



RAYMOND
MHLABA
MUNICIPALITY

UMANYANO KUPHULISO

AUDIT, RISK & PERFORMANCE COMMITTEE

TERMS OF REFERENCE

INDEX

	Page
1. General definitions	5
2. Introduction and purpose	5
3. The committee's mandate	
3.1 Responsibilities related to management and internal control	
3.2 Responsibilities related to the Internal Audit function	6
3.3 Responsibilities related to External Audit performed by the Auditor-General	
3.4 Performance management and performance evaluation	7
3.5 Risk management	7
3.6 Compliance management	8
3.7 Review Annual Financial Statements	
3.8 Special investigations	8
3.9 Other responsibilities	8
4. REPORTING TO COUNCIL	
5. COMPOSITION OF THE COMMITTEE	
5.1 Membership	9
5.2 Non-members attending Ex-Officio	
5.3 Chairperson	9
5.4 Co-opted members, expert consultants and/or advice	10
5.5 Secretariat of the Committee	10
5.6 Remuneration of members	10
5.7 Indemnity of members	10

6. OPERATION

6.1 Frequency of meetings	11
6.2 Quorum	11
6.3 Conflict of interest II	11
6.4 Access to information	11
6.5 Confidentiality	11
6.6 Notice of meetings	11
6.7 Agenda, papers and distribution	11
6.8 Minutes	11

7. OTHER MEETINGS OF THE CHAIRPERSON

8. APPROVAL

Annexure A- Code of Conduct Annexure

Annexure B- Oath of confidentiality

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

"Act" means the Municipal Finance Management Act, Act 56 of 2003

"Committee" means the Audit Committee and Performance Audit Committee established in terms of Section 166 of the Act

"Chief Financial Officer" - means an 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) of Constitution as category B municipality

"Employee"- means a person in the employ of the Local Municipality

"External Auditors" - means the Auditor General

2. INTRODUCTION AND PURPOSE

The Code of best practices and Conduct published in the King IV Report on Corporate Governance requires that management publicly confirm that they have reviewed the effectiveness of internal control, risk management, corporate governance and financial reporting of the Municipality. The municipality and its entity have taken a stance to adhere to some aspects the Code. The implementation of controls and information systems is essential for the effective discharge of the management's responsibilities.

The requirement for the municipality and municipal entity is to establish Audit Committees as contained in the Sec 166 of the Municipal Finance Management Act of 2003 and Sec 14(2)(a) Municipal Planning and Performance Management Regulations of 2001. The Committee is constituted in terms of Section 166 of the Act.

The Committee is a specially appointed sub - 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. 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.

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 systems and controls, prepare 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 relating to management and internal control

The Committee should advise Council in carrying out its responsibilities in terms of the 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
- ii) Understand the scope of external audit, 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
- vi) 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. Review of 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 prescribed tender procedures;
- iv) Review the appointment, replacement, or dismissal of the Internal Audit function.
- v) Review the organizational 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; and
- xii) Ensure that the Head of Internal Audit has direct access to the Committee, Chairperson, and the Accounting Officer.

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

- i. Ensure that there are no restrictions or limitations placed on the auditors.
- ii. 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.
- iii. Review of audit results pertaining to quality and contents of financial information and the action plans of management.
- iv. Review and confirm the independence of the External Auditors, with specific reference when the work is outsourced by the Auditor General, by reviewing the non-audit services provided and the auditor's assertion of their independence in accordance with the relevant Auditing Standards.

- v. Consider significant disagreements between the External Auditors and management.
 - vi. Consider material unsolved accounting and auditing problems;
 - vii. Meet with the External Auditors at their request as they deem necessary
 - viii. Review the External Auditor's fee arrangements; and
 - ix. Ensure direct access by the External Auditors to the Committee, the Chairperson of the Committee and the Accounting Officer.
- v) Respond to Council on issues raised by Auditor General in the Audit Report

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 submit an audit 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

3.5.1 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.

3.5.2 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.

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 Minutes of the Committee must be timeously submitted to Council for information. Minutes may also be circulated, at the discretion of the Municipal Manager, to the Executive Committee.
- 4.2 The Chairperson of the Committee must report to Council as soon as possible after each Committee, in person and/or by means of a written report.
- 4.3 In addition, the Chairperson 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.
- 4.4 The Chairperson must immediately report any material findings or concerns to the Mayor and Council, with a copy to the Municipal Manager.

5. COMPOSITION OF THE COMMITTEE

5.1 Membership

- 5.1.1 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. No councillor may be a member of the Committee.
- 5.1.2 In appointing members to serve on the Committee, consideration should be given to:
- a. The incumbent's knowledge of financial and risk management matters. At least one member shall have Performance Management background.
 - b. The incumbent's independence; and
 - c. At least one member should be a financial expert.
- 5.1.3 All members appointed to the Committee shall enter into a contract with the Municipality setting out the terms and conditions of service.

5.2 Non-Members attending Ex-Officio

- i) The Municipal Manager, the Chief Financial Officer and the Executive Managers
- ii) Representatives from the Auditor-General and, where applicable, representatives from the external auditors.
- iii) Representatives of the internal audit function.
- iv) 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.
- v) Other members of management may be invited to attend Committee meetings when there is a functional responsibility to be discussed.
- vi) The Committee may also invite such other persons as it deems necessary to address particular agenda items to be considered.

5.3 Chairperson

5.3.1 The members of the Committee shall, amongst themselves, appoint a Chairperson. 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.

5.3.2 In the event that the Chairperson is not present at a meeting, the Committee shall elect a member to act as the Chairperson.

5.3.3 The chairperson shall serve as chair for three years.

5.4 Co-opted members, expert consultants and/or advice

5.4.1 The Committee may:

- i) With the concurrence of the Accounting Officer, co-opt members, with appropriate skills and experience, to add value to the decision-making process as provided in the Act. The Chairperson in consultation with the Accounting Officer or his/her delegate shall determine the remuneration of the co-opted members.
- ii) Invite, in consultation with the Accounting Officer, any expert consultant to attend a meeting to contribute to the effective functioning of the Committee.

iii) 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
iv) Request any investigation within the ambit of its mandate in order to fulfil its role and responsibilities.

5.5 Secretariat of the Committee

5.5.1 Internal Audit unit shall provide secretariat support to the Committee.

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

5.6 Remuneration of members

5.6.1 Remuneration shall be less than but limited to rates set by the National Treasury Regulation and shall include pre-meeting preparation time, subsistence and travelling within the Eastern Cape.

5.6.2 Having regard to the functions performed by the members of the Committee and in relation to the activities of the Committee and pursuant to the specific power conferred upon them by the PFMA and MFMA that govern the spheres of government, members of the Committee shall be paid such special remuneration in respect of their appointment as shall be fixed by council;

5.6.3 The chairperson of the Committee shall, in addition to his or her remuneration as member, receive an additional 15 percent of the normal fee by virtue of being a chairperson.

5.6.4. The members of the Audit Committee shall be remunerated at a fixed amount of R 5570.00 for each ordinary meeting sitting subject to annual review/adjustment as per National Treasury Regulations. An additional Preparation Time fee of R1200.00 payable.

5.6.5. The members of the Performance Audit Committee shall be remunerated at a fixed amount of R2600.00 for each ordinary meeting- This committee shall be under a different chairmanship than that of the Audit Committee. No preparation time shall be reimbursed for this meeting.

5.6.4 Traveling expenses for the members to attend committee meetings shall be reimbursed at the rate determined by the latest S & T municipal policy,

5.6.5 On Review of Annual Financial Statements a member shall be remunerated R 5570.00 and additional preparation time fees of R1200.

5.6.6 On request by the Municipal Manager, the chairperson of the Audit Committee shall attend advisory meetings and council meetings and shall be given an allowance of R5000.00 for meeting attendance.

5.7 Indemnity of members

5.7.1 The members of the Committee will use reasonable skill and care in the provision and delivery of the services and the deliverables required.

5.7.2 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.

5.7.3 The Council or in the case of the Chairman, with the concurrence of the other members of the Committee, may terminate the services of a committee member when it has been determined that the member has acted in a negligent manner.

6. OPERATION

6.1 Frequency of meetings

6.1.1 The Committee shall meet at least four times in a financial year and must meet annually with the external auditors to ensure that unresolved findings are dealt with.

6.2 Quorum

6.2.1 The quorum for meetings will be 50% plus 1 of the members of the Committee referred to in sub-paragraph 5.1.1 above.

6.3 Conflict of interest

6.3.1 Subject to the provisions of any act, 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.

6.4 Access to information

6.4.1 The Committee may obtain access to all records and information that it may require from management or employees of the Municipality. The Committee has direct access to the Accounting Officer, management, internal and external auditors.

6.5 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 Raymond Mhlaba Local Municipality.

6.6 Notice of meetings

6.6.1 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.

6.7 Agenda, papers and distribution

6.7.1 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. Such items must be provided to the secretary of the Committee.

6.8 Minutes

6.8.1 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.

7. 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.

8. 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.

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 Council shall at least annually assess the effectiveness and independence of the committee and its members, below will be a template used for the assessment, this process will be driven by the Honourable Mayor to council members.

9 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 by the Municipal Manager.

APPROVED BY THE MUNICIPAL MANAGER

Print Name..... U.T. MALINZI

Signature..... 