



# ENDUMENI MUNICIPALITY

## TERMS OF REFERENCE OF THE AUDIT COMMITTEE & PERFORMANCE AUDIT COMMITTEE

### 1. Introduction

The Audit Committee & Performance Audit Committee report to the Executive Committee. The Executive Committee may either refer a matter back to the Audit Committee & Performance Audit Committee for further consideration, amend or adopt the recommendations if it has delegated authority to do so, or submit its (the Executive Committee's) recommendations to Council.

### 2. Membership of the Audit Committee & Performance Audit Committee

In terms of Section 166 of the MFMA an **Audit Committee** must:-

- (a) *consist of at least three persons with appropriate experience of whom the majority may not be in the employ of the municipality or municipal entity, as the case may be; and*
- (b) *meet as often as is required to perform its functions, but at least four times a year.*
- (5) *The members of an audit committee must be appointed by the council of the municipality .... One of the members who is not in the employ of the municipality ... must be appointed as the chairperson of the committee. No Councillor may be a member of an audit committee.*
- (6) *A single audit committee may be established for a district municipality and the local municipalities within that district.*

**In terms of Section 14(2) Local Government: Municipal Planning and Performance Management Regulations, 2001 a Municipality must:-**

- (a) *... appoint and budget for a **performance audit committee** consisting of at least three members, the majority of which may not be involved in the municipality as a Councillor or an employee.*
- (b) *A performance audit committee appointed in terms of paragraph (a) must include at least one person who has expertise in performance management.*

- (c) *A municipality may utilise any audit committee established in terms of other applicable legislation as the performance audit committee envisaged in paragraph (a), in which case the provisions of this sub-regulation, read with the necessary changes, apply to such an audit committee.*

**In terms of section 27(4)(d) of the Performance Regulations of 2006 a Performance Audit Committee for the purpose of evaluating the annual performance of the Municipal Manager, must consist of:**

- (i) *Executive Mayor or Mayor;*
- (ii) *Chairperson of the performance audit committee or the audit committee in the absence of a performance audit committee;*
- (iii) *Member of the mayoral or executive committee or in respect of a plenary type municipality, another member of council;*
- (iv) *Mayor and/or municipal manager from another municipality; and*
- (v) *Member of a ward committee as nominated by the Executive Mayor or Mayor.*

For purposes of evaluating the annual performance of managers directly accountable to the municipal managers, an evaluation panel constituted of the following persons must be established –

- (i) *Municipal Manager;*
- (ii) *Chairperson of the performance audit committee or the audit committee in the absence of a performance audit committee;*
- (iii) *Member of the mayoral or executive committee or in respect of a plenary type municipality, another member of council; and*
- (iv) *Municipal Manager from another municipality.*

### **3. Functional Areas of the Audit Committee & Performance Audit Committee**

#### **3.1 Audit Committee**

**In terms of Section 166 of the MFMA the following are the functional areas of the Audit Committee:**

*(2) An audit 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, ... 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 this Act, the annual Division of Revenue Act and any other applicable legislation;*
  - (viii) *performance evaluation; and*
  - (ix) *any other issues referred to it by the municipality ....*

- (b) *review the annual financial statements to provide the 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 this Act, the annual Division of Revenue Act and any other applicable legislation:*
  - (c) *respond to the Council on any issues raised by the Auditor-General in the audit report;*
  - (d) *carry out such investigations into the financial affairs of the municipality ... as the Council of the Municipality may request: and*
  - (e) *perform such other functions as may be prescribed.*
- (3) *In performing its functions, an audit committee-*
- (a) *has access to the financial records and other relevant information of the municipality; and*
  - (b) *must liaise with –*
    - (i) *the internal audit unit of the municipality; and*
    - (ii) *the person designated by the Auditor-General to audit the financial statements of the municipality ...*

### **3.2 Performance Audit Committee**

The functional areas in which the Performance Audit Committee will operate in terms of the Local Government: Municipal Planning and Performance Management Regulations, 2001 are:

- 14(1) (b) Any auditing in terms of paragraph (a) must include assessments of the following:
- (i) The functionality of the municipality's performance management system;
  - (ii) whether the municipality's performance management system complies with the Act;
  - (iii) the extent to which the municipality's performance measurements are reliable in measuring performance of municipalities on indicators referred to in regulation 9 and 10.
- 14(3) (a) A performance audit committee must meet at least twice during the financial year of the municipality concerned.
- (b) A special meeting of the performance audit committee may be called by any member of the committee.
- 14(4) (a) A performance audit committee must -
- (i) review the quarterly reports submitted to it in terms of sub-regulation (1)(c)(ii);
  - (ii) review the municipality's performance management system and make recommendations in this regard to the Council of that municipality; and
  - (iii) at least twice during a financial year submit an audit report to the municipal council concerned.
- 14(4)(c) A performance audit committee may -
- (i) communicate directly with the Council, Municipal Manager or the internal and external auditors of the municipality concerned;
  - (ii) access any municipal records containing information that is needed to perform its duties or exercise its powers;
  - (iii) request any relevant person to attend any of its meetings, and if necessary to provide information requested by the committee; and

- (iv) investigate any matter it deems necessary for the performance of its duties and the exercise of its powers.

#### **4. Responsibilities of the Audit Committee & Performance Audit Committee**

The responsibilities of the Audit Committee & Performance Audit Committee, in respect of its functional areas, are:

- (a) to develop and recommend strategy;
- (b) to develop and recommend by-laws;
- (c) to consider and make recommendations;
- (d) to ensure public participation in the development of policy, legislation, and budget;
- (e) to monitor the implementation of Council policies; and
- (f) to exercise oversight on all functional areas.

#### **5. Functions of the Audit Committee & Performance Audit Committee**

**The Audit Committee** will be:

- Responsible to assist the Executive Committee in the co-ordination of functions pertaining to its portfolio.
- Considering reports from the designated officials for the portfolio, or other functionary and submit its recommendation on such issues to ExCo.
- Ensure the provision of an efficient and effective audit function, in accordance with the Auditor- General Act.
- Introduce to the Executive Committee, recommendations on legislation and policies relating to the following functions:
  - ◊ effective management of financial risks;
  - ◊ reliable management and financial reporting;
  - ◊ compliance with laws and regulations; and
  - ◊ maintenance of an effective and efficient audit.
- To be constantly aware of the current areas of greatest financial risk and ensure that management are effectively managing the risk
- To satisfy itself that effective 'systems' of accounting and internal control are established and maintained to manage financial risk
- To satisfy itself as regards the 'integrity and prudence' of management control systems, including the review of policies and procedures.
- To ensure that the Executive Committee is aware of any matters that might have a significant 'impact' on the financial conditions or affairs of the Council.

- To within the scope of its responsibilities:
  - ◊ Seek any information it requires from any employee; and all employees are directed to co-operate with any request made by the Audit Committee and external parties;
  - ◊ Obtain outside legal or other independent professional advice;
  - ◊ Ensure the attendance of external parties with relevant experience and expertise;

The **Performance Audit Committee** will be:

- Responsible to assist the Executive Committee in the co-ordination of functions pertaining to its portfolio.
- Considering reports from the designated officials for the portfolio, or other functionary and submit its recommendation on such issues to ExCo.
- Ensure the provision of an efficient and effective performance audit function.