



Audit Committee Charter

Revised Edition 2022/2023

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RECORD OF CHANGES & CORRECTIONS

Heading reference	Number	Details
AUTHORITY OF THE AUDIT COMMITTEE	Page 6, Paragraph 3.3.4	<p>Original Paragraph: The Audit Committee shall appoint the Chief Audit Executive and oversee the work of the internal auditors, approve the compensation of the Chief Audit Executive and review and, if appropriate, discharge the Chief Audit Executive. In this regard, the Chief Audit Executive shall report functionally to the Audit Committee., and the Audit Committee shall have the sole authority to approve the hiring and discharging of the Chief Audit Executive, all audit engagement fees, and terms and all permissible non-audit engagements carried out by the internal auditors and external auditors.</p> <p>Rephrased Paragraph: The Audit Committee shall provide advice to the Accounting Officer on the appointment and dismissal of the Chief Audit Executive and oversee the work of the internal auditors, advice on the remuneration of the Chief Audit Executive. In this regard, the Chief Audit Executive shall report functionally to the Audit Committee. The Audit Committee shall recommend all audit engagement fees and terms and all permissible non-audit engagements carried out by the internal auditors and external auditors.</p>
EXTERNAL AUDIT	Page 12, paragraph 8.4.9	<p>Added: Should there be disputes between management and external auditors, the audit committee or its Chairperson should be informed and assist in resolving the dispute.</p>
AUDIT COMMITTEE MEETINGS	Page 16, paragraph 11.6	<p>Original Comment: The proceedings of all meetings should be formally minuted and will be accompanied by audio recordings. The minutes of the meeting shall be circulated 10 working days after the meeting.</p> <p>Rephrased Paragraph: The proceedings of all meetings will be formally minuted and must be accompanied by audio recordings. The minutes of the meeting shall be circulated at least a month before the next meeting unless if there was a special meeting in between. The minutes of the special meeting shall be circulated at least 10 working days prior to the next meeting.</p>
RELATIONSHIP WITH OTHER STAKEHOLDERS	Page 20, line 17.1.2	<p>Removed 17.1.2 as this is not relevant for the municipality Board of Directors of Municipal entities;</p>
PERFORMANCE ASSESSMENTS	Page 21, paragraph 18.2.4, 15 and 18.3	<p>Paragraph 18.2.4 Added (Accounting Officer)</p> <p>Paragraph 15 Added:</p>

		<p>The assessment checklist developed for appraisal of internal audit activity is available on- DMS1424889.</p> <p>Paragraph 18.3</p> <p>Added:</p> <p>The Audit Committee should annually assess the effectiveness of the internal audit function. Annual assessment of internal audit activity is detailed on clause 14 of the internal audit charter and the assessment checklist developed for appraisal of internal audit activity is available on- DMS1424888.</p>
COMMITTEE SECRETARIAT	Page 21, paragraph 19.1	<p>Original Paragraph:</p> <p>The Audit Committee's Secretarial shall be the Office of the CAE unless the Audit Committee appoints alternative. The Committee Secretary with the guidance of the Committee Chairperson shall ensure that the following aspects are achieved:</p> <p>Rephrased Paragraph:</p> <p>The Audit Committee's Secretarial shall be the Office of the CAE unless the Municipality has an alternative section that conducts secretarial function, in that case the CAE will work together with that section. The Committee Secretary with the guidance of the Committee Chairperson shall ensure that the following aspects are achieved:</p>
Annual REVIEW, UPDATE AND APPROVAL OF THE Audit Committee CHARTER	Page 22, Paragraph 22	<p>Added</p> <p>22.1 This Audit Committee Charter shall be reviewed on an annual basis and updated if required.</p> <p>22.2 The Charter must be recommended by the Audit Committee to Council for final approval.</p>
Approval	23	Updated approvals

1 INTRODUCTION

- 1.1 The Municipal Finance Management Act (MFMA) provides that the establishment of an effectively operating audit committee is a crucial component for sound corporate governance in a municipal entity.
- 1.2 The uMhlathuze Municipality has established an Audit Committee in accordance with section 166 of the MFMA, no. 56 of 2003. The Audit Committee is an oversight function with no executive status and works in an advisory capacity to the Accounting Authority.
- 1.3 Accordingly, it must report and make recommendations to the Accounting Authority, but the Accounting Authority retains the responsibility for implementing such recommendations.

2 PURPOSE STATEMENT AND MISSION

- 2.1 The purpose of the Audit Committee Charter is to formalise the Roles and the Scope of work of the Audit Committee. The Charter acts as a guide for the Audit Committee in fulfilling its prescribed obligations.
- 2.2 The Audit Committee shall assist the Council in the oversight of the integrity of the annual financial statements of the Municipality; the adequacy and effectiveness of the internal controls over *financial reporting; risk management; and governance processes and the Council's process for monitoring compliance with laws and regulations & frameworks and the code of conduct.*
- 2.3 The responsibilities of the Audit Committee are in accordance with Section 166 of the MFMA, no. 56 of 2003 (*read together with MFMA Circular 65 of 2012*), as issued by National Treasury. In terms of these regulatory frameworks, the Audit Committee is required to consider any matters relating to the financial affairs of the Municipality, and to oversee internal and external audit activities.
- 2.4 The Committee shall review and assess both the quantitative and qualitative aspects of financial reporting; the Municipality's processes for managing key business risks; and governance processes and compliance with applicable legal, ethical, and regulatory requirements.
- 2.5 The Audit Committee acts in an *independent and non-executive capacity*, as advisors in ensuring transparency and accountability; sound management of revenue, expenditure, assets, and liabilities; and in directing the key assurance providers of the Municipality.
- 2.6 The Audit Committee is responsible for oversight and monitoring of efficient and effective implementation of combined assurance processes designed to apply a collective effort to the Municipality's risk assurance activities.

3 AUTHORITY OF THE AUDIT COMMITTEE

- 3.1 The Audit Committee of uMhlathuze Municipality is authorised, in terms of this Charter, to perform the duties and functions required to ensure adherence to the provisions of the Charter, Municipal Finance Management Act, the applicable provisions of the Municipal Systems Act and the Municipal Structures Act and other applicable regulations.
- 3.2 In carrying out its mandate, the Audit Committee must have knowledge of the strategic goals of the Council and its strategic focus areas and development priorities as outlined in the IDP and the SDBIP. The Audit Committee is authorised to have *full, free, and unrestricted access* to all the relevant Municipality's activities, records, property, leadership and personnel.
- 3.3 The Accounting Authority authorises the Audit Committee, within the scope of its responsibilities, to:
 - 3.3.1 Investigate matters within its powers;
 - 3.3.2 Have full access to information required to execute its mandate;
 - 3.3.3 Obtain independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary. Any such appointments should be made subject to the approval of the Council and within approved procurement procedures;
 - 3.3.4 The Audit Committee shall provide advice to the Accounting Officer on the appointment and dismissal of the Chief Audit Executive, oversee the work of the internal auditors and advise on the remuneration of the Chief Audit Executive. In this regard, the Chief Audit Executive shall report functionally to the Audit Committee. The Audit Committee shall recommend all audit engagement fees, terms and all permissible non-audit engagements carried out by internal and external auditors.
 - 3.3.5 The Audit Committee shall have authority to seek and source assistance of specialised skills such as security, legal opinion, etc. to assist in executing their mandate.
 - 3.3.6 Communicate with the Council, Municipal Manager or the Internal and External Auditors of the Municipality;
 - 3.3.7 Request any relevant person to attend any of its meetings, and, if necessary, to provide information requested by the Audit Committee; and
 - 3.3.8 Conduct investigations into the financial affairs of the Municipality, as may be requested by the Council.

4 ROLES OF THE AUDIT COMMITTEE

- 4.1 The role of the Audit Committee is to assist Council, the Accounting Officer and other key governance structures in fulfilling their responsibilities as far as the formulation and execution of the Municipality's delivery mandate is involved.
- 4.2 The mandate of the Audit Committee is that of overseeing the integrity of governance, risk and internal control of the Municipality together with Management oversight for accounting functions, internal and external auditing within the municipality and any other such duties as may be directed by Council, and in so doing shall:

- 4.2.1 Advise the Municipal Council, the Political office-bearers, the Accounting Officer and the Management and Personnel of the Municipality on matters relating to:
 - 4.2.1.1 Internal financial controls and internal audits;
 - 4.2.1.2 Risk management;
 - 4.2.1.3 Accounting policies;
 - 4.2.1.4 The adequacy, reliability and accuracy of financial reporting and information;
 - 4.2.1.5 Performance management;
 - 4.2.1.6 Effective governance processes;
 - 4.2.1.7 Compliance with the MFMA, the annual Division of Revenue Act and any other applicable legislation;
 - 4.2.1.8 Performance evaluations; and
 - 4.2.1.9 Any other matters referred to it by the Council.

- 4.2.2 Review the Annual Financial Statements to provide Council with an authoritative and credible view of the Municipality's financial performance, its financial position, its operational efficiency, effectiveness and its overall level of compliance with the MFMA, the annual Division of Revenue Act and any other applicable legislation;
- 4.2.3 The Chairperson of the Audit Committee shall have a standing invitation to attend all Executive Committees meetings /or Council Meetings.
- 4.2.4 Respond to Council on any issues raised by the Auditor-General in the audit report;
- 4.2.5 Cause to conduct any investigations into the financial affairs of the Municipality as the Council may request; and
- 4.2.6 Perform such other functions as may be prescribed.
- 4.2.7 In performing its functions, an Audit Committee-
 - 4.2.7.1 Shall have access to the financial records and other relevant information of the municipality as it deems necessary; and
 - 4.2.7.2 Must liaise with-
 - (i) The Internal Audit function of the Municipality; and
 - (ii) The Auditor General or any party appointed by the AG to audit the financial statements of the Municipality.

5 RESPONSIBILITIES OF AUDIT COMMITTEE MEMBERS

- 5.1 In executing its responsibilities, the Audit Committee relies extensively on the work done by Internal and External Audit.
- 5.2 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, Personnel, the Internal and External Auditors.
- 5.3 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.

6 INTERNAL AUDIT ESTABLISHMENT

- 6.1 The governance structure of the Internal Audit Activity (IAA) shall be aligned with Section 165 of the Municipal Finance Management Act No. 56 of 2003 (as amended) (MFMA) read together with the MFMA Circular no. 65 of 2012 issued by the National Treasury and the Municipal Systems Act, No. 32 of 2000 (MSA) which provides for the establishment of the IAA;
- 6.2 The governance structure or operating model shall be approved by the Council, based on the Audit Committee's recommendations;
- 6.3 The extent to which the IAA is co-sourced will be determined by the Council from time to time.
- 6.4 The CAE shall be responsible for leading and managing the internal audit function and for overseeing activities of co-sourced partners.
- 6.5 Clear and articulate terms and conditions of engaging the service provider(s) for co-sourcing shall be crafted and must include the requirements for skills transfer by the appointed service provider(s) and related supplier development requirements.
- 6.6 Detailed Service Level Agreements shall be developed and submitted to the Audit Committee for review and recommendation for approval by Council.

7 INTERNAL CONTROL

- 7.1 The Audit Committee members need to have a good understanding of the governance, risk management, internal controls, internal and external audit processes. In fulfilling this responsibility, the Audit Committee should:
 - 7.1.1 Ensure that management follows a sound process to draw conclusions on the adequacy and effectiveness of the structures and processes of governance, risk management and of internal controls;
 - 7.1.2 Establish whether management has relevant policies and procedures in place and that these are adequate, effective and regularly updated;
 - 7.1.3 Determine whether appropriate processes are followed and complied with on a continuous basis;
 - 7.1.4 Consider measures applied on any required changes to the design or implementation of governance, risk management and internal control processes; and
 - 7.1.5 Assess steps taken by management to encourage ethical and lawful behaviour; financial discipline and accountability in the use of public resources.

8 FINANCIAL MANAGEMENT RESPONSIBILITIES

8.1 General Matters

The Audit Committee should:

- 8.1.1 Consider the current areas of greatest financial risk and how management is managing these effectively;
- 8.1.2 Consider, in consultation with the internal and external auditors and other assurance providers, any fraud, illegal acts, deficiencies in internal controls, or other similar issues;
- 8.1.3 Review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on the Municipality's financial affairs;
- 8.1.4 Review significant changes in accounting policies, methods and assumptions; and
- 8.1.5 Review any legal matters which could significantly impact the Municipality's financial affairs.

8.2 Annual Financial Statements

- 8.2.1 The Audit Committee shall receive and consider reports on the audit of critical financial controls performed throughout the financial year and the year-end report on the annual financial statements close processes prior to its submission to third parties. Further, as part of its annual financial statements close process reviews, the IAA must report on the following:
 - 8.2.1.1 Whether the Municipality's audit file is prepared in line with the applicable standards and guidance contained in MFMA Circular 50, or as updated;
 - 8.2.1.2 The quality, integrity and content of the annual financial statements, and whether these are consistent with the applicable standards and compliant with the legal framework;
 - 8.2.1.3 Reasonableness, completeness and accuracy of the annual financial statements; and
 - 8.2.1.4 The timely submission of the annual financial statements to the Auditor-General by 31 August each year or as directed by the Auditor General/National Treasury.

The Audit Committee must:

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

- 8.2.2 Specifically with regards to Annual Financial Statements, the Audit Committee should review and challenge where necessary:
 - 8.2.2.1 The consistency of, and any changes to, accounting policies, in comparison to prior years;
 - 8.2.2.2 The policies and methods used to account for significant or unusual transactions where different approaches are possible;
 - 8.2.2.3 Whether the Municipality has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account previous audit outcomes;
 - 8.2.2.4 The quality of disclosure in the Municipality's financial reports and the context in which statements are made;
 - 8.2.2.5 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);
 - 8.2.2.6 All material issues in prior reports by the Auditor-General having been appropriately accounted for, resulting in fair presentation; and
 - 8.2.2.7 Analysis of trends and other financial ratio calculations.

8.3 Internal Audit

The Audit Committee must in relation to internal audit:

- 8.3.1 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;
- 8.3.2 Regularly review the functional and administrative reporting lines of Chief Audit Executive to ensure that the organizational structure is consistent with the principles of independence and accountability;
- 8.3.3 Review and approve the Internal Audit Charter, Internal Audit Strategy, Internal Audit Strategic Plan and the Internal Audit Stakeholder Engagement Plan annually including the review and approval of the Quality Assurance Improvement Plan (QAIP);
- 8.3.4 Confirm that the annual audit plan makes provision for critical risk areas in the Municipality;
- 8.3.5 Advise the Municipality on the appropriateness of the resources allocated to give effect to the work outputs of the internal audit function, including internal audit strategic plan, audit fees and other compensation;
- 8.3.6 Ensure that there is support for the internal audit unit and external auditors from senior management;
- 8.3.7 Confirm with management that internal audit findings are submitted to the Audit Committee on a quarterly basis;
- 8.3.8 Confirm actions taken by management in relation to the audit plan;

- 8.3.9 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;
- 8.3.10 Regularly review the functional and administrative reporting lines of Chief Audit Executive to ensure that the organizational structure is consistent with the principles of independence and accountability;
- 8.3.11 Review and approve the Internal Audit Charter, Internal Audit Strategy, Internal Audit Strategic Plan and the Internal Audit Stakeholder Engagement Plan annually including the review and approval of the Quality Assurance Improvement Plan (QAIP);
- 8.3.12 Confirm that the annual audit plan makes provision for critical risk areas in the Municipality;
- 8.3.13 Advise the Municipality on the appropriateness of the resources allocated to give effect to the work outputs of the internal audit function, including internal audit strategic plan, audit fees and other compensation;
- 8.3.14 Ensure that there is support for the internal audit unit and external auditors from senior management;
- 8.3.15 Confirm with management that internal audit findings are submitted to the Audit Committee on a quarterly basis;
- 8.3.16 Confirm actions taken by management in relation to the audit plan;
- 8.3.17 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; and
- 8.3.18 Evaluate the performance of internal audit activity in terms of the agreed goals and objectives as captured in the audit plan.
- 8.3.19 Ensure that the Chief Audit Executive has reasonable and an unobstructed access to the Chairperson of the Audit Committee and they meet separately when the need arises to discuss matters privately;
- 8.3.20 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;
- 8.3.21 Confirm annually that a quality control process is in place to ensure conformance with the International Professional Practices Framework (IPPF) of the Institute of Internal Auditors (IIA);
- 8.3.22 Concur with any appointment and termination of the services of the Chief Audit Executive; and
- 8.3.23 Confirm compliance with relevant laws, regulations and applicable frameworks.

8.4 External Audit

The Audit Committee must in relation to external audit:

- 8.4.1 Take cognizance of the scope of work undertaken by the external auditor and the extent of co-ordination with the internal audit unit and other assurance providers per Municipality's approved combined assurance framework;
- 8.4.2 Review the external auditors proposed audit scope and approach including co-ordination of the audit effort with internal audit;
- 8.4.3 Review reports and monitor management's implementation of audit recommendations and Council resolutions in the new financial year;
- 8.4.4 Review the report on the annual financial statements and matters raised therein for reasonability and accuracy;
- 8.4.5 Review any interim reports issued in order to take cognizance of the issues raised in determining the follow up work of internal audit;
- 8.4.6 Conduct a review of the extent to which previously reported findings by the external auditor have been addressed by the Council;
- 8.4.7 Provide advice to the Accounting Officer on actions taken or to be taken relating to significant matters raised in external audit reports;
- 8.4.8 Should there be a need, liaise with the external auditors on any matter that the Audit Committee considers appropriate to raise with the external auditor;
- 8.4.9 Should there be disputes between management and external auditors, the audit committee or its Chairperson should be informed and assist in resolving the dispute.
- 8.4.10 Ensure that the external auditors have reasonable access to the relevant management and Chairperson of the Audit Committee;
- 8.4.11 Address any potential restrictions or limitations with the Accounting Officer and the Council; and
- 8.4.12 Address outstanding matters raised by the external auditors and ensure that findings are dealt with conclusively in an expeditious manner.

8.5 Information Technology (IT) Governance

- 8.5.1 The Audit Committee shall consider and advise on matters relating to IT governance, controls, access and safeguarding of information in the Municipality.
- 8.5.2 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 plan systems and processes.

8.6 Compliance with Laws, Regulations and Frameworks

- 8.6.1 The Audit Committee will obtain regular updates from Management and Municipal Council's Legal Advisor regarding Municipal compliance matters.
- 8.6.2 Review the effectiveness of the system by which Management investigates and follows-up any fraud risks, fraudulent acts or non-compliance matters.
- 8.6.3 Be satisfied that all regulatory compliance matters have been considered in the preparation of the Annual Financial Statements.
- 8.6.4 Review the findings of any examinations, reviews or investigations conducted by Regulatory Agencies.

8.7 Performance Management

- 8.7.1 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.
- 8.7.2 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:
 - 8.7.2.1 Review and advise on the Municipality's compliance with statutory requirements and performance management best practices and standards;
 - 8.7.2.2 Review and advise on the alignment of the IDP, the budget, service delivery, budget implementation plan and performance agreements;
 - 8.7.2.3 Review and advise on the relevance of indicators so as to ensure that they are measurable and relate to the services performed by the Municipality;
 - 8.7.2.4 Review compliance with in-year reporting requirements;
 - 8.7.2.5 Review the quarterly performance reports submitted by internal audit;
 - 8.7.2.6 Review and advise on the Municipality's annual reports within the stipulated timeframes; and
 - 8.7.2.7 The Chairperson of the performance audit committee reviews and advises on the Municipality's performance management system, making recommendations for its improvement at least twice a year. The Chairperson of the Audit Committee prepares an annual report to Council on issues of the Risks Management, Performance Management and Governance within the Municipality. This report is inclusive of the input from both the chairs of the Risk and Performance committees.

8.8 Risk Management

- 8.8.1 The Audit Committee should provide an independent and objective view of the effectiveness of the Municipality's risk management. In doing so, it should:
 - 8.8.1.1 Consider the Municipality's key risk management strategy and policy and provide appropriate advice on financial reporting risks, internal financial controls and fraud risks as they relate to financial reporting and IT risks as they relate to financial reporting;
 - 8.8.1.2 Review the risk management plan, including the IT disaster recovery and continuity plans for the year, and provide advice on possible focus areas;
 - 8.8.1.3 Consider the risk management reports and assess measures which have been put in place to mitigate the inherent risks identified;
 - 8.8.1.4 Review the opinion of internal audit regarding the municipality's risk management systems;
 - 8.8.1.5 Review the recommendations made by the risk management committee; and
 - 8.8.1.6 Provide quarterly feedback to the Council on the adequacy and effectiveness of the risk management process.

9 REPORTING RESPONSIBILITIES

- 9.1.1 The Chairperson of the Audit Committee shall report on an *annual basis*, or more frequently if required, to the Council on the performance of critical Audit Committee roles. This will be in line with the combined assurance model, including the operations of the various assurance providers such

the finance function, internal audit function, legal unit, risk management and others as it deems it fit. The report should include:

- 9.1.1.1 A summary of the work performed by each function and the Audit Committee against the annual work plan;
 - 9.1.1.2 The effectiveness of internal controls and additional measures that must be implemented to address identified risks;
 - 9.1.1.3 A summary of key issues dealt with, such as significant financial reporting, legal compliance, risk management issues, the internal and external audit findings, recommendations and updated status thereof;
 - 9.1.1.4 Progress on any investigations being conducted and their outcomes;
 - 9.1.1.5 Details of meetings and the number of meetings attended by each member; and
 - 9.1.1.6 Other matters or challenges faced by the Audit Committee that may require the intervention of the Council.
- 9.1.2 The Audit Committee shall prepare a report annually, which will be incorporated into the Municipality's annual report covering:
- 9.1.2.1 The descriptions of the functions performed by the Audit Committee and meetings attended;
 - 9.1.2.2 Resolutions taken by the committee and the implementation status of the recommendations made;
 - 9.1.2.3 The municipality's state of internal controls as determined in consultation with the assurance providers;
 - 9.1.2.4 The Audit Committee's views on the performance management framework in consultation with the Performance Audit Committee; and
 - 9.1.2.5 Other relevant comments that may enhance governance and accountability.
- 9.1.3 The Chairperson of the Audit Committee must make recommendations, towards the oversight report for consideration during the MPAC engagements.

The Chairperson of the Audit Committee must always be available whenever the MPAC needs clarity on the information contained in the report given to them by the Audit Committee or related matters.

10 COMPOSITION AND MEMBERSHIP

- 10.1 The Audit Committee members shall be appointed by Council and the Committee shall comprise of at least three (3) up to a maximum of six (6) members who are not in the employ of the Municipality.
- 10.2 The Chairperson shall be *independent* and not in the employ of the Council with accounting and/or auditing background
- 10.3 Only members who have the necessary knowledge and expertise to expedite the working of the committee shall be eligible for appointment to serve on the Committee. One of the members should have the necessary expertise in performance management. To fulfil this requirement, the Chairperson of the Performance Audit Committee serves as a member of the Audit Committee
- 10.4 The members should represent an *adequate mix* of expertise including experience in local government, finance, management, law, Information and Communications Technology (ICT) or field relating to the activities of the Council.
- 10.5 No Councillor/s may be members of the Audit Committee. Further, members of the Management team may not form part of the Audit Committee and only attend the Committee's meetings on invitation;
- 10.6 A quorum for any meeting will be in excess of 51% of members. The quorum will be determined based only on Audit Committee members in attendance, and not members of Management; and if the Chairperson is absent from a specific meeting, the members present shall elect a Chairperson from those in attendance to act as the Chairperson of that meeting.

11 AUDIT COMMITTEE MEETINGS

- 11.1 The Committee may co-opt such other persons or subject matter experts to its meetings as it deems necessary.
- 11.2 The External Auditors and other Assurance Providers shall be invited to every scheduled committee meeting to make presentations to the Audit Committee in line with their annual work plan.
- 11.3 The Audit Committee shall hold at least 4 (four) formal meetings within a financial year, with the authority to convene additional meetings as circumstances require. Both Internal and External Auditors may request special meetings, if they consider it necessary.
- 11.4 Planned annual meetings for the Audit Committee shall be recorded and published in the Municipal Annual Calendar. In addition, notice shall be given in writing to all members of the Audit Committee and other interested parties, of each upcoming meeting to be held, at least 10 business days prior to the date on which such meeting is to be held.
- 11.5 The agenda of the meeting together with the audit pack shall be prepared and distributed at least seven (7) days prior to the meeting date. Any person attending the meeting may add items to the proposed agenda subjects to prior approval by the Chairperson of the Audit Committee.
- 11.6 The proceedings of all meetings should be formally minuted and must be accompanied by audio recordings. The minutes of the meeting including special meetings shall be circulated at least 10 days before the next meeting.
- 11.7 The minutes and recommendations of the Audit Committee meetings should be submitted to Council for consideration. A register of resolutions will be kept and monitored for effective implementation at every Audit Committee meeting;
- 11.8 The Audit Committee's Chairperson and members should be independent of the Municipality;
- 11.9 The Audit Committee's Chairperson and members should not be biased but they must exhibit an independence during deliberations;
- 11.10 All of the Audit Committee's members should declare private and business interests in every meeting;
- 11.11 All members should not carry out any business with the Municipality;
- 11.12 An annual review of the Audit Committee's member's compliance with applicable independence rules and regulations should be conducted by the Council.
- 11.13 The Audit Committee, shall as it deems necessary, hold separate in-committee meetings with various key assurance providers such as:
 - 11.13.1 Management;
 - 11.13.2 Risk Compliance function;
 - 11.13.3 Legal Officer;
 - 11.13.4 Internal Auditors; and
 - 11.13.5 External Auditors.
- 11.14 Invitations to attend the Audit Committee meetings may be extended to the following:
 - 11.14.1 All Heads of Department;

- 11.14.2 The Chief Risk Officer (or designated employee) shall be permanent invitees to the Audit Committee meetings;
 - 11.14.3 The Chief Information Officer
 - 11.14.4 The Chairperson of Municipal Public Finance Accounts (Observer status);
 - 11.14.5 The Provincial/National Treasury Representative (Observer status);
 - 11.14.6 The Co-operative Governance and Traditional Affairs representative (Observer status)
 - 11.14.7 The Auditor General; and
 - 11.14.8 Any other person as and when requested by the Chairperson of the Audit Committee.
- 11.15 Furthermore, any person may be requested to attend a meeting of the Audit Committee when the need arises. Officials must give the Audit Committee their full co-operation. Invitees may not vote on any matter before the Committee.

12 TERM OF OFFICE

- 12.1 Audit Committee members should serve for at least a minimum of 3 years with an option to renew for another 3 years, based on their performance.
- 12.2 The Chairperson should be appointed for a minimum of 3 years so as to ensure that he/she contributes most effectively and provides stability to the Audit Committee.
- 12.3 A member's tenure within the Audit Committee should not exceed six (6) consecutive years. After serving consecutively for 6 years, a cooling off period of two years should be provided, before the re-appointment of the same member to the Audit Committee.
- 12.4 Rotation of members is encouraged as it enhances the independence of the Audit Committee.
- 12.5 To enhance the independence of the Audit Committee, the term of office for members must be strictly adhered to.
- 12.6 Recruitment of members should be staggered to prevent a loss of knowledge and skills in the committee.
- 12.7 The recruitment process of new members should be concluded at least 3 months in advance before the expiry of an existing member's term with the exception of resignation or / termination of membership.

13 TERMINATION OF MEMBERSHIP

- 13.1 A Committee Member may voluntarily resign from the Audit Committee given that he/she gives two (2) months' notice prior to that resignation or said member's membership is terminated by the Council based on recommendation by the Audit Committee. The Chairman shall ensure that a proper handover is achieved.
- 13.2 Any member failing to attend 3 consecutive meetings will be automatically dismissed based on a formal report by the Audit Committee Chairperson and appointment of a replacement member subject to Council's approval and
- 13.3 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 minute by the secretariat of the Audit Committee.
- 13.4 The termination or dismissal of a member should be performed by the Municipal Council and the outcome of the dismissal process should be in writing.
- 13.5 Committee Members can be terminated or dismissed by the Municipal Council under certain circumstances. Reasons for termination or dismissal, amongst other things, would normally be detailed in the letter of appointment and contract agreement, such as:
 - 13.5.1 Where an on-going conflict of interest exists; and
 - 13.5.2 Where a member has not performed to expectations (whose)
- 13.6 The official termination or dismissal processes, as it relates to the Municipality, should be adhered to by the Accounting officer and Municipal Council when an Audit Committee member is being dismissed.
- 13.7 The date of termination or dismissal should be minuted by the Secretariat of the Audit Committee.

14 REMUNERATION OF MEMBERS

- 14.1 The Audit Committee members of the uMhlathuze Municipality should receive remuneration for services rendered as per the rates approved by Council in-line with the National Treasury guidelines.
- 14.2 No remuneration for participating in Audit Committee 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 organs of state, except for out-of-pocket expenses which may be reimbursed.

15 INDUCTION OF MEMBERS

- 15.1 A formal process of induction shall be facilitated by the Chief Audit Executive in consultation with the Accounting Officer. During the induction of members, the roles and responsibilities of the Audit Committee must be clarified.
- 15.2 The Audit Committee members shall be provided with a comprehensive induction pack that consists of all the relevant information. The Chief Audit Executive and Chairperson on a continuous basis shall assess the business environment to identify and implement further skills development sessions that are deemed appropriate to enhance the effectiveness of the audit committee.

16 CONFIDENTIALITY, INDEPENDENCE AND CONFLICT OF INTERESTS

- 16.1 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 Audit Committee and shall only disclose such information as may become necessary or required for the proper performance of his/her duties and functions.
- 16.2 Every member, appointed, co-opted, or full-time employee of the uMhlathuze Municipality, involved in the Audit Committee meetings, deliberations and resolutions, is obliged to disclose any interest they have within the Council or outside the Council that might affect their performance of their duties and may not:
- 16.2.1 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;
 - 16.2.2 Act in a manner that is inconsistent with his or her membership and the role of the Audit Committee;
 - 16.2.3 Expose himself or herself to any situation involving the risk of a conflict between his or her official and / or professional responsibilities and personal interests.
 - 16.2.4 Any Council related information that comes to light during their performance of duties must be kept confidential; and
 - 16.2.5 Act in a manner that may compromise the credibility, workings and integrity of the Audit Committee and the Council.

17 RELATIONSHIP WITH OTHER STAKEHOLDERS

- 17.1 The Chief Audit Executive shall, under the guidance of the committee, develop a key Stakeholder Management Plan which shall be tracked and monitored by the committee. This will assist the Audit Committee as it is required to maintain good relations with key stakeholders, such as:
- 17.1.1 Municipal Council;
 - 17.1.2 Municipal Public Accounts Committee;
 - 17.1.3 Finance Committee;
 - 17.1.4 Internal Auditors and External Auditors;
 - 17.1.5 National and Provincial Treasury; and
 - 17.1.6 Other key Assurance Providers per approved Combined Assurance Framework.

18 PERFORMANCE ASSESSMENTS

- 18.1 On an annual basis, the Audit Committee will review its own effectiveness against pre-set performance criteria's or a Balanced Scorecard to be conducted by the 31st of August each year.
- 18.2 The performance criteria will include categories such as:
- 18.2.1 Number of meetings held, member's participation in meeting discussion,
 - 18.2.2 Co-operation of internal audit function, management, and office of the Auditor General,
 - 18.2.3 Quality of Minutes,
 - 18.2.4 Feedback score from Council (Accounting Officer),
 - 18.2.5 Meeting's effectiveness scores from attendees etc.
- 18.3 The Council shall evaluate the effectiveness of the Audit Committee in discharging its prescribed mandate and compliance with this 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 assessment *checklist developed for appraisal of internal audit activity is available on- DMS1424889.*
- 18.4 The Audit Committee should annually assess the effectiveness of the internal audit function. Annual assessment of internal audit activity is detailed on clause 14 of the internal audit charter and the assessment *checklist developed for appraisal of internal audit activity is available on- DMS1424888.*

19 COMMITTEE SECRETARIAT

- 19.1 The Audit Committee's Secretarial shall be the Office of the CAE unless the Municipality has an alternative section that conducts secretarial function, in that case the CAE will work together with that section. The Committee Secretary with the guidance of the Committee Chairperson shall ensure that the following aspects are achieved:
- 19.1.1 The dates of meetings shall be agreed upon at the commencement of each financial year. These will be published on the Municipal Calendar. Notice of each meeting shall be given in writing to all members of the Committee and other invited parties, at least ten (10) business days prior to the date of the meeting.
 - 19.1.2 The agenda of the meeting shall be approved by the Audit Committee's chair in consultation with the members and other parties as deemed fit, prior to the meeting and the approved agenda together with the audit pack shall be prepared and distributed at least seven (7) business days prior to the meeting date.
 - 19.1.3 The Secretariat shall keep minutes of all meetings and shall be circulated at least 10 days before the next meeting.

19.1.MAINTENANCE OF CHARTER

- 19.1.1. The Charter is reviewed as and where necessary/applicable updated annually to ensure relevance and consistency with the MFMA, Municipal Systems Act No 32 of 2000 and other related regulations guides and best practices. 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.

19.2.2. Any amendments to these terms of reference shall only be effective when recommended by the Audit Committee and approved by the Council.

20. EFFECTIVENESS OF THE AUDIT COMMITTEE

20.1. In order for the Audit Committee to remain effective, its objectives and responsibilities should come under annual performance evaluation by a competent agent appointed to carry the evaluation to ensure that:

20.1.1. Its activities meet the Municipality's needs; and

20.1.2. Changes in the environment in which the Municipality operates are taken into account on timely basis.

20.2. Members of the Audit Committee should also assess themselves *annually* using the designed Audit Committee Assessment Questionnaire.

20.3. Auditor General will independently report on the effectiveness and efficiency of the Committee every year.

20.4. The Provincial and National Treasuries as a monitoring function also conduct evaluations based on good governance principles on an annual basis.

20.5. The Chairperson of the Audit Committee will ensure that the relationship between the Committee and Council, once established, is sustained through assistance by Exco or equivalent.

21. ANNUAL REVIEW, UPDATE AND APPROVAL OF THE AUDIT COMMITTEE CHARTER

21.1. This Audit Committee Charter shall be reviewed on an annual basis and updated if required.

21.2. The Charter must be recommended by the Audit Committee to Council for final approval.

22. FINAL APPROVAL WILL BE OBTAINED THROUGH A COUNCIL RESOLUTION