



# **UMHLATHUZE MUNICIPALITY**

## **Audit Committee Charter**

**Revised Edition February 2013**

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## **1. Introduction**

The uMhlathuze Municipality has established an Audit Committee in accordance with section 166 of the Municipal Finance Management Act, no 56 of 2003.

## **2. Purpose Statement**

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 (MFMA), no 56 of 2003 read together with MFMA Circular 65 of 2012 as issued by National Treasury. Consideration has also been given to the recommendations contained in the King Report on Governance for South Africa 2009 (King III). This charter guides the Audit Committee in fulfilling its obligations.

## **3. Authority of Audit Committee**

The Audit Committee of the uMhlathuze Municipality 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, the applicable provisions of the Municipal Systems Act and the Municipal Structures Act and other applicable regulations.

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

The Audit Committee may:

- Communicate with the Council, municipal manager or the internal and external auditors of the municipality.
- 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 Audit Committee.
- Conduct investigations into the financial affairs of the municipality, as may be requested by the Council.
- Obtain outside legal or other professional advice within the scope of its responsibilities and allocated budget provision.

#### **4. Role of Audit Committee**

The role of the Audit Committee is to assist the 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, and in so doing shall:

- (a) Advise the municipal council, the political office-bearers, the accounting officer and the management and staff of the municipality 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 the Municipal Finance Management 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.
- (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 Municipal Finance Management 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 as the Council of the Municipality may request; and
- (e) perform such other functions as may be prescribed.
- (f) In performing its functions, an audit committee-
  - (1) Has access to the financial records and other relevant information of the municipality ; and

(2) Must liaise with-

- (i) the internal audit of the municipality; and
- (ii) the person designated by the Auditor General to audit the financial statements of the municipality.

## **5. Responsibilities of Audit Committee**

The Audit Committee is required to consider any matters relating to the financial affairs of the municipality, internal and external audit matters. The committee must review and assess the qualitative aspects of financial reporting, the municipality's processes to manage business and financial risk, governance processes and compliance with applicable legal, ethical and regulatory requirements.

The Audit Committee does not assume the functions of management which remain the responsibility of Exco, Council and the delegated officials.

In executing its responsibilities the Audit Committee relies extensively on the work done by Internal Audit and External Audit.

In performing its duties, the committee will maintain effective working relationships with the Council, Municipal Public Accounts Committee, Cooperative Governance Traditional Affairs, Provincial and National Treasury, Municipal Manager, management, staff and the internal and external auditors. To perform their duties effectively, each committee member will obtain an understanding of the detailed responsibilities of committee membership as well as the Council's business, operations and risks.

### **Internal Control**

The Audit Committee members need to have a good understanding of the control environment. In fulfilling this responsibility the Audit 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.

## **Financial Reporting**

### **a) General**

The Audit Committee should:

- Consider the current areas of greatest financial risk and how management is managing these effectively.
- Consider with the internal and external auditors any fraud, illegal acts, deficiencies in internal control, or other similar issues.
- Review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- Review changes in accounting policies.
- Review any legal matters which could significantly impact the financial statements.

### **b) Annual Financial Statements**

The Audit Committee shall receive and consider a report prepared by internal audit on the financial statements in which they express their findings on the following:

- 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 statements of the municipality for reasonableness, completeness and accuracy, and commenting thereon, on a timely basis.
- The timely submission of the annual financial statements to the Auditor-General by 31 August each year.

The Audit Committee must:

- Consider the Auditor-General's opinion on the quality and appropriateness of the municipality's accounting policies.
- Review the efficiency and effectiveness of internal controls over Annual Financial Statements preparation and reporting.

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, in comparison 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 (in so far as it relates to the audit and risk management).
- All material issues in prior reports by the Auditor-General have been appropriately accounted for, resulting in fair presentation.
- Analyses of trends and other financial ratio calculations.

## **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 and internal audit strategic plan annually.
- Confirm that the annual audit plan makes provision for critical risk areas in the Municipality.
- Advise the Municipality on resources allocated to give effect to the work outputs of the internal audit function, including internal audit strategic plan, audit fees and other compensation.
- 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 and meet separately with the chief audit executive when the need arises to discuss matters privately.
- Conduct a high-level review of internal audit on an annual basis to ascertain whether the internal audit unit complies with the internal audit charter.
- Confirm annually that a quality control process is in place to ensure compliance with International Standards for the Professional Practice of Internal Auditing.
- Concur with any appointment and termination of the services of the chief audit executive.
- Confirm compliance with laws and regulations.

## **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.
- Note the annual external audit plans, audit fees and other compensation.
- Review reports and monitor management's implementation of audit recommendations and 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 Council.
- Provide advice to the accounting officer on actions taken or to be 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 relevant management and chairperson of the Audit Committee.
- Address any potential restrictions or limitations with the accounting officer and council.
- Address outstanding matters raised by the external auditors and ensure that findings are dealt with conclusively in an expeditious manner.



## **Information Technology (IT) Governance**

The audit committee shall consider and advise on matters relating to IT governance, controls, access and safeguarding of information in the municipality.

Where required, the Audit Committee may obtain specific expertise from within or outside the municipality, to assist the internal audit unit and audit committee formulate recommendations on systems and controls. The audit committee shall consider and advise on the appropriateness of disaster recovery and continuity plans supporting IT risks, regular testing and evaluation of plans systems and processes.

## **Performance Management**

The Audit Committee will rely on the work done by the Performance Audit Committee in terms of their charter and will receive and consider reports presented to it by the Performance Audit Committee at its scheduled meetings.

In carrying out its mandate, the Audit Committee must have a good understanding of 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) and should:

- 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 measureable and relate to services performed by the Municipality.
- Review compliance with in-year reporting requirements.
- Review the quarterly performance reports submitted by internal audit.
- Review and comment on the Municipality's annual reports within the stipulated timeframes. Review and comment on the Municipality's performance management system and make recommendations for its improvement at least twice a year.
- At least twice during a financial year submit an audit report to the municipal council concerned.

In reviewing the municipality's performance management system the Audit Committee will focus on economy, efficiency, effectiveness and impact in so far as the key performance indicators and performance targets set by the municipality are concerned.

## **Risk Management**

The Audit Committee should provide an independent and objective view of the effectiveness of the Municipality's risk management. In doing so, it should:

- Consider the Municipality's key risk management strategy and policy and provide appropriate advice on financial reporting risks, internal financial controls, fraud risks as it relates to financial reporting and IT risks as it relates to financial reporting.
- Review the risk management plan including the IT disaster recovery and continuity plans for the year and provide advice on possible focus areas.
- Consider the risk management reports and assess measures in place to mitigate the inherent risks identified.
- Review the opinion of internal audit regarding the municipality's risk management systems.
- Review the recommendations made by the risk management committee.
- Provide quarterly feedback to Council on the adequacy and effectiveness of the risk management process.

### **Reporting Responsibilities**

The chairperson of the Audit Committee will report on a quarterly basis, or more frequently if required, to the 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.
- 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:

- The descriptions of the functions performed by the Audit Committee and meetings attended.
- Resolutions taken by Council and implementation status of recommendations made.
- 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 or related matters.

## **6. Constitution and Membership**

- The Audit Committee shall be appointed by the council. The audit committee will comprise at least 3 members who are not in the employ of the municipality. All members should have the necessary knowledge and expertise to expedite the working of the committee. One of whom should have the necessary expertise in performance management. Each member should be capable of making a valuable contribution to the committee. Members should be knowledgeable in financial matters and local government issues. In order to assure the necessary expertise in key financial and legal matters it would be advisable to have at least a Chartered Accountant, or a Certified Internal Auditor or legal expert and a individual with performance management expertise to serve as members on the audit committee.
- A quorum for any meeting will be in excess of 50% of members..
- The Chairperson (who is not in the employ of the Municipality) shall be elected by the Audit Committee, the former being one of the members from the private sector.  
The committee may invite such other persons to its meetings as it deems necessary.
- The internal and external auditors should be invited to make presentations to the Audit Committee as appropriate.
- Meetings shall be held not less than four times a year. Special meetings may be convened as required. Internal audit or the external auditors may request a meeting to be convened if they consider that it is necessary.
- The proceedings of all meetings will be minuted.
- The minutes and recommendations of the Audit Committee meetings should be submitted to the council for consideration.
- Any member failing to attend three consecutive meetings will be automatically dismissed and the council will be required to appoint an alternative.
- On a regular basis review its own effectiveness against pre-set criteria such as, number of meetings held, members participation in meeting discussion, co-operation of internal audit function, management and office of the Auditor General.

## Term of Office

- 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.
- Recruitment of members should be staggered to prevent a loss of knowledge and skills in the committee.
- The recruitment process of new members should be concluded at least three months in advance of the expiry of existing members term.
- The head of internal audit and the accounting officer 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.
- Members should be encouraged not to terminate their contracts until they have shared their knowledge with other new members.
- A committee member should give two months' notice prior to resignation.
- The committee members should have the opportunity to have an exit meeting with the council to discuss the reason for leaving and to provide feedback on their experience on the audit committee as well as any other issues. The date of resignation should be minuted by the secretariat of the audit committee.
- Committee members can be dismissed by the municipal council under certain circumstances.
- Reasons for dismissal amongst other would normally be detailed in the letter of appointment and contract agreement, such as:
  - Where an on-going conflict of interest exists.
  - Where a member has not performed to expectations
- The official dismissal processes as they relate to the municipality should be adhered to by the Accounting officer and Municipal Council when an audit committee member is being dismissed.
- The dismissal of a member should be performed by the Municipal Council and the outcome of the dismissal process should be in writing.

- The date of dismissal should be minuted by the secretariat of the audit committee.

## **Remuneration of Members**

The audit committee members of the uMhlathuze Municipality should receive remuneration for services rendered as per rates approved by the Council from time to time.

## **7. Confidentiality, Independence and conflict of interests**

A member of the Audit Committee shall maintain strict confidentiality in respect of any information of a confidential nature to which he/she may become privy at meetings of the committee, and shall only disclose such information as may become necessary or required for the proper performance of his/her duties and functions.

Every member, appointed, co-opted, or full time employee of the uMhlathuze Municipality, involved in the Audit Committee meetings, deliberation and resolutions, is obliged to declare any conflict of interest and may not:

- Use his or her position to promote any special financial or other interest, including but not limited to the interest of any individual, company or other entity;
- Act in a manner that is inconsistent with his or her membership and the role of the Audit Committee;
- Expose himself or herself to any situation involving the risk of a conflict between his or her official and / or professional responsibilities and a personal interest;
- Use his or her position or any information entrusted to him or her or obtained as a result of his or her involvement in the Audit Committee to enrich himself or herself or improperly benefit any other person or entity; and
- Act in a manner that may comprise the credibility, workings and integrity of the Audit Committee and Council
- 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 carry out any business with the municipality .

## **8. Attendance by officials and other parties**

Invitations to attend the Audit Committee Meetings will be extended to the following:

- The Accounting Officer/Municipal Manager;
- All Heads of Department;
- The Chief Audit Executive;
- The Chairperson of Municipal Public Finance Accounts (Observer status);
- The Provincial Treasury representative;
- The Co-Operative Governance and Traditional Affairs representative
- The Auditor General; and
- Any other person as and when requested by the Chairperson of the Audit Committee

Furthermore any person may be requested to attend a meeting of the audit committee when the need may arise. Officials must give the audit committee their full co-operation. Invitees may not vote on any matter before the committee.

## **9. Secretariat**

- 9.1 The dates of meetings should be agreed upon at the commencement of each financial year. Notice of each meeting shall be given in writing to all members of the Committee and other invited parties, at least 14 days prior to the date of the meeting.
- 9.2 The agenda of the meeting together with the audit pack shall be prepared and distributed at least 7 days prior to the meeting date.
- 9.3 The secretariat shall keep minutes of all meetings and shall circulate the minutes of the meeting to all members of the Audit Committee and as determined in terms of Council policy.

## **10. Maintenance of charter**

- 10.1 The charter should be reviewed annually and updated to ensure relevance and consistency with the MFMA, Municipal Systems Act No. 32 of 2000 and other related regulations, guides and best practice. The reviewing and amending of the audit committee charter is the responsibility of the audit committee in conjunction with the internal audit function and subject to the approval of the Council.

## **11. Conclusion**

The role of the Audit Committee is to assist the uMhlathuze Municipality in achieving its strategic goals and objectives, by helping to maintain effective internal controls, risk management, accurate financial reporting and corporate governance principles.

## **12. Approval**

### **APPROVED BY THE COUNCIL**

**Resolution:**

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**Date:**

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**Mayor:**

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