



## **AUDIT COMMITTEE CHARTER**

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## **1. PURPOSE**

The purpose of the Audit Committee charter is to set out the status, authority, roles and responsibilities of the Audit Committee of the municipality. The status, authority, roles and responsibilities are in accordance with section 166 of the Municipal Finance Management Act, No.56 of 2003 and as delegated by Council. This charter guides the Audit Committee in fulfilling its obligations.

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

The Audit Committee is authorised, in terms of this charter, to perform the duties and functions required to ensure adherence to the provisions of the Municipal Finance Management Act (MFMA), the applicable provisions of the Municipal Systems Act and the Municipal Structures Act and applicable regulations.

In carrying out its mandate, the Audit Committee must have regard to the strategic goals of the municipality, strategic focus areas as outlined in the Integrated Development Plan (IDP), and the Service Delivery Budget Implementation Plan (SDBIP).

## **3. ROLE OF THE AUDIT COMMITTEE**

The role of the Audit Committee is to assist Council and the Accounting Officer in fulfilling its oversight responsibilities with regard to the integrity of internal control and accounting function, internal auditing and external auditing and reporting practices of the municipality and other such duties as may be directed by the Council and Accounting Officer.

## **4. CONSTITUTION [MFMA Section 166(1)]**

Ugu District Municipality (the Municipality) has established an Audit Committee as an independent advisory body in terms of Section 166(1) of the Local Government: Municipal Finance Management Act, 2003, hereinafter referred to as the "MFMA".

The Audit Committee established in terms of Section 166(1) of the MFMA also fulfils the functions of a performance management audit committee constituted in terms of Regulation 14(2) of the Local Government: Municipal Planning and Performance Management Regulations, 2001.

The membership, resources, responsibilities and authorities (composition, functions and operation) of the combined Committee (hereinafter referred to as “the Committee”) to perform its role effectively, are stipulated in these terms of reference, which may be amended by the Council from time to time. The Committee is constituted in terms of the requirements of sound corporate governance practices and operates within that framework.

The Committee should not perform any management functions or assume any management responsibilities. It provides a forum for discussing business risk and control issues for developing relevant recommendations for consideration by the Council. The Committee should mainly make recommendations to the Council for its approval or final decision.

## **5. MEMBERSHIP [MFMA: Section 166(4) (a)].**

The Audit Committee will comprise of at least three independent external members. The chairperson of the committee shall be one of the external members.

Each external Committee member will be both independent and financially literate as defined by applicable regulations and Council. At least one member shall have expertise in performance management.

The Council shall appoint the independent members for the period of three years with an option to renew for another period of three years. Members of the audit committee 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 committee

The Council shall have the power at any time to remove any members from the Committee and to fill any vacancies created by such removal.

Chief Audit Executive shall attend meetings of the Committee in an advisory capacity only.

The committee clerks under the administration section shall provide the Secretariat function for the Committee.

## **6. RESPONSIBILITIES OF THE AUDIT COMMITTEE**

### **6.1. Performance Management**

The Committee shall consider matters relating to performance management at least twice per annum in order to discharge the responsibilities prescribed in terms of Regulation 14(4) of the Local Government: Municipal Planning and Performance Management Regulations, 2001.

These responsibilities include:

- A review of the quarterly reports submitted by internal audit in terms of sub regulation (1) (c) (ii) of the Municipal Planning and Performance Management Regulations (2001);
- Review the performance management system ensuring functionality thereof and compliance with the Act and make recommendations in this regards to Council
- Focus on economy, effectiveness, efficiency, reliability and impact applicable to the Municipality's own key performance indicators; and
- Reporting on the outcomes of its review and focus areas to the Council, at least twice per annum;

### **6.2. Statutory responsibilities in terms of Section 166 (2) of the MFMA**

The Committee must:

- (a) Advise the municipal council, the political office-bearers, the accounting officer and the management staff of the municipality, on matters relating to-
- internal financial control and internal audits;
  - risk management;
  - accounting policies;
  - the adequacy, reliability and accuracy of financial reporting and information
  - performance management;
  - effective governance;
  - compliance with the MFMA, the annual Division of Revenue Act and any other applicable legislation:

- performance evaluation; and
  - any other issues referred to it by the municipality or municipal entity:
- (b) 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, its efficiency and effectiveness and its overall level of compliance with the MFMA, 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 may request: and
- (e) Perform such other functions as may be prescribed.
- (f) Perform an in-depth assessment of the competencies and qualifications of all staff at the finance department

### **6.3. Auditors and external audit**

The Committee will attend to the following matters in conjunction with duly authorised representatives from the Office of the Auditor General:

- (i) Discuss and review, with the external auditor(s) before the audit commences, the nature and scope of the audit function, procedures and to ensure co-ordination between internal and external audit to avoid duplication of effort;
- (ii) Negotiate procedures, subject to agreement, beyond minimum statutory and professional duties - there are certain minimum procedures required from the external auditors which are not negotiable;
- (iii) Agree to the timing and nature of reports from the external auditor(s);
- (iv) Consider any problems identified in going concern;
- (v) Make suggestions as to problem areas which the audit can address;

- (vi) Consider any accounting treatments, significant unusual transactions, or accounting judgments, which could be contentious;
- (vii) Identify key matters arising in the current year's management letter and satisfy itself that they are being properly followed up;
- (viii) Consider whether any significant ventures, investments or operations are subject to external audit;
- (ix) Review overall audit role, to explore objectives, minimise duplication, discuss implications of new auditing standards and ensure that external audit fee will sustain a proper audit and provide value for money;
- (x) Obtain assurance from the external auditor(s) that adequate accounting records are being maintained
- (xi) Meet at least annually with the Auditor-General to ensure that there are no unresolved issues of concern.

#### **6.4. Financial statements**

- i. Review the quality of financial information, financial statements and other public and regulatory reporting;
- ii. Review the draft annual financial statements prior to submission to the external auditors;
- iii. Review the annual report and accounts taken as a whole to ensure they present a balanced and understandable assessment of the position, performance and prospects of the Municipality;
- iv. Review the external auditors' proposed audit report;
- v. Discuss problems and reservations arising from the audit, and any matters the auditors may wish to discuss.
- vi. Review the external auditors' Management letter and Management response;
- vii. Review the credibility, independence and objectivity of the external auditors, taking into account their audit and non-audit fees. Where the external auditors also supply a substantial volume of non-audit services to the Municipality, the Committee should keep the nature and extent of such services under review, seeking to balance the maintenance of objectivity and value for money.

#### **6.5. Internal audit**

An important role of the Committee will be to monitor and supervise the effective function of the internal audit, ensuring that the roles and functions of the external audit with internal audit are sufficiently clarified and co-ordinated

to provide an objective overview of the operational effectiveness of the municipality's systems of internal control and reporting. This will include:

- Reviewing and assessing the performance of the Chief Audit Executive by evaluating the performance of the internal audit activity and assessing the adequacy of the performance of the internal audit function, and the adequacy of available internal audit resources; and evaluate the independence and effectiveness of the internal auditors;
- Reviewing the internal audit function's compliance with its mandate as approved by the Committee;
- Reviewing the effectiveness of the company's systems of internal control, including internal financial control and business risk management and to maintain effective internal control systems;
- Considering the appointment, dismissal or re-assignment of the head of the internal audit function;
- Reviewing and approving the internal audit charter, internal audit plans and internal audit's conclusions with regard to internal control;
- Reviewing the adequacy of corrective action taken in response to significant internal audit findings;
- Reviewing significant matters reported by the internal audit function;
- Reviewing the objectives and the operations of the internal audit function;
- Reviewing the co-operation and co-ordination between the internal and external audit functions and co-ordinating the formal internal audit work plan with external auditors to avoid duplication of work;
- Reviewing significant differences of opinion between management and the internal audit function;
- Evaluating whether or not proper and adequate accounting records are maintained;
- Evaluating the independence and effectiveness of the internal auditors including compliance with the Institute of Internal Auditors' Statements for the Professional Practice of Internal Auditing ;



- Evaluating controls over the overall operational and financial reporting environment;
- Evaluating whether or not the Municipality's assets are safeguarded against unauthorised use or disposal;
- Initiating investigations into matters within its scope, for example, evaluations of the effectiveness of the Municipality's internal control, cases of employee fraud, misconduct or conflict of interest.
- 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.
- Ensure there are no unjustified restrictions or limitations on the work performed by Internal Audit:
- On a regular basis, meet separately with the Chief Audit Executive to discuss any matters that the committee or internal audit believes should be discussed privately.

## **6.6. Internal control**

- Review procedures for identifying business risks and controlling their impact on the Municipality;
- Review the Municipality's policies for preventing or detecting fraud;
- Consider whether the objectives, organisation, staffing plans, financial budgets, audit plans and standing of the internal audit function provides adequate support to enable the Committee to meet its objectives;
- Review the results of work performed by the internal audit function in relation to financial reporting, corporate governance, internal control, and any significant investigations and management response;
- Review co-ordination between the internal audit function and the external auditors and deal with any issues of material or significant dispute or concern;
- Make enquiries regarding the existence or otherwise of significant transactions not directly related to the Municipality's normal business as the Committee might deem appropriate;
- Review significant cases of employee conflicts of interest, misconduct or fraud, or any other unethical activity by employees or the Municipality;
- Review the controls over significant risks;

The Committee in carrying out its duties under these terms of reference will have due regard to the principles of governance and code of best practise as contained in the Report on Corporate Governance for South Africa.

## **6.7. Ethics**

There are a number of statutory, common law and other requirements, which cover the ethical behaviour of Councillors, Municipal Managers and Council Officials. In addition, the Local Government: Municipal Systems Act, 2000 prescribes:

- a) A code of conduct for Councillors; and
- b) A code of conduct for Municipal Staff Members.

The Committee will be responsible for reviewing the effectiveness of mechanisms for:

- (i) Monitoring the ethical conduct of Councillors and Municipal staff members;
- (ii) Ensuring compliance with the requirements of the Local Government: Municipal Systems Act, 2000;
- (iii) Ensuring compliance with the laws and regulations of any other applicable statute and of controlling bodies;
- (iv) Identification and reporting of any material violations of ethical conduct;
- (v) Identification and reporting of environmental and social issues;

The Committee will also make recommendations regarding any potential conflicts of interest or questionable situations of a material nature, which are brought to its attention.

## **6.8. Compliance with laws and regulations**

The Committee shall:

- Review the effectiveness of the system for monitoring compliance with laws and regulations and results of the management's investigation and follow-up (including disciplinary action) of any instances of non-compliance.
- Review the findings of any examinations by regulatory agencies, and any auditor observations.
- Review the process for communicating the code of conduct to company personnel, and for monitoring compliance therewith.
- Obtain regular updates from management and the Municipalities legal counsel regarding compliance matters.
- Be satisfied that all regulatory compliance matters have been considered in the preparation of the financial statements

## **6.9. Risk Management**

The Committee shall:

- Consider the municipality's key risk management strategy and policy and provide appropriate advice.
- Review the risk management plan including the disaster recovery plans for the year and provide advice of focus areas.
- Consider risk management reports and assess measures in place to mitigate the inherent risks identified.
- Review the opinion of the Internal Audit regarding the municipality's risk management systems.

## **7. PERFORMANCE ASSESSMENT**

The audit committee should assess its performance and achievements against its charter on an annual basis and report the outcomes of its assessment to council. 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 Audit committee also has a responsibility to assess the performance of the Internal Auditors and report to Council.

## 8. REPORTING AND ACCOUNTABILITY

The Chairperson or in his or her absence, a designated external member of the Committee shall account to the council for all its activities, issues and related recommendations. For this reason the audit committee shall;

- Review the draft Annual Financial Statements (AFS) and draft Annual Performance Report (APR) prior to submission to the external auditors and make recommendations to the Accounting Officer and council concerning the adoption of the annual financial statements and any other matters arising from the above responsibilities.
- Review the annual report and accounts taken as a whole to ensure they present a balanced and understandable assessment of the position, performance and prospects of the Municipality;
- Review the external auditors management letter, management response and annual audit report;
- Discuss problems and reservations arising from the audit, and any matters the auditors may wish to discuss.
- Review the credibility, independence and objectivity of the external auditors, taking into account their audit and non-audit fees. Where the external auditors also supply a substantial volume of non-audit services to the Municipality, the Committee should keep the nature and extent of such services under review, seeking to balance the maintenance of objectivity and value for money.
- Respond to the Council on any issues raised by the Office of the Auditor General in the audit report. [MFMA – S166(2)(c)].

## 9. MEETINGS

Meetings of the Committee will be held as frequently as the Committee considers appropriate, but not less than four times a year. **[MFMA – S166 (4) (b)]**. If the appointed Chairperson is absent from a meeting, the members present must elect a member present to act as Chairperson.

The Audit Committee should meet with internal and external auditors at least once a year without management being present when the need arises. All members should attend all meetings.

Any member of the committee, the external auditors and the Chief Audit Executive may call further meetings of the Committee when deemed necessary.

The quorum for any meeting will be in excess of 50% plus one of members including the Chairperson.

- The following persons will have a standing invitation to attend the Audit Committee meetings:
  - The Municipal Manager and all MANCO members;
  - Chief Financial Officer;
  - Chief Audit Executive ;

- External Auditor (Auditor-General);
- Department of Co-operative Governance and Traditional Affairs, and
- Any other person on invitation by the chairperson of the Audit Committee.

The chairperson, in his or her discretion, may invite Councillors or Officials to attend and be heard at meetings of the Committee when there is a functional responsibility to be discussed. No such attendee shall have a vote at meetings of the Committee.

In the event of the duly authorised representative of Office of the Auditor General not being present at meetings, copies of the agenda and minutes of each meeting shall be forwarded to the Office of the Auditor General for their information and records.

Committee agendas and minutes of meetings should be forwarded to the Office of the Municipal Manager for information and for attending to any Council actions as may be required in consequence of such agendas, briefing papers and minutes.

The Office of the Municipal Manager is responsible for submission of minutes of the Audit Committee to the Council for consideration.

## **10. PROCEEDINGS**

Unless varied by these terms of reference, meetings and proceedings of the Committee will be governed by the Municipality's code regulating the meetings and proceedings of the Council and sub-committees of the Council.

Minutes of meetings shall be taken by the admin clerk within the Internal Audit unit and shall be reviewed and approved by the members of the Committee.

## **11. AUTHORITY OF THE COMMITTEE AND RESOURCES AVAILABLE TO IT**

The Committee in carrying out its tasks under these terms of reference:

- Has unrestricted access, through the Office of the Municipal Manager, to the financial records and other relevant information of the municipality. **[MFMA – S166 3(a)]**;

- Must liaise with **[MFMA S166 3(b)]** –
  - (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 or municipal entity.
- Is authorised to investigate any activity within its terms of reference;
- May, at the discretion of the Chairperson, require Councillors and officials of the Municipality to attend meetings or parts of meetings;
- May consult with and seek any information it requires from any Councillors or officials and all Councillors and officials shall be required to co-operate with any reasonable request made by the Committee in the course of its duties;
- May meet privately with the external or internal auditors without any Councillor or Official of the Municipality in attendance.
- May, through the chairperson, request that Councillors or Officials of the Municipality or the Internal Auditors in attendance recuse themselves from meetings where warranted by the circumstances.
- May, on request, through the Chairperson advise the Municipal Public Accounts Committee (MPAC) on any matter relating its competency

## **12. REMUNERATION**

The Board / Council is informed by the remuneration Regulations and Guidelines set out by the National Treasury and revised on an annual basis.

Remuneration will only be applicable to persons employed outside of 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.

The reimbursement of all members for travel expenditure must be determined in accordance with the approved Board / Council policy or the rate per kilometre as per the Subsistence and travelling policy.

The Audit Committee members should be paid a three hour preparation time as approved by Council. This payment included members who are in the service of the state.

The Accounting Officer, in consultation with the Chief Financial Officer, is required to approve the reimbursement of all travel expenditure for members of the Audit Committee based on the abovementioned or make alternative arrangements to pay for modes of travel to such meetings, in terms of Council policy.

Moreover, having regard to the functions performed by the members of the Committee, and pursuant to the powers of the Council, external members of the Committee shall be paid remuneration in respect of their appointment as shall be reviewed by the Council from time to time.

### **13. GENERAL**

The Committee in carrying out its tasks under these terms of reference may obtain such outside or other independent professional advice, as it considers necessary to carry out its duties.

The Council will ensure that the Committee will have access to professional advice both inside and outside of the Municipality in order for it to perform its duties.

The terms of reference as set out in the Audit Committee Charter will be reviewed annually by the Audit Committee and will be recommended for approval by council.

**Duly approved by:**

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**Mr A. Gonzalves**

**CHAIRPERSON OF THE AUDIT COMMITTEE**

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**Date**

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**Mr Vela Mazibuko**

**ACCOUNTING OFFICER**

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**Date**