

Elias Motsoaledi Local Municipality

Audit Committee Charter

Amended as per Circular 65



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1 Purpose and Objectives

The primary purpose of the Audit Committee is to assist Management in fulfilling its oversight responsibility (*which includes responsibilities regarding safeguarding of assets, operating effective systems of control and preparing annual financial statements*) by reviewing:

- The financial reports and other information provided by the *Municipality* to any government body or the public;
- The system of internal control (financial, operational and compliance) that management have established; and
- The *Municipality's* auditing, accounting and financial reporting processes generally.

Consistent with the function, the Audit Committee should encourage continuous improvement of, and should foster adherence to, each *Municipality's* accounting policies, procedures and practices at all levels. The Audit Committee's primary objectives are to:

- Serve as an independent and objective party to monitor and strengthen the objectivity and credibility of the *Municipality's* financial reporting process and internal control systems.
- Review and appraise the audit efforts of the Auditor General and the *Municipality's* internal audit function.
- Provide an independent and objective view of the effectiveness of the municipality's risk management.
- Provide an open avenue of communication between the Auditor General, Internal Audit unit and senior management.
- Facilitate the imposition of discipline & control, thus reducing the opportunity of fraud.

The Audit Committee will primarily fulfil these responsibilities by carrying out the activities enumerated in Section 5 of the Charter.

This Audit Committee Charter spells out the committee's modus operandi and spells out the rules that govern its relationship with Municipality.

2 Authority

The Executive Authority support and endorse the Audit Committee, which operates independently of management and is free of any organisational impairment.

The relevant Executive Authorities have an oversight responsibility and the Audit Committee assists them in fulfilling this responsibility.

The Audit Committee has unrestricted access to all information, including records, property and personnel of the Municipality, and must be provided with adequate resources in order to fulfil its oversight responsibilities.

The committee is authorised by the Executive Authority to:

- Investigate any activities within its terms of reference.
- Seek outside legal or other independent professional advice.
- Secure the attendance of outsiders with the relevant experience and expertise where necessary.
- Seek any information it requires from any employee and all employees are directed to co-operate with any requests made by the Audit Committee.

3 Membership

Composition

The audit committee must be constituted so as to ensure its independence.

Section 166(5) of the MFMA requires that the members of an audit committee must be appointed by the council of the municipality or, in the case of a municipal entity, by the council of the parent municipality and shall:

- Consist of at least three persons;
- Two of whom must be from outside the public service and one from within the Public Service/Provincial Administration; and
- The majority may not be in the employ of the Public Service/Provincial Administration.

In addition:

- The chairperson of the audit committee may not be in the employ of the municipality or municipal entity and Provincial Administration/Public Service; and
- The chairperson of the audit committee may not be a political office bearer.
- Councillors are not allowed to be members of an audit committee

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 *Municipality* and where appropriate specific skills shall be represented on the committee.

The appointed members should collectively possess the following skills:

- Private and public sector experience;
- An understanding of services delivery priorities;
- Good governance and/or financial management experience;
- An understanding of the role of council and councillors;
- An understanding of the operations of the organization;
- Familiarity with risk management practices;
- An understanding of internal controls;
- An understanding of major accounting practices and public sector reporting requirements;
- An understanding of public sector reforms;
- Familiarity with legislation applicable to municipalities;
- An understanding of the roles and responsibilities of internal and external auditors;
- An understating of the treatment of allegations and investigations; and

- An understanding of the performance management system.

Committee members may enhance their familiarity with finance and accounting by participating in educational programs conducted by *Municipality* or an outside consultant.

Appointment

The appointed members will enter into a contract with the municipality or municipal entity according to the terms of reference and remunerated in accordance with the Municipality Regulations. 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.

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.

Duration of membership

The Chairperson of the audit committee shall be appointed for a minimum of 3 years. Other Committee members of the committee shall be appointed for a minimum of 3 year term of office at a time with an option to renew for another 3 year, based on performance.

Performance assessments

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. 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. The findings of the self-assessment should be presented by the chairperson to the accounting officer and municipal Council.

Voting powers

Voting is open only to the members of the committee.

Termination

The relevant Executive Authorities shall approve any termination of the services of a person serving on the audit committee.

4 Meetings

Frequency

The Public Finance Management Act requires a minimum of two meetings a year. The Audit Committee should, however, ensure as a rule, that they meet at least four times a year i.e. quarterly or as frequently as circumstances dictate.

Meetings should generally correspond with major phases of the financial reporting, external audit and internal audit cycles.

As part of its job to foster open communication the Committee should meet at least annually with **each** Accounting Officer, the Head of the Internal Audit and the Provincial Auditor-General in separate sessions to discuss matters that the committee or each of these groups believe should be discussed privately.

Agenda

The chairperson of the Audit Committee shall draw up an agenda, which shall be circulated at least one week prior to each meeting to the members of the Committee, Auditor-General, Head of the Internal Audit and the Accounting Officers.

Minutes

A secretary shall be appointed by the Accounting Officer to attend and minute all meetings.

The minutes of the committee meetings shall be bound in a minute book within fourteen days of such meeting and shall be circulated to all members of the committee and other relevant personnel as directed by the committee.

Quorum

At least two-thirds of the members shall attend every meeting to constitute a quorum.

Attendance

The following person's must have a standing invitation to the audit committee and attend all meetings:

- Municipal Manager;
- Accounting Officer of the Entity;
- Head of Internal Audit of the municipality;
- Chief Financial Officer;
- External Auditor;

- Provincial Treasury;
- National Treasury; and
- Any other person on invitation by the chairperson of the Audit Committee.

5 Responsibilities and Duties

The Audit Committee shall assume the following fundamental responsibilities:

- Assessing the processes related to the Municipality's risks and control environment;
- Overseeing the financial reporting process;
- Evaluating the internal and external audit processes;
- Fostering and improving open communication and contact among relevant stakeholders in the Municipality.

The Audit Committee shall report and make recommendations to the Accounting Officers but the Accounting Officers retain responsibility for implementing such recommendations.

The following are the general responsibilities of the Audit Committee:

Risk Assessments

- The Audit Committee and the Accounting Officer shall facilitate a risk assessment to determine the material risks to which the Municipality may be exposed to.
- The risk management strategy shall be used to prioritise and direct the audit effort.

Review of Documents/Reports

- Review the Municipality's financial statements prior to approval by the Accounting Officer, including the accounting policies adopted, before submission to the Auditor General.
- The review of Municipality's financial statements or any reports or other financial information submitted to any governmental body, or the public, including any report, opinion, or review rendered by the Auditor General.
- Review the Municipality's strategic plan and strategic management process.
- Review and update this Charter periodically, at least annually, or as conditions dictate.

Auditor General

- Review the fees and other compensation to be paid to the Auditor General. On an annual basis, the Committee shall review and discuss with the Auditor General, all significant relationships the auditors have with the *Municipality* to determine the Auditor-General's independence.
- Evaluate the performance of the Auditor General.

- Periodically consult with the Auditor General out of the presence of management regarding internal controls and the completeness and accuracy of each *Municipality's* financial statements.
- Following completion of the Auditor General's audits, review separately with senior management, the Auditor General and the internal audit any significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information or personnel.
- Review any significant disagreement between management and the Auditor General or the internal audit department in connection with the preparation of any report.
- Review the audit plan and make recommendations so that critical risk areas are addressed in the organization.

Financial Reporting Processes

- Evaluate the financial statements of the Municipality for reasonability, completeness and accuracy, and comment on its evaluation of these annual financial statements in the annual reports of the Municipality.
- In consultation with the Auditor General and the internal auditors, review the integrity of Municipality's financial reporting processes, both internal and external.
- In the annual reports of the Municipality, the Audit Committee must comment on the quality of in-year management and monthly reports submitted in terms of the Public Finance Management Act .
- Consider the Auditor General's opinion on the quality and appropriateness of each Municipality's accounting policies as applied in its financial reporting.
- Consider and approve, if appropriate, major changes to each Municipality's auditing and accounting policies and practices as suggested by the Auditor General, management, or the internal audit Municipality.

Process Improvement

- Establish regular and separate systems of reporting to the Audit Committee by senior management, the Auditor General and the internal auditors regarding issues of significance and relevance to the work of the Audit Committee and the operations of Municipality.
- Review with the Auditor General, the internal auditing department and management the extent to which recommended changes or improvements in financial / accounting practices or control environment, as recommended by the Audit Committee, have been implemented. (This review should be conducted at an appropriate time subsequent to implementation of changes for improvements)

Reporting

- The chairperson of the Audit Committee shall submit a bi-annual report to the relevant Executive Authority indicating the activities of the Audit Committee, including a list of recommendations made to the Accounting Officers and comments thereof.
- The chairperson of the Audit Committee shall report to the Provincial Audit Committee on a quarterly basis.
- The chairperson of the audit committee will report on a quarterly basis, or more frequently if required, to the municipal council on the operations of the internal audit unit and the audit committee. The report should include:
 - A summary of the work performed by the internal audit and the audit committee against the annual work plan;
 - Effectiveness of internal controls and additional measures that must be implemented to address identified risks;
 - A summary of key issues dealt with, such as significant internal and external audit findings, recommendations and updated status thereof;
 - Progress with any investigations and their outcomes;
 - Details of meetings and the number of meetings attended by each member; and
 - Other matters requested of the internal audit and audit committee.

Ethical and Legal Compliance

- Review compliance with laws, regulations, ethics, policies and rules.
- Review significant cases of employee conflicts of interest, misconduct, or fraud and the resolution of the cases.
- Review the internal audit reports concerning any compliance reviews.
- Review periodically the Code of Conduct and ensure that management has established a system to enforce this Code.
- Review management's monitoring of the Municipality's compliance with the Municipality's Code.
- Determine whether management has a proper review system in place to ensure that any activities, reports and other financial information disseminated meets legal requirements.
- Review with the Municipality's legal unit, any legal matter that could have a significant impact on the Municipality.
- Perform any other activities consistent with this Charter, and governing law, as the Committee or the Executive deems necessary or appropriate.

Internal Control

- Understand each Municipality's key risk areas and the internal control structure. The committee should monitor the control process through the results of internal audit and the Auditor-General audits. The monitoring includes internal auditors' reviews of the adequacy and effectiveness of the internal control structure and the quality of performance in carrying out assigned responsibilities. It also includes the extent to which resources are utilised in an efficient and economical manner and that programs are executed as planned and a review of findings is also carried out.
- Report on the effectiveness of internal control in the annual report of the Municipality.

Responsibilities related to the Internal Audit Function

- Review and approve the Internal Audit charter.
- Comment on the effectiveness of the internal auditors' performance of their responsibilities and duties.
- Review internal audit plans and budgets.
- Review the results of any audit work performed.
- Review any quality assurance reviews performed on the Municipality.
- Comment on whether the internal audit complies with the relevant rules and regulations.
- Comment on whether the internal audit Municipality maintains its independence.
- Review the internal audit reports to management and management's response and action plans and implementation thereof.
- Advise the municipality on resources allocated to give effect to the work outputs of the internal audit function.
- Concur with any appointment and termination of the services of the chief audit executive.
- Ensure that the head of internal audit has reasonable access to the chairperson of the audit committee.

Performance Management

- Review and comment on compliance with statutory requirements and performance management best practices and standards;
- Review and comment on the alignment of the Integrated Development Plan, the Budget, Service Delivery and Budget Implementation Plan and performance agreements;

- Review and comment on relevance of indicators to ensure they are measurable and relate to services performed by the municipality and its entities;
- Reviews compliance with in-year reporting requirements;
- Review the quarterly performance reports submitted by internal audit;
- Reviews and comments on municipality's and entities annual financial statements and timely submission to the Auditor-General by 31 August, each year;
- Review and comment on the municipality's performance management system and make recommendations for its improvement.

Information Technology (IT) Governance

- Provide advice on IT governance, controls, access, safeguarding of information in the municipality and its entities.
- Advice on the appropriateness of disaster recovery and continuity plans supporting IT risks, regular testing and evaluation of plans, systems and processes.
- May from time to time require specific expertise within or outside the municipality to assist the internal audit unit and audit committee formulate recommendations on systems and controls.

6 General

The committee members are obliged to disclose any interests they have within or outside the Municipality that might interfere with the performance of their duties.

Any Municipality related information that comes to light during their performance of duties shall be kept confidential. This information can only be disclosed to the Accounting Officers, the Executive or any statutory board on request.

The Audit Committee shall report to, and make recommendations to, the Accounting Officers, but the Accounting Officers retain responsibility for implementing such recommendations.

Should any report received by the Audit Committee implicate an Accounting Officer in fraud, corruption or gross negligence, the chairperson of the Audit Committee shall promptly report this to the relevant Executive Authority.

The Audit Committee, through the Chairperson, may review and effect changes to the Charter upon approval by the Mayor.

Finally, the Audit Committee may communicate any concerns it deems necessary to the relevant Executive Authorities or the Auditor General.