



AUDIT COMMITTEE CHARTER

2018/19

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1. Purpose

The purpose of this charter is to outline the roles, responsibilities, composition and operating guidelines of the Audit Committee of Ngaka Modiri Molema District Municipality

2. Composition of the Audit Committee

The Audit Committee consist of six (6) members, majority of whom are not in the public service.

3. Appointment of Members

The members of an audit committee shall be appointed by the council of the municipality. One of the members, who is not in the employ of the municipality, who is financially literate and preferably not in the public service, must be appointed as the chairperson of the committee. Councillors are not allowed to be members of an audit committee. The appointed members should enter into a contract with the municipality according to the approved terms of reference.

4. Skills and experience

Members should be selected from different areas of expertise to enhance the audit committee's overall knowledge of the municipality and the ability to discharge its obligations and provide appropriate recommendations to the council.

The appointed members should collectively possess the following skills and experience:

- Private and public sector experience;
- An understanding of service 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 understanding of the treatment of allegations and investigations; and
- An understanding of the performance management system.

5. Membership and Independence

The audit committee should be independent and safeguarded from undue influence in exercising its responsibilities in an objective manner. To enhance the audit committee functioning, the following is required:

- The audit committee chairperson and members should be independent of the municipality;
- The audit committee chairperson and members should not be biased but exhibit an independence of mental attitude during deliberations;
- All audit committee members should declare private and business interest in every meeting; and
- All members should not conduct any business with the municipality.

6. Term of Office

The audit committee members should serve at least a minimum of three years with an option to renew for another three years, based on performance.

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.

7. Remuneration of Members

The members of the audit committee shall be remunerated for time spent in attendance of audit committee meetings and for attending to any other Audit Committee business (such as attending MPAC meetings or presenting Audit Committee report to council, etc.).

Audit Committee members shall be remunerated at a Fixed Audit Committee Sitting Allowance (inclusive of preparation, research and travelling fees) payable per day at **R5 000** (VAT inclusive) for members and **R6 500** (VAT inclusive) for the chairperson. The Fixed Audit Committee sitting allowance is determined by the Municipal Manager in consultation with municipal Council.

- **Travelling Allowance**

Audit committee members will be reimbursed for actual distance travelled to attend to Audit Committee business. The rate payable per kilometre travelled will be in accordance with the Department of Transport rate as issued from time to time.

- **Subsistence allowance**

Members who have to spend a night away from his/her home/ usual place of residence will to be paid a subsistence allowance to cover meals and/or incidental costs for the number of nights spent away from home. The subsistence allowance will be paid in accordance with the SARS guide for employers in respect of allowances as issued for each tax year

- **Reimbursive allowance**

Accommodation/lodging and meals

The municipality will book accommodation and meals for audit committee members attending the business of the audit committee, in the case where the municipality was unable to book then a member who paid for his/her own bookings will be reimbursed for actual expenditure incurred for accommodation and meals. Valid proof of payment to be submitted to support the claim.

Remuneration will only be applicable to members appointed from outside the public service. No additional 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 as an when necessary.

Members in the public service will be allowed to claim out of pocket expenses such as subsistence and travelling allowance and claim reimbursement for accommodation and meals.

8. Authority

The audit committee shall have the authority to perform functions, and to obtain any information and advice, from within or outside the municipality, in order to perform its functions as legislated. Appropriate resources will be made available to the audit committee to perform its functions as agreed in its charter.

The Audit Committee may:

- Communicate with the council, municipal manager or the internal and external auditors of the municipality or municipal entity;
- Have access to municipal records containing information that is needed to perform its duties or exercise its powers;
- Request any relevant person to attend any of its meetings, and, if necessary, to provide information requested by the committee; and
- Conduct investigations into the financial affairs of the municipality through the municipal council.

9. Vacation of Office

An Audit Committee member must vacate office during a term if that member:

- Resigns as a member of the Audit Committee;
- Is dismissed by Council where an on-going conflict of interest exists.
- Is dismissed for non-performance (including failure to attend Audit Committee meetings) following performance assessment process.
- Has failed to attend three (3) consecutive meetings of the Audit Committee without apologies acceptable to the Audit Committee.

10. Conflict of Interest

Should any member of the Audit Committee have any personal interest or gain resulting from any discussion at a meeting, he/she may not participate in any such discussion and should recuse themselves from the meeting for this purpose.

11. Roles and Responsibilities

The audit committee should assist Council in carrying out its responsibilities in terms of the MFMA. Responsibilities of the Audit Committee in terms of Section 166 of the MFMA shall amongst others include the following:

11.1 Internal Audit

The audit committee must in relation to internal audit:

- Ensure that the charter, independence and activities of the internal audit function are clearly understood and respond to the objectives of the municipality and the legal framework;
- Regularly review the functional and administrative reporting lines of the internal auditor to ensure that the organizational structure is consistent with the principles of independence and accountability;
- Review and approve the internal audit charter, including internal audit strategic plan;
- Confirm that the annual audit plan makes provision for critical risk areas in the municipality and its entities;
- Advise the municipality on resources allocated to give effect to the work outputs of the internal audit function;
- Ensure that there is support for the internal audit unit and external auditors from senior management;

- Confirm with management that internal audit findings are

submitted to the audit committee on a quarterly basis;

- Confirm actions taken by management in relation to the audit plan;
- Consider and review reports relating to difficulties encountered during the course of the audit engagement, including any scope limitation or access to information reported to the accounting officer that remain unresolved;
- Evaluate the performance of internal audit activity in terms of the agreed goals and objectives as captured in the audit plan;
- Ensure that the head of internal audit has reasonable access to the chairperson of the audit committee;
- Conduct a high-level review of internal audit on an annual basis, to ascertain whether the internal audit unit complies with the International Standards for the Professional Practice of Internal Auditing;
- Concur with any appointment and termination of the services of the chief audit executive;

Internal audit unit is accountable to the audit committee as follows:

- Maintain open and effective communication with the audit committee;
- Develop a flexible annual audit plan using a risk based methodology, addressing any weaknesses in risks or controls identified;
- Submit the audit plan to the audit committee for review and approval;
- Report on the implementation and results of the annual audit plan including special tasks requested by management and the audit committee;
- Assist in drafting the agenda and documentation, and facilitate the distribution thereof to the audit committee in advance of meetings;
- Meet periodically with the chairperson of the audit committee to discuss whether the material and information furnished meets the requirements of the audit committee;

- Obtain advice from the audit committee whether the frequency and time allocated to the committee is sufficient to attend effectively to all matters;
- Cooperate with the audit committee as they conduct annual reviews of the performance of the internal audit function;
- Submit the internal audit charter to the audit committee for review and approval on an annual basis and as necessary.

11.2 Combined Assurance

- The Audit Committee should ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities.
- The Audit Committee should monitor the appropriateness of the combined assurance model and ensure that all the significant risks facing the municipality are adequately addressed.
- The Audit Committee should monitor the relationship between the assurance providers.

11.3 External Audit

The audit committee must in relation to external audit:

- Take cognizance of the scope of work undertaken by the external auditor and the extent of co-ordination with the internal audit unit;
- Review annual external audit plans, audit fees and other compensation;
- Review reports and monitor management's implementation of audit recommendations and municipal council resolutions in the new financial year;
- Review the report on the financial statements and matters raised therein for reasonability and accuracy;

- Review any interim reports issued in order to take cognizance of the issues raised in determining the follow up work of the internal audit;
- Conduct a review of the extent to which previously reported findings by the external auditor have been addressed by the municipal council;
- Provide advice to the accounting officer on actions taken relating to significant matters raised in external audit reports;
- Liaise with the external auditors on any matter that the audit committee considers appropriate to raise with the external auditor;
- Ensure that the external auditors have reasonable access to the management and chairperson of the audit committee;
- Address any potential restrictions or limitations with the accounting officer and council; and
- Address outstanding matters raised by the external auditors and any findings are dealt with conclusively in an expeditious manner.

11.4 Annual Financial Statements

The accounting officer must prepare Annual Financial Statements (AFS) of the municipality; these financial statements should be reviewed by the audit committee two weeks before submission to the Auditor-General.

The audit committee must review the annual financial statements to provide the municipality, with an authoritative and credible view of the financial position of the municipality by:

- Confirming if the municipal audit file is prepared in line with the applicable standards and guidance contained in MFMA Circular 50, or as updated;

- Reviewing the unaudited annual financial statements of the municipality to ensure that the quality, integrity and content is consistent with applicable standards and compliant with the legal framework;
- Evaluating the annual financial statement of the municipality for reasonableness, completeness and accuracy, and provide comment thereon, on a timely basis;
- Considering the Auditor-General's opinion on the quality and appropriateness of the municipality's accounting policies; and
- Reviewing efficiency and effectiveness of internal controls over AFS preparation and reporting
- Review and comment on municipality's annual financial statements and timely submission to the Auditor-General by 31 August, each year;

Specifically with regards to Annual Financial Statements, the Audit Committee should: Review and challenge where necessary:

- Arithmetical accuracy and consistency;
- Consistency of, and any changes to, accounting policies, comparing to prior years;
- 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 judgements, taking into account previous audit outcomes;
- The quality of disclosure in the Municipality's financial reports and the context in which statements are made;
- 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);

- All material issues in prior reports by the AGSA have been appropriately accounted for, resulting in fair presentation;
- Conduct Analysis of trends and other financial ratio calculations e.g. year-on-year comparisons and composition of primary group e.g. salaries as a component of operations, whether operations are undertaken on a sustainable basis, operations at surplus or deficit, efficiency and solvency ratios, etc.

11.5 Compliance with laws and regulations

The Audit Committee should ensure that the municipality comply with all applicable laws and regulations by obtaining regular updates from management and Council's legal advisors regarding compliance matters.

- The Audit Committee should ensure that all regulatory and compliance matters have been considered in the preparation of the financial statements.
- The Audit Committee should review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up including disciplinary action in reported instances of non-compliance.
- The Audit Committee should review the findings of any examinations by regulatory agencies and any auditor observations.
- The Audit Committee should also review the impact of new or proposed legislation or governmental regulations.

11.6 Risk Management Activities

The accounting officer is responsible for the establishment of effective risk management within the municipality. The responsibility of the audit committee with respect to risk management is to provide an independent and objective view on the adequacy and effectiveness of

the municipality's risk management.

11.7 Control Environment

Audit committee members need to have a good understanding of the control environment, in fulfilling this responsibility the committee should:

- Ensure that management follows a sound process to draw conclusions on the adequacy and effectiveness of the system of internal control;
- Establish whether management has relevant policies and procedures in place and that these are adequate, effective and regularly updated;
- Determine whether appropriate processes are followed and complied with on a regular basis;
- Consider measures applied on any required changes to the design or implementation of internal controls;
- Assess steps taken by management to encourage ethical and lawful behaviour; financial discipline and accountability for use of public resources.

11.8 Performance Management

Part of the responsibilities of the audit committee includes the review of the performance management. The audit committee members need to have a good understanding of the performance of the municipality. These include:

- 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;
- Review compliance with in-year reporting requirements;
- Review the quarterly performance reports submitted by internal audit;
- Review and comment on the municipality's and entities annual reports within the stipulated timeframes; and
- Review and comment on the municipality's performance management system and make recommendations for its improvement.

11.9 Information Technology (IT) Governance

The audit committee should provide advice on IT governance, controls, access, safeguarding of information in the municipality.

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.

12. Reporting

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.

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

- Functions performed by the audit committee and meetings attended;
- Resolutions taken by council and implementation status of recommendations made; and
- 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.

13. Performance Assessments

The audit committee should assess its performance and achievements against its charter on an annual basis. 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 aim of the self-assessment is to ensure that the audit committee is meeting its objectives efficiently and effectively.

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

Where the self-assessment highlights a need for enhancements to the role, operational processes or membership of the committee, the chair should take action to ensure that such enhancements are implemented.

14. Relationship with Stakeholders

The audit committee is required to maintain good relations with key stakeholders, such as:

- Municipal Council
- Municipal Public Accounts Committee
- Finance Committee
- Accounting Officer
- Management and staff
- Internal Auditors and External Auditors
- Provincial Treasury
- National Treasury

15. Meetings, Notices, Agenda and Minutes

The audit committee should meet as often as is required to perform its functions, but at least four times a year.

The secretariat responsibilities are to be performed by the Chief Audit Executive or otherwise as determined by the accounting officer.

- This includes providing all administrative support to the audit committee meetings, sending invitations and documentation to

members, coordinating and compiling of audit committee meeting documentation, taking minutes at audit committee meetings, preparing all logistical arrangements relating to audit committee meetings, including arrangement for the prompt payment of claims and fees, etc.

- A schedule of all normal audit tasks and duties for the coming year's ordinary meetings will be prepared by the Chief Audit Executive and presented to the Audit Committee at the last ordinary meeting of each financial year for approval.
- Approval of the schedule of ordinary meetings will be deemed to be the notice of such meetings. Notice of meetings of at least seven (7) days will be given. Under exceptional circumstances, the Chairperson may condone a shorter period.
- The agenda and supporting documentation for ordinary meetings will be prepared in consultation with the Chairperson and provided in advance to members at least five (5) days prior to meetings.
- Proceedings of all meetings shall be recorded by way of taking minutes. Draft minutes will be distributed to members after each meeting. Minutes should be delivered to Members seven (7) days after conclusion of the meeting.
- The Chairperson of the Audit Committee shall preside at meetings of the Audit Committee. Should the Chairperson not be present, the members must elect one of them to serve as Chairperson for the duration of that meeting.

16. Quorum

A quorum will be 50% plus one (1) of the current members appointed to serve on the Audit Committee. In case where the required quorum is not met, the present members shall proceed and all decisions taken shall be ratified in the next meeting of the Audit Committee which quorate.

17. Attendance

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

17.1 Audit Committee Members

Audit Committee members must attend all meetings, including meetings called on an ad-hoc basis for special matters, unless prior apology, with reasons, has been submitted to the Chairperson prior to the commencement of the meeting.

17.2 Mandatory Officials

- Municipal Manager - Leading the Team
- Chief Financial Officer
- Chief Audit Executive
- All Senior Managers (section 56 Managers)

17.3 Standing invitees

- External Auditor - AGSA
- Provincial Treasury;
- National Treasury;
- Department of Local Government
- MPAC Chairperson and
- Any other person on invitation by the chairperson of the Audit Committee.

18. Continuous Development

Continuous training or development on any of the responsibilities of Committee as covered in this Charter shall be provided to members based on the results of the evaluation and/or on request by Committee members.

19. Review of the charter

The Audit Committee will annually review its Charter to ensure that it remains relevant to the Committee's Purpose, authority, and responsibilities. All changes or amendments to the Charter will be approved by Council.