



KGATELOPELE LOCAL MUNICIPALITY

**AUDIT, PERFORMANCE AND RISK COMMITTEE
CHARTER**

2017/2018 FINANCIAL YEAR

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1. INTRODUCTION

The Municipality is required to have an audit committee in terms of Section 166 (1) of the Municipal Finance Management Act (MFMA) no 56 of 2003 as well as a performance committee in terms of Section 49 of the Municipal Structures Act (MSA) no 32 of 2000 and further the King IV report on corporate governance.

The APRC is an independent advisory body with no executive status and works in an advisory capacity to the Municipal Council and the Accounting Officer. It is primarily responsible for oversight over the Municipality's governance, legislative compliance, control and risk management processes.

Accordingly, it must report and make recommendations to the Council but the Council and the Accounting Officer retain the responsibility for implementing such recommendations.

The Charter is the written terms of reference approved by the Council which outlines the mandate of the committee. It becomes the policy of the APRC which then informs the contracts of the APRC members.

Its purpose is to set out the membership, authority, responsibility and status of the APRC within the Municipality. The APRC of the Municipality shall perform its activities in line with this charter and the charter shall be reviewed at least annually to ensure its relevance.

Therefore, this document is thus prepared in view of the abovementioned and is accordingly to be known as the *Audit, Performance and Risk Committee Charter of the Kgatelopele Local Municipality*.

2. OBJECTIVE

The objective of the Charter is to guide the activities of the APRC on an ongoing basis.

In terms of Section 166(2) of the MFMA "An Audit, Performance and Risk Management 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, of municipal 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 MFMA, the annual Division of Revenue Act (DORA) and any other applicable legislation
 - (viii) Performance evaluation and
 - (ix) Any other issues referred to it by the municipality or municipal entity

In addition to the above, the APRC must;

- (b) Review the annual financial statements (AFS) to provide the municipal council 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 MFMA, the DORA and any other applicable legislation.
- (c) Respond to the municipal council on any issues by the Auditor-General (AG) in the audit report;
- (d) Carry out such investigations into the financial affairs of the municipality as the municipal council may request and
- (e) Perform such other functions as may be prescribed.

The APRC Shall ensure that management demonstrates and stimulates the necessary respect of the internal control structure amongst all parties and in so doing, it shall maintain free and open channels of communication between the Committee, the External/independent Auditors (EA), the Internal Auditors and management of the organization.

The APRC shall provide internal audit unit with the status and level of independence it requires to effectively perform its responsibilities, as internal Audit Unit will report functionally to the AC.

3.COMPOSITION AND MEMBERSHIP REQUIREMENTS

Members should be selected from different areas of expertise to enhance the APRC's overall knowledge of the Municipality and the ability to discharge its obligations and provide appropriate recommendations to the Council.

The role and responsibilities of an APRC can be used as a baseline to obtain relevant skills that members must possess. This will ensure that appointed members are competent to carry out their responsibilities as set out in the APRC Charter.

- The APRC must comprise of at least (3) persons who is not in the employee of the Municipality and at least one alternative member.
- The number of members can however be increased to address the requirements, precarities and needs of the Municipality
- One of the members of the Committee, who are not in the employee of the Municipality, must be the Chairperson of the Committee
- The Chairperson of the committee shall be appointed by the Council.
- Councillors are not allowed to be members of the APRC
- The appointment and re-appointment of the members of the Committee shall be done by the Council.
- Appointed members should enter into a contract with the municipality according to the approved terms of reference.
- The period of service contract shall be determined by the Council.

4.INDEPENDENCE

The APRC should be independent and safeguarded from undue influence in exercising its responsibilities in an objective manner. To enhance the audit committee functioning, the following is required:

- The APRC chairperson and members should be independent
- The APRC chairperson and members should not be biased but exhibit an independence of mental attitude during deliberations;
- All APRC members should declare private and business interest in every meeting and;
- All members should not carry out any business with the municipality or municipal entity

5.RESPONSIBILITIES

5.1 Responsibilities related to Internal Audit

The APRC must in relation to Internal Audit:

- Regularly review the functional and administrative reporting lines of the internal auditor to ensure that the organisational structure is consistent with the principles of independence and accountability.
- Review and approve the internal audit charter, including internal audit strategic plan.
- Confirm that the annual audit plan makes provision for critical risk areas in the municipality
- Advise the municipality on resources allocated to give effect to the work output of the internal audit function;
- Ensure that there is support for the Internal Audit unit for Senior Management
- Confirm with management that internal audit findings are submitted to the APRC on a quarterly basis
- Confirm actions taken by management in relation to the audit plan
- Consider and review reports relating to difficulties encountered during the course of the audit engagements, including any scope limitation or access to information relating to the Accounting officer that remain unresolved;
- Evaluate the performance of internal audit activity in terms of the agreed goals and objective as captured in the audit plan
- Ensure that the Head of Internal audit has reasonable access to the Chairperson of the APRC
- 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.

5.2 Responsibilities relating to External Audit

The APRC must in relation to external audit

- Take cognizance of the scope of work undertaken by the external auditor and the extent of coordination with the internal audit unit
- Review annual external audit plans, audit fees and other compensation;
- Review reports and monitor management's implementation of audit recommendations and municipal council resolutions in the new financial year
- Review the report of the financial statements and matter raised therein for reasonability and accuracy
- Review any interim reports issued in order to take cognizance of the issues raised in determining the follow up work of the internal audit
- Conduct a review of the extent of which previously reported findings by the external auditor have been addressed by the municipal council
- Provide advice to the Accounting Officer on actions taken relating to significant matters raised in external audit reports
- Liaise with the external auditors on any matter that the audit committee consider appropriate to raise with the external auditor
- Ensure that the external auditors have reasonable access to the management and chairperson of the APRC
- Address any potential restrictions or limitations with the Accounting Officer and Council
- Address outstanding matter raised by the external auditors and any findings are dealt with conclusively in an expeditious manner

5.3 Responsibilities relating to the Annual Financial Statements

The Accounting Officer must prepare the Annual Financial Statements of the Municipality and submit to the Auditor General for auditing

The APRC must review the financial statements, prior to submission to the Auditor General and advise Council with an authoritative and credible view of the financial position by;

- Confirming if the municipal audit file is prepared in line with applicable standards and guidance contained in MFMA Circular 50 or as updated
- Review the unaudited annual financial statement of the municipality 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 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
- Reviewing efficiency and effectiveness of internal control over AFS preparation and reporting.

Specifically, with regards to Annual Financial Statements, the APRC 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 judgements, 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 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-or -year comparisons and composition of primary group e. g salaries as a component of operations, whether operations are undertaken on a sustainable basis, operations at surplus or deficit, efficiency and solvency ratios, etc.

5.4 Responsibility relating to Control Environment and Risk management

The APRC shall have an advisory role with regards to governance, control and risk management processes. The APRC shall have a degree of understanding of the manner in which the Internal and External audit review controls, the risks to which the Municipality is exposed and how they are managed.

The APRC shall:

- Evaluate the policies and procedures implemented by Management to ensure that the accounting and information systems, related controls and security are adequate and effective
- Evaluate the adequacy, and effectiveness of the risk management process
- Reviewing and recommending disclosures on matters of risk and risk management in the Annual Financial Statement (AFS)
- Ensuring that internal and external audit plans are aligned to the risk profile of the Municipality
- Satisfy itself that it has appropriately addressed the following areas;
 - i. Financial reporting risks, including the risk of fraud
 - ii. internal financial controls; and
 - iii. IT risks as they relate to financial reporting
- Evaluate the effectiveness of Internal audit in its responsibilities of risk management
- Review the process for monitoring the attainment of specific goals and objectives developed by Management in the Integrated Development Plan (IDP)/ strategic operational plans
- Evaluate and review Management's attitude towards Internal Audit unit and determine whether recommendations made by the Internal Audit are adhered to and taken into consideration for the improvement of internal control structure

- Review the significant cases of employee conflict, misconduct and resolution of these cases
- Review processes for communicating the organisation's code of conduct as well as monitoring compliance, with the emphasis on business ethics, corporate governance and disclosure of conflict of interest
- Review any unresolved issues and matter that exist between Internal and External and Management, encourage methods to resolve these incidents; and Conduct follow up activities and monitor how Management has addressed and adhered to the internal audit and external audit findings.

5.5 Responsibilities relating to Performance Management

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

5.6 Responsibilities relating to Information Technology Governance

- The APRC 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 APRC 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.

5.7 Responsibilities relating to Council

- The APRC must regularly update the Council on the activities of the committee and make appropriate recommendations through a report by the Chairperson of the committee
- Ensure that Council is aware of matters that may significantly impact on the financial condition or affairs of the Municipality

6. AUTHORITY

In accordance with Section 166 (3) of the MFMA, in performing its functions, an Audit Committee-

- (a) Has access to the financial records and other relevant information of the Municipality or municipal entity

In this regard, the APRC shall be provided with the resources it needs to investigate or perform its mandate as legislated and as per this charter and shall safeguard all the information supplied to it within the ambit of the law.

The APRC shall not perform any Management functions or assume any Management responsibilities. It merely provides a forum for discussing business risks and control issues for developing relevant recommendations for consideration by the Accounting Officer.

The APRC may communicate any concerns it deems necessary to the Accounting Officer, the Council and the Auditor General.

In order to carry out its responsibilities effectively and independently, the APRC has the following authority:

- Investigate any activity within its terms of reference
- Seek any information that it requires from any employee of the Municipality and other sources and all employees are directed to cooperate with any request made by the APRC
- Meet with Municipal officials, External Audit, or other parties, as necessary
- Have full, free and unrestricted access to all the activities, records, property and personnel of the Municipality
- Review the activities of Internal and External audit
- Determine its own procedures in consultation with the Head of Internal audit and the Municipal Council
- To have direct access to, and communicate freely with, the Council, the Accounting Officer, internal and external Audit about any matter requiring attention.
- The committee is entitled to obtain independent professional advice on any issue within its scope and the municipality will pay for such advice if the council approved and procedures has been followed

7. MEETING PROCEDURES

In accordance with Section 166(4) of the MFMA states that "an APRC must meet as often as is required to perform its functions, at least for (4) times a year. "Where possible, a schedule of meeting should be agreed at the beginning of the financial year and specify the key items to be discussed at each of the four meetings. The Chairperson may convene special meetings at the request of any member where necessary which should be reported to the Municipal Council.

- A reasonable notice of the meeting and the business to be conducted shall be communicated in writing to the members of the APRC, the Accounting Officer, the internal audit and the external audit to make presentations as deemed necessary
- The notice shall be given at least (10) ten days prior to the date on which such meeting is to be held.
- The agenda and other meeting documentation should be distributed to all members and attendees at least (7) seven days prior to the date of the meeting. Any person who is going to attend the

meeting may request through the Chairperson, not less than (7) seven days prior to the meeting, to add items deemed necessary to the agenda.

- Draft minutes of the meeting shall be prepared for review by the Chairperson of the APRC within (14) fourteen days after the date of the meeting. Copies of the revised minutes must be distributed to all members and other relevant parties within one (1) month of the date of the meeting.
- The quorum for the meeting will be two (2) members of the APRC present throughout the meeting either in person or by telecommunication device permitting all persons participating in the meeting to speak to and hear each other. If a quorum is not present for any meeting, the meeting should be postponed and an alternative date should be proposed.
- The APRC shall keep all minutes of proceedings of its meetings and shall deliver the same including reports and recommendations to the Accounting Officer
- The Chairperson of the APRC should attend Municipal Council meetings to provide feedback and answer any questions relating to the APRC quarterly reports
- Ex-officio members or representatives attending APRC meetings per invitation shall not have a vote at the meeting of the APRC
- Members shall make an effort to attend and participate in all the meetings. Members who are not actively involved could be replaced if three meetings are not attended.
- The representative of the External audit and internal audit in relation to any matter falling within the ambit of the APRC shall be present at all meetings upon request by the Chairperson of the committee
- The Chairperson of the APRC may at his or her discretion invite other members of top/ middle management to attend and to be heard at the meeting of the APRC
- The Accounting Officer may at his or her discretion invite any other employees to attend the committee meetings.
- Periodically, the APRC should separately meet with Management without any other stakeholders involved and at least once a year it should, without any of the Municipality's management present, meet separately with the Head of internal audit and the external audit to resolve queries and ensure that all issues of concern are addressed.
- Internal audit shall perform the secretariat function for the APRC or any other delegated by the Accounting Officer. The APRC secretary shall attend all meetings of the APRC except for instances when requested not to be present by the Committee and shall be responsible for:
 - a) Drawing of the agenda
 - b) Keeping minutes of all meetings of the APRC
 - c) Arranging the meetings
 - d) Gathering and distribution of the agenda paper, minutes, information packs etc.

8.REMUNERATION

In terms of the MFMA Circular 65 of 2012, members of the audit, performance and risk committee employed by national, provincial or local government, its agencies or other entities regarding as falling under the definition of an organ of state, are not allowed to receive remuneration for being a member of an audit, performance and risk committee.

APRC members not being in the public service shall be remunerated for their services on the Committee based on the meetings attended.

The remuneration shall be in accordance with the day tariff as prescribed and amended in terms of National Treasury Regulations.

All members shall be reimbursed for kilometers travelled and related expenses

9. REPORTING

The Chairperson or his or her delegate of the APRC must report to the Municipal Council on the operations of the APRC and the Internal audit function and attend Council meetings at least twice in a financial year to provide feedback and answer any questions relating to the audit committee's reports. This report should include:

- A summary of the work performed by the Internal audit and the audit committee against the annual work plan
- Effectiveness of internal controls and additional measures that must be implemented to address identified risks
- A summary of key issues dealt with, such as significant internal and external audit findings, recommendations and updates status thereof
- Progress with any investigations and their outcomes
- Details of meetings and the number of meetings attended by each member
- Other matters requested of the internal audit and APRC
- The quality of in-year management and monthly/quarterly reports submitted in terms of the MFMA and DORA; and
- Its annual evaluation of the Annual Financial Statements

The APRC shall prepare a report annually which will be incorporated into the municipality's annual report covering;

- The adoption of the terms of reference
- Resolution taken by council and implementation status of recommendations made; and
- Whether the APRC satisfied its responsibilities in compliance with its terms of reference.

10. EVALUATION OF THE AUDIT, PERFORMANCE AND RISK COMMITTEE

- The APRC shall perform an evaluation of its performance, at least annually, to determine whether its functions are effective and submit a report to the Accounting Officer
- The Municipal Council or their delegates shall performance an evaluation of the performance of the APRC and Chairperson of the Committee, at least annually to determine if they function effectively.
- The results of the evaluation should be presented to the APRC for discussion.

11. APPROVAL OF THE CHARTER

Reviewed by the Municipal Manager	Recommended by: Chairperson of the APRC	Approved by the Chairperson of the Council
Name: M-A Motswana Signature: M-A Motswana Date: 06/09/2017	Name: J V TONDER Signature: J V TONDER Date: 30/08/2017	Name: CLM. NORMAN PRINCE MAYOR Signature: CLM. NORMAN PRINCE Date: 07/09/2017

*APRC means the Audit, Performance and Risk Committee

AUDIT, PERFORMANCE AND RISK COMMITTEE TERMS OF REFERENCE.

1. INTRODUCTION

The purpose of this document is to set out the terms of reference of the audit, performance and risk committee who is an advisory body of the Council.

2. LEGISLATION ASSOCIATEDS WITH THE COMMITTEE

The Municipal Finance Management Act of 2003, section 166(1) states that: Each municipality and each municipal entity must have an audit committee.

3. TERMS OF REFERENCE

The audit committee must advise the municipal council, the political office bearers, the accounting officer and the management staff 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
- Compliance with this Act, the division of Revenue Act and any other applicable legislation
- Performance evaluation; and any other issues referred to it by the municipality
- Review the annual financial statements to provide to council of the municipality with an authoritative and
- Credible review of the financial position of the municipality
- Its efficiency and effectiveness and its overall level of compliance with this Act, the annual Division of revenue act and any other applicable legislation
- Respond to the council on any other issues raised by the Auditor General in the audit report
- Carry out such investigations into the financial affairs of the municipality ad the council of the municipality
- And perform such other functions as may be prescribed

4. THE AUTHORITY OF THE AUDIT COMMITTEE

In performing its functions, the audit committee-

- Has access to the financial records and other relevant information of the municipality
- Must liaise with the internal audit unit of the municipality; and
- Must liaise with the person designated by the Auditor-General to audit the financial statements of the municipality

5. MAINTENANCE OF THE TERMS OF REFERENCE

The reviewing and amending of this term of reference is the responsibility of the committee. Any proposed changes to the Terms of reference must be reported for recommendation and approval by Council.