



Sarah Baartman

DISTRICT MUNICIPALITY

Province of the Eastern Cape

progress through development

Audit Committee Charter

APPROVED BY COUNCIL: COUNCIL MEETING HELD ON 26 AUGUST 2015

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1 Introduction

This Charter sets out the specific responsibilities of the Sarah Baartman District Municipality Audit Committee (hereinafter referred to as the Committee) as required by Section 166 of the Municipal Finance Management Act, No 56 Of 2003, Section 14 of the Local Government: Municipal Planning and Performance Management Regulations, No 796 of 2001, as well as the King 3 Report on Corporate Governance for South Africa which became effective on 1 March 2010. The charter provides a framework within which the Committee should operate. Overall purpose and objective

The use of an audit committee increases the assurance stakeholders can place on the governance of an entity as a result of the independence oversight aspect thereof.

The Committee will assist the Council in fulfilling its oversight responsibilities in helping to ensure high quality financial and performance management reporting as well as effective internal control thereby supporting the Council and management of Sarah Baartman District Municipality.

1.1 Specific objectives

To this end the following objectives have been set:

- The committee shall assist management in their evaluation of the adequacy and efficiency of the financial reporting process, the system of internal control and management of risks, the audit process and the municipality's process for monitoring compliance with laws and regulations and its own code of business conduct.
- The committee shall initiate such measures as in its opinion may best serve to enhance the reliability, integrity and objectivity of internal and external reporting (financial statements and performance management) as well as the adequacy and efficiency of any other aspect of Sarah Baartman District Municipality's operations.
- The committee shall assist Council by asserting to ensure effective performance management systems that complement service delivery.
- In performing its duties, the committee will maintain effective working relationships with the Council, management and the internal and external auditors.
- The Committee must compile a report to stakeholders on its activities to be included in the municipality's annual report.
- To perform his or her role effectively each committee member will obtain an understanding of the detailed responsibilities of committee membership as well as the municipality's business operations and risks.

2 Authority

The committee is established and authorised by Council to perform any activity within its terms of reference and has all the authority vested in it by legislation and regulations affecting local government.

2.1 Communication

The committee has inter alia the authority to communicate directly with the Council, Municipal Manager, members of the senior management, advisors, consultants and employees and to deal directly with the external and internal auditors and any external parties it deems necessary.

2.2 Advice

The committee is authorised to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise should this be considered necessary. Any such appointments should be made subject to the approval of the Municipal Manager and the approved procurement procedures.

2.3 Powers of the Audit Committee

The committee is authorised within the scope of its responsibilities to:

- Investigate any matters within its powers
- Be provided with the resources that it needs to investigate such matters
- Access and inspect any records, documents and information held otherwise by the municipality or an employee of the municipality
- Access and inspect any premises on which or from where the activities of the municipality are performed
- Conduct interviews with the council or any committee thereof and summon any employee of the municipality to appear before it and interview him or her
- Investigate or cause to be investigated by any employee of the municipality, after consultation with the municipal manager, any matter
- Have access to the municipality's secretariat for assistance as required
- Be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members
- Give due consideration to laws and regulations, the provisions of the King Code and the requirements of the Municipal Finance Management Act and Treasury Regulations, as appropriate
- Safeguard all information supplied to it within the ambit of the law.

The committee should assist the Council in carrying out its functions; however, it does not relieve the Councilors of any of their responsibilities. The Committee must play an objective and independent oversight role and should not intrude into the management of the Sarah Baartman

District Municipality. The committee may investigate any matter it deems necessary for the performance of its duties and the exercise of its powers.

3 Organisation

3.1 Membership

- The committee must consist of four persons of whom:
 - None of the members may be in the employment of Sarah Baartman District Municipality;
 - The majority should be financially literate;
 - One person must have experience in performance management;
 - At least one person must have recent and relevant financial experience;
 - No councilor may be a member of the audit committee; and
 - The municipal manager, chief financial officer, the head of the internal audit unit, senior managers and such other staff members as may be nominated by the municipal manager are required to attend the aforesaid audit committee with no voting rights.
- The Committee collectively (not necessarily individually) has an understanding of:
 - government environment and accountability structures;
 - governance processes within the municipality;
 - financial reporting;
 - risk management;
 - internal control;
 - external audit process;
 - Internal audit process;
 - legal process; and
 - information technology.
- The chairperson of the audit committee will be appointed by the Council.
- The chairperson must be independent, knowledgeable of the status of the position and have the requisite business experience, as well as financial and leadership skills, and must have the ability to preside over meetings and to direct the discussions along constructive lines.
- If the chairperson of the 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.
- The chairperson and members of the audit committee must be appointed on contract for a minimum term of 3 (three) years, and be remunerated in accordance with the contracts concluded with the municipality, as approved by Council.

- Each member will be deemed to spend a total of six (6) hours on preparation and attendance per committee meeting.
- Members will also be paid a travel allowance at the rates in line with SARS guidelines.
- Remuneration for ad hoc tasks undertaken by committee members such as attending performance reviews, reviewing financial statements etc. will be at rates as approved by Council.
- The termination of the services of an audit committee member will be in accordance with the signed contract between the member and the authorised delegate of the municipality. In terms of the contract, both parties are required to provide 60 days' notice in writing of termination of service.
- The Council must concur with any premature termination of the services of a person serving on the Audit Committee.
- In the event of a vacancy occurring amongst the members of the committee, the Municipality must fill that vacancy as soon as practicable.

3.1.1 Sub – Committees: The Anti-Corruption and Fraud Prevention Committee (AC and FPC)

- The AC and FPC shall be a sub-committee of the Audit Committee.
- It shall be chaired by the Chairperson or any member of the Audit Committee (nominated by the Chairperson).
- The minutes of the AC and FPC shall be tabled at the Audit Committee meetings

3.1.2 Term of office

- The council must appoint the members of the audit committee on a contractual basis following a transparent recruitment process.
- To enhance independence of the audit committee, the term of office for members must be strictly adhered to. The chairperson should be appointed for a minimum of three years to ensure that he/she contributes most effectively and provides stability to the audit committee.
- Other audit committee members should serve at least a minimum of three years with an option to renew for another three years, based on performance.
- The recruitment process of new members should be concluded at least three months in advance of the expiry of existing members term.
- The municipal manager must maintain records of audit committee member contracts and ensure recruitment is undertaken as mentioned above.
- Rotation of members is encouraged as it enhances the independence of the audit committee. 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.

3.1.3 Performance assessments

- The committee should assess its performance and achievements against its charter on an annual basis
- The aim of the self-assessment is to ensure that the audit committee is meeting its objectives efficiently and effectively and that training gaps identified are addressed. The findings of the self-assessment should be presented by the chairperson to the municipal manager and municipal Council.
- The committee may consider using an external facilitator to provide assistance with, or to supervise the self-assessment process. It is up to the audit committee to decide whether the services of an external facilitator are required.
- The self-assessment should include an evaluation of the contributions made by the chairperson as well as each of the members of the Audit Committee.

3.2 Meetings

- The municipality must provide secretariat services for the Committee
- Committee meetings are to be held at least four times per annum. Further meetings may however, be held upon request from any member of the committee and the internal or external auditors should they consider this necessary.

3.2.1 Notice of meetings

- A formal agenda will be sent to all those who are to attend at least seven (7) days before such meeting together with any relevant information
- The following persons are required to attend audit committee meetings:
 - The Municipal Manager or as represented by a nominated officer
 - The Chief Financial Officer
 - Heads of Department of the Sarah Baartman District Municipality
 - Representatives of the Auditor-General or the duly appointed representatives
 - The Chief Audit Executive or the duly authorised representatives of the outsourced Internal Audit Service Provider
 - The Compliance and Risk Officer and Legal Advisor
 - The Performance Management Officer
- The internal and external auditors may be invited to make presentations to the audit committee as appropriate.
- The Chairperson of MPAC can only attend the meeting of the Audit Committee on invitation by the Chairperson of the Audit Committee. The Chairperson will attend such meeting as an observer and not participate in any discussions unless expressly requested by the Chairperson of the Audit Committee.

3.2.2 Quorum

- A quorum for any meeting will be 50 percent of the members. A duly convened meeting of the committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the committee.

3.2.3 Minutes

- The Secretariat shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- Formal minutes of meetings are to be kept and must be signed by the chairperson.
- Copies of minutes of meetings must be distributed to the Council.

3.2.4 Voting Rights

- All committee members shall be entitled to vote.

4 Roles and responsibilities

4.1 Responsibilities related to the organization

The audit committee must review, evaluate and advise the municipal council, the political office-bearers, the municipal manager, the management and staff of the municipality, on matters relating the following:

- The adequacy, reliability and accuracy of financial reporting and accounting policies
- Internal financial controls and the management of risks
- Compliance with the Municipal Finance Management Act, the annual Division of Revenue Act and any other applicable legislation
- Internal audit
- External audit
- Reporting responsibilities and
- Other responsibilities which include:
 - Performance management
 - Information Technology
- Any other issues referred to it by the municipality.

4.1.1 Financial reporting and Accounting policies

- Annual Financial Statements (AFS) of the municipality are prepared within two months after the end of the financial year and submitted to the Auditor-General for auditing. These financial

statements should be reviewed by the audit committee at least two weeks before submission to the Auditor-General.

- The committee should hold a meeting to consider the report of the Auditor-General.
- The committee must monitor the integrity of the financial statements of the municipality, including its annual report and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgments which they contain.
- The committee must also communicate and discuss any significant concerns that may arise relating to the financial statements with the municipal manager, management of the municipality, the internal auditors and the external auditors.
- The committee shall review and challenge where necessary:
 - The consistency of, and any changes to, accounting policies both on a year on year basis and across the organization
 - The methods used to account for significant or unusual transactions where different approaches are possible
 - Whether the municipality has followed appropriate accounting standards and made appropriate estimates and judgments taking into account the views of the external auditor
 - The clarity of disclosure in the municipality's financial reports and the context in which statements are made and

All material information presented with the financial statements such as the operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management).

4.1.2 Internal Financial Controls and Management of Risks

- The municipality can respond to risk through various mechanisms such as avoidance, transfer, accepting and managing of the risk. When the municipality elects to manage the risk, it will require control activities to support the management of the risk to within the tolerable levels.
- The accounting officer must ensure that a risk assessment is conducted annually, identifying emerging risks of the organization. A risk management strategy, which includes a fraud prevention plan, must be used to direct the internal audit effort and priority, and to determine the skills required of personnel to improve controls and to manage these risks.
- The fraud prevention plan and strategies shall be evaluated by the AC and FPC through guidance from the audit committee. Reports received by the AC and FPC regarding fraud and corruption incidents shall be interrogated and evaluated and recommendations shall be provided.
- The minutes of the AC and FPC meetings shall be included in the agenda of the AC meetings.
- Internal Audit is responsible for providing independent assurance that management has identified the municipality's risks and has responded effectively. Internal audit may also play an advisory and consulting role to Management regarding risk management matters.

- The audit committee must understand the organisation's major risk areas. It should monitor the control process and the adequacy of the systems of internal control by reviewing internal and external audit reports.
- The audit committee should specifically have oversight of:
 - financial reporting risks;
 - internal financial controls;
 - fraud risks as it relates to financial reporting; and
 - IT risks as it relates to financial reporting
- In doing so, the committee should:
 - Be continually aware of the current areas of greatest financial risk and ensuring that management are effectively managing the risks and regularly reviewing the fraud prevention plan;
 - Ensure that effective systems of accounting and internal control are established and maintained to manage financial risks;
 - Satisfy itself with regards to the integrity and prudence of management control systems, including the review of policies and/or practices ;
 - Ensure that the municipal manager and council are aware of any matters that might have a significant impact on the financial state of affairs of the organization;
 - Have oversight over the role of the internal audit function in the risk management process. (This role is detailed in the Internal Audit charter of the municipality.);
 - Satisfy itself that it has appropriately addressed the IT risks as they relate to financial reporting.
- The committee shall:
 - Review the adequacy of the internal control system, including information technology security and control;
 - Review and approve the statements to be included in the annual report concerning internal controls and risk management
 - Monitor risk management within the municipality. Ongoing monitoring is also built into the normal, recurring operating activities of a municipality, and is performed on a real-time basis in order to react dynamically to changing conditions and become ingrained in the municipality. The committee should conduct an independent review of whether the risk management strategy is producing the sustainable outcomes as originally envisaged. This will ensure that risk management continues to be applied at all levels and across the municipality.

4.1.3 Compliance with Laws, Regulations and Ethics

- The Audit Committee must ensure that the management of the municipality has the necessary checks and balances in place to ensure that there is compliance with pertinent laws and

regulations, that it is conducting its affairs ethically, and that it is maintaining effective controls against possible conflicts of interest and fraud.

- The committee must review the municipality's arrangements for its employees to raise concerns, in confidence, about possible wrong doing in financial reporting or other matters. The committee shall further ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action.

4.1.4 Responsibilities related to the Internal Audit function

- The Audit Committee should have oversight of the Internal Audit function by:
 - reviewing the Internal Audit function and evaluating whether this function is performed satisfactorily;
 - reviewing the effectiveness of the internal audit function, including conformance with The Institute of Internal Auditors' the Definition of Internal Auditing, Code of Ethics and the *International Standards for Professional Practice of Internal Auditing*.
 - evaluating whether management demonstrates and stimulates the necessary respect for the internal control structures, and
 - overseeing the total Internal Audit function to ensure that:
 - the Internal Audit performance goals are achieved;
 - risks are identified;
 - specific issues requiring attention are highlighted; and
 - the cost of auditing within the municipality is minimised.
- The Audit Committee should ensure that the Internal Audit function performs its responsibilities efficiently and effectively by:
 - Reviewing and approving the Internal Audit Charter.
 - Reviewing the organisational structure and the competence and qualifications of the employees of the Internal Audit function, including reviewing and concurring with the appointment and dismissal of the Chief Audit Executive.
 - Reviewing the results of quality assurance reviews undertaken on the Internal Audit function, when available.
 - Reviewing the annual plans and budgets of the Internal Audit function to ensure that the plans address the high risk areas and that adequate resources are available.
 - Reviewing audit results and the action plans of management.
 - Requesting details of internal audit projects.
 - Ensuring that the work of Internal Audit is appropriately co-ordinated with that of External Audit to ensure little or no duplication of work and coverage.

- Receiving and reviewing quarterly progress reports submitted by the Internal Audit function.
- Reviewing the annual Risk Assessment process and the prioritisation of major risks identified.
- Monitoring and reviewing the effectiveness of the municipality's internal audit function in the context of the municipality's overall risk management system.
- Reviewing promptly all reports on the municipality from the internal auditors.
- Reviewing and monitor management's responsiveness to the findings and recommendations of the internal auditors.
- Meeting the Chief Audit Executive or Head of the Internal Outsourced Function at least once a year, without management being present, to discuss any issues arising from the internal audits carried out. In addition, the Chief Audit Executive or Head of the Internal Outsourced Function shall be given the right of direct access to the Chairperson of the Audit Committee and to the Committee members.
- Where the internal audit services are outsourced, the audit committee must have an opportunity to peruse and comment on the terms of reference / specifications in the tender document before the tender is advertised. The service provider recommended by the Bid Evaluation Committee will be required to do a presentation to the audit committee on the following issues:
 - Company background including the expertise of the internal audit team;
 - Handover procedures to be followed with the existing service provider;
 - Summary of the internal audit approach and methodology and internal audit services to be provided.

The comments of the Audit Committee must be considered by the Bid Adjudication Committee when the report of the Bid Evaluation Committee is considered

4.1.5 Responsibilities related to the External Audit function performed by the Auditor-General

- The Audit Committee must:
 - ensure that there are no restrictions or limitations placed on the external auditors;
 - review the external auditors' proposed audit scope and approach; review the external auditors' findings and observations as presented in the final management report and the adequacy of management's responses;
 - review the subsequent implementation of agreed improvements;
 - consider significant disagreements, if any, between the external auditors and management;
 - consider material unresolved accounting and auditing problems;

- ensure direct access by the external auditors either to the Audit Committee or the Chairperson of the Audit Committee;
- monitor the external auditor's compliance with relevant ethical and professional guidance;
- review the fees and other expenses to be paid to the external auditors;
- meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee shall meet the external auditor at least once a year, without management being present, to discuss their remit and any issues arising from the audit, and
- review the findings of the audit with the external auditor. This shall include, but not be limited to, the following:
 - a discussion of any major issues which arose during the audit;
 - any accounting and audit judgments; and
 - levels of errors identified during the audit.
- The Committee must consider the independence of the external auditors, specifically with regards to the level of non-audit services provided.

4.1.6 Reporting Responsibilities

- The Committee Chairperson shall report formally to the Council on its proceedings after each meeting on all matters within its duties and responsibilities. This is done through the submission of the Audit Committee minutes to Council.
- The Committee must make whatever recommendations to the Council it deems appropriate on any area within its remit where action or improvement is needed.
- The Committee must ensure the Council is aware of matters which may significantly impact the financial condition or affairs of the municipality.
- The Committee must compile a report to stakeholders on its activities to be included in the municipality's annual report.

4.1.7 Other Responsibilities

Performance Management

- The Committee must review reports from Internal Audit and the Auditor-General in respect of performance management and make recommendations to management.
- The Committee must:
 - Review the quarterly reports on performance management information submitted to it by the Internal Audit;
 - Review the municipality's performance management systems, focusing on economy, efficiency, effectiveness and impact in so far as the key performance indicators and performance targets set by the Council are concerned; and

- Review the report from the Senior Performance Officer on performance management and consider this during audit committee meetings.

Information Technology (IT) Governance

- The audit committee also needs to provide advice on IT governance, controls, access, safeguarding of information in the municipality and its entities.
- Specific expertise may be required from within or outside the municipality from time to time, to assist the internal audit unit and audit committee formulate recommendations on systems and controls. The committee may have to advise on the appropriateness of disaster recovery and continuity plans supporting IT risks, regular testing and evaluation of plans, systems and processes.

Guidance and assistance

- The Audit Committee must provide strategic guidance and assistance to the Council, the political office-bearers, the Municipal Manager and the management staff of the municipality in dealing with the following:
 - Internal financial control and internal audits;
 - Risk management;
 - The annual financial statements, including amongst others, a review of significant adjustments proposed and changes made in accounting policies during the year;
 - Reports of the external auditors; and
 - Follow-up action by the management of the municipality on these reports.
- The Audit Committee must also report and make recommendations to the Municipal Council and the Municipal Manager retains responsibility for implementing such recommendations.
- The Audit Committee must respond to the Council on any issues raised by the Auditor-General in the audit report.
- The Audit Committee may request such investigations into the financial affairs of the municipality as it deems necessary. (e.g. to respond to concerns of Council)
- The Audit Committee must perform such other functions as may be prescribed by Council.