



EMADLANGENI LOCAL MUNICIPALITY

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AUDIT COMMITTEE CHARTER

2017-2018

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CHARTER AND TERMS OF REFERENCE

1. PURPOSE

The purpose of this charter is to:

- 1.1 provide guideline framework on the organisation, functioning and the position of the audit committee ('the Committee') within the municipality structures.
- 1.2 define the scope, activities, purpose, statement of policy, authority, terms of reference, disclosure & removal of audit committee members from office
- 1.3 create common understanding of between the Municipal Council ('the Council') Political Leadership and Management and the Audit Committee members.
- 1.4 Serve as a reference in case of disagreements and disputes arising between Council Political Leadership and Management and the Audit Committee members on matters relating to the functions, powers and authority of the Audit Committee.

2. ORGANISATION

2.1 Constitution of the Audit Committee

- 2.1.1 A committee established by Emadlangeni Local Municipal Council ('ELMC') and, reporting to the Council in terms of Section 166 of the Municipal Finance Management Act, Act 56 of 2003 ('MFMA') read with Clause 14 of the Local Government: Municipal Planning and Performance Management Regulations of 2001 (LGMPR), promulgated in terms of Section 120 of the Local Government:

Municipal Systems Act, 32 of 2000 (as amended) (LGMSA) is appointed to meet the statutory responsibilities outlined in the MFMA, LGMPR & LGMSA.

2.1.2 The Council of Emadlangeni Local Municipality took a resolution to consolidate the Performance Audit Committee established in terms of the LGMPR with Audit Committee established in terms of the MFMA into a single Audit Committee in terms of Regulation 14 (2) (c) of the LGMPR. This committee shall be known as the Emadlangeni Local Municipality Audit Committee (ELMAC).

2.1.3 The ELMAC shall be an independent advisory body which shall

2.1.3.1 advise the Municipal Council, the political office-bearers, the accounting officer and management 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 MFMA, 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

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- 2.1.3.2 Review financial statements and annual performance report;
- 2.1.3.3 Respond to the Council on any issues raised by the Auditor-General in the audit report;
- 2.1.3.4 Carry out investigations into the financial affairs of the municipality;
- 2.1.3.5 Review the quarterly reports submitted to it in terms of Regulation (1) (c) (ii) of LGMPR;
- 2.1.3.6 Review the municipality's performance management system and make recommendations in this regard to the council of the municipality;
- 2.1.3.7 In reviewing the municipality's performance management system in terms of paragraph 2.1.3.6 above, the Audit Committee must focus on economy, efficiency, effectiveness and impact in so far as the key performance indicators and performance targets set by the municipality are concerned
- 2.1.3.8 At least twice during a financial year submit an audit committee report to the municipal council;

2.2 Composition of the Audit Committee

- 2.2.1 The ELMAC shall consist of at least three and no more than four members, appointed by the Council. The members shall appoint Chairperson amongst.
- 2.2.2 The Council shall appoint appropriately qualified, fit, and proper persons to serve as members of the ELMC.
- 2.2.3 The majority of the members must be independent of management and free from any relationship with the Emadlangeni Local

Municipality that would interfere with the exercise of independent judgment as an Audit Committee member.

- 2.2.4 Each committee member shall be both independent and financially literate. At least one member shall have expertise in financial matters. The Council shall also appoint a person with expertise in performance management. In the absence of the chairperson of the Audit Committee from a specific meeting, the members present shall elect a chairperson from members present to act as chairperson for that meeting.
- 2.2.5 The members of the committee shall serve the Audit Committee for a period to be decided by the Council but the Council must strive for continuity when appointing the audit committee members.
- 2.2.6 The Chairperson of the Audit Committee and/or Audit Committee is empowered to communicate directly and freely with the Council, Mayor, Municipal Manager or the Head of Internal Audit; and Auditor-General or to any official of the municipality.
- 2.2.7 A representative of the Office of Auditor-General shall be invited to attend meetings with an observer status as well to table audit reports on all its activities at the municipality.
- 2.2.8 The head of internal audit or alternative service provider appointed as an internal auditor for the municipality if the function has been outsourced shall also attend all meetings.

2.2.9 The Municipal Manager shall be a standing invitee to the audit committee meetings.

2.2.10 The Audit Committee must invite Heads of Department/Directors or any other officials to appear in person before the committee to provide pertinent information, reports, clarity on issues or answer questions, as it deems necessary.

2.3 Induction of members

A formal process of induction must be facilitated by the Chief Internal Auditor in consultation with the Accounting Officer. During the induction of members, the roles and responsibilities of the Audit Committee must be clarified. The induction process should entail sufficient briefings and information on their roles, responsibilities, accountability and management's expectations.

2.4 Remuneration of Members

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

2.5 Internal Audit to the Audit Committee

2.5.1 A Internal Audit services shall be provided by the Internal Audit to the committee to prepare in consultation with the Chairperson of the Audit Committee the agenda and distribute it, audit committee packs, mechanically record deliberations in all its meetings; liaise with audit committee members, external auditors, internal auditors, management and undertake any further administrative work of the committee.

- 2.5.2 The Internal Audit shall co-ordinate agenda items from the members of the audit committee, internal auditors, external auditors and the municipal manager. This activity shall take place at least fourteen (14) calendar days before the ensuing audit committee meeting.
- 2.5.3 The agenda shall be included on the Audit Committee pack and distributed to all stakeholders seven calendar (7) days before the ensuing audit committee meeting.
- 2.5.4 The Internal Audit shall mechanically record and also document all the proceedings of the audit committee meetings and keep the tapes for a period of at least five years before they can be destroyed or erased, or as determined by the archives legislation.
- 2.5.5 The Internal Audit shall ensure that draft minutes are verified by the Chairperson of the committee and circulate the minutes of the Audit Committee meetings to all members within two weeks (14 days) of the Audit Committee meeting.
- 2.5.6 Minutes must be kept of all meetings of the Audit Committee, all the resolutions, conclusions and opinions of the committee must be included therein. The Internal Audit shall keep a register of all resolutions of the Audit Committee in a separate document which shall be devised by the Audit Committee.

2.5.7 The Internal Audit shall keep all audit committee matters strictly confidential and shall not disclose any matters to any official and member of the public.

3. STATEMENT OF POLICY

The audit committee shall:

- 3.1 Endeavour to adopt good Corporate Governance in its discharge of its duties and responsibilities as a best practice.
- 3.2 Assist the Council in the evaluation of the adequacy, effectiveness and efficiency of the internal control systems, accounting practices, information systems, policies, performance management policy, practices and systems, risk management, governance and all auditing processes applied in the day to day management of Emadlangeni Local Municipality.
- 3.3 Evaluate the systems of internal control, risk management and governance processes that are aimed at ensuring that the municipality:
 - Safeguard the assets and its control;
 - Achieve on its statutory mandate;
 - Produce reliable and relevant financial and operational information;
 - Comply with laws, regulations, policies and set procedures;
 - Has Organisational Performance Management systems that are efficient, effective and economical and that service delivery is achieved; and

- Conduct their operations in the most effective and efficient manner.
- 3.4 Forum for communication between the MPAC chair, management, internal auditors, Cogta, KZN treasury and the Office of the Auditor-General.
- 3.5 Introduce such measures as in the committee's opinion may serve to enhance the reliability, integrity and objectivity of financial statements, performance information, systems, policies, practices, operations, and financial administration and management affairs of the Municipality.

4. FREQUENCY OF MEETINGS

The committee shall meet at least four times a year, with authority to convene additional meetings, as circumstances require. The Audit Committee have its sittings in each quarter. In its meetings the Audit Committee shall meet to discuss performance management matters as prescribed in Regulation 14 of the LGMPR. All committee members are expected to attend each meeting, in person. If a member does not attend three consecutive meetings the member shall be reported to the council to decide on his association with the Municipality. In the event that members present do not constitute a quorum which must be 50 plus 1, a minimum of two members present shall proceed with the meeting and the minutes of such a meeting shall be rectified in the next meeting by 50 plus 1 members. Whenever a quorum of two members cannot be

achieved, the Chairperson must adjourn the meeting for up to fourteen days.

5. AUTHORITY OF THE AUDIT COMMITTEE

- 5.1 The committee is authorised by Council to investigate any activity within its terms of reference. It has, *inter alia*, the authority to interview councillors, other members of executive management, advisors and consultants and other employees of the municipality and to deal directly with the internal auditors and the Auditor-General and to investigate matters requiring further action. Furthermore, it shall have unrestricted access to records and information and be able to peruse appropriate resources.
- 5.2 The committee is authorised by Council to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.
- 5.3 The committee is to act in a review and advisory function to the Council.

6. REPORTING AND ACCOUNTABILITY BY THE AUDIT COMMITTEE

The Audit Committee shall draft and adopt an Audit Committee Report which shall be presented to Council by the Chairperson of the Audit Committee quarterly, summarizing the activities, recommendations and decisions of the Audit Committee during the financial year under review.

The Audit Committee shall draft and adopt an Audit Committee Report which shall be presented to Council by the Chairperson of the Audit Committee the as when it deemed necessary. The committee must also:-

- 6.1 report on the effectiveness of internal control in the annual report of the Municipality; and
- 6.2 comments on its evaluation of the financial statements in the annual report.
- 6.3 Should a report from internal audit (or any other source) to the audit committee implicate any member(s) of the Municipal Council, the Political Office Bearers, the Municipal Manager and the Management staff of the Municipality in fraud, corruption or gross negligence, the chairperson of the audit committee must promptly report this to the Mayor.
- 6.4 The Municipal Council shall develop a performance management tool to evaluate the Audit Committee's performance on annual basis. The Council shall bring to the attention of the Audit Committee the tool developed for that purpose for comments before it is implemented. The Council shall be responsible for evaluation of the Audit Committee's performance.

7. TERMS OF REFERENCE

In carrying out its duties and responsibilities, the audit committee shall include the review of items highlighted by internal auditors and the Auditor-General in order to provide the necessary assistance to the Council.

The functional responsibility in these matters rest with the Council

7.1 General Duties and Responsibilities of the Audit Committee

The Audit Committee shall amongst other things be responsible for the following:

- 7.1 review its charter and update it with any changes that may be necessary taking into account changes in legislation, Policies and Procedures of the Municipalities, Directives from National Treasury, King Report on Corporative Governance and best practice and make recommendations to the Municipal Council for consideration and approval before adoption by the Audit Committee;
- 7.2 review and update Internal Audit Charter with any changes that may be necessary taking into account changes in legislation, Policies and Procedures of the Municipalities, Directives from National Treasury, King Report on Corporative Governance and best practice and approve it;
- 7.3 review internal audit approach and methodology to ensure its alignment to internal audit charter and internal audit standards;
- 7.4 review the approach, methodology and procedures adopted by Internal Audit Activity, Municipal Manager and his management staff for identifying and assessing inherent risks and residual risks as well as identification and evaluation of design of controls;
- 7.5 evaluate and comment on the audit approach adopted by Internal Audit Activity for auditing policies and procedures relating to risk management, governance and systems of internal control;

- 7.6 review and approve the three year rolling audit plan and annual audit plan or internal audit program for each financial year prepared by internal auditors;
- 7.7 evaluate the overall efficiency and effectiveness of the internal audit function through regular meetings;
- 7.8 determine that no management restrictions are being placed upon either the internal auditors or the Auditor-General;
- 7.9 evaluate the adequacy and effectiveness of the Municipality's administrative, operating, and accounting policies through active communication with operating management and internal audit;
- 7.10 evaluate the adequacy of the municipality's accounting control system by reviewing written reports from the Auditor-General, after having been tabled at the Council meetings and monitor management's responses and actions to correct any noted deficiencies;
- 7.11 review and comment on the overall strategic audit plan, of the Auditor-General, for the audit of the Municipality;
- 7.12 hold regular meetings with Auditor-General and Municipal Manager and his management staff to discuss weaknesses and matters of concerns identified by Auditor-General in the management letter, audit report and management responses and action plan;
- 7.13 review the monthly management reports including Section 71 Monthly Budget Statements, Quarterly Financial Performance Reports, Section 72 Mid-year Budget and Performance Assessment, Annual Report and Oversight Report;

- 7.14 review any regulatory reports submitted or requested by the National Department of Cooperative Governance and Traditional Affairs, Provincial Department of Cooperative Governance and Traditional Affairs, KwaZulu-Natal Provincial Treasury and National Treasury and monitor management's response to them;
- 7.15 upon reasonable notice, request any Municipal Manager and his Senior Management staff to attend a meeting to explain any matter relating to any audit undertaken;
- 7.16 direct the Municipal Manager to provide status reports detailing progress made in the implementation of the Audit Committee's resolutions;
- 7.17 evaluate the municipalities' exposure to fraud;
- 7.18 consider reports from the Accounting Officer on legal issues;
- 7.19 take an active interest in ethical considerations regarding the Council's policies and practices;
- 7.20 monitor the standard of corporate conduct in areas such as arm's-length dealings and likely conflicts of interest;
- 7.21 require reports from management and the internal auditors on any significant proposed regulatory, accounting or reporting issue, and assess the potential impact upon the municipalities' financial reporting process;
- 7.22 review and comment on all significant accounting policy changes;

- 7.23 identify and direct any special projects or investigations deemed necessary;
- 7.24 prepare a report to the Council summarising work performed by the audit committee to fully discharge its duties during the year;
- 7.25 receive reports on all material fraud and irregularities and ensure that adequate/appropriate action has been taken to prevent recurrence thereof;
- 7.26 prepare reports on quarterly basis to the Oversight Committee/Executive Committee/Council in respect of all the committee's activities undertaken during each quarter;
- 7.27 provide the Municipal Manager reports related committee findings and recommendations or resolutions from a meeting, within two (2) weeks of that meeting;
- 7.28 review and recommend Audit Committee Charter to Council for ratification.

7.2 Duties in Relation to Performance Management

In carrying out its duties and responsibilities in relation to Performance Management as required by Local Government: Municipal Planning and Performance Management Regulations of 200, promulgated in terms of S120 of the Local Government: Municipal Systems Act, 32 of 2000 (as amended), the audit committee shall

- 7.2.1 Review mechanisms, systems and processes for the monitoring, measurement and review of performance in respect of the key

- performance and indicators and performance targets that have been developed and implemented by the municipality;
- 7.2.2 ensure that its reviews focus on the economy, efficiency, effectiveness and impact in so as the key performance indicators and performance targets set out by the municipality;
- 7.2.3 ensure that the mechanisms, systems and process for the monitoring of performance are designed in a manner that enables the municipality to detect early indications of under-performance and that there is a provision for corrective measures;
- 7.2.4 ensure that the mechanisms, systems and processes for auditing of performance measurements have been development; implemented and are effective and part of the internal auditing process;
- 7.2.5 review the quarterly reports submitted to it in terms of Local Government Municipal Planning and Performance Regulation of 200;
- 7.2.6 provide for reporting to the municipal council one a quarter.
- 7.2.7 Participate in the performance assessment for section 54 and 56 Managers.

7.3 Topics for discussion

Refer to the Audit Committee Work Plan.

7.3.1 Combined assurance

The Audit Committee should confirm whether an effective, combined assurance model is applied to provide a coordinated approach to all assurance activities, and in particular the Committee should:

- 7.3.1.1 Review whether the combined assurance received is appropriate to address all the significant risks facing the municipality; and
- 7.3.1.2 Monitor the relationship between the external assurance providers and the municipality.

8. DISCLOSURE OF INTEREST BY AUDIT COMMITTEE MEMBERS

- 8.1 Every member, appointed or co-opted, involved in the ELMC meetings, deliberation and resolutions, is obliged to declare in writing any conflict of interest at the date of appointment as well verbally in each and every meeting which shall be recorded in the minutes in all meetings.
- 8.2 Every member of the ELMC is responsible for representing the interests of the ELMC and the Emadlangeni Local Municipality.
- 8.3 A member of the ELMC may not -
 - 8.3.1 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;
 - 8.3.2 act in a manner that is inconsistent with his or her membership and the role of the ELMC ;
 - 8.3.3 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;
 - 8.3.4 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 ELMC to enrich himself or herself or improperly benefit any other person or entity; and

8.3.5 act in a manner that may compromise the credibility, workings and integrity of the ELMC and that of the Emadlangeni Local Municipality.

9. Effectiveness of the Audit Committee

9.1 In order for the 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:

- Its activities meet the Municipality's needs; and
- Changes in the environment in which the Municipality operate are taken into account on timely basis.

9.2 Members of the Committee should also assess themselves bi-annually using the designed audit committee assessment questionnaire.

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

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

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

10. REMOVAL FROM OFFICE OF THE AUDIT COMMITTEE MEMBERS

10.1 The Council may remove a member of the ELMC from office if the member -

- (i) fails to attend three consecutive meetings without reasonable justification;
- (ii) becomes incapacitated; or
- (iii) contravenes any provision of the MFMA; or

10.2 The Council must remove a member of the ELMC from office if the member -

- (i) is convicted of an offence involving dishonesty, including but not limited to offences such as theft, fraud, forgery, perjury or an offence under the Prevention and Combating of Corrupt Activities Act, 2004(Act No. 12 of 2004); or
- (ii) is convicted of an offence and sentenced to imprisonment without the option of a fine.

Approved by the Council

Date:

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Signature of the Speaker:

Adopted by the Audit Committee

Date:

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Signature of the Chairperson of the Audit Committee: