

SWELLENDAM MUNICIPALITY



AUDIT AND PERFORMANCE AUDIT COMMITTEE (AUDIT AND PERFORMANCE AUDIT COMMITTEE) CHARTER

2024/2025

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1. INTRODUCTION

The Council hereby agrees to establish an Audit and Performance Audit Committee 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) In terms of the Municipal Planning and Performance Management Regulation No. 22605 of 2001 (24 August 2001) of 14 (2) (a) it states that a performance audit committee must be appointed and must at least include one person who has expertise in performance management.

2. OBJECTIVES

- (a) The overall objectives of the Audit and Performance Audit Committee are to assist and advise 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, Procedures, and internal control structure. The Audit and Performance Audit Committee should also have oversight on the issue of non-compliance with the conditions attached to infrastructure delivery and prescribed government and municipal plans such as the IWMP, WSDP, and others.
- (b) To meet these overall objectives, the Audit and Performance Audit Committee should concentrate its efforts on commenting and making recommendations on the following:

2.1. Finance

- The quality of accounting controls;
- The quality of financial reporting within the municipality is based on appropriate accounting disclosures, thereby enhancing the objectivity and credibility of financial reporting.

2.2. Management

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

2.3. Information Technology Governance

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

2.4. Risk Management

The Audit and Performance Audit Committee is an independent committee, responsible for overseeing the municipality's control, governance, and risk management processes. This committee is vital to assist and provide advise that financial, IT, and fraud risks, related to financial and performance reporting are identified and managed.

- Its role includes advising on:
 - 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.

2.5. Audit

The Audit and Performance Audit Committee will assist and provide advise on the Internal Audit Function in terms of the performance and responsibilities by:

- Providing input and feedback on the financial statements and audit coverage proposed; by external audit and provide feedback on the audit services provided;
- Reviewing all external audit plans and reports and monitor management's implementation of audit recommendations;
- Providing advice to the Council on action taken on significant issues raised in external audit reports;
- Evaluating the results and extent of the Internal Audits undertaken;
- Obtaining assurance from management that the municipal audit file has been prepared in line with the applicable standards and guidance contained in relevant legislative documents;
- Reviewing the annual financial statements to ensure the quality and integrity of the document;
- Reviewing the annual financial statements of the Municipality/Municipal Entity for reasonableness, completeness, and accuracy in a timely basis;
- Assisting with facilitating any significant disagreements between Internal Audit and management;
- Reviewing the external auditors' proposed audit scope of work, approach, and audit fees for the year and the extent of coordination with the internal audit unit;
- Enhancing a proper coordination process of audit efforts between Internal and External Auditors;
- Reviewing the allocation of hours and fees by the External Auditors in relation to audit risks and making recommendations in respect thereof to the Council;
- Reviewing the annual report and related regulatory filings before release and considering the accuracy and completeness of the information;

- Reviewing with management and the external auditors the results of the external audit, including any significant issues identified;
- Providing input and feedback that the Internal Audit Strategic and Operational Plans are based on the municipality's risk assessment;
- Advising and assisting the Council on the adequacy of Internal Audit resources needed to carry out auditing responsibilities, including the completion of the risk-based operational Internal Audit Plan and
- Reviewing all high-risk Internal Audit reports and advising the Council on significant issues identified in the audit reports and action taken on issues raised.

2.6. Compliance

The Audit and Performance Audit Committee will assist the management of the municipality in ensuring that the necessary mechanisms are in place for compliance with pertinent laws and regulations and is conducting its affairs ethically. The specific steps involved in carrying out these responsibilities shall include:

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

2.7. Annual Financial Statements

The Audit and Performance Audit Committee reviews the annual financial statements of the municipality 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.

2.8. Oversight and Internal Control

The Audit and Performance Audit Committee is responsible for monitoring, overseeing, and evaluating the Internal Audit Function.

The Audit and Performance Audit Committee is also responsible to advise and assist whether all major issues reported by the Internal Auditing Function, the external auditor, and other outside advisors and/or consultants have been satisfactorily resolved and addressed promptly.

The Audit and Performance Audit Committee is responsible for reporting to the Council all important matters pertaining to the Municipality's controlling and risk management processes.

2.9. Performance Management

In addition, the Audit and Performance Audit Committee needs to have a sound understanding of the performance processes adopted by the municipality. Its responsibilities shall include to:

- Review compliance within-year reporting;
- Review the quarterly performance reports submitted by the Internal Audit Function;
- Review and comment on the municipality's annual reports within the stipulated time frame;
- The Audit and Performance Audit Committee 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 practices and standards;
- Review and comments on the alignment of the Integrated Development Plan (IDP), Budget, Service Delivery and Budget Implementation Plan (SDBIP), and Performance Agreements (including performance agreements with Senior Management);
- Review and comment on the relevance of key performance 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 and
- Review and comment on the compliance with applicable legislation in terms of the Council's policies and standing orders.

3. COMPOSITION

(a) The Audit and Performance Audit Committee is a statutory Committee of the Council and, accordingly, its composition will be determined by the resolution of the Council. The recommended composition is listed below:

- (i) The Audit and Performance Audit Committee should consist of at least three persons with appropriate experience, who may not be employed by the Municipality;
- (ii) One of the members who is not employed by the Municipality must be appointed as the Chairperson of the committee by the Council in writing;
- (iii) No Councillor may be a member of the Audit and Performance Audit Committee;
- (iv) Members should be appointed for a term of three years and may be reappointed based on performance and discretion of the Council.
- (v) When a member of the Audit and Performance Audit Committee cannot for any reason continue as a member, he and/or 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-year period. This shall be at the discretion of the Council.

- (vi) A quorum shall be two members and the Chairperson shall have a casting vote in addition to his / her deliberative vote;
- (vii) External members shall be remunerated for services rendered as by Council resolution;
- (viii) The Audit and Performance Audit Committee 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 Audit and Performance Audit Committee should be independent and safeguarded from undue influence in objectively exercising its responsibilities. To enhance the functioning of the Audit and Performance Audit Committee, the following is required:

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

6. TERMS OF OFFICE

To enhance the independence of the Audit and Performance Audit Committee, the term of office for members must be strictly adhered to. The Chairperson should be appointed for three years to ensure that he/she contributes most effectively and provides stability to the Audit and Performance Audit Committee.

Other Audit and Performance Audit Committee members should serve at least a minimum of three years with an option to renew for another three years, based on the performance and discretion of the Council. 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 Audit and Performance Audit Committee. Members of the Audit and Performance Audit Committee should not be contracted continuously for a period exceeding six years. After serving consecutively for six years, a cooling off of two years should be provided, before appointing the same member to the same committee.

An Audit and Performance Audit Committee member should give two months' notice before resignation. The date of resignation should be minute by the secretariat of the Audit and Performance Audit Committee.

Audit and Performance Audit Committee 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 could amongst others include:

- Where an ongoing 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, and other members of the Audit and Performance Audit Committee.

7. ATTENDANCE/MEETINGS

- (a) Senior Management (including Municipal Manager, Chief Financial Officer, and Heads of Departments), regardless of designation, should attend all meetings of the committee;
- (b) Other divisional or section heads should attend meetings of the Audit and Performance Audit Committee as and when necessary;
- (c) The head of Internal Audit of the municipality must in all cases, and a representative of the external auditors should also, unless proven impractical attend all meetings of the Committee;

- (d) The Audit and Performance Audit Committee is empowered to invite other persons with relevant experience both internally and externally to attend its meetings as it deems fit;
- (e) The Audit and Performance Audit Committee should meet at least quarterly and may convene special meetings when circumstances warrant such meetings;
- (f) 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 Audit and Performance Audit Committee agendas, Minutes Audit and Performance Audit Committee claim submissions, etc.).

8. AUTHORITY

- (a) The Audit and Performance Audit Committee is authorised by the Council to investigate any matter within its terms of reference. It is the responsibility of the Municipal Manager and the Audit and Performance Audit Committee to ensure that the Internal Audit function is adequately resourced for effective functioning.
- (b) To establish, maintain, and ensure that the Internal Audit function within the municipality has sufficient authority to fulfill its duties, the Audit and Performance Audit Committee will:
 - (i) Review and approve the Internal Audit charter.
 - (ii) Review and approve the risk-based Internal Audit plan.
 - (iii) Review and approve the Internal Audit budget and resource plan.
 - (iv) Receive communications from the Chief Audit Executive on the Internal Audit function's performance relative to its plan and other matters.
 - (v) Review and approve decisions regarding the appointment and removal of the Chief Audit Executive.
 - (vi) Review and approve the remuneration of the Chief Audit Executive.
 - (vii) Make appropriate inquiries of management and the Chief Audit Executive to determine whether there are inappropriate scope or resource limitations.

The Audit and Performance Audit Committee demonstrate support by assisting the Internal Audit function with the following:

- Specifying that the Chief Audit Executive reports to a level within the Municipality that allows the Internal Audit function to fulfill the internal audit mandate.
- Review and approve the Internal Audit charter, budgeted working hours allocated, and resource audit plan to execute the operational plan
- Making appropriate inquiries of Senior Management and the Chief Audit Executive to determine whether any restrictions on the Internal Audit function's scope, access, authority, or resources limit the function's ability to carry out its responsibilities effectively.
- Meeting periodically with the Chief Audit Executive in sessions without Senior Management being present.

- Support the Chief Audit Executive through regular direct communications.
- Discuss with the Chief Audit Executive disagreements with Senior Management or other stakeholders and provide support as necessary to enable the Chief Audit Executive to perform the responsibilities outlined in the Internal Audit mandate.
- Gain an understanding of the effectiveness of the governance, risk management, and control processes of the municipality based on the results of Internal Audit engagements and discussions with Senior Management.
- Set expectations with the Chief Audit Executive for:
 - The frequency with which the Audit and Performance Audit Committee wants to receive communications from the Chief Audit Executive.
 - The criteria for determining which issues should be escalated to the Audit and Performance Audit Committee, such as significant risks that exceed the Audit and Performance Audit Committee's risk tolerance.
 - The process for escalating matters of importance to the Audit and Performance Audit Committee.

9. DUTIES OF THE AUDIT AND PERFORMANCE AUDIT COMMITTEE

The Audit and Performance Audit Committee will at all times, recognise that the primary responsibility for the management of the Municipality/Municipal Entity rests with the Municipal Manager, however, the Audit and Performance Audit Committee has the following responsibilities which include:

- (a) To review the annual financial statements, related policies; and Performance Report;
- (b) To review the audit plans of the Internal Auditors and to ensure that these address the critical risk areas of the municipality;
- (c) To advise and assist with the implementation that no restrictions are placed on the rights, obligations, and responsibilities of any internal and external auditor;
- (d) To review all internal and external audit reports and express comments and/or inputs;
- (e) To review any recommendation made pertaining to the Internal Audit function of Swellendam Municipality;
- (f) To facilitate proper communication and co-ordination between the internal and external auditors;
- (g) To assess the effectiveness of the Internal Audit function and its auditing functions;
- (h) To take cognisance of the cost of the external auditing function;
- (i) To report to the Council on the activities of the Audit and Performance Audit Committee;

- (j) To review the Auditor General's report on the financial statements and Council's and Management's responses thereto to ensure satisfactory responses and corrective action, where necessary;
- (k) To review measures for the safeguarding of municipal assets;
- (l) To review any proposals provided for improving efficiency, effectiveness, and economy within the municipality;
- (m) To receive quarterly progress reports from the Chief Audit Executive and/or sub-ordinates if the Chief Audit Executive position is vacant;
- (n) To review the role and position of risk management in a corporate context, to critically appraise it;
- (o) To review compliance with in-year reporting;
- (p) To review the quarterly performance reports submitted by the Chief Audit Executive and/or sub-ordinates if the Chief Audit Executive position is vacant;
- (q) To review and comment on the annual report of the municipality within the stipulated time frame;
- (r) To review the Audit and Performance Audit Committee's performance and achievements against its charter on an annual basis;
- (s) To present the findings of the performance self-assessment by the Chairperson to the Municipal Manager and Council;
- (t) To review and comment on compliance with statutory and contractual requirements and performance management best practices and standards;
- (u) To review and comment on the alignment to the Integrated Development Plan (IDP), Budget, Service Delivery and Budget Implementation Plan (SDBIP), and performance agreements;
- (v) To review and comment on the relevance of indicators to ensure these are measurable and related to services performed by the municipality;
- (w) To review and comment on the performance management system of the municipality and make recommendations for its improvement and
- (x) To review and comment on the compliance with legislation in terms of the Council's policies and standing orders.

10. THE RESPONSIBILITY OF THE AUDIT AND PERFORMANCE AUDIT COMMITTEE IN COMBINED ASSURANCE

The Audit and Performance Audit Committee provides assistance that a combined assurance model is developed and applied, to provide a coordinated approach towards assuring that relevant assurance activities are effective and efficient. This role consists of the following primary tasks:

- (a) Provide oversight over the responsibilities for combined assurance and ensuring the appropriately reflected in the Audit and Performance Audit Committee Charter;
- (b) Encourage cooperation between internal and external audits;
- (c) Review coverage and scope between internal and external audits to avoid duplication and allow for possible cost savings from the integration of the two functions;
- (d) Review and provide input to the Combined Assurance Plan (CAP) of the municipality;
- (e) Review and comment on whether the Combined Assurance Plan can be linked to the risk assessment that was performed;
- (f) Review and provide input that the high-risk areas are included in the operational plan;
- (g) Review quarterly reports that reflect actual performance by the different assurance providers and compare them with the Combined Assurance Plan and
- (h) Review corrective action taken when identified risks are not being covered by assurance activities.

11. REPORTING BY THE AUDIT AND PERFORMANCE AUDIT COMMITTEE

The Chairperson of the Audit and Performance Audit Committee should on a quarterly basis report to the Council, and the reports should at least cover the following;

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

The abovementioned quarterly reports should also be submitted to the Municipal Public Accounts Committee and Council, together with the Internal Audit reports.

12. REPORT TO THE AUDIT AND PERFORMANCE AUDIT COMMITTEE BY EXTERNAL AUDITORS

- (a) Whilst it is recognised that the Municipal Manager is the Accounting Officer 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.

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 the financial statements, reports on performance management, or the external 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 external auditor's responsibility concerning other information published with the audited annual financial statements.

13. REPORTING TO THE AUDIT AND PERFORMANCE AUDIT COMMITTEE BY INTERNAL AUDIT FUNCTION

- (a) Quarterly, or on a more frequent basis (including on an *ad hoc* basis), if required by the Audit and Performance Audit Committee), Internal Audit should report to the Audit and Performance Audit Committee (functionally) and Municipal Manager (administratively).
- (b) The quarterly reports should:
- (i) Summarise the key matters/findings developed during each quarter;
 - (ii) 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 concerned has been resolved.

- (c) At Audit and Performance Audit Committee meetings, the Chief Audit Executive should also present other information including, but not limited to his / her 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. In addition, the Chief Audit Executive should also convey to the Audit and Performance Audit Committee any challenges faced by the Internal Audit function e.g. staff and budget constraints, etc.

14. REPORTING TO THE AUDIT AND PERFORMANCE AUDIT COMMITTEE: OTHER

- (a) Any staff member may, in writing, refer to the Chairperson of the Audit and Performance Audit Committee any matter that they reasonably believe or are satisfied with as being necessary or appropriate to the audit of the municipality, including, but not limited to dissatisfaction with the conduct or findings of any audit.
- (b) The Audit and Performance Audit Committee shall pursue every submission made to it by a staff member, and must obtain and take into account the comments of the responsible Head of the 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, and in appropriate cases, also to the external auditor 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
2024/2025	TBC