

SWELLEN DAM MUNICIPALITY



REVISED AUDIT AND PERFORMANCE AUDIT COMMITTEE (APAC) CHARTER

2023/2024

APPROVED BY COUNCIL ON 26 JULY 2023 PER ITEM A116

1. INTRODUCTION

The Council hereby agrees to establish an Audit and Performance Audit Committee (**APAC**) in the manner set out in this charter.

- a) Section 166 of the Municipal Finance Management Act No. 56 of 2003, requires every Municipality to establish and maintain an Audit Committee, as an independent appraisal function.
- b) Regulation 14 (2) (a) of the Municipal Planning and Performance Management Regulations provides for the establishment of a Performance Audit Committee. In terms of Regulation 14 (2) (c) the Audit Committee can also fulfil the role of the Performance Audit Committee.

2. OBJECTIVES

- 2.1 The overall objectives of the APAC are to ensure that management has created and maintained an effective control environment in the municipality and that management demonstrates and stimulates the necessary respect for the Swellendam Municipality's Systems, Policies and Procedures and for the internal control structure. The APAC should also have an oversight on the issue of non-compliance with the conditions attached to infrastructure delivery and prescribed plans such as the IWMP, WSDP and others.
- 2.2 In order to meet these overall objectives, the APAC should concentrate its efforts in commenting and making recommendations on the following:

2.2.1 Finance

- The quality of accounting controls;
- The standard of financial reporting within the municipality and hence strengthen the objectivity and credibility of financial reporting.

2.2.2 Management

- The promotion of transparency and accountability;
- The promotion of corporate governance;
- Improving the quality of administration and management controls.

2.2.3 Information Technology Governance

- IT governance,
- Access controls,
- Safeguarding of information in the municipality.

2.2.4 Risk Management

- The APAC is an independent committee, responsible to oversee the municipality's control, governance and risk management. This committee is vital, among other things, to ensure that financial, IT and fraud risk, related to financial and performance reporting are identified and managed.

- Its role includes to advise
 - Whether a comprehensive risk management framework exists
 - Whether a sound and effective approach is being followed in developing strategic risk management plans
 - Whether adequate combined assurance is given to address all the significant risks facing the municipality.

2.2.5 Audit

- Provide input and feedback on the financial statements and audit coverage proposed by external audit and provide feedback on the audit services provided
- Review all external audit plans and reports and monitor management's implementation of audit recommendations
- Provide advice to Council on action taken on significant issues raised in external audit reports
- Evaluate the results and extent of the internal audits undertaken; and the results of the external Audits
- Strengthen the independence of both external and internal audit functions
- Review external audit costs
- Oversee the coordination of audit programs conducted by internal and external audit
- Ensure that the Internal Audit Strategic and Operational plans are based on the municipality's risk assessment and approve them
- Advise Council on the adequacy of internal audit (IA) resources needed to carry out auditing responsibilities, including the completion of the IA plan
- Review all high-risk audit reports and provide advice to Council on significant issues identified in the audit reports and action taken on issues raised.

2.2.6 Compliance

- To review and have oversight over the compliance with Council's policies and standing orders;
- To review and have oversight over the compliance with relevant laws and ordinance.

2.2.7 Annual Financial Statements

The APAC reviews the annual financial statements of the municipality in order to provide oversight on the financial position of the municipality, its efficiency, effectiveness and overall compliance with the Municipal Finance Management Act (MFMA), Municipal Systems Act (MSA), Division of Revenue Act (DORA) and other applicable legislation and regulations.

2.2.8 Oversight and Internal Control

- The APAC is responsible for monitoring, overseeing, and evaluating the the internal audit activity, and the external auditors as those duties and responsibilities relate to the Municipality's processes for controlling its operations. The Mayor is responsible for the MM and the Mm for senior management. APAC cannot perform this function.
- The APAC is also responsible for determining whether all major issues reported by the internal auditing activity, the external auditor, and other outside advisors have been satisfactorily resolved.
- The APAC is responsible for reporting to Council all important matters pertaining to the Municipality's controlling and risk management processes.

2.2.9 Performance Management

- Review compliance with in-year reporting
- Review the quarterly performance reports submitted by internal audit
- Review and comment on municipality's annual reports within the stipulated time frame
- The APAC assesses its performance and achievements against its charter on an annual basis
- The findings of the self-assessment are presented by the Chairperson to the Municipal Manager and Council
- Review and comment on compliance with statutory and contractual requirements and performance management best practice and standards
- Review and comments on the alignment of IDP, Budget, SDBIP and performance agreements (including performance agreements with Senior management)
- Review and comment on relevance of indicators to ensure these are measurable and related to services performed by the municipality
- Review and comment on the municipality's performance management system and make recommendations for its improvement
- Ensure compliance with legislation in terms of Council's policies and standing orders

3. COMPOSITION

- 3.1 The APAC is a statutory Committee of Council and, accordingly, its composition will be determined by resolution of Council. The recommended composition is listed below:
- 3.1.1 The APAC should consist of at least three persons with appropriate experience, whom may not be in the employ of the Municipality;
- 3.1.2 One of the members who is not in the employ of the Municipality, must be appointed as the Chairperson of the committee by Council in writing;
- 3.1.3 No Councillor may be a member of an audit committee;
- 3.1.4 Members should be appointed for a term of three years and may be reappointed based on performance.
- 3.1.5 When a member of the APAC cannot for any reason continue as a member, he / she shall be forthwith replaced. Such a replacement may either be for the balance of the period that the member being replaced would have served or a full three years period. This shall be at the discretion of the Council.
- 3.1.6 A quorum shall be two members and the Chairperson shall have a casting vote in addition to his / her deliberative vote;
- 3.1.7 External members shall be remunerated for services rendered as by Council resolution;
- 3.1.8 The APAC may co-opt additional members as it deems fit.

4. SKILLS AND EXPERIENCE

The appointed members should collectively possess the following skills and experience:

- Private and public sector experience;
- An understanding of service delivery priorities;
- Good governance and/or financial management experience;
- An understanding of the role of Council and Councillors;
- An understanding of the operations of the municipality;
- Familiarity with risk management practices;
- An understanding of internal controls;
- An understanding of major accounting practices and public sector reporting requirements;
- An understanding of public sector reforms;
- Familiarity with legislation applicable to municipalities;
- An understanding of the roles and responsibilities of internal and external auditors;
- An understanding of the treatment of allegations and investigations; and
- An understanding of the performance management system.

5. MEMBERSHIP AND INDEPENDENCE

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

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

6. TERMS OF OFFICE

To enhance independence of the APAC, 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 APAC.

Other APAC members should serve at least a minimum of three years with an option to renew for another three years, based on performance. Recruitment of members should be staggered to prevent a loss of knowledge and skills in the committee.

Rotation of members is encouraged as it enhances the independence of the APAC. Members of the APAC 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 committee.

A APAC member should give two months' notice prior to resignation. The date of resignation should be minuted by the secretariat of the APAC.

APAC members can be dismissed by the Municipal Council under certain circumstances. The Municipal Manager or municipal Council should consult the Chief Audit Executive when dismissing members of the committee. Reasons for dismissal amongst others could include:

- Where an on-going conflict of interest exists;
- Where a member has not performed to expectations; and
- Where there is a total breakdown in trust in the relationship between the committee member; the Council and management.

7. ATTENDANCE

7.1 Senior Management (including Municipal Manager, Chief Financial Officer and Heads of Departments), regardless of designation, should attend all meetings of the committee;

7.2 Other divisional or section heads should attend meetings of the APAC as and when necessary;

7.3 The head of Internal Audit of the municipality and a representative of the external auditors should also attend all meetings of the Committee unless this proves

impractical;

- 7.4 The APAC is empowered to invite other persons with relevant experience both internally and externally to attend its meetings as it deems fit;
- 7.5 The APAC should meet at least on a quarterly basis and may convene special meetings when circumstances warrant such meetings;
- 7.6 Secretarial services to the committee will be provided by the Council's secretariat/ internal audit (this includes but is not limited to the distribution of APAC agendas, and APAC claims submissions etc.).

8. AUTHORITY

- 8.1 The APAC is authorized by the Council to investigate any matter within its terms of reference. It is, furthermore, authorized to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the committee.
- 8.2 To establish, maintain, and assure that the municipality's internal audit activity has sufficient authority to fulfil its duties, the APAC will:
 - (a) Approve the Internal Audit Activity's charter.
 - (b) Approve the Risk-Based Internal Audit Plan.
 - (c) Approve the Quality Assurance and Improvement Programme
 - (d) Approve the Internal Audit Activity's Methodology
 - (e) Receive communications from the Chief Audit Executive on the internal audit activity's performance relative to its plan and other matters.
 - (f) Approve decisions regarding the appointment and removal of the Chief Audit Executive. Administrative function not APAC function.
 - (g) Make appropriate inquiries of management and the Chief Audit Executive to determine whether there is inappropriate scope or resource limitations.

9. DUTIES OF THE APAC

- 9.1 To consider the annual financial statements, related policies; and Performance Report.
- 9.2 To consider and review the audit plans of the internal auditors to ensure that these address the critical risk areas of the business of Council and to formulate instructions to the internal auditors;
- 9.3 To ensure that no restrictions are placed on the rights, obligations and responsibilities of any internal and external auditors of the Council;
- 9.4 To evaluate all internal and external audit reports and the replies thereto;
- 9.5 To consider problems, of whatever nature, that may be experienced by internal or external audit while conducting an audit;
- 9.6 To consider any recommendation pertaining to the audit of the Municipality or the amendment / rescindment of any approved recommendation;

- 9.7 To facilitate proper communication and co-ordination between the internal and external auditors of the Council;
- 9.8 To evaluate the effectiveness of auditing functions of the Council;
- 9.9 To evaluate the cost of the External Auditing function in terms of value-for-money;
- 9.10 To report to Council on the activities of the Committee;
- 9.11 To review the Auditor-General's report on the financial statements and Council's and Management's responses thereto with a view to ensuring satisfactory responses and corrective action, where necessary;
- 9.12 To review measures for safeguarding Council assets;
- 9.13 To review any proposals for improving efficiency, effectiveness and economy;
- 9.14 To review the effectiveness of the Council's internal checking and control measures identified during internal and external audits and the Municipal Manager's follow-up action;
- 9.15 To receive and consider quarterly reports from the Chief Audit Executive;
- 9.16 To review the role and position of risk management in a corporate context, with the aim of critically appraising it;
- 9.17 To summons members of management to present themselves before the committee to provide explanations (written or oral) as may be deemed necessary
- 9.18 To review compliance with in-year reporting
- 9.19 To review the quarterly performance reports submitted by internal audit
- 9.20 To review and comment on municipality's annual reports within the stipulated timeframe
- 9.21 To review the APAC performance and achievements against its charter on an annual basis
- 9.22 The findings of the performance self-assessment should be presented by the Chairperson to the Municipal Manager and Council
- 9.23 Review and comment on compliance with statutory and contractual requirements and performance management best practice and standards
- 9.24 Review and comments on the alignment to the IDP, Budget, SDBIP and performance agreements
- 9.25 Review and comment on relevance of indicators to ensure these are measurable and related to services performed by the municipality

- 9.26 Review and comment on the municipality's performance management system and make recommendations for its improvement
- 9.27 Review and comment on the compliance with legislation in terms of Council's policies and standing orders

10. THE RESPONSIBILITY OF APAC IN COMBINED ASSURANCE

The APAC must ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities. This role emanates in the following primary tasks:

- 10.1 Ensure that the responsibilities for combined assurance are appropriately reflected in the APAC Policy.
- 10.2 Encourage cooperation between internal and external audit.
- 10.3 Review coverage and scope between internal and external audit to avoid duplication and allow for possible cost savings from the integration of the two functions.
- 10.4 Review, provide input and adopt the Combined Assurance Plan (CAP).
- 10.5 Ensure that the CAP can be clearly linked to the risk assessment.
- 10.6 Ensure that all high-risk areas are included in the plan.
- 10.7 Review quarterly reports that reflect actual performance by the different assurance providers and compare with the CAP.
- 10.8 Review corrective action taken when identified risks are not being covered by assurance activities.

11. REPORTING BY THE APAC

11.1 The Chairperson of APAC should report to the responsible committee and the Council, and reports should at least cover the following;

- o Based on the assurance reports provided, express an opinion on the governance, risks management and control processes of the Municipality
- o Review and oversight of the financial statements where relevant;
- o The extent, standard and results of the internal and external auditing functions;
- o Comment on the compliance with relevant laws and legislation;
- o Any other matters which should be brought to the attention of the Council for solution.

11.2 Abovementioned quarterly reports should also be submitted to the Municipal Public Accounts Committee, together with the Internal Audit reports.

12. REPORT TO THE APAC BY AUDITORS

12.1 Whilst it is recognized that the Municipal Manager is the Chief Executive and Municipal Manager for the Council and all matters should be referred to him / her, the external auditors may also refer matters relating to the conduct of an audit to those individuals responsible for the monitoring of the financial reporting process, internal control, performance and risk management and to the Audit and Performance Audit Committee (APAC).

Examples of matters that may need such communication include:

- The level of the auditor's responsibility in terms of South African Auditing Standards (SAAS) and / or the Standards for the Professional Practice of Internal Auditing and / or generally accepted government standards;
- The initial selection of, and any changes in significant policies and practices, especially in controversial or emerging areas for which there may be a lack of authoritative guidance;
- Management's method of preparing sensitive accounting information, and the auditor's opinion as to the adequacy of this information;
- Disagreements with management about matters that impact on the financial statements, reports on performance management or the auditor's report;
- Illegal acts, irregularities and errors detected during the audit and based upon random samples being chosen;
- Serious difficulties encountered in dealing with management;
- The auditor's responsibility with regard to other information published with the audited annual financial statements.

13. REPORTING TO THE APAC BY INTERNAL AUDIT

13.1 On a quarterly basis, Internal Audit should report significant / material audit findings to APAC, Municipal Manager and Executive Mayor.

13.2 The quarterly reports should:

13.2.1 Summarise the key matters / findings developed during each quarter;

13.2.2 Indicate the corrective actions already implemented or management's plan for corrective action. When the deficiency findings, thus reported, have not been corrected, the findings should be reported in subsequent follow-up reports until the issue has been resolved.

13.3 At APAC meetings, the Head: Internal Audit should also present other information including, but not limited to his / her own department or division's financial budget, its audit plans, its strategic plan, its annual objectives and status reports

on actual audit days, staffing and projects directed at improvement of internal audit function.

14. REPORTING TO THE APAC: OTHER

14.1 Any staff member may, in writing, refer to the Chairperson of the APAC any matter that they reasonably believe or are satisfied of as being necessary or appropriate to the audit of the Council, including dissatisfaction with the conduct or findings of any audit.

14.2 The APAC shall pursue each and every submission made to it by a staff member, regard being had to the need to obtain the comments of the responsible Head of Department or, where necessary, the Chief Financial Officer, the Municipal Manager or a Senior Manager on such submission and, upon receipt of all information, consider the submission received and make a suitable finding thereon and report such finding to the Council, through the normal channels of communication, for consideration.

15. HISTORY OF REVIEW AND APPROVAL

Approval/ Review Period	Council Approval
2014/2015	Approved by Council on 31 March 2014 Item A2548
2015/2016	Approved by Council on 27 August 2015 Item C16
2016/2017	Approved by Council on 29 September 2016 Item 147
2017/2018	Approved by Council on 29 June 2017 Item A94
2018/2019	Approved by Council on 21 June 2018 Item A71
2019/2020	Approved by Council on 25 July 2019... ItemA81
2020/2021	Approved by Council on 15 June 2020 Item A59
2021/2022	Approved by Council on 24 June 2021 Item A85
2022/2023	Approved by Council on 30 June 2022 Item A116
2023/2024	Approved by Council on 26 July 2023 Item A116