

Performance Audit and Audit Committee Charter Theewaterskloof Municipality



2025

CONTENTS:

- 1. Introduction**
- 2. Legislation Associated with Performance Audit and Audit Committees**
- 3. Objectives of the Performance Audit and Audit Committee**
- 4. Responsibilities and functions of the Performance Audit and Audit Committee**
- 5. The authority of the Performance Audit and Audit Committee**
- 6. Organisational Arrangements**
- 7. Evaluation of Performance Audit and Audit Committee Performance**
- 8. Relationship with Council, management and internal and external auditors**
- 9. Maintenance of Charter**
- 10. Abbreviations**

1. INTRODUCTION.

An independent PAC fulfils a vital role in corporate governance as independent oversight over internal audit, external audit, financial reporting, governance, performance and risk management. The PAC is advisory in nature and does not have any executive powers.

2. LEGISLATION ASSOCIATED WITH PERFORMANCE AUDIT AND AUDIT COMMITTEES.

- a. The Local Government: Municipal Finance Management Act, Act No. 56 of 2003 is applicable for the establishment of audit committees.
- b. The Local Government: Municipal Structures Amendment Act, Act No. 3 of 2022.
- c. The Local Government: Municipal Planning and Performance Management Regulations, 2001.
- d. The Local Government: Municipal Performance Regulations for Accounting Officers and Managers Directly Accountable to Accounting Officers, 2006.

3. OBJECTIVES OF THE PERFORMANCE AUDIT AND AUDIT COMMITTEE.

The PAC will consider matters relating to the safeguarding of assets, systems of internal controls, preparation of the annual financial statements, and the performance management and performance evaluations.

The PAC will not perform any management functions nor assume any management responsibilities as this could prejudice its objectivity. It will make recommendations to Council in respect of the activities which form part of its terms of this charter.

The objectives of the PAC, as an assurance provider to Council are covered in legislation and are amongst others:

- a) To evaluate the effective, efficient and transparent systems of financial and risk management and internal control that are maintained by the Council, which contribute to the efficient and effective utilisation of resources, safeguarding of assets and the accomplishments of established goals for operations or programs.
- b) To create a distinct and clear communications channel between the Council, management, external auditors and the CAE. (IIA Standard 11.1)
- c) To report to Council on a quarterly basis regarding activities of the PAC and to present the PAC's annual report;
- d) To report to the MPAC on a quarterly basis the Internal Audit Reports and Management comments thereon, as required by the Local Government: Municipal Structures Amendment Act.
- e) To annually monitor the effectiveness of the internal audit function.
- f) To protect the independence of the CAE.
- g) To enhance the independence of Internal Audit the PAC must concur with Council regarding the appointment or discipline of the CAE.

4. RESPONSIBILITIES AND FUNCTIONS OF THE PERFORMANCE AUDIT AND AUDIT COMMITTEE (IIA Standard 8.1)

The PAC is responsible for overseeing the execution of internal audit work, and advise Council, the political office-bearers, the MM and the management of the municipality. The functions of the PAC are covered in the MFMA and are further deliberated hereunder according to the major areas of responsibility.

4.1 Financial and Annual Reporting.

The PAC must:

- a) Gain an understanding of the current areas of major financial risk and how management is managing these effectively;
- b) Review and challenge where necessary the annual financial statements prior to submission to the Auditor-General to ensure reasonableness, completeness and accuracy;
- c) Obtain assurance from the CFO with respect to the accuracy of the Financial Statements;
- d) Obtain assurance from the CFO that the Audit File has been prepared in line with the applicable standards and guidance contained in relative legislative documents;
- e) Satisfy itself of the expertise, resources and experience of the council's finance function according to National Treasury prescripts, and also,
- f) Review and consider the accuracy and completeness of the information in the annual report during February of each year and make recommendations to MPAC if necessary.
- g) It is required from the PAC Chairperson;
 - To quarterly, update the Council about committee activities and make appropriate recommendations where needed.
 - To inform Council in respect of matters, that may significantly impact the financial condition or affairs of the municipality or the committee.
 - Communicate with the Council on any matter contained in this Charter

4.2 External Audit

- a) Review the external auditors' proposed audit scope of work, approach and audit fees for the year and the extent of co-ordination with the internal audit unit;
- b) Review the findings and recommendations by the External Auditor and Management's responses thereto;
- c) Review Management's implementation of the External Auditor's recommendations;
- d) Review the coordination of audit efforts between Internal and External Auditors;
- e) Review the report on the annual Financial Statements and matters raised therein for reasonability and accuracy; and
- f) Advise the Accounting Officer on actions taken relating to significant matters raised in the external audit reports.

4.3 Corporate Governance.

It is important to note that “governance” by the PAC implies oversight, not management. The corporate governance responsibility of the PAC is to provide reasonable assurance in respect of the following:

- That the administration is complying with relevant laws and regulations.
- That the administration is maintaining effective and efficient control systems in order to prevent and detect white-collar crime such as fraud by councillors, management and employees.

The PAC must:

- a) Consider, review and approve the internal audit charter after it was considered by the Accounting Officer and annually also the Risk Based Internal Audit Plan. (IIA Standards 6.2 & 6.3)
- b) In consultation with the Accounting officer carry out special audit projects such as fraud investigations.
- c) Ensure that the internal audit staff is adequately supported, resourced, protected in the organisation and concurs with Council, regarding the appointment, or dismissal of the Chief Audit Executive as well as the level at which the CAE is appointed. (IIA Standards 7.2 & 8.2)
- d) Ensure the performance and effectiveness of the internal audit function is annually evaluated. (IIA Standard 8.3)
- e) Review internal audit reports to evaluate that management, with regards to breakdowns in internal controls or deficiencies, takes appropriate action as identified by internal audit and/or make alternative recommendations if needed.
- f) Review the Internal Audit Budget. (IIA Standard 6.3 & 10.1)
- g) Consider the results of key performance measurements by Internal Audit.
- h) Perform any oversight functions as requested by Council.
- i) Recommend special investigations.
- j) Evaluate the committee’s own performance against its objectives and responsibilities on an annual basis.
- k) Identify one member to attend the MPAC meetings and one member to attend the Fraud and Risk Management Committee meetings. The PAC member will not be a member of these committees and will just be an observer at the meetings.
- l) The resolving of disputes between management, external and internal auditors should be facilitated by the PAC.

- m) Chairperson of the PAC will, for the purposes of evaluating the performance of the accounting officer and managers directly accountable to the accounting officer, be part of an evaluation panel as determined by the regulations. If the Chairperson will not be able to attend the evaluations, he / she will delegate this responsibility to one of the other PAC members.

4.4 Fraud and Risk Management Activities.

As per the approved Risk Management Strategy:

The PAC is responsible for providing the Accounting Officer with independent counsel, advice and direction in respect of risk management, the stakeholders rely on the PAC for an independent and objective view of the institution's risks and effectiveness of the risk management process.

The PAC:

- a) Reviews written reports furnished by the Fraud and Risk Management Committee detailing the adequacy and overall effectiveness of the institutional Risk Committee's function and its implementation by management.
- b) Review risk philosophy, strategy, policies and processes recommended by the Fraud and Risk Management Committee and consider reports by the Fraud and Risk Management Committee on implementation and communication to ensure incorporation into the culture of the institutions.
- c) Ensure that risk definitions and contributing factors, together with risk policies, are formally reviewed on an annual basis.
- d) Review the acceptability of the risk profile in conjunction with the overall risk appetite of the institution, taking into account all risk mitigation factors, including, but not limited to, internal controls, business continuity and disaster recovery planning, etc.
- e) Ensure compliance with the risk policy and strategy
- f) Oversee the Anti-Fraud and Corruption Committee of the institution to ensure they are operating effectively and to receive periodic reports (quarterly) on their respective activities.
- g) Reviews the completeness of the risk assessment process implemented by management to ensure that all possible categories of risk, both internal and external to the institution, have been identified during the risk assessment process. This includes an awareness of emerging risks pertaining to the institution.
- h) Facilitates and monitors the coordination of all assurance activities implemented by the institution.
- i) Reviews and recommends any risk disclosures in the annual financial statements.
- j) Provides regular feedback to the Accounting Officer on the effectiveness of the risk management process implemented by the institution.
- k) Reviews and ensures that the internal audit plans are aligned to the risk profile of the institution.
- l) Reviews the effectiveness of the internal audit assurance activities and recommends appropriate action to address any shortcomings.

The PAC must also provide feedback to the Council on the adequacy and effectiveness of risk management in the municipality.

4.5 Combined Assurance

As per the approved Combined Assurance Framework:

The third line of defence may be categorised in terms of Audit and Oversight. Internal Audit, Audit Committee, Auditor-General, Council and FARMCO are examples of independent assurance providers that form the third line of defence.

Roles and responsibilities of the Performance and Audit Committee: Monitor the coordination and effectiveness of combined assurance activities and provide recommendations for improvement.

4.6 Control Environment.

The PAC members need to have a good understanding of the control environment, in fulfilling this responsibility the committee should:

- a) Ensure that management follows a sound process to draw conclusions on the adequacy and effectiveness of the system of internal control;
- b) Establish whether management has relevant policies and procedures in place and that these are adequate, effective and regularly updated;
- c) Determine whether appropriate processes are followed and complied with on a regular basis;
- d) Consider measures applied on any required changes to the design or implementation of internal controls;
- e) Assess steps taken by management to encourage ethical and lawful behaviour; financial discipline and accountability for use of public resources.

In terms of the Financial Misconduct Policy, the PAC Chairperson or his / her secondi will serve as Financial Disciplinary Board chairperson unless Council decide otherwise.

4.7 Performance Management.

The PAC members need to have a good understanding of the performance of the municipality and its entities. These include:

- a) Review and comment on compliance with statutory requirements and performance management best practices and standards;
- b) Review and comment on the alignment of the Integrated Development Plan, the Budget, Service Delivery and Budget Implementation Plan and performance agreements;
- c) Review and comment on relevance of indicators to ensure they are measureable and relate to services performed by the municipality and its entities;
- d) Reviews compliance with in-year reporting requirements;
- e) Review the quarterly performance reports submitted by internal audit;
- f) Reviews and comments on municipality's and entities annual financial statements and timely submission to the Auditor-General by 31 August, each year;
- g) Review and comment on the municipality's and entities annual reports within the stipulated timeframes; and
- h) Review and comment on the municipality's performance management system and make recommendations for its improvement.

4.8 Information Technology (IT) Governance.

The PAC needs to provide advice on IT governance, controls, access and safeguarding of information in the municipality when necessary. Specific expertise may be required from within or outside the municipality from time to time, to assist the internal audit unit and PAC 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.

4.9 AD Hoc Assignments

The PAC acknowledge that in terms of the MFMA, the Municipal Manager may assign duties to the CAE which do not form part of the Annual Risk Based Audit Plan subject to budgeted available hours as per approved Internal Audit plan. Such assignments will be communicated with the Chairperson of the PAC to have knowledge of it as the CAE report functionally to the PAC. Not all such assignments result in a report with recommendation as allegations or objections is valid.

In practice, once an ad hoc report is presented to the MM, the CAE will report to the next PAC meeting that an ad hoc report was presented to the MM and that it awaits comments before submission to the Committee. Communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the MM. It is therefore expected that the MM must indicate if the contents could prematurely be made available to the PAC or not as it might influence the outcome of the assignment.

The Council as the employer and PAC as oversight body may also assign duties to the CAE on non-financial allegations regarding the governance of the municipality.

Any enquiries about progress on a particular assignment to the CAE must be referred to the instruction giver and is the CAE under no obligations to respond to such enquiries.

5. THE AUTHORITY OF THE PERFORMANCE- AND AUDIT COMMITTEE.

The PAC shall have the authority to perform its functions, and to obtain any information and / or advice, from within or outside the municipality in order to perform its functions as legislated.

The PAC may;

- a) communicate with the executive mayor, council, MPAC, accounting officer or the internal and external auditors of the municipality;
- b) have access to municipal records containing information that is needed to perform its duties or exercise its powers;
- c) request any relevant person to attend any of its meetings, and, if necessary, to provide information requested by the committee; and
- d) conduct investigations into the financial affairs of the municipality, as may be requested by the council of the municipality.

6. ORGANISATIONAL ARRANGEMENTS.

The organisational arrangements include the following:

6.1 Appointment of committee.

Section 166(5) of the MFMA requires that the members of an audit committee must be appointed by the Council of the Municipality.

The Council should, on recommendations from the Municipal Manager and Chief Audit Executive respectively, ensure that the members preferably possess the following skills as experience:

- a) An understanding of town development, and human resources;
- b) An understanding of service delivery;
- c) Good governance and/or financial management experience;
- d) An understanding of the role of council and councillors;
- e) An understanding of risk management practices;
- f) An understanding of Information Technology (IT) controls and general internal controls;
- g) An understanding of major accounting practices and public sector reporting requirements;
- h) An understanding of combined assurance;
- i) An understanding of the MFMA and other legislation applicable to municipalities;
- j) An understanding of the roles and responsibilities of internal and external auditors;
- k) An understanding of the treatment of allegations and investigations; and
- l) An understanding of the performance management system.

6.2 Membership and Size of Committee.

MFMA Section 166 provides for a minimum of at least three (3) persons who are not employed by the municipality for the composition of an audit committee of the municipality. Members of the Performance Audit and Audit Committee cannot serve on more than three local government audit committees simultaneously.

One of the members will be appointed as the chairperson of the committee on recommendation from the MM and CAE. Councillors are not allowed to be members of the PAC. The appointed members should enter into a contract with the municipality.

The following persons have a standing invitation to the PAC meetings:

- a) Accounting officer;
- b) Chief Audit Executive
- c) Chief Financial Officer;
- d) Executive Mayor;
- e) Chairperson of the Municipal Public Accounts Committee;
- f) External Auditor;
- g) Provincial Treasury;
- h) National Treasury; and
- i) Any other person on invitation by the chairperson of the PAC.

6.3 Terms of office of members.

The member's appointment shall coincide with the appointments of Councillor or as necessary. New appointments should be undertaken within 3 months after new Council is appointed.

6.4 Remuneration of members.

The chairperson and the ordinary members of the PAC will be remunerated per meeting for their services at the municipality as they are not holding any official positions.

A member that acts as the Chairperson at a meeting (in instances where the Chairperson is unable to attend the meeting), will receive the same rates as a Chairperson for that specific meeting.

The municipality will utilise the rates as provided by the National Treasury. Members will be, depending on the available budget, remunerated in addition for times spent in attending official Provincial Forum meetings or in the event of organized training. Training will be considered and approved by the Municipal Manager.

Members will receive an additional amount of R612.16 per meeting for preparation, research and traveling time. The additional amount will increase in line with (the same percentage as) the increase published in the National Treasury guidelines.

The reimbursement of members for travel expenditure for official time spent at the municipality, approved training and Provincial Forum meetings will be in accordance with the approved council policy and the contracts signed by the PAC member.

6.5 Frequency and timing of Meetings.

A minimum of four ordinary meetings shall be held during a year and if necessary special meetings of the Committee or Chairperson may be convened if required by the Chairperson, Executive Mayor, Municipal Manager and the internal or external auditors taking the available budget into consideration.

Before each official meeting, a meeting will be held with all the PAC members and the CAE to discuss any matters as the Chairperson might request and for the CAE to report any matters required. These meetings will be informal and will not be minuted, only attendance registers will be completed to confirm attendance.

Official meeting agendas will be prepared and provided in advance to members electronically or by registered mail or physically, whichever is the most convenient to TWK's secretariat. The proceedings of all meetings will be recorded in minutes.

Furthermore, the committee may meet separately with management, the internal and the external auditor in order to discuss fundamental issues if needed.

In the case of Ad Hoc meetings requested by the Chairperson, a formal request for such a meeting together with the motivation for the meeting should be sent to the CAE prior to Ad Hoc Meetings.

Before that start of the financial year the PAC will approve an annual work plan (this plan is not cast in stone and might change dependent on Council's annual plan)

The Chairperson of the PAC will indicate which meetings on the annual work plan will be virtual and which will be in-person meetings.

In the event where a member will not be able to attend a meeting in-person meeting, a request must be sent to the Chairperson and MM to request virtual attendance or to be excused from the meeting.

6.6 Quorum requirements.

Two members will form a quorum.

If the chairperson is absent, the members that are present will elect, from the members, a chairperson for that meeting.

If there is no quorum the meeting will be adjourned to a new date and time not exceeding two weeks.

6.7 Delegation by Council.

The PAC is delegated by Council in terms of section 59 of the Municipal Systems Act

7. EVALUATION OF AUDIT COMMITTEE PERFORMANCE.

The PAC should conduct annual self-assessments in terms of the MFMA, regulations and this Charter in order to measure its effectiveness and performance. Input from management and internal audit is part of the assessment process.

The results of the performance should be considered by the PAC and Council in order to determine if any actions should be taken.

8. RELATIONSHIP WITH COUNCIL, MANAGEMENT AND INTERNAL AND EXTERNAL AUDITORS.

The PAC advises Council, MPAC and management on matters relating to financial affairs and corporate governance. Communication with Council, MPAC and management is achieved by way of reports, copies of minutes of audit committee meetings and special meetings.

Due to the fact that the PAC's primary interest is reliable financial reporting it is therefore important that regular unrestricted communication with external auditors is maintained. The PAC must review the proposed audit scope and approach in order gain an understanding of what can be expected from external audit. Furthermore, the PAC may utilise the expertise of the external auditors in respect of developments affecting financial reporting.

9.. MAINTENANCE OF CHARTER.

The reviewing and amending of the PAC charter is the responsibility of the Chief Audit Executive.

It is the prerogative of Council to consider and approve this charter. The PAC Charter will be reviewed annually.

10. ABBREVIATIONS

PAC – Performance Audit and Audit Committee

MM – Municipal Manager

CFO – Chief Financial Officer

CAE – Chief Audit Executive

IA – Internal Audit

IIA – Institute of Internal Auditors

MPAC – Municipal Public Accounts Committee

Dates of revisions:

Date	Item Nr	Amendments made (Yes / No)
24 March 2011	C11/2011	Yes
28 July 2011	C28/2011	Yes
25 July 2013	C53/2013	Yes
31 October 2013	C104/2013	Yes
27 October 2016	C139/2016	Yes
25 October 2018	C171/2018	Yes
25 February 2022	C31/2022	Yes
29 June 2023	SC15/2023	Yes
30 April 2024	C66/2024	Yes
07 August 2025	C197/2025	Yes