

**Dr Beyers Naude Local
Municipality**

Audit Committee Charter

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1 Introduction

This Charter sets out the specific responsibilities of the Dr Beyers Naude Local Municipality Audit Committee (hereinafter referred to as the Committee) as required by the Municipal Finance Management Act, No 56 Of 2003, Local Government: Municipal Planning and Performance Management Regulations, No 796 of 2001, as well as the King III Report on Governance for South Africa which became effective on 1 March 2010. The charter provides a framework within which the Committee should operate. The committee is not intended to perform any management functions or assume any management responsibilities. It provides a forum for discussing control issues, enterprise wide risks, governance issues, reporting and for making relevant recommendations for consideration by Council. This charter will be reviewed and amended where necessary or an annual basis.

2 Overall purpose and objective

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

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

2.1 Specific objectives

To this end the following objectives have been set:

- The committee shall assist management in their evaluation of the adequacy and efficiency of the financial reporting process, the system of internal control and management of financial risks, the audit process and the municipality's process for monitoring compliance with laws and regulations and its own code of business conduct.
- The committee shall initiate such measures as in its opinion may best serve to enhance the reliability, integrity and objectivity of internal and external reporting (financial statements and performance management) as well as the adequacy and efficiency of any other aspect of Dr Beyers Naude Local Municipality's operations.
- The committee shall assist Council through oversight and advice on implementing effective performance management systems that complement service delivery.
- In performing its duties, the committee will maintain effective working relationships with the Council, management and the internal and external auditors.

- To perform his or her role effectively each committee member will obtain an understanding of the detailed responsibilities of committee membership as well as the municipality's business operations and risks.

3 Authority

The committee is established and authorized by the Municipality to perform any activity within its terms of reference and has all the authority vested in it by MFMA and Local Government: Municipal Planning and Performance Management Regulations.

3.1 Communication

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

Such communication and meetings requested by either the committee or management should only be performed upon acknowledgement by the municipal manager.

3.2 Advice

The committee is authorized to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise should this be considered necessary. Such request should not be unreasonably withheld. Any such appointments should be made subject to the approval of the Council (in consultation with the Municipal Manager) and the approved procurement procedures.

3.3 Other

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

- Investigate any matters within its powers
- Be provided with the resources that it needs to investigate such matters
- Have full access to all information that is required to execute its mandate
- Safeguard all information supplied to it within the ambit of the law.

The committee should assist the Council in carrying out its functions; however, it does not relieve the Councilors of any of their responsibilities. The Committee must play an objective and independent oversight role and should not intrude into the management of the Dr Beyers Naude Local Municipality. The committee may investigate any matter it deems necessary for the performance of its duties and the exercise of its powers.

4 Organisation

4.1 Membership

- The committee must consist of at least three persons of whom:
 - The majority may not be in the employment of Dr Beyers Naude Local Municipality
 - The majority should be financially literate
 - At least one person must have experience in performance management
 - At least one person must have recent and relevant financial experience
- Members are also expected to:
 - Act in the best interests of the department they are serving
 - Apply good analytical skills, objectivity and good judgment
 - Express opinions constructively and openly, raise issues that relate to the committee's responsibilities and pursue independent lines of enquiry
 - Contribute the time required to review the papers provided
- The chairperson of the audit committee will be appointed by the Council from time to time, but may not be a political office-bearer and may not be in the employ of the Dr Beyers Naude Local Municipality. Until the official appointment by Council, the members present at the meeting must elect a chairperson to act as chairperson for each meeting.
- At every Audit Committee meeting, members of the Audit Committee will provide written declarations to the Chair for provision to the Accounting Officer declaring any potential or actual conflicts of interest they may have in relation to their responsibilities

- External members should consider past employment, consultancy arrangements and related party issues in making these declarations and the Chair should be satisfied that there are sufficient processes in place to manage any real or perceived conflict
- The chairperson must be independent, knowledgeable of the status of the position and have the requisite business experience, as well as financial and leadership skills, and must have the ability to preside over meetings and to direct the discussions along constructive lines.
- If the chairperson of the Committee is absent from a specific meeting of the committee, the members present must elect a chairperson from the members present to act as chairperson for that meeting.
- The chairperson and members of the audit committee must be appointed on contract and be remunerated in accordance with the contracts concluded with the municipality, as approved by Council.
- Each member will be deemed to spend a total of six (6) hours on preparation and attendance per committee meeting.
- Members will also be paid a travel allowance at the rates in line with SARS guidelines.
- Remuneration for ad hoc tasks undertaken by committee members such as attending performance reviews, reviewing financial statements etc. will be in line with the rates approved by Council.
- The termination of the services of an audit committee member will be in accordance with the signed contract between the member and the authorised delegate of the municipality. In terms of the contract, both parties are required to provide 30 days' notice in writing of termination of service.
- The Council must concur with any premature termination of the services of a person serving on the Audit Committee.
- In the event of a vacancy occurring amongst the members of the committee, the Municipality must fill that vacancy as soon as practicable.
- The chairperson of the audit committee shall also evaluate the effectiveness of the audit committee members on an annual basis.

4.2 Meetings

- The municipality must provide secretariat services for the Committee

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

4.2.1 Notice of meetings

- A formal agenda will be sent to all those who are to attend at least seven (7) days before such meeting together with any relevant information
- The chair may request that certain issues be considered by way of round robin. This process will be facilitated and managed by the secretarial function of the municipality
- The following persons are to attend audit committee meetings on the invitation of the chairperson of the audit committee:
 - The Honorable Mayor
 - The Municipal Manager or as represented by a nominated officer
 - The Chief Financial Officer
 - Heads of Department of the Dr Beyers Naude Local Municipality
 - Representatives of the Auditor-General or the duly appointed representatives
 - The Chief Audit Executive or the duly authorised representatives of the Co-sourced Internal Audit Service Provider
 - The Compliance and Risk Officer and Legal Advisor
 - The Performance Management Officer
 - The Chairperson of MPAC.
- The internal and external auditors may be invited to make presentations to the audit committee as appropriate.
- The audit committee may also invite such other persons, as it deems necessary from time to time, to attend and report at its meetings.
- All Audit Committee members are expected to attend each meeting in person or via teleconference or video conference

4.2.2 Quorum

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

4.2.3 Minutes

- The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- Formal minutes of meetings are to be kept and must be signed by the chairperson.
- Copies of minutes of meetings must be distributed to the Council.
- The Audit Committee Chairperson shall prepare a report on the critical issues discussed in the previous meeting and these shall be filed.

4.2.4 Voting Rights

- All committee members shall be entitled to vote.

4.2.5 Special meetings

- Special meetings of the audit committee may be convened as and when required. Any member of the committee may call for a special meeting. The internal and external auditors may request a meeting if they consider that one is necessary. The need for special meetings shall be discussed by the chairperson of the Audit Committee prior to convening such a meeting
- Special meetings should be kept as a low minimum and necessity should be determined upfront.

5 Roles and responsibilities

5.1 Responsibilities related to the organization

The audit committee must review and evaluate the manner in which the organization carries out its responsibilities with regard to the following:

- Financial management and financial reporting practices

- Financial reporting
- Internal controls and the management of risks
- Compliance with laws, regulations and ethics and
- Performance management.

5.1.1 Financial management and reporting practices

- The audit committee must amongst others, review the following:
 - The effectiveness of the internal control systems
 - The effectiveness of the internal audit function
 - The risk areas of the organisation's operations that are to be covered in the scope of internal and external audits
 - The adequacy, reliability and accuracy of the financial information provided to management and other users of such information
 - Any accounting and auditing concerns identified as a result of internal and external audits
 - The organisation's compliance with legal and regulatory provisions
 - The activities of the internal audit function, including its annual work programme, coordination with the external auditors, the reports of significant investigations and the responses of management to specific recommendations
 - Where relevant, the independence and objectivity of the external auditors.
- The audit committee must also communicate and discuss any significant concerns that may arise relating to the financial statements with the municipal manager, management of the municipality, the internal auditors and the external auditors.

5.1.2 Financial reporting

- The committee must monitor the integrity of the financial statements of the municipality, including its annual report and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgments which they contain.

- The committee shall review and challenge where necessary:
 - The consistency of, and any changes to, accounting policies both on a year on year basis and across the organization
 - Review changes in the accounting standards and approve the 3 year rolling plan of standards to be adopted by the entity
 - Approve all changes made to the accounting policies of the entity
 - The methods used to account for significant or unusual transactions where different approaches are possible
 - Whether the municipality has followed appropriate accounting standards and made appropriate estimates and judgments taking into account the views of the external auditor
 - The clarity of disclosure in the organisation's financial reports and the context in which statements are made and
 - All material information presented with the financial statements such as the operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management).
 - The expertise and experience of the Chief Financial Officer annually.
 - Review the processes in place designed to ensure that financial information included in the annual report is consistent with the signed financial statements.

5.1.3 Internal Controls and the Management of Risks

- The municipality can respond to risk through various mechanisms such as avoidance, transfer, accepting and managing of the risk. When the municipality elects to manage the risk, it will require control activities to support the management of the risk to within tolerable levels.
- The Audit Committee is an integral component of the risk management process. The Audit Committee shall review and recommend the quarterly assessment of the top strategic risks of organisation to the Accounting Officer for approval. The top operational risks shall be reviewed and tracked by the Audit Committee to ensure that the level of risk at an operational level is acceptable.

- The Audit Committee shall review and recommend the following to the Accounting Officer or the Executive Authority:
 - Enterprise wide risk management framework and methodology
 - Risk management policies unless delegated to Audit Committee
 - The annual risk tolerance limits and risk appetite
 - The annual assessment and adequacy of insurance portfolio and fidelity cover of the municipality
 - Adequacy of the risk management function, its effectiveness and coverage in support of the business and financial strategy of the municipality
 - Review and approve the risk management disclosures of the integrated annual report for inclusion in the annual report
 - Satisfy itself that it has appropriately addressed the following areas:
 - a) Financial reporting risks, including the risk of fraud
 - b) Internal financial controls; and
 - c) IT risks as they relate to financial reporting
- The accounting officer must ensure that a risk assessment is conducted annually, identifying emerging risks of the organization. A risk management strategy, which includes a fraud prevention plan, must be used to direct the internal audit effort and priority, and to determine the skills required of personnel to improve controls and to manage these risks.
- Internal Audit is responsible for providing independent assurance that management has identified the municipality's risks and has responded effectively. Internal audit may also play an advisory and consulting role to Management regarding risk management matters.
- The audit committee must understand the organisation's major risk areas. It should monitor the control process and the adequacy of the systems of internal control by reviewing internal and external audit reports.
- Assess whether management has taken steps to embed a culture that promotes the proper use of public resources and is committed to ethical and lawful behaviour.

- Understand the scope of internal and external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations together with management's responses
- Review whether the financial internal controls are operating efficiently, effectively and economically
- In doing so, the committee should:
 - Be continually aware of the current areas of greatest financial risk and ensuring that management are effectively managing the risks and regularly reviewing the fraud prevention plan
 - Ensure that effective systems of accounting and internal control are established and maintained to manage financial risks
 - Satisfy itself as regards the integrity and prudence of management control systems, including the review of policies and/or practices
 - Ensure that the municipal manager and council are aware of any matters that might have a significant impact on the financial state of affairs of the organization
 - Have oversight over the role of the internal audit function in the risk management process. (This role is detailed in the Internal Audit charter of the municipality.)
- The committee shall:
 - Keep under review the effectiveness of the municipality's internal controls
 - Review and approve the statements to be included in the annual report concerning internal controls and risk management
 - Monitor risk management within the municipality. Ongoing monitoring is also built into the normal, recurring operating activities of a municipality, and is performed on a real-time basis in order to react dynamically to changing conditions and become ingrained in the municipality. The committee should conduct an independent review of whether the risk management strategy is producing the sustainable outcomes as originally envisaged. This will ensure that risk management continues to be applied at all levels and across the municipality.
 - Review whether management has in place relevant policies and procedures, including Accounting Officer's instructions or their equivalent, and that these are periodically reviewed and updated

- Determine whether the appropriate processes are in place to assess, at least once a year, whether key policies and procedures are complied with
- Review whether appropriate policies and supporting procedures are in place for the management and exercise of delegations

5.1.4 Compliance with Laws, Regulations and Ethics

- The Audit Committee must ensure that the management of the organization has the necessary checks and balances in place to ensure that there is compliance with pertinent laws and regulations, that it is conducting its affairs ethically, and that it is maintaining effective controls against possible conflicts of interest and fraud.
- The committee must review the organisation's arrangements for its employees to raise concerns, in confidence, about possible wrong doing in financial reporting or other matters. The committee shall further ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action.

5.1.5 Responsibilities related to the Internal Audit function

- The Audit Committee should have oversight of the Internal Audit function by:
 - Approving the annual internal audit plan and the three year rolling plan
 - reviewing the Internal Audit function and evaluating whether this function is performed satisfactorily;
 - evaluating whether management demonstrates and stimulates the necessary respect for the internal control structures, and
 - overseeing the total Internal Audit function to ensure that:
 - the Internal Audit performance goals are achieved
 - risks are identified
 - specific issues requiring attention are highlighted, and
 - the cost of auditing within the organisation is minimised.
- The Audit Committee should ensure that the Internal Audit function performs its responsibilities efficiently and effectively by:

- reviewing and approving the Internal Audit Charter
- reviewing the organisational structure and the competence and qualifications of the employees of the Internal Audit function, including reviewing and concurring with the appointment and dismissal of the Chief Audit Executive (or outsourced Internal Audit Service Provider)
- reviewing the results of quality assurance reviews undertaken on the Internal Audit function, when available
- Ensuring that the internal audit function is subject to an independent quality review at least every three or five years or as and when the Audit Committee determines it appropriate. The implementation plans should be monitored and tracked by the Audit Committee.
- reviewing the annual plans and budgets of the Internal Audit function to ensure that the plans address the high risk areas and that adequate resources are available
- reviewing audit results and the action plans of management
- requesting details of audit projects
- reviewing the effectiveness of the Internal Audit function
- ensuring that the work of Internal Audit is appropriately co-ordinated with that of External Audit to ensure little or no duplication of work and coverage
- receiving and reviewing quarterly progress reports submitted by the Internal Audit function
- reviewing the annual Risk Assessment process and the prioritisation of major risks identified
- monitoring and review the effectiveness of the organisation's internal audit function in the context of the organisation's overall risk management system
- reviewing promptly all reports on the organisation from the internal auditors
- annual confirmation of the internal audit function's independence
- reviewing and monitor management's responsiveness to the findings and recommendations of the internal auditors, and
- meeting the Chief Audit Executive at least once a year, without management being present, to discuss their remit and any issues arising from the internal audits carried out. In addition,

the Chief Audit Executive shall be given the right of direct access to the Chairman of the Audit Committee and to the Committee.

- Ensure that a combined-assurance model is applied to provide a coordinated approach to all assurance activities

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

- The Audit Committee must:
 - have oversight of the terms of engagement, including any engagement letter issued at the start of each audit
 - ensure that there are no restrictions or limitations placed on the external auditors
 - review external audit plans, results, scope, materiality, quality and contents of financial information and the action plans of management
 - review the external auditors' findings and observations as presented in the final management letter and the adequacy of management's responses
 - review the subsequent implementation of agreed improvements
 - consider significant disagreements, if any, between the external auditors and management
 - consider material unresolved accounting and auditing problems
 - ensure direct access by the external auditors either to the Audit Committee or the Chairman of the Audit Committee
 - review the summary of unadjusted differences for material or contentious issues, submitted by the external auditors and the action taken thereon (this should be issued to the Committee with the draft annual financial statements)
 - monitor the external auditor's compliance with relevant ethical and professional guidance
 - review the fees and other expenses to be paid to the external auditors at the planning stage of the audit
 - Consider whether the audit firm and, where appropriate, the individual auditor that will be responsible for performing the functions of auditor, are appropriately qualified and accredited

- meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee shall meet the external auditor at least once a year, without management being present, to discuss their remit and any issues arising from the audit, and
- review the findings of the audit with the external auditor. This shall include, but not be limited to, the following:
 - a discussion of any major issues which arose during the audit
 - any accounting and audit judgments, and
 - levels of errors identified during the audit.
- The Committee must also review the effectiveness of the audit by:
 - reviewing any representation letter(s) requested by the external auditor before they are signed by management, and
 - reviewing the management letter and management's response to the external auditor's findings and recommendations.
- The Committee must consider the independence of the external auditors, specifically with regards to the level of non-audit services provided.
- Review a policy for non-audit services provided by the external auditor

5.1.7 Reporting Responsibilities

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

- A summary of the work the committee performed to discharge its responsibilities during the preceding year
- A summary of the progress in addressing the findings and recommendations made in internal and external audit and audit committee reports
- An overall assessment of risks, control and compliance framework, including details of any significant emerging risks or legislative changes impacting
- Details of meetings, including the number of meetings held during the relevant period, and the number of meetings each member attended
- Satisfy itself about the adequacy of key internal controls and that the financial statements are supported by appropriate management sign-off.

5.1.8 Other Responsibilities

Performance Management

- The Committee must review reports from Internal Audit and the Auditor-General in respect of performance management and make recommendations to management.
- The Committee must:
 - Review the quarterly reports on performance management information submitted to it by Internal Audit,
 - Review on a quarterly basis the organisation's performance management systems, focusing on economy, efficiency, effectiveness and impact in so far as the key performance indicators and performance targets set by the Council are concerned,
 - Review the adequacy and effectiveness of the process whereby annual and quarterly performance targets are set, and subsequent performance information are generated, collated, assessed and reported specifically the functionality and integrity of the mechanisms, systems and processes utilised for performance management
 - Assess whether the key performance measures used were adequate and reliable enough in measuring the performance of the department on key or general indicators as determined by the department
 - Review the report from the Senior Performance Officer on performance management and consider this during audit committee meetings.

Guidance and assistance

- The Audit Committee must provide strategic guidance and assistance to the Council and Municipal Manager of the organisation in dealing with the following:
 - Risk management
 - The annual financial statements, including amongst others, a review of significant adjustments proposed and changes made in accounting policies during the year
 - Reports of the external auditors
 - Follow-up action by the management of the organisation on these reports.
- The Committee must:
 - have access to sufficient resources in order to carry out its duties, including access to the organisation's secretariat for assistance as required
 - be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members
 - give due consideration to laws and regulations, the provisions of the King Code and the requirements of the Municipal Finance Management Act and Treasury Regulations, as appropriate
 - be responsible for co-ordination of the internal and external auditors, and
 - oversee any investigation of activities which are within its terms of reference.
- The Audit Committee must also report and make recommendations to the Municipal Manager but the Municipal Manager retains responsibility for implementing such recommendations.
- Satisfy itself that appropriate mechanisms are in place for the portfolio Accounting Officer to be informed of all significant issues within the portfolio that may affect the portfolio responsibilities of the Accounting Officer
- The Audit Committee must advise the municipal council, the political office-bearers, the accounting officer and the management staff of the municipality on matters relating to:
 - Internal financial control and internal audits
 - Risk management

- Accounting policies
 - The adequacy, reliability and accuracy of financial reporting and information
 - Performance management
 - Effective governance
 - Compliance with the Municipal Finance Management Act, the annual Division of Revenue Act and any other applicable legislation
 - Performance evaluation and
 - Any other issues referred to it by the municipality.
- The Audit Committee must respond to the Council on any issues raised by the Auditor-General in the audit report
 - The Audit Committee may request such investigations into the financial affairs of the municipality as it deems necessary (e.g. to respond to concerns of Council)
 - The Audit Committee must perform such other functions as may be prescribed by Council.

6 Combined assurance

The committee will ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities, and in particular the audit committee should:

- Ensure that the combined assurance received is appropriate to address all the significant risks facing the municipality
- Monitor and manage healthy relationships between the internal, external assurance providers and the municipality

7 Governance

- Periodically review governance arrangements or elements of the arrangements as determined by the Accounting Officer and suggest improvements, where appropriate, to the Accounting Officer.

8 Review and approval

This charter has been approved by the members of the audit committee and adopted by the Council. The charter may be reviewed and amendments proposed from time to time.

Chairperson – Audit Committee

Municipal Mayor