

**AUDIT AND PERFORMANCE
COMMITTEE
CHARTER**



NKANGALA DISTRICT MUNICIPALITY

2019/20

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1. INTRODUCTION

The Audit and Performance Committee (APC) provides advice to Management and remains accountable to the Municipal council. The role of the Audit and Performance Committee (APC) is to consider the internal audit plans and activities of the Municipality and management's plans and processes with regard to risk management, control and good governance. The Committee takes a special interest in all matters that affect how a Municipality is audited and will therefore also take note of the external audit plans and activities. It provides one of the channels for communication between customers, management, Internal Auditors and the Auditor-General. Control by the Audit and Performance Committee (APC) of the Internal Audit Function positively influences good governance within the Organisational and strengthens the Internal Auditing Component and fosters an independent climate for their operation.

Management continuously strives to adopt and implement best practice in relation to practices and corporate governance. Consequently, the Code of Corporate Practices and Conduct published in the King IV Report requires management to publicly confirm that they have reviewed the effectiveness of the internal control of their organization. The implementation of control and information systems is essential to the effective discharge of the management's responsibilities.

2. PURPOSE

To assist the Audit and Performance Committee (APC) in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process, and the company's process for monitoring compliance with laws and regulations and the code of conduct.

3. AUTHORITY

In terms of the Municipal Finance Management Act, No. 56 OF 2003 and National Treasury Regulations, Accounting Officers have to comply with the compulsory establishing of an effective internal audit function, and an Audit and Performance Committee (APC) to control and direct the Internal Audit function in the municipality.

Section 166(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, or the board of directors and the accounting officer 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 of the municipality and the board of directors, 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;

Section 166 (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.

Section 166 (4) 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, as the case may be; and

(b) meet as often as is required to perform its functions, but at least four times a year.

Section 166 (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 councilor may be a member of an audit committee.

Section 166 (6) A single audit committee may be established for: -

(a) A district municipality and the local municipalities within that district municipality.

The Council authorizes the Audit and Performance Committee (APC) within the scope of its responsibility to:

- (a) Seek any information it requires from any employee and all employees are directed to cooperate with any request made by the Audit and Performance Committee (APC).
- (b) Obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary. Any such appointments should be made subject to the approval of the Accounting Officer and Supply Chain Management Policy/State Tender procedures.

The Audit and Performance Committee (APC) is also empowered to, but not limited to the following:

- (a) Resolve any disagreements between management, internal auditors and external auditors regarding financial reporting;
- (b) Pre-approve all auditing and non-audit services conducted by Internal Audit;
- (c) Retain independent with the Accounting Officer, to advise the committee or assist in the conduct of an investigation;
- (d) Seek any information it requires from all employees; and
- (e) Meeting with management external auditors, or outside Council, as necessary.

In terms of paragraph 14(2) (a) of the local government Municipal planning and Performance Management Regulations, 2001, the Municipality must annually appoint and budget for an Audit and Performance Audit Committee (APC)

Paragraph 14(2) (c) and (i) states that:

- (a) A Municipality may utilize any audit and Performance 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 and performance committee

4. STRUCTURE/COMPOSITION OF THE AUDIT AND PERFORMANCE COMMITTEE (APC)

The Audit and Performance Committee will comprise of at least three persons with appropriate experience, of whom the majority may not be in the employ of the municipality. One of the members who is not in the employ of the municipality, must be appointed by the Council as the chairperson of the Audit and performance committee (APC). If the Chairperson is not available, the Audit and Performance Committee (APC) members present at the meeting will elect an acting Chairperson for the day.

The non-official's members shall serve Audit and Performance Committee (APC) for a period of a maximum of three years from the date on which the non-official member actually assumes duty on the terms and conditions that will be mentioned in the contract.

The municipality shall provide a staff member to act as a Secretary. The Secretary shall ensure that draft minutes are verified by the chairperson of the committee and circulate the minutes of the Audit and Performance Committee (APC) to all members within two weeks of the Audit Committee meeting.

5. MEETINGS

The Audit and Performance Committee (APC) will meet at least four times a year, with authority to convene additional meetings as circumstances require. All Audit Committee members are expected to attend each meeting. The Audit Committee will invite members of management, auditors, or others to attend meetings and provide pertinent information as necessary.

Notice of meetings shall be given in writing to all members of the Audit Committee and other parties at least 10 days prior to the date of the meeting. Any person attending the meeting may add items to the agenda two (2) days before the agenda is finalized. Such items should be provided to the secretary of the Audit and Performance Committee (APC).

5.1 QUORUM

The quorum for the meetings will be 50% plus 1 of members. The majority of those present shall not be persons holding management positions within the municipality.

The Audit and Performance Committee (APC) shall annually approve the Audit Committee schedule for dates of the Audit Committee meetings.

An agenda must, under the direction of the Audit and Performance Committee (APC) chairperson, be prepared for each meeting together with the relevant discussion papers be circulated to each Audit Committee member at least 7 days before the meeting.

5.2 ATTENDANCE

In addition to the member of the Audit and Performance Committee (APC), the following persons shall be standing invitees for the Audit Committee meetings: -

- (a) The Municipal Manager;
- (b) The Chief Audit Executive;
- (c) A representative from the office of the Auditor-General;
- (d) The Chief Financial Officer;
- (e) The Heads of Departments within the municipality; and
- (f) Other such persons as the Audit and Performance Committee (APC) may deem necessary.
- (g) The Chairperson of the risk management; anti-fraud and anti-corruption committee.
- (h) Provincial Treasury Internal Audit Unit

5.3 SECRETARIAT FUNCTIONS

Management is responsible for making available the services of a secretary for drawing up the agendas and keeping the minutes of meetings of the Audit and performance Committee (APC).

6. Term of office

- (a) To enhance independence of the audit and performance committee (APC), the term of office for members must be strictly adhered to. The chairperson should be appointed

for minimum of three years to ensure that he/she contributes most effectively and provides stability to the audit committee.

- (b) Other Audit and Performance Committee (APC) 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 loss of knowledge and skills in the committee.
- (c) The recruitment process of new members should be concluded at least three months in advance of the expiry of existing members term.
- (d) The head of Internal and the accounting officer must maintain records of audit and performance committee (APC) member contracts and ensure recruitment is undertaken as mentioned above.
- (e) Rotation of members is encouraged as it enhances the independence of the audit committee. Members of the audit and performance committee (APC) as well as the Risk Chairperson 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 audit and performance committee (APC) or Risk committee.

6.1. VACATION OF THE OFFICE

An Audit and Performance Committee (APC) member must vacate the office during a term if that member;

- (a) Resigns as a member of the audit committee.
- (b) Is removed from the office as an audit committee member subject to the approval of the Council.
- (c) Failed to attend audit and performance committee in three consecutive shared ordinary or performance meetings.
- (d) After the expiry of the uninterrupted six years' period for both members of Audit committee and chairperson of Risk committee

7. CONFLICT OF INTEREST

Should any member of the Audit and Performance Committee (APC) have any personal interest or gain resulting from any discussion at a meeting he/she may not participate in any

such discussion and may at the discretion of the Chairperson of the Audit and Performance Committee (APC) be asked to leave the meeting.

8. REMUNERATION

Travelling and sitting allowance would be paid in accordance with council resolution for the duration of the contract and the sitting allowance will be reviewed on an annual basis. The Chairperson of the Audit and Performance Committee (APC) shall be paid additional remuneration for such attendance and for services related to the Audit Committee.

Remuneration will only be applicable to officials employed outside the public service. No remuneration for participating in audit committees will be payable to officials employed at national, provincial and local government, its agencies or other entities regarded as falling within the definition of an organ of state, except for out of pocket expenses which may be reimbursed.

9. RESPONSIBILITIES

9.1 RESPONSIBILITIES RELATED TO THE MANAGEMENT.

The Audit and Performance Committee should assist the management of the municipality in carrying out its responsibilities in terms of the Municipal Finance Management Act, and the Treasury Regulations.

The following could among others be expected from the Audit and Performance Committee (APC):

- (a) Approve Internal Audit strategic and operational plans and review performance against them;
- (b) Discuss with Internal Audit Activity (IAA) its findings and the responses of management to its major recommendations and periodically its views on the quality of internal control;
- (c) Consider the objectives and scope of any additional work undertaken by the Internal Auditors to ensure there are no conflicts of interest and that independence is not compromised;
- (d) Meet with the Internal Auditors at their request as they deem necessary;
- (e) Through its Chairperson represent the concerns of Internal Audit to the Executive Authority of the municipality in terms of the MFMA;
- (f) Consult with management regarding management's processes for identifying the risks of fraud and the assessment of those processes;

- (g) Periodically review the Internal Audit Charter and Fraud Prevention Plan; and
- (h) Ensure that the Accounting Officer has an implementation plan to correct all items included in the Auditor-General's audit report and that management responds timeously to recommendations by Auditor-General.

Over and above the foregoing, the Audit and Performance committee is responsible for the following in accordance with Section 166 (2) (a) of the MFMA-

Advise the municipality council, the political office-bearers, the accounting officer and the management staff of the municipality, or the board of directors, and the accounting officer, on matters relating to-

- (a) Internal financial control and internal audits;
- (b) Risk management;
- (c) Accounting policies;
- (d) The adequacy, reliability and accuracy of financial reporting and information;
- (e) Performance management;
- (f) Effective governance;
- (g) Compliance with this Act, Division of Revenue Act and any other applicable legislation;
- (h) Performance evaluation; and
- (i) Any other issues referred to it by the municipality or municipality entity;

9.2 RESPONSIBILITIES RELATED TO THE INTERNAL AUDIT FUNCTION.

The Audit and Performance Committee (APC) should ensure that the Internal Audit function performs their responsibilities effectively and efficiently through:

- (a) Review and approves with management and the Chief Audit Executive (CAE) the strategic and operational plans, internal audit activities, budget, staffing and organizational structure of the IAA. Ensure that the plan addresses the high risks areas and that adequate resources are available;
- (b) Review and approval of the Internal Audit Charter;
- (c) Consultation in regard to the appointment or the removal of the CAE;

- (d) Review of all appointments of internal audit related consultants or the appointment of such in terms of the prescribed tender procedures;
- (e) Review of audit results and action plans of management;
- (f) Request for audit projects;
- (g) Review of the results of quality assurance reviews;
- (h) Support for communication with internal auditors;
- (i) Co-ordination of Internal Audit work with external auditors;
- (j) Ensure direct access by the CAE to the Audit and Performance Committee (APC) and the Chairperson of the Audit and Performance Committee (APC) and Accounting Officer;
- (k) Review the effectiveness of IAA, including compliance with the IIA's International Standards for the Professional Practice of Internal Auditing; and
- (l) On a regular basis, meet separately with the CAE to discuss any matters that the committee or internal audit believes should be discussed privately.

9.3 RESPONSIBILITIES RELATED TO THE EXTERNAL AUDIT FUNCTION PERFORMED BY THE AUDITOR-GENERAL

The Audit and Performance Committee (APC) should also:

- (a) Review and evaluate the efficiency and effectiveness of the external auditors in relation to their responsibilities;
- (b) Ensure that there are no restrictions or limitations placed on the auditors;
- (c) Review the plan and scope of external audit with regard to the critical risk areas and the sufficiency of audit coverage and procedures;
- (d) Review of audits results, quality and contents of financial information and action plans of management;
- (e) Consider significant disagreements between external auditors and management;
- (f) Consider material unsolved accounting and auditing problems;
- (g) Review the external auditors fee arrangements;
- (h) Ensure direct access by the external auditors to the Audit and Performance Committee and the Chairperson of the Audit and Performance Committee (APC) or Accounting Officer; and

- (i) On a regular basis, meet separately with the external auditors to discuss any matters that the committee or auditors believe should be discussed privately.

9.4 RESPONSIBILITIES RELATED TO THE MUNICIPAL PUBLIC ACCOUNTS COMMITTEE (MPAC)

9.4.1 Quarterly meetings with MPAC to streamline reporting responsibilities

9.5 RESPONSIBILITIES RELATED TO THE ANNUAL FINANCIAL STATEMENTS (AFS)

9.5.1 Process and timelines

The process and timelines to be complied with are:

- (a) The Accounting Officer of a municipality must prepare the Annual Financial Statements of the municipality and, within two months after the end of the financial year to which those statements relate, submit the statements to the Auditor-General for auditing. These financial statements should contain a draft report of the Audit and Performance Committee (APC) to be included in the Annual Report. It is envisaged that this would be a specimen report based on the outcome of the Audit and performance Committee's (APC) activities during the year under review and agreed with the Chairperson of the Audit and Performance Committee.
- (b) The Auditor-General must audit those financial statements, and submit audit report on those statements to the Accounting Officer of the municipality within three months of receipt of the statements.
- (c) The Audit and Performance Committee (APC) must evaluate the audited financial statements; review the audit report of the Auditor-General; review management's comments on the audited financial statements. The aforementioned must take place before the Auditor-General's reporting date. The Auditor and the Auditee should plan this process carefully to meet the determined timelines.
- (d) The Audit and Performance Committee (APC) must determine its final report to be included in the Annual Report based on the outcome of the above. This report may differ from the specimen report submitted based on the outcome of the evaluation of the Financial Statements by the Audit and Performance Committee (APC).

9.5.2 Evaluation of the Annual Financial Statements (Minimum Guideline)

9.5.3 Review of Audited Annual Financial Statements (AFS)

- (a) Inspect and confirm that the AFS have been signed by the Accounting Officer on or before the Audit Committee Report;
- (b) Enquire from Accounting Officer if the AFS have been prepared in accordance with Generally Recognized Accounting Practice (GRAP) as prescribed by the Treasury Regulations and the preparation guide by National Treasury;
- (c) Evaluate and review the accounting practices in place;
- (d) Review AFS for abnormal and/or significant variances in the financial statements as compared to the appropriated budget and prior year;
- (e) Review any new or proposed legislation that may have a material impact on the policies; the financial statements and disclosure thereof and council resolutions compliance thereto;
- (f) Enquire from management, the Auditor- General and Internal Audit about all outstanding litigation, contingencies and claims and how these matters are reflected in the municipality's financial statements.

9.5.3.1 Review Accounting Policies

- (a) Review whether the Accounting Policies are as per the policies disclosed in the specimen financial statements issued by the National Treasury. Where there are deviations, ensure that there is evidence of satisfactory consultation with the Office of Accountant-General regarding the changes;
- (b) Consider the reasons for the changes in policies, if any. Assess whether changes have been currently dealt with and disclosed in the AFS;
- (c) Enquire whether these changes are consistent with the required accounting framework and if not, whether National Treasury (Office of Accountant-General) approval has been obtained.

9.6 RESPONSIBILITIES RELATED TO THE INTERNAL CONTROL

- (a) Consider the effectiveness of the municipality's system of internal control, including information technology, security and control;
- (b) Understand the scope of internal and external auditor's review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses; and
- (c) Evaluating whether management is setting appropriate "control culture" by communicating the importance of internal control, risk management and ensuring that all employees have an understanding of their roles and responsibilities.

9.7 RESPONSIBILITIES RELATED TO COMPLIANCE

- (a) Review the effectiveness of the systems for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of non-compliance;
- (b) Review the findings of any examinations by regulatory agencies and any auditor observations; and
- (c) Obtain regular updates from management and company legal counsel regarding compliance matters.
- (d) Be satisfied that all regulatory and compliance matters have been considered in the preparation of the financial statements.
- (e) Review the organization's assurance programs.
- (f) Review the impact of new or proposed legislation or governmental regulations. (eg. MFMA, DORA, Corruption Act, etc.)

9.8 RESPONSIBILITIES RELATED TO PERFORMANCE MANAGEMENT

- (a) Review the quarterly report submitted to it by the Internal Audit Activity and management;
- (b) Review Council's performance management system and make recommendations in this regard to Council;
- (c) Assess whether the performance indicators are sufficient;

- (d) At least twice during a financial year submit an audit report to Council.

9.9 RESPONSIBILITIES RELATED TO RISK MANAGEMENT

- (a) Evaluation of whether management is setting the importance of risk management to ensure that all employees and councilors have an understanding of their roles and responsibilities in this regard.
- (b) Monitor whether the risk management systems are effective and integrated with IDP objectives

9.10 RESPONSIBILITIES RELATED TO CORPORATE GOVERNANCE

- (a) Determine that the code of conduct of the municipality is in writing and that it is communicated to all employees and councilors.
- (b) Evaluate whether management is communicating the importance of the code of conduct and the guidelines for acceptable and ethical behavior and that a fraud corruption management strategy is compiled and implemented.
- (c) Review the process for monitoring compliance with the code of conduct.
- (d) Monitor whether the municipalities' values are preserved by all.

9.11 RESPONSIBILITIES RELATED TO CORPORATE GOVERNANCE COMBINED ASSURANCE

- (a) The Audit and Performance committee (APC) should ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities.
- (b) Monitor the appropriateness of the company's combined assurance model and ensure that significant risks facing the company are adequately addressed and the organization.
- (c) By providing an effective counterbalance to an executive management, uphold the independence of internal and external assurance providers, thus helping to ensure that these functions are carried out effectively

10 REPORTING RESPONSIBILITIES

- (d) Regular report to the Accounting Officer about committee activities, issues, and related recommendations;

- (e) Report to Council quarterly about committee activities, issues, and related recommendations;
- (f) Provide an open avenue of communication between IAA, the external auditors, and management;
- (g) Review any other reports that the entity issues relating to committee responsibilities;
- (h) Perform other activities related to this charter as requested by the Accounting Officer;
- (i) Institute and oversee special investigations as needed;
- (j) Review and assess the adequacy of the committee charter annually, requesting Accounting Officer's approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation;
- (k) Evaluate the committees own performance on a regular basis and that's on quarterly basis.
- (l) Confirm annually that all responsibilities outlined in this charter have been carried out; and
- (m) Evaluate the committee's and individual members' performance on a regular basis.
- (n) Perform other oversight functions as requested by the councils.

11 EVALUATION OF THE PERFORMANCE OF AUDIT AND PERFORMANCE COMMITTEE (APC)

Accounting Officer and Council should evaluate the performance of Audit Committee on an annual basis.

The chairperson of the Audit and Performance Committee (APC) should evaluate the performance of individual committee members and the Council should evaluate the performance of the Chairperson.

Evaluation criteria include the following:

- (a) Expertise and know how
- (b) Inquiry attitude, objectivity and independence.
- (c) Judgment.
- (d) Knowledge of local government and its objectives.
- (e) Understanding of and commitment to the committee's duties and responsibilities.
- (f) Devotion of time in order to participate effectively in committee.
- (g) Timely responses
- (h) Attendance of meetings.

The result of the performance should be reviewed by the Audit and Performance Committee (APC) and Council in order to determine what actions, if necessary, are to be taken.

Members who do not meet the performance assessment and criteria should be removed from the committee.

12 AMENDMENT TO THE CHARTER

Any amendments to the Charter are subjected to Council approval. Audit and Performance Committee (APC) Charter will be reviewed annually.

13 GLOSSARY

Accounting Officer is a municipal official referred to in section 60 of the MFMA and excluding a person acting as the accounting officer.

Assurance Service is an objective examination of evidence for the purpose of providing an independent assessment on risk management, control and governance process.

Audit Committee is person referred to in section 166 (4) (5) of the MFMA.

Audit and Performance Committee (APC) Charter a document which defines the Audit and Performance Committee (APC) function's purpose, authority and responsibility.

Audit Report is signed, written document which presents the purpose, scope, and results of the audit. Results of the audit may include findings, conclusions (opinion), and recommendations.

Audit and Performance Committee Roles The roles, scope and objectives documented in the service level agreement between Management and Internal Audit Function.

Chief Audit Executive is a top position within the municipality responsible for the internal audit function.

Combined assurance formal process to assess and provide assurance over the adequacy and effectiveness of the control environment to manage risks from the overall business strategy

Compliance refers to the ability to reasonably ensure conformity and adherence to organization policies, plans, procedures, laws, regulations, and contracts; It also refers to compliance with the requirements of the MFMA and related Treasury Regulations as issued from time to time.

Council refers to the legislated body governing the activities of the NDM

External Auditors refers to those audit professionals who perform independent annual audits of an organization's financial statements, for NDM this refers to the Auditor General or his appointee.

Engagement is a specific internal audit assignment, project, task or review activity such as fraud investigation or consultancy.

Fraud is any illegal act characterized by deceit, concealment or violation of trust

Governance process is a process of ensuring that values are set and communicated, objectives are set and operations are transparent to ensure accountability.

Management are members of the Senior Management Service of the Municipality i.e. Municipal Manager, Manager Corporate Services, Chief Financial Officer, Manager Planning and Economic Development.

Municipal Public Accounts Committee (MPAC) is an oversight committee or other collective structure of a municipality elected to deal with oversight reports referred to on section 129 of the MFMA.

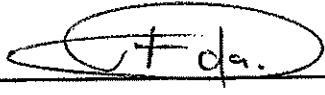
Nkangala District Municipality (NDM) is an organ of state within the local sphere of government exercising legislative and executive authority within an area determined in terms of the Local Government: Municipal Demarcation Act, 1998.

Office of the Auditor-General are officials of the Auditor-General responsible for the external audits of the Municipality.

Programme Managers are all senior managers responsible for programmes as per the Municipality's budget structure.

Risk is an uncertainty of an event occurring that could have an impact on the achievement of objectives.

14 APPROVAL



PREPARED BY:

CHIEF AUDIT EXECUTIVE

06/06/2019

DATE



REVIEWED BY:

AUDIT AND PERFORMANCE COMMITTEE CHAIRPERSON

10/06/2019

DATE

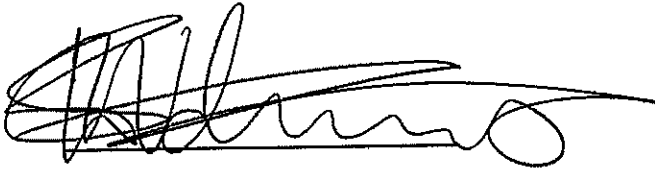


RECOMMENDED BY:

MUNICIPAL MANAGER

06/06/2019

DATE

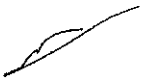


APPROVED BY:



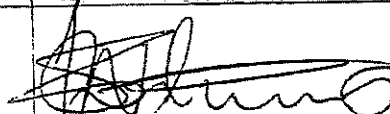
MUNICIPAL COUNCIL

12/06/19

DATE



SIGNED ON BEHALF OF COUNCIL

PORTFOLIO	SIGNATURE	DATE
1. MMC CORPORATE SERVICES		29 MAY 2019
2. LOCAL LABOUR FORUM		
3. MUNICIPAL MANAGER		29 MAY 2019
4. SPEAKER		29 MAY 2019

RESOLUTION:

DM - ND353/05/2019