

MATJHABENG LOCAL MUNICIPALITY



AUDIT COMMITTEE CHARTER

2018/19

TABLE OF CONTENTS

Contents

1. Overall Purpose and Legal Framework.....	2-3
2 Principles of the Audit Charter.....	4
3. Roles and Responsibilities of the Audit Committee.....	5-8
4. Reporting Responsibilities.....	9
5. Performance Audit	10-11
6. Audit Committee Charter.....	12
7. Authority.....	13
8. Membership and Quorum.....	14
9. Members' Remuneration	15
10.Meetings.....	16-17

Overall Purpose and Legal Framework

The Audit Committee will assist the Matjhabeng local municipality in fulfilling its oversight responsibilities. The Audit Committee will review the financial reporting process, the system of internal control and management of financial risks, the audit process inclusive of monitoring compliance of laws and regulations. In performing its duties, the Committee will maintain effective working relationships with the municipality, management and both Internal and External Auditors. To perform his or her role effectively, each committee member shall be expected to have a thorough understanding of the responsibilities of the audit committee as well as the municipality's core functions, operations and risks.

This charter shall be read and implemented in conjunction with the provision of section 166 (1) to (5) of the Municipal Finance Management Act 56 of 2003 which is detailed below:

Section 166 of the MFMA, which is applicable from 1 July 2007, stipulates the following with regard to audit committees:

- (1) Section 166(1) requires that each municipality and each municipal entity must have an audit committee, subject to subsection (6).
- (2) Section 166(2) requires that 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, the accounting officer and the management staff of the municipal entity, 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 or municipal entity;

-
- (b) review the annual financial statements to provide the council of the municipality or, in the case of a municipal entity, the council of the parent municipality and the board of directors of the entity, with an authoritative and credible view of the financial position of the municipality or municipal entity, 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 or municipal entity as the council of the municipality, or in the case of a municipal entity, the council of the parent municipality or the board of directors of the entity, may request; and
 - (e) perform such other functions as may be prescribed.
- (3) Section 166(3) states that in performing its functions, an audit committee:
- (a) has access to the financial records and other relevant information of the municipality or municipal entity; 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 or municipal entity.
- (4) Section 166(4) requires that 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 or municipal entity, as the case may be; and
 - (b) meet as often as is required to perform its functions, but at least four times a year.
- (5) Section 166(5) 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. One of the members, who are not in the employ of the municipality or municipal entity, must be appointed as the chairperson of the committee. No councillor may be a member of an audit committee.

For all intends and purposes the above responsibilities shall be the core responsibilities of Matjhabeng Audit Committee.

2

Principles of the Audit Charter

- a. Supports the principle of objectivity and independence at all levels and reflect it in the structuring and reporting lines of the internal audit function as well as the establishment of an Audit Committee.
- b. That no restrictions shall be placed on the internal and external auditors in the execution of their duties provided that such duties are executed within the required legal framework.
- c. The co-operation between the internal and external auditors shall be regulated in such a way that deficiencies and duplication in the process of audit coverage can be avoided.
- d. Provide a framework but not set procedures or method for the execution of the audit work.
- e. The responsibility for the execution of the audit work rests with the internal auditor with regard to the approved internal audit strategy and procedures.
- f. The external audit partner is responsible for developing external audit strategies and related procedures.
- g. The Audit Committee shall be independent from the Matjhabeng local municipality but remains responsible and accountable to council.
- h. The Committee shall therefore support and take primary responsibility for such matters that requires independent monitoring, have an impact on financial statements and governance.

3

Roles and Responsibilities of the Audit Committee

3.1. Internal Control

- a) Evaluate whether management is setting the appropriate “control culture” by communicating the importance of internal control and the management of risk and ensuring that all employees have an understanding of their roles and responsibilities.
- b) Consider how management is held to account for the security of computer systems and applications, and the contingency plans for processing financing information in the event of a systems breakdown.

3.2 Financial Reporting

- a) Gain an understanding of the current areas of greatest financial risk and other risks and evaluate how management is managing these effectively.
- b) Investigate any fraud, illegal acts or deficiencies in internal control or other similar issues.
- c) Review significant accounting and reporting issues, including recent professional and regulatory pronouncements and understands their impact on the financial statements.
- d) Review significant risks and exposures and the plans to minimize such risks.
- e) Review any legal or other matters, which could significantly impact on the financial statements.

3.3 Annual Financial Statements

- a) Review the annual financial statements and determine whether they are complete and consistent with the information known to committee members. Assess whether the financial statements reflect appropriate accounting principles.
- b) Pay particular attention to complex and/or unusual transactions such as restructuring charges and major loan transactions.

-
- c) Focus on judgemental areas, for example, those involving valuation of assets and liabilities, warranty, product or environmental liability, litigation reserves and other commitments and contingencies.
 - d) Meet with management and the external auditors to review the financial statements and the result of the audit.
 - e) Review the other sections of the annual report before its release and consider whether the information is understandable and consistent with member's knowledge about the company and its operations.

3.4. Interim Financial Statements

Assess the fairness of interim statements and disclosures and obtain explanations from management and internal and external auditors on whether

- a) actual financial results for the interim period varied significantly from budgeted or projected results;
- b) changes in financial ratios and relationships in the interim financial statements are consistent with changes in the company's operations and financing practices;
- c) applicable generally accepted accounting principles have been consistently applied throughout the period under review;
- d) there are any actual or proposed changes in accounting or financial reporting practices;
- e) there are any significant or unusual events or transactions;
- f) the company's financial and operating controls are functioning effectively;
- g) the preliminary announcements and interim financial statements contain adequate and appropriate disclosures.

3.5. Internal Audit

- a) Review the activities of the internal audit function and ensure no unjustified restrictions or limitations on scope of work.
- b) Review the qualifications of internal auditor(s) and participate in their appointment, replacement, re-assignment or dismissal.
- c) Review and evaluate the effectiveness and efficiency of the internal audit function and the quality of work.
- d) Meet separately with the internal auditor(s) to discuss any matters that the committee or auditor(s) believe should be discussed privately.
- e) Ensure that significant findings and recommendation made by the internal auditor(s) are responded to and on a timely basis.
- f) Ensure that management responds to queries and recommendations by the internal auditor(s).

3.6. External Audit

In terms of Circular 65 of Municipal Finance Management Act; the Audit Committee must:

- a) Take cognizance of the scope of work undertaken by the external auditor and the extent of co-ordination with the internal audit unit;
- b) Review the external auditors' proposed audit scope and approach and ensure no unjustified restrictions or limitations have been placed on the scope.
- c) Review the External Auditor's budget and recommend to the council for approval;
- d) Review and evaluate the performance of the external auditors.
- e) Review reports and monitor management's implementation of audit recommendations and municipal council resolutions in the new financial year;
- f) Review the report on the financial statements and matters raised therein for reasonability and accuracy;
- g) Review any interim reports issued in order to take cognizance of the issues raised in determining the follow up work of the internal audit;
- h) Conduct a review of the extent to which previously reported findings by the external auditor have been addressed by the municipal council;
- i) Provide advice to the accounting officer on actions taken relating to significant matters raised in external audit reports;
- j) Ensure that significant findings and recommendation by the external auditors are received and discussed on a timely basis
- k) Meet separately with the external auditors to discuss any matters that the committee or auditors believe should be discussed privately;
- l) Ensure that the external auditors have reasonable access to the management and chairperson of the audit committee;
- m) Address any potential restrictions or limitations with the accounting officer and council; and
- n) Address outstanding matters raised by the external auditors and any findings are dealt with conclusively in an expeditious manner

3.7. Compliance with Laws and Regulations

- a) Review the effectiveness of the system for monitoring compliance with laws and regulations and the result of management's investigation and follow-up (including disciplinary action) of any fraudulent or non-compliance.
- b) Obtain regular updates from senior management and in-house legal services regarding compliance matters.
- c) Review whether all regulatory compliance matters have been considered in the preparation of the financial statements.
- d) Review any adverse findings of investigations conducted by regulatory agencies.

3.8. Fraud Prevention and Misconduct

The Audit Committee shall be informed, by the Accounting Officer of any significant cases of conflict of interest, misconduct or/and fraud by employees and steps taken by management to rectify the situation.

The Audit Committee should review the fraud prevention policy and management's mechanisms to facilitate the reporting of fraud and corruption related activities, and the Committee should also ensure that all allegations reported are dealt with appropriately

3.9 Other Responsibilities

- a) Perform other oversight functions as requested by council or management.
- b) If necessary, institute special investigations and, if appropriate, hire special counsel or experts to assist.
- c) Review and approve the charter annually if it becomes necessary.
- d) Evaluate the committee's own performance on a regular basis.
- e) Ensure coordination between the activities of internal and external audit.

Reporting Responsibilities

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 A summary of the work performed by the internal audit and the audit committee against the annual work plan;
- b Effectiveness of internal controls and additional measures that must be implemented to address identified risks;
- c A summary of key issues dealt with, such as significant internal and external audit findings, recommendations and updated status thereof;
- d. Progress with any investigations and their outcomes;
- e. Details of meetings and the number of meetings attended by each member; and other matters requested of the internal audit and audit committee.

The audit committee shall prepare a report annually which will be incorporated into the municipality's annual report and those of its entities covering:

- a) Describing the functions performed by the audit committee and meetings attended;
- b) Resolutions taken by council and implementation status of recommendations made; and
- c) Other relevant comments that may enhance governance and accountability.

The chairperson of the audit committee must submit a copy of its report at least annually, or at other intervals, to the Municipal Public Accounts Committee (MPAC), for consideration during the MPAC engagements on the oversight report. The chairperson of the audit committee must always be available whenever MPAC needs clarity on the report of the audit committee.

Therefore, the roles and responsibilities and outputs of the internal auditor and audit committee assist to inform the work of the MPAC and oversight structures.

Performance Audit

The Audit Committee of the Matjhabeng local municipality shall in terms of Regulation 14 of the Local Government: Municipal Planning and Performance Management Regulations, 2001 also execute the duties of a Performance Audit Committee.

- “(2) (a) A municipality must annually appoint and budget for a performance audit committee consisting of at least three members, the majority of which may not be involved in the municipality as a councillor or an employee.
- (b) A performance audit committee appointed in terms of paragraph (a) must include at least one person who has expertise in performance management.
- (c) A municipality may utilise any audit committee established in terms of either 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 committee.
- (d) The council of a municipality must designate a member of the performance audit committee who is not a councillor or an employee of the municipality as chairperson of the committee.
- (e) If the chairperson of the performance audit committee is absent from a specific meeting of the committee, the members present must elect a chairperson from the members present to act as chairperson for that meeting.
- (f) In the event of a vacancy occurring amongst the members of the performance audit committee, the municipality concerned must fill that vacancy for the unexpired portion of the vacating member's term of appointment.
- (g) A municipality must provide secretariat services for its performance audit committee.
- (h) A local municipality may instead of appointing a performance audit committee elect to make use of the performance audit committee of the district municipality in whose area it falls, and that performance audit committee is to be regarded as the performance audit committee of the local municipality in question.
- (i) A local municipality that elects to make use of the performance audit committee of the district municipality in whose area it falls must notify that district municipality of its decision and make suitable arrangements with the district municipality regarding the availability of that performance audit committee.

-
- (3) (a) A performance audit committee must meet at least twice during the financial year of the municipality concerned.
- (b) A special meeting of the performance audit committee may be called by any member of the committee.
- (c) A performance audit committee may determine its own procedures after consultation with the executive mayor or the executive committee of the municipality concerned, as the case may be.
- (4) (a) A performance audit committee must-
- (i) review the quarterly reports submitted to it in terms of sub-regulation (1) (c) (ii); review the municipality's performance management system and make recommendations in this regard to the council of that municipality; and
 - (iii) at least twice during a financial year submit an audit report to the municipal council concerned.
- (b) In reviewing the municipality's performance management system in terms of paragraph (a) (ii), the performance audit committee must focus on economy, efficiency, effectiveness and impact in so far as the key performance indicators and performance targets set by the municipality are concerned.
- (c) A performance audit committee may-
- (i) communicate directly with the council, municipal manager or the internal; and external auditors of the municipality concerned;
 - (ii) access any municipal records containing information that is needed to perform its duties or exercise its powers;
 - (iii) request any relevant person to attend any of its meetings, and, if necessary, to provide information requested by the committee; and
 - (iv) investigate any matter it deems necessary for the performance of its duties and the exercise of its powers."

Audit Committee Charter

- a) The Audit Committee should review the Audit Committee Charter annually (if it becomes necessary) and submit it for final approval by council.
- b) Proposed changes to the policy should be subjected to consultation between management and internal audit in order to have consensus prior to approval by council.
- c) Any disagreements between parties, i.e. management, internal audit and the external auditors, should be submitted to the Audit Committee for resolution

Authority

Council authorizes the Audit Committee, within the scope of its responsibilities, to:

- a) Seek any record and/or information it requires from:
 - all employees of the municipality and external parties
- b) Obtain outside legal or other professional advice
- c) To request the Accounting Officer to ensure the attendance of senior management at meetings if required.

The Council of Matjhabeng Local Municipality authorises audit committee:

- (a) To oversee the work of the performed by the internal audit staff employed by the municipality,
- (b) To resolve any disagreement between management and internal audit staff and or external auditors (Auditor General),
- (c) To gather any relevant information it requires from internal or external sources,
- (d) To ensure the attendance of council officials when required,
- (e) To initiate special investigations, and
- (f) To have free access to municipal financial records and other relevant information of the municipality,

Membership and Quorum

- a) The Audit Committee shall comprise of not less three members (odd numbers). The audit committee must consist of maximum of five (5) independent members duly appointed by the Council of Matjhabeng Local Municipality
- b) Each member shall have to be capable of making a valuable contribution to the Committee.
- c) All members shall be independent of management, financially literate and have the knowledge of municipal performance activities.
- d) The Chairperson shall be appointed from Audit Committee Council,
- e) The members shall be appointed by council for a three (3) year term and the term of office is renewable.
- f) The members shall not be appointed for more than two (2) consecutive terms of office.
- g) A quorum for any meeting shall be three (3) members.
- h) At least one member shall be designated as the "financial expert," as defined by applicable legislation and regulation.
- i) The premature termination of a committee member's term of office will be done in consultation with Council
- j) The officials who shall serve in the Audit Committee as permanent invitees for ordinary meetings occupy the following job titles:
 - Municipal Manger of Matjhabeng Local Municipality,
 - Chief Financial Officer of Matjhabeng Local Municipality,
 - Head of Internal Audit of Matjhabeng Local Municipality,
 - Heads of Departments as the committee may require.

Members' Remuneration

Remuneration of Audit Committee members should be in accordance with Chapter 3 of National Treasury Regulations (PFMA) paragraph 20.2.2 as adjusted annually, effected 1st April each year. Members will be paid a preparation fee equal to the sitting allowance of ordinary member or chairperson per meeting attended.

	Preparation Fee	Sitting Allowance
	Per Day	Per Day
Chairperson	R 4 092.00	R4 092.00
Member	R 2483.00	R 2483.00

The remuneration of Audit Committee members will be applicable to any other meetings that the members may be compelled to attend. Remuneration herein will be treated separately i.e. separate for meetings with the Local Municipalities; separate for attending Council sittings and separate for any other special meeting attended or any other occasions. Employees of National and Local Government; Agencies and Entities of Government serving in the Committees are not entitled for Sitting Allowance.

Remuneration for members for combined/shared meetings within one day with the other entities/local municipality shall be preparation fee as stated above payable by the other entity or local municipality

The reimbursement of traveling expenditure will be in accordance with the rate per kilometre as published and updated by the National Department of Transport.

Traveling time will not be paid to Committee members

10

Meetings

10.1. ATTENDANCE AT MEETINGS

- a) The Audit Committee may invite such other persons to its meetings, as it deems necessary.
- b) The internal and external auditors may be invited to make presentations to the Audit Committee at appropriate times or intervals.
- c) Special meetings may be convened as required by management or the chairperson of the Audit Committee in consultation with other Audit Committee members.
- d) The Internal Auditor or the external auditors may convene meetings if necessary.
- e) The proceedings of all meetings shall be minuted.
- f) Should one of the committee members be absent in two consecutive meetings without an apology, the chairperson shall take such reasonable steps necessary to ensure appropriate attendance of the scheduled meetings
- g) The Chairperson of the Audit Committee shall approve the agenda of the Audit Committee in consultation with the Accounting Officer
- h) Round robin is permissible to allow operational efficiency.

10.2 FREQUENCY OF THE MEETING:

The Audit Committee shall meet at least four times a year, with authority to convene additional meetings, as circumstances require.

All committee members are expected to attend all the meetings arranged by the Chairperson of the committee.

10.3 NOTICE OF MEETINGS:

Internal Audit unit of the Municipality shall be the coordinator of Audit Committee meetings and shall give notice of each meeting of the Committee confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, any other person required to attend and all other Council Members or Officials, no later than seven (7) days before the date of the meeting

10.4 INVITATION

The committee shall invite when necessary the Speaker, Mayor, Auditor-General, section 56 Managers and Internal Auditor or such other officials as the circumstances may require attending meetings as when required and provide pertinent information, as may be necessary to ensure effective participation.

The committee shall have access to hold private meetings with auditors and executive management.

10.5 SECRETARIAT

Designated official from Matjhabeng Local Municipality will carry out the secretariat function of the audit committee. Special confidential meetings should be at the discretion of the Chairman of the audit committee.

10.6 MINUTES OF MEETINGS

The Audit Committee secretary or designated Council Official or management designate shall take minutes of meetings and provided it to members of the Audit Committee within 7 days after the meeting. These shall be reviewed and approved by the members of the Audit Committee. The secretary shall minute the proceedings and resolutions of all meetings of the Audit Committee, including recording the names of those present and in attendance. The secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.

Minutes of Committee meetings shall be circulated promptly to all members of the Audit Committee, and, once agreed, to all members of the Audit Committee, unless a conflict of interest exists.