



# **Audit Committee Charter**

## **2018/2019**

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## **1. PURPOSE**

- 1.1. The purpose of this document is to outline the role, responsibilities, composition and operating guidelines of the Audit Committee of Elias Motsoaledi Local Municipality.
- 1.2. The role to be played by the audit committee has been legislated in the Municipal Finance Management Act (MFMA) and is critical to provide advice and recommendations to the municipal manager and council on financial and non-financial matters, to improve accountability and governance over the activities of the municipality.

## **2. AUTHORITY**

- 2.1. The Audit Committee according to section 166 of the Municipal Finance Management Act, No. 56 of 2003 is an independent advisory body which must:
  - 2.1.1. advise the municipal council, the political office bearers, the accounting officer and the management staff of the municipal entity, 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 the Municipal Finance Management Act, the Annual Division of Revenue Act and any other applicable legislation;
    - (h) Performance evaluation; and
    - (i) Any other issues referred to it by the municipality or municipal entity.
  - 2.1.2. Review the Annual financial statements to provide the council of the municipality with an authoritative and credible view of the financial position of the municipality.
  - 2.1.3. Respond to council on any issues raised by the Auditor-General in the Audit report;
  - 2.1.4. Carry out such investigations into the financial affairs of the municipality as the council of the municipality may request.
  - 2.1.5. 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.



- 2.1.6. A single audit committee may be established for district municipality and the local municipalities within that district municipality.
- 2.1.7. The MPAC, in discharging its responsibilities, may make use of any information provided by the audit committee to avoid duplication of effort.
- 2.2. The Audit Committee is also empowered to, but not limited to the following:
- (a) Communicate with the council, municipal manager 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) 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/tender procedures.
  - (d) Request any relevant person to attend any of its meetings, and, if necessary, to provide information requested by the committee; and
  - (e) Conduct investigations into the financial affairs of the municipality, as may be requested by the council of the parent municipality.

### **3. APPOINTMENT AND COMPOSITION OF MEMBERS**

- 3.1. The Audit Committee will comprise of at least three persons with appropriate experience, of who the majority may not be in the employ of the municipality.
- 3.2. The number or size of the audit committees can be increased to address the requirements, peculiarities, and needs of the municipality.
- 3.3. One of the members, who are not in the employ of the municipality, must be appointed by the Council as the chairperson of the Audit Committee. If the Chairperson is not available the Audit Committee members present at the meeting will elect an acting Chairperson for the day.
- 3.4. The Audit Committee members should serve at least for a minimum of three (3) years with an option to renew for another three (3) years, based on performance.
- 3.5. The Councilors are not allowed to be members of the Audit Committee.
- 3.6. The appointed members should enter into a contract with the municipality according to the approved terms of reference.
- 3.7. All members of the Committee shall have a working familiarity with basic finance and accounting practices, and at least one member of the Committee shall have accounting or related financial management expertise. The members of the committee shall be knowledgeable about the affairs of the municipality and where appropriate specific skills shall be represented on the committee.
- 3.8. The appointed members should collectively possess the following skills:



- (a) Private and public sector experience;
  - (b) An understanding of services delivery priorities;
  - (c) Good governance and/or financial management experience;
  - (d) An understanding of the role of council and councillors;
  - (e) An understanding of the operations of the organization;
  - (f) A familiarity with risk management practices;
  - (g) An understanding of internal controls;
  - (h) An understanding of major accounting practices and public sector reporting requirements;
  - (i) An understanding of public sector reforms;
  - (j) Familiarity with legislation applicable to municipalities;
  - (k) An understanding of the roles and responsibilities of internal and external auditors;
  - (l) An understating of the treatment of allegations and investigations; and
  - (m) An understanding of the performance management system.
- 3.9. Except in the case of shared audit committee members, the council must ensure that audit committee members do not serve on more than three local government audit committees simultaneously as the practice of serving on too many committees may impact negatively on performance of audit committees contributing to their ineffectiveness.

#### **4. PERFORMANCE ASSESSMENTS**

- 4.1. The audit committee should assess its performance and achievements against the charter on an annual basis to ensure that the audit committee is meeting its objectives efficiently and effectively.
- 4.2. The assessment would cover the performance of the individual member as part of the overall audit committee with reference to the particular skills the member has brought to the audit committee as a whole.
- 4.3. The findings of the self-assessment should be presented by the chairperson to the municipal manager and municipal Council.
- 4.4. The municipal manager and Council should evaluate the performance of the Audit Committee on an annual basis. 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 Committee 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.

## **5. MEETINGS**

- 5.1. The Audit Committee will meet at least four times a year, with authority to convene additional meetings as circumstances require.
- 5.2. Meetings should generally correspond with major phases of the financial reporting, external audit and internal audit cycles. The Audit Committee will invite members of management, auditors, or others to attend meetings and provide pertinent information as necessary.
- 5.3. Notice of meetings shall be given in writing to all members of the Audit Committee and other parties at least 7 days prior to the date of the meeting. In the case of special meeting a notice of the meeting shall be given in writing at least 72 hours 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 finalised. Such items should be provided to the secretary of the Audit Committee.

## **6. QUORUM**

- 6.1. The quorum for the meetings will be 50% +1 of the audit committee members.
- 6.2. The Audit Committee shall annually approve the Audit Committee schedule for dates of the Audit Committee meetings.
- 6.3. An agenda must, under the direction of the Audit Committee 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 in the case a of special meeting the agenda together with the relevant discussion papers be circulated to each audit committee member at least 48 hours prior to the meeting.

## **7. ATTENDANCE**

- 7.1. In addition to the member of the Audit Committee, the following persons shall be standing invitees for the Audit Committee meetings:
  - (a) Head of Internal Audit;
  - (b) Chief Risk Officer;
  - (c) Municipal Manager;
  - (d) The Chief Financial Officer;
  - (e) The Heads of Departments within the municipality;
  - (f) Other such persons as the Audit Committee may deem necessary;
  - (g) Legal advisor; and



- (h) Manager ICT.
- (i) External Auditor
- (j) Provincial Treasury
- (k) National Treasury
- (l) MPAC Chairperson
- (m) Any other person on invitation by the Chairperson of the Audit Committee.

## **8. SECRETARIAT FUNCTIONS**

- 8.1. The Municipal Manager is responsible for making available the services of a secretary for drawing up the agendas and keeping the minutes of meetings of the Audit Committee.

## **9. VACATION OF THE OFFICE**

- 9.1. An Audit Committee 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) Fails to attend three consecutive audit committee meetings regardless of a written apology given and approved in the meetings.
- 9.2. Council shall approve any termination of the services of a person serving on the audit committee

## **10. CONFLICT OF INTEREST**

- 10.1. Should any member of the Audit Committee 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 Committee be asked to leave the meeting.

## **11. REMUNERATION**

- 11.1. 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 Committee shall be paid an additional 10 percent remuneration for such attendance and for services related to the Audit Committee.
- 11.2. 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. The reimbursement of all members for travel expenditure must be determined in accordance with the approved council policy. The above will become

effective for new members of audit committee, from the date of issuing of circular 65 on 23 November 2012, and for existing members, their current contracts will run its course.

## **12. RESPONSIBILITIES**

### **12.1. RESPONSIBILITY RELATED TO THE MANAGEMENT**

12.1.1. The Audit Committee should advise management of the municipality in carrying out its responsibilities in terms of the Municipal Finance Management Act, Municipal Systems Act, Municipal Structures Act, and the Treasury Regulations.

12.1.2. The following could among others be expected from the Audit Committee:

- (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;
- (h) Ensure that the municipal manager 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; and
- (i) Consider the financial and non- financial performance of the Municipality. The Audit Committee will therefore act as a Performance Audit Committee.

### **12.2. RESPONSIBILITIES RELATED TO INTERNAL AUDIT FUNCTION**

12.2.1. The Audit Committee should ensure that the Internal Audit function performs their responsibilities effectively and efficiently through:

- (a) Review with management and the head of Internal Audit the strategic and operational plans, internal audit activities, budget, staffing and organizational structure of the Internal Audit Activity (IAA). Ensure that the Internal Audit 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 and annual performance review of the Chief Audit Executive;
- (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 internal 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 head of internal audit to the Audit Committee and the Chairperson of the Audit Committee and municipal manager;
- (k) Review the effectiveness of Internal Audit Activity (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 head of internal audit to discuss any matters that the committee or internal audit believes should be discussed privately.

### **12.3. RESPONSIBILITY RELATED TO THE EXTERNAL AUDIT FUNCTION PERFORMED BY AUDITOR GENERAL**

#### **12.3.1. The Audit Committee should:**

- (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 Committee and the Chairperson of the Audit Committee or municipal manager; 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.

### **12.4. RESPONSIBILITY RELATED TO MUNICIPAL PUBLIC ACCOUNTS COMMITTEE (MPAC)**

Quarterly meetings with MPAC to streamline reporting responsibilities



## **12.5. RESPONSIBILITY RELATED TO THE ANNUAL FINANCIAL STATEMENTS (AFS)**

### **12.5.1. PROCESS AND TIMELINES**

The process and timelines to be complied with are:

- (a) The Audit Committee should evaluate the audited financial statements (interim and post annual 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.
- (b) The Audit Committee should 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 Committee.

### **12.5.2. EVALUATION OF THE ANNUAL FINANCIAL STATEMENTS (MINIMUM GUIDELINE)**

#### **12.5.2.1. REVIEW OF AUDITED ANNUAL FINANCIAL STATEMENTS (AFS)**

- (a) Review the annual financial statements and consider whether they are fairly presented, complete and reflect appropriate accounting principles;
- (b) Review sections in the annual report and related regulatory filings before release and consider the accuracy and completeness of the information.
- (c) Review with management and the external auditors all matters required to be communicated to the audit committee under the standards or legislation; and
- (d) Understand how management develops interim financial information, and extent of internal auditor involvement.
- (e) Review all material issues in prior reports by AGSA have been appropriately accounted for.

## **12.6. RESPONSIBILITY 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.

## **12.7. RESPONSIBILITY 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;
- (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; and
- (f) Review the impact of new or proposed legislation or governmental regulations (e.g. MFMA, DORA, Corruption Act, etc.).

#### **12.8. RESPONSIBILITY 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; assess whether the performance indicators are sufficient; and At least twice during a financial year submit an audit report to Council.

#### **12.9. RESPONSIBILITY RELATED TO RISK MANAGEMENT**

- (a) Setting strategic directions with regards to the establishment of Risk Management Strategy;
- (b) 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; and
- (c) Monitor whether the risk management systems are effective and integrated with IDP objectives

#### **12.10. RESPONSIBILITY RELATED TO CORPORATE GOVERNANCE**

- (a) Ensure 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.

#### **12.11. RESPONSIBILITY RELATED TO INFORMATION TECHNOLOGY (IT) GOVERNANCE**

- (a) Provide advice on IT governance, controls, access. Safeguarding of information in the municipality and its entities.
- (b) Advice on the appropriateness of disaster recovery and continuity plans supporting IT risks, regular testing and evaluation of plans, systems and processes.

### 13. REPORTING RESPONSIBILITIES

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

### 14. AMENDMENT TO THE CHARTER

- 14.1. Any amendments to the Charter are subjected to Council approval. Audit Committee Charter will be reviewed annually.

### 16. APPROVAL


Recommended by:

  
\_\_\_\_\_  
Audit Committee Chairperson

5/09/2018  
Date



**Accepted by:**

  
\_\_\_\_\_  
Municipal Manager

10/9/2018  
Date

**Approved by:**

\_\_\_\_\_  
Council

Resolution No: **M18/19-03**

Date: 28 August 2018