



**CHRIS HANI**  
**DISTRICT MUNICIPALITY**  

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**SUSTAINING GROWTH**  
**THROUGH OUR PEOPLE**

**PERFORMANCE & AUDIT COMMITTEE**  
**CHARTER**

**2019/20**

## CHDM PERAC & AUDIT COMMITTEE CHARTER

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### TABLE OF CONTENTS

1. INTRODUCTION	3
2. BENEFITS OF THE AUDIT COMMITTEE	4
3. HYPERLINK \L "_TOC226174805" 3.	
4. MEETINGS	5
5. ATTENDANCE AND VOTING AT MEETINGS	6
6. MINUTES OF MEETINGS	6
7. RIGHTS AND AUTHORITY	7
8. CONFLICT OF INTEREST	8
9. DUTIES AND RESPONSIBILITIES	8
10. REPORTING	13
11. REMUNERATION AND DISBURSEMENTS	14
12. EVALUATION OF PERFORMANCE	14
13. REVIEW AND AMENDMENT	14
14. APPROVAL AND ADOPTION	15

# CHDM PERAC & AUDIT COMMITTEE CHARTER

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## 1. INTRODUCTION

This document sets out the rights, powers and duties of the Chris Hani District Municipality's Performance and Audit Committee (hereinafter referred to as the "Audit Committee").

The Audit Committee is a sub-committee of the Chris Hani District Municipality's Council, appointed to assist the Council in fulfilling their oversight responsibilities. The Audit Committee reports directly to Council, and is responsible to discharge its duties in terms of the Municipal Finance Management Act no. 56 of 2003 ("MFMA").

Per Section 166 of the MFMA, the Audit Committee advises Council specifically in matters relating to:

- Internal financial control and internal audits.
- Risk management.
- Accounting policies.
- Adequacy, reliability and accuracy of financial reporting and information.
- Performance management and evaluation.
- Effective governance.
- Statutory compliance.

In discharging its responsibilities, the Audit Committee shall make particular reference to:

- Municipal Finance Management Act no. 56 of 2003.
- Municipal Systems Act no. 32 of 2000.
- King IV Report on Corporate Governance and further related reports.
- Compliance with relevant accounting standards and tax legislation.
- Common Law.
- Annual Division of Revenue Act.
- Other applicable Acts and regulatory considerations.

The Audit Committee shall make appropriate recommendations to Council on any of the above matters that it deems necessary.

## **CHDM PERAC & AUDIT COMMITTEE CHARTER**

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### **2. BENEFITS OF THE AUDIT COMMITTEE**

The potential benefits are:

- Increased involvement of the Council in audit, control, risk management and governance activities.
- Improved communication of critical information from auditors and management to the Council.
- Effective and efficient audit, control, risk management and governance-related decisions by the Council.
- Improved systems of control, risk management and corporate governance.

### **3. COMPOSITION OF AUDIT COMMITTEE**

- 3.1 The Audit Committee shall consist of at least three members with appropriate experience. Audit Committee members are appointed by Councils. All members may not be in the employ of the Municipality or another Municipality i.e. they must be independent, non-executive members.
- 3.2 The Chairperson shall:
- 3.2.1 be one of the members of the Committee and shall be appointed by Council
  - 3.2.2 be independent, be knowledgeable of the status of the position, have requisite business, financial and leadership skills and may not be a political office bearer;
  - 3.2.3 ideally have requisite local government background and experience in finance, accounting and auditing matters.
- 3.3 The Audit Committee may, upon Council approval, co-opt any other person with the requisite expertise to participate in its meetings as an invited person, or assist the Audit Committee in the execution of its duties.
- 3.4 Members of the Audit Committee should have an enquiring attitude and an understanding of the finances, operations and statutory requirements governing the Municipality.
- 3.5 Members should demonstrate sound judgement and objectivity.

## CHDM PERAC & AUDIT COMMITTEE CHARTER

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- 3.6 No Councilors may serve as members of the Audit Committee.
- 3.7 Members shall be appointed by the Chris Hani District Council to serve a minimum period of three years. Should a vacancy occur in the Audit Committee, the Chairperson of the Audit Committee shall notify Council without delay. Such a vacancy should be filled within a reasonable time frame.
- 3.8 Council may, at their discretion, review and change the composition and terms of reference of the Audit Committee from time-to-time, taking into account the need for adequate audit and financial expertise required to be represented thereon, while also considering the need to bring a fresh perspective to the Audit Committee.

### 4. MEETINGS

- 4.1 The Audit Committee shall meet at least four times per annum, at appropriate times, preferably preceding the submission of any audit matters to Council meetings.
- 4.2 Additional meetings may be held for the purpose of conducting any specific or special business deemed necessary. These additional meetings may be called by either the Chairperson or any member of the Audit Committee or the Councils, or by the external or internal auditors.
- 4.3 Notice of ordinary meetings shall be given to all members at least fourteen days prior to the date of any meeting, provided that a meeting may be convened for shorter notice period if agreed to by members.
- 4.4 An agenda of items for discussion, together with any supporting documents and information, shall be distributed to all members of the Audit Committee, other interested members of the Council, and parties attending the meeting, at least seven days prior to the date of the meeting.
- 4.5 Supplementary agenda items shall only be permitted upon agreement of the members attending any Audit Committee meeting and/ or at the discretion of the Chairperson.
- 4.6 If a member, with or without an apology, does not attend two meetings of the Audit Committee of which due notice was given in terms of 4.3 above in succession,

## **CHDM PERAC & AUDIT COMMITTEE CHARTER**

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Audit Committee will consider the explanation provided by the member and make recommendations to Council on whether or not the member should be replaced.

### **5. ATTENDANCE AND VOTING AT MEETINGS**

- 5.1 The secretariat shall, at least seven days prior to any meeting, ensure that sufficient members shall be present at the meeting to satisfy the quorum requirement.
- 5.2 A quorum of any meeting will be two members of the Audit Committee, provided that that no quorum shall exist at any meeting should members referred to in point 3.1 above be less than 50%.
- 5.3 If the Chairperson of the Audit Committee is absent from a specific meeting, the members present shall elect a Chairperson from the members present to act as Chairperson for that meeting.
- 5.4 The Chairperson of the Audit Committee shall invite the appropriate representatives of the external and internal auditors, to attend its meetings, while the Executive Mayor, MPAC Chair, Portfolio Head Finance, Municipal Manager, Heads of Departments and the head of finance (Chief Financial Officer) shall be standing invitees to meetings.
- 5.5 The Chairperson of the Audit Committee may also invite any other person(s) who might have meaningful input to the meeting, to attend such meetings.
- 5.6 The Audit Committee has the right to exclude from its meetings, any or all executives, where conflicts of interest are evident.
- 5.7 The Audit Committee has the right to meet separately, if so required, with the external and/ or internal auditors.
- 5.8 Only members of the Audit Committee shall be entitled to vote at duly constituted meetings of the Audit Committee.

### **6. MINUTES OF MEETINGS**

- 6.1 The secretariat shall ensure that proper minutes of the proceedings of every Audit Committee meeting are recorded and retained as per Municipal and statutory requirements.
- 6.2 Minutes of every meeting shall be recorded within fourteen (14) days of any meeting. Copies of the minutes shall be timeously circulated to all members of the

## CHDM PERAC & AUDIT COMMITTEE CHARTER

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Audit Committee, the Speaker of Council, Executive Mayor, internal and external audit, the Municipal Manager, HOD's and the head of finance (CFO).

- 6.3 At every meeting of the Audit Committee, the Chairperson shall ensure that the minutes of the preceding meeting are approved, whether with amendment or not, and signed as being a true record of the proceedings at such meeting.

### **7. RIGHTS AND AUTHORITY**

- 7.1 The Audit Committee shall have direct and unobstructed lines of communication to all the Management and Staff, the external and internal auditors and Council.
- 7.2 The Audit Committee shall have the right of access to any Municipality records containing information required to properly and effectively discharge its responsibilities.
- 7.3 The Audit Committee shall have the right to obtain any required legal or professional advice during the course of discharging its responsibilities, as well as the right to initiate any special investigations required to effectively discharge its duties, and may obtain special counsel to assist in such matters.
- 7.4 When seeking third party professional advice and/ or initiating investigations, the Audit Committee must take cognisance of the procurement/ supply chain management processes of the Municipality, as well as consulting with the Municipal Manager on such matters.
- 7.5 The Audit Committee shall have the right to review any matter relating to audits, systems of control, risk management and governance, and make appropriate recommendations to Council for their consideration and final approval.

## CHDM PERAC & AUDIT COMMITTEE CHARTER

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### 8. CONFLICT OF INTEREST

- 8.1 The chairperson of the Audit Committee shall excuse from any meeting or part thereof, any member or attendee who could, in his/her opinion, have any potential conflict of interest.
- 8.2 Any member of the Committee who is aware of an existing or potential conflict of interest between his/her work in the Committee and his/her private work, shall promptly inform the Chairperson of such conflict.
- 8.3 At each Audit Committee meeting, members shall declare whether or not they have interest in any of the items to be discussed/ considered.
- 8.4 Members shall declare their interest annually.

### 9. DUTIES AND RESPONSIBILITIES

The Audit Committee shall:

#### *Strategic Plan*

- 9.1 Keep the Municipality's "Strategic Plans/ IDP's" under review insofar as it relates to the audit of the Municipality.

#### *Internal Control, Risk Management and Compliance*

- 9.2 Assist management in evaluating the adequacy, and effectiveness of the risk management process followed and the development, maintenance and enhancement of the fraud prevention plans
- 9.3 Evaluate adequacy of management response to fraud risks
- 9.4 The Chairperson of the Audit Committee will communicate to Council any allegation of fraud or gross negligence implicating the Accounting Officer
- 9.5 All fraud investigations will be communicated to the Auditor General
- 9.6 Evaluate and ensure that Management have implemented effective and efficient systems of control, risk management and governance.
- 9.7 Gain an understanding of the areas of greatest risk to the Municipality, and review management's plans to minimise significant risk exposures.
- 9.8 Provide an assurance in respect of integrated risk management in the municipality.
- 9.9 In order to carry out this responsibility, the Audit Committee should be informed of and consider the following matters:
  - 9.9.1 The overall risk management process



## CHDM PERAC & AUDIT COMMITTEE CHARTER

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- 9.9.2 The typical risk inherent to the municipality's function and activities as well as the management and control of such risks;
- 9.9.3 Areas where there have been major changes in the risk factors; and
- 9.9.4 Details of the action plan of management to control the level of risk.
- 9.10 Satisfy itself that effective systems are in place to provide reasonable assurance that assets are in existence and are adequately safeguarded.
- 9.11 Satisfy itself that adequate arrangements are in place to promote economy, efficiency and effectiveness throughout the Municipal operations.
- 9.12 Consider how management ensures the security of computer systems, applications and records, and the contingency plans in place to ensure business continuity.
- 9.13 Audit Committee shall seek assurances that Management have set an appropriate "control culture" and have communicated the importance of systems of control and risk management, so that all employees have an understanding of their roles and responsibilities relative to risk management.
- 9.14 Monitor and advise the Municipality to prepare financial statements in compliance with all applicable legislative requirements.
- 9.15 Monitor the ethical conduct of Council, Management and Staff, and encourage the imposition of discipline and control, thus reducing the opportunity for inefficiency, resource wastage, fraud, etc.

### ***External Audit and Financial Statements***

- 9.16 Consider and advise Council on the external audit process, including the audit fee, and the provision of any non-audit services (e.g. forensic investigations) by the external auditor.
- 9.17 Discuss with the external auditor, before the audit commences the nature and scope of the audit and ensure that no unjustified restrictions or limitations have been placed on the auditor, and also ensure that the audit plan effectively addresses the critical risk areas of the Municipal business.
- 9.18 Discuss problems and reservations arising from (interim and final) audits, and any other matters which the auditor may have reported.
- 9.19 Monitor the required timing of the submission of financial and other reports to Government, Municipal funders and as may be required by legislation.
- 9.20 Monitor the performance, effectiveness and independence of the external auditors, including the extent of non-audit services provided to the Municipality.
- 9.21 Review and make recommendations on the draft and final annual financial statements. Such a review would, inter alia, include the adequacy of provisions,

## CHDM PERAC & AUDIT COMMITTEE CHARTER

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changes in accounting policies, the appropriateness of accounting policies, complex and/or unusual transactions, judgemental areas, the adequacy of appropriate disclosures and legal requirements governing the preparation of the financial statements.

- 9.22 Have discussions with Management and External Auditors on any material adjustments to annual financial statement.
- 9.23 Have discussions with Management on any unusual issues identified by the Audit Committee in the annual financial statement
- 9.24 Review the findings of the external auditors and ensure that Management timeously responds to these findings and adequately addresses significant reported items. In addition, previously reported matters should be reviewed to ensure that these have been adequately addressed.
- 9.25 Review any material and/or unresolved audit findings and significant accounting adjustments, which were identified during the audit.
- 9.26 Consider any differences of opinion between Management and external audit.
- 9.27 Review the audited financial statements and make recommendations to Council for their approval.
- 9.28 Review the extent of co-ordination of efforts between external audit and internal audit.
- 9.29 Recommending to the Accounting Officer such measure as in the opinion of the Committee may serve to enhance the credibility of the financial statements and annual reports.
- 9.30 Audit Committee will have quarterly meetings with the External Auditors

## CHDM PERAC & AUDIT COMMITTEE CHARTER

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### *Internal Audit*

- 9.31 Review and approve the “Internal Audit Charter”, which sets out the status, rights and responsibilities of internal audit.
- 9.32 Review the activities, internal audit plan, organisational structure and reporting lines of internal audit and ensure that no unjustified limitations and restrictions are placed on internal audit’s work.
- 9.33 Review and approve the:
  - 9.33.1 rolling three year strategic internal audit plan based on its assessment of key areas of risk for the Municipality, having regard to the current operations of the Municipality, those in the strategic plan and risk management strategies.
  - 9.33.2 annual internal audit plan for the first year of the rolling three year strategic internal audit plan and any subsequent revision thereof.
  - 9.33.3 the quarterly reports submitted by Internal Audit detailing performance against annual audit plan
  - 9.33.4 Review the major findings of internal audit and the adequacy and implementation of management’s responses thereto.
- 9.34 Review the independence, resources, scope and effectiveness of the internal audit function.
- 9.35 Consider any differences of opinion between Management and internal audit function.
- 9.36 Direct investigations required to be performed by internal audit.
- 9.37 Direct and determine the level of internal audit’s participation in the risk management process.
- 9.38 Review all non-internal audit services rendered by internal audit, and the impact of these services on internal audit coverage and internal audit’s independence.
- 9.39 Review the extent of co-ordination of efforts between internal audit and external audit
- 9.40 Review and concur with the appointment or dismissal of the Head of Internal Audit/ Chief Audit Executive (i.e. person heading the Internal Audit function).
- 9.41 Evaluate the overall efficiency and effectiveness of the internal audit function in the municipality taking into account the following:
  - 9.41.1 The audit approach,

## CHDM PERAC & AUDIT COMMITTEE CHARTER

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- 9.41.2 The scope and depth of internal audit coverage,
  - 9.41.3 The quality of reports issued,
  - 9.41.4 Quality of personnel employed,
  - 9.41.5 Training of personnel,
  - 9.41.6 Co – operation with external auditors,
  - 9.41.7 Internal audit budget,
  - 9.41.8 Internal audit’s compliance with the Institute of Internal Auditors Standards for the Professional Practice of Internal Audit, and
  - 9.41.9 Management satisfaction.
- 9.42 Ensure that no management restrictions are being placed upon the internal auditors.

### *Institutional Performance Management*

- 9.43 The objective of the Performance Audit Committee is to evaluate the management measures instituted to ensure economy, efficiency and effectiveness.
- 9.44 To facilitate consideration of the annual report in its entirety the Council should obtain the views of the Performance Audit Committee, which is charged with providing Council with, among other matters, credible view of the efficiency and effectiveness of the performance management of the Municipality. In this regard the Performance Audit Committee shall:
- 9.44.1 Review quarterly performance reports and any other reports deemed necessary, regarding the performance of management of the CHDM;
  - 9.44.2 Review quarterly reports of Internal Audit regarding auditing of performance measurements;
  - 9.44.3 Reviewing significant differences of opinion between management and the internal audit function;
  - 9.44.4 Review the Municipality’s performance management system and make recommendations in this regard to Council; and,
  - 9.44.5 In reviewing the performance management system, the committee must focus on economy, efficiency, effectiveness and impact in so far as the key performance indicators and performance targets set by the municipality are concerned; In this regard it must be provided with the relevant Integrated Development Plan (IDP) and Service Delivery and Budget Implementation Plans (SDBIP).

## CHDM PERAC & AUDIT COMMITTEE CHARTER

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9.45 In summary the Performance Audit Committee, shall provide reasonable assurance that the performance management of Council should consider: regular performance measurement, monitoring/evaluation, reporting, capacity building and intervention measures that runs parallel to the implementation of Council's approved Integrated Development Plan, in order to assess whether targets will be met and Council's broader development objectives will be achieved. Economy, efficiency, effectiveness and impact in so far as the key performance indicators and targets set by the Council, are focused on.

### 10. REPORTING

In addition to any reporting obligations described above, the Audit Committee shall:

- 10.1 Be accountable to Council for its performance and report on a quarterly basis.
- 10.2 At any time of the year, report and make recommendations to the Council.
- 10.3 Reports of the Chairpersons of the Committee shall be included in the agenda and meeting "packs" for the Council meetings once every quarter.
- 10.4 The Chairperson of the Audit Committee shall be present at the Council meetings where the Annual Financial Statements, Annual Report and the external auditor's report are tabled for Council approval. At this Council meeting, the Audit Committee Chairperson shall also deliver a report on the activities of the Audit Committee for the year.
- 10.5 The Audit Committee must respond to the Council on any issues raised by the Auditor General in the audit report.

## **CHDM PERAC & AUDIT COMMITTEE CHARTER**

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### **11. REMUNERATION AND DISBURSEMENTS**

- 11.1 Remuneration paid to any Audit Committee member(s) for services rendered shall be at the entire discretion of the Council, and in compliance with any statutory regulations governing such payment for services rendered and prevailing Council-approved rates/ tariffs.
- 11.2 Reimbursement for any reasonable expenditure incurred by Audit Committee members shall be considered by the Municipality at the conclusion of every meeting. Such reimbursement shall also be at the entire discretion of the Council, and in compliance with any statutory regulations and Council-approved rates/ tariffs governing such payment for expenditure incurred, and shall be paid against documentary proof thereof.

### **12. EVALUATION OF PERFORMANCE**

- 11.3 The Audit Committee shall evaluate the Committee's own performance, both individual and collectively on annual basis using the Audit Committee Evaluation Tool approved by Council.

### **13. REVIEW AND AMENDMENT**

- 13.1 Any amendments to this document shall only be effective if approved by Council in consultation with the Audit Committee, Head of Internal Audit and the Management of the municipality.
- 13.2 The charter shall be reviewed at least annually.

## CHDM PERAC & AUDIT COMMITTEE CHARTER

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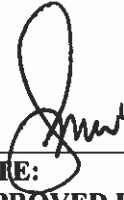
### 14. APPROVAL AND ADOPTION

This Audit Committee Charter is hereby adopted as the guiding document for the existence and operation of the Performance & Audit Committee.



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**DATE:**  
**SUBMITTED BY:**  
**PERFORMANCE / AUDIT COMMITTEE CHAIRPERSON**



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**DATE:**  
**APPROVED BY:**  
**MUNICIPAL MANAGER**