3.1 Responsibilities related to management and internal control

The Committee should advise Council in carrying out its responsibilities in terms of the Municipal Finance Management Act. The following amongst others, would be expected from the Committee:

- i) Consider the effectiveness of the Municipality's internal control system, both financial and operational;
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- ii) 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;
- iii) Review the content, quality, adequacy, reliability and accuracy of the financial information (monthly and quarterly reports) provided to Council and other users of such information;
- iv) Review any accounting and auditing concerns identified as a result of internal and external audits performed;
- v) Review the Auditor-General's management letter and management's response;
- vi) Review changes in accounting policies and practices; and
- vii) Review significant adjustments resulting from the audit.

3.2 Responsibilities related to the Internal Audit function

The Committee should ensure that the Internal Audit function performs its responsibilities effectively and efficiently through:

- i) Review and approval of the Internal Audit Charter;
 - ii) Approval of Internal Audit strategic and operational plans and review achieved performance against these plans to ensure all high risk areas are addressed and that adequate resources are available;
 - iii) Review the appointment of the Internal Audit resources in terms of the human resources prescribed recruitment and selection processes.
 - iv) Review the appointment, replacement or dismissal of the Internal Audit function;
 - v) Review the organisational structure and qualifications of the Internal Audit function;
 - vi) Review of audit results and the action plans of management;
 - vii) Consider the scope and objectives of any additional work undertaken by the Internal Auditor function to ensure that there are no conflicts of interest and that independence is not compromised;
 - viii) Request for specific audit projects;
 - ix) Review of the results of the quality assurance reviews;
 - x) Meet with the Internal Auditors at their request as they deem necessary;
 - xi) Co-ordination of Internal Audit work with External Audit;
 - xii) Ensure that the Head of Internal Audit has direct access to the Committee, Chairperson and the Accounting Officer;
 - xiii) Review the Internal Audit reports and the management comments;
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- xiv) Review quarterly reports submitted by Internal Audit detailing its performance against the annual internal audit plan;
- xv) Evaluate the overall efficiency and effectiveness of the internal audit function in the Municipality taking into account the following:
 - The audit approach;
 - The scope and depth of internal audit coverage;
 - The quality of reports issued;
 - Quality of personnel employed;
 - Training of personnel;
 - Co-operation with external auditors;
 - Internal audit budget; and,
 - Internal audit's compliance with the Institute of Internal Auditors Standards for the Professional Practice of Internal Audit.

3.3 Responsibilities related to External Audit performed by the Auditor-General

- i) Review and evaluate the efficiency and effectiveness of the External Auditors in relation to their responsibilities;
 - ii) Ensure that there are no restrictions or limitations placed on the auditors;
 - iii) Review of the plan and scope of External Audit with regard to the critical risk areas and the sufficiency of audit coverage and procedures, including co-ordination with the Internal Audit function;
 - iv) Review of audit results quality and contents of financial information and the action plans of management;
 - v) Review and confirm the independence of the External Auditors, by reviewing the non-audit services provided and the auditor's assertion of their independence in accordance with the relevant Auditing Standards;
 - vi) Consider significant disagreements between the External Auditors and management;
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- vii) Consider material unsolved accounting and auditing problems;
- viii) Meet with the External Auditors at their request as they deem necessary
- ix) Review the External Auditor's fee arrangements; and
- x) Ensure direct access by the External Auditors to the Committee, the Chairperson of the Committee and the Accounting Officer.

3.4 Responsibilities related to Performance management and Performance evaluation

- i) Review the reports of the internal auditors covering the performance measurements of the Municipality.
- ii) Review the Municipality's performance management system and make recommendations in this regard to Council.
- iii) At least twice during a financial year, report to Council in respect of the performance measurements of the Municipality.
- iv) In reviewing the Municipality's performance management system the Committee should focus on economy, efficiency, effectiveness and impact in so far as the key performance targets set by the Municipality are concerned.

3.5 Risk Management

- i) The Committee should ensure that there are procedures in place to effectively manage risks brought about by complexity, challenge and change. It should therefore ensure that the Council has a risk management policy in place and there are procedures to identify and monitor these risks.
 - ii) In order to carry out this responsibility, the Committee should be informed of and consider the following matters:
 - a. The overall risk management processes in the Municipality.
 - b. The typical risks inherent to the functions and activities of the Municipality as well as the management and control of such risks.
 - c. Areas where there has been a major change in the risk factors.
 - d. Details of the action plans of management to control the level of risk.
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3.6 Compliance Management

- i) Review the effectiveness of the systems for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instance of non-compliance;
- ii) Ensure that the Committee's activities comply with all requirements, as determined by any applicable legislation and regulations promulgated there under, as well as any regulatory/ supervisory authority and shall review the Municipality's compliance with any statutory requirements and regulations, in respect of accounting and financial reporting;
- iii) Request and consider reports and presentations by management on measures implemented to ensure compliance with statutes, internal policies, procedures and controls, including accounting systems and record keeping controls, information systems and technology controls, internal auditing processes, management information systems and reports applied to the day to day management of the Municipality's business, and review the internal control structure including financial control, accounting systems and reporting; and
- iv) Consider the impact of new legislation on the affairs of the Municipality.

3.7 Review the annual financial statements

According to section 166 (2) (b) of the Act, the Committee must 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, its efficiency and effectiveness and its overall level of compliance with the Act, the annual Division of Revenue Act and any other applicable legislation.

3.8 Special investigations

Where circumstances necessitate, the Committee may undertake special investigations referred to it by Council and the Accounting Officer.

3.9 Other responsibilities

Advise on matters relating to:

- i) Effective governance; and
- ii) Any other issues referred to it by the Municipality.

4. REPORTING TO COUNCIL

4.1 Reports of the Committee must be timeously submitted to Council for information. Reports may also be circulated to the Executive Committee.

4.2 The Chairperson of the Audit Committee must report to Council quarterly, in person and/or by means of a written report.

4.3 In addition, the Chairperson of the Audit Committee must report annually to the Council, in person and by means of a written report, summarising the activities, recommendations and decisions of the Committee during the previous financial year.



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4.4 The Chairperson of the Audit Committee must immediately report any material findings or concerns to the Mayor and Speaker, with a copy to the Municipal Manager.

5. TERM OF OFFICE:

As per MFMA-circular 65 on internal audit and audit committee,

- 5.1 To enhance independence of the audit committee, the term of office for members must be strictly adhered to. 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 committee with an option to renew for another three years based on the performance.
- 5.2 Other audit committee members should serve at least a minimum of three years
- 5.3 The head of internal audit and the accounting officer must maintain records of audit committee member contracts and ensure recruitment is undertaken as mentioned above.
- 5.4 Rotation of members is encouraged as it enhances the independence of the audit committee. Members of the audit committee 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 same audit committee.
- 5.5 Members should be encouraged not to terminate their contracts until they have shared their knowledge with other new members. A committee member should give two months' notice prior to resignation.
- 5.6 The committee members 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 the audit committee as well as any other issues.
- 5.7 The date of resignation should be minuted by the secretariat of the audit committee.
- Committee members can be dismissed by the municipal council under certain circumstances.
- The accounting officer or municipal council should consult the charter when dismissing members of the committee. Reasons for dismissal amongst other would normally be detailed in the letter of appointment and contract agreement.
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6. COMPOSITION OF THE COMMITTEE

6.1 Membership

- 6.1.1 The appointment of Committee members is set out in section 166 (5) of the Act. The Committee members are appointed by the Council and shall consist of at least three members.
- 6.1.2 No Councilor may be a member of the Committee.
- 6.1.3 In appointing members to serve on the Committee, consideration should be given to:
- The knowledge and expertise in Financial, Risk and Performance Management
 - The knowledge and expertise of economics or developmental economics
 - The knowledge and expertise in Accountancy or Financial Accountancy
 - The knowledge and expertise of local governance and law
 - Independence
- 6.1.4 All members appointed to the Committee shall enter into a contract with the Municipality setting out the terms and conditions of service.

6.2 Non-Members attending Ex-Officio

- The Municipal Manager, the Chief Financial Officer and the Executive Managers.
- Representatives from the Auditor-General and, where applicable, representatives from the external auditors.
- Representatives of the internal audit function.
- The members referred to in (i) and (iii) above, shall be represented by their respective nominees only when the principal members are absent or engaged elsewhere.
- Other members of management may be invited to attend Committee meetings when there is a functional responsibility to be discussed.
- The Committee may also invite such other persons as it deems necessary to address particular agenda items to be considered.

6.3 Chairperson

- 6.3.1 The Mayor in consultation with the Councilors shall amongst designated members of the Committee appoint a Chairperson.
- 6.3.2 The Chairperson of the Committee must be independent and shall not be any person in the employ of the Municipality and may not be a political office bearer.
- 6.3.3 In the event that the Chairperson is not present at a meeting, the Committee shall elect a member to act as the Chairperson only for the purpose of the meeting.
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6.4 Co-opted members, expert consultants and/ or advice

6.4.1 The Audit Committee may:

- i) Invite, in consultation with the Accounting Officer, any expert consultant to attend a meeting to contribute to the effective functioning of the Committee;
- ii) Obtain independent professional advice on any area of concern relating to the Municipality's activities, at the Municipality's expense. In addition, the Committee may secure the attendance of outsiders with relevant experience and expertise at its meetings, if considered necessary; and

6.5 Secretariat of the Committee

6.5.1 The Municipality shall provide a staff member to provide secretarial services to the Committee.

6.5.2 The secretary shall keep minutes of all meetings and shall include the minutes with the agenda of the next Committee meeting.

6.6 Remuneration of members

6.6.1 Subsistence and other allowances may be paid to members in accordance with his/her conditions of service.

6.6.2 The Accounting Officer or his/ her delegate if deemed necessary, and in consultation with the Council, may determine other remuneration, provided that:

- i) The terms of reference are properly defined in terms of time and cost;
- ii) If applicable, the remuneration is considered taking into account the tariffs as determined by the Institute of Accountant generally/Treasury and Auditor General that regulates the profession that the member belongs to. Also to the rate determined by the council of the municipality which is reviewed on an annually basis
- iii) Council fixed-rate determined by the council of the municipality which is reviewed on an annually basis to be aligned with the National Treasury Regulations

Please refer to the following table for the rates:

Category	Rate	Other expenses
Audit Committee Chairperson	Fixed rate of R9000.00 per meeting	Subsistence and other allowances on proof of submission the evidence/kilometres travelled. An updated transport tariff schedule from



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		department of transport will be used during calculation S&T
Other audit committee members	Fixed rate of R7000.00 per meeting	<p>Subsistence and other allowances on proof of submission the evidence/kilometres travelled.</p> <p>An updated transport tariff schedule from department of transport will be used during calculation S&T</p>

6.7 Indemnity of members

- 6.7.1 The members of the Committee will use reasonable skill and care in the provision and delivery of the services and the deliverables required.
- 6.7.2 All findings and recommendations will be made by the Committee in good faith and based on information available at the time. Accordingly, no statement in any report, letter or other document issued or adopted by the Committee is to be deemed to be in any circumstances a representation, undertaking, warranty or guarantee and no claim whatsoever will lie against the Committee if such statement proves inaccurate.
- 6.7.3 The Council or in the case of the Chairperson, may terminate the services of a committee member when it has been determined that the member has acted contrary to fiduciary duties expected out of a person in the apposition of a member.

7. OPERATION

7.1 Frequency of meetings

- 7.1.1 The Committee shall meet at least four times in a financial year and must meet annually with the external auditors to ensure that there are no unresolved issues of concern.

7.2 Quorum

- 7.2.1 The quorum for all the audit and performance audit committee meetings will be 50% of the appointed members of the committee referred to in sub-paragraph 5.1.1 above.



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7.3 Conflict of interest

- 7.3.1 Subject to the provisions of any legislation, regulation or prescript, where a member of the Committee has an interest in a matter being considered, this interest shall be declared at the beginning of the proceedings of the meeting and the member must recuse him/ herself from the decision making process.

7.4 Access to information

- 7.4.1 The Committee may obtain access to all records and information that it may require from management or employees of the Municipality through the office of the Accounting Officer.
- 7.4.2 The Committee shall have direct access to the Accounting Officer, management, internal and external auditors.

7.5 Confidentiality

- 6.5.1 The Committee undertakes that it will not, at any time, disclose confidential information to any third party for any reason or purpose whatsoever without the express prior written consent of Municipality.

7.6 Notice of meetings

- 7.6.1 Notice of each meeting shall be given in writing to all members of the Committee, at least fourteen days prior to the date on which such meeting is to be held.

7.7 Agenda, papers and distribution

- 7.7.1 The agenda of each meeting shall be prepared and distributed at least seven days prior to the meeting date. Any person attending the meeting may add items to the agenda up to three days before the agenda is finalized in consultation with the Chairperson. Such items must be provided to the secretary of the Committee.

7.8 Minutes

- 7.8.1 The secretary shall prepare draft minutes of the meeting for review by the Chairperson within 10 working days of a meeting. The minutes shall be tabled at the next meeting of the Committee for adoption.

8. OTHER MEETINGS OF THE CHAIRPERSON

- 7.1 Should the external auditors, internal auditors, legal manager or any other party request an audience from the Committee, the Chairperson shall consult the other members prior to convening such a meeting.
- 7.2 The Chairperson may at his/ her discretion meet separately with the external auditors, internal auditors or management to discuss any matter.

9. EVALUATION OF THE EFFECTIVENESS OF THE COMMITTEE

- 8.1 Although the effectiveness evaluation of the Committee is the responsibility of the Council, the Committee shall conduct a self-assessment evaluation on an annual basis. The results of the evaluation shall be made available to the members and Council as soon as convenient.
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8.2 At the last meeting of each year, the Committee shall conduct an evaluation of the Committee's Terms of Reference, the constitution of the membership for the ensuing year and will make any recommendations to improve the effectiveness of the Committee, as may be required.

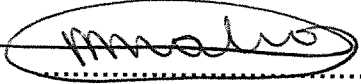
8.3 The assessment of the committee should be done on a quarterly basis by both by the management and the council.

8.4 Results of the assessment could be used as a tool to dismiss the committee members where it deemed ineffective to their duties or responsibilities. Evidence in a form of register of attendance of the meetings, minutes of the audit committee meetings will be used for this assessment.

10. APPROVAL

9.1 The Committee's Terms of Reference as set out in this Charter is hereby approved, for and on behalf of the Municipality:

APPROVED BY THE COUNCIL AND SIGNED BY:


MR NAKO M
MUNICIPAL MANAGER

02 July 2018
DATE


CLLR JANDA S N

DATE