



# AUDIT COMMITTEE CHARTER



**GREAT KEI  
LOCAL MUNICIPALITY  
2014/2015**

## TABLE OF CONTENTS

NO	CONTENT	PAGE
1	INTRODUCTION	01-01
2	PURPOSE AND OBJECTIVE	01-01
3	LEGISLATION MANDATE	01-01
4	AUTHORITY	01-02
5	STRUCTURE OF AUDIT COMMITTEE	02-04
5.1	COMPOSITION OF THE AUDIT COMMITTEE	02-02
5.2	APPOINTMENT , MEMBERSHIP, INDEPENDENCE AND PERFORMANCE ASSESSMENT	02-02
5.3	MEMERSHIP AND INDEPENDENCE	03-03
5.4	INDUCTION OF AUDIT COMMITTEE MEMBER/S	03-03
5.5	PERFORMANCE ASSESSMENT	04-04
5.6	REPORTING	04-04
6.	ROLES AND RESPONSIBILITIES	04-07
6.1	INTERNAL AUDIT	04-05
6.2	EXTERNAL AUDIT	05-05
6.3	ANNUAL FINANCIAL STATEMENTS	05-06
6.4	RISK MANAGEMENT	06-06
6.5	INTERNAL CONTROL ENVIRONMENT	06-06
6.6	PERFORMANCE MANAGEMENT	07-07
6.7	INFORMATION TECHNOLOGY GOVERNANCE	07-07
6.8	RELATIONSHIP WITH STAKEHOLDERS	07-07
6.9	COMPLIANCE WITH LAW,S, REGULATIONS, ETHICS, POLICIES AND PROCEDURES	07-07
7.	MEETINGS	08-08
7.1	NOTICE OF MEETINGS	08-08
7.2	AGENDA OF MEETINGS	08-08
7.3	MINUTES OF MEETINGS	08-08-
8	REMUNERATION	08-08
9	PERIOD OF REVIEW	08-09

# GREAT KEI MUNICIPALITY

## AUDIT COMMITTEE CHARTER



### 1. INTRODUCTION

Management is required to continuously review current trends and best practice in relation to corporate governance. As part of Great Kei Municipality (GKM) management's plans to fulfill its obligations to demonstrate greater accountability and ensure a higher quality of services, an audit committee must be established.

An Audit Committee (AC) Charter must be drafted and approved to set out the specific responsibility delegated by Council to the committee and details the manner in which the committee will operate.

### 2. PURPOSE AND OBJECTIVE

The charter sets out the membership, authority, responsibility and status of the AC within the GKM. The AC of the municipality is expected to perform its activities in line with this charter and the charter shall be reviewed at least annually to ensure relevance.

The Audit Committee assists Council in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process and the Municipality's process for monitoring compliance with laws and regulations and the code of conduct.

### 3. LEGISLATION MANDATE

In terms of Section 166 of the Municipal Finance Management Act, 56 of 2003, "each Municipality must have an Audit Committee". This act regulates the functions of the audit committee with respect to composition and frequency of meetings, as it seeks to provide minimum requirements to be complied with

The Audit Committee operates as a statutory committee of the Great Kei Municipality (GKM) Council. The Audit Committee performs the responsibilities assigned to it by the MFMA (section 166) and Circular 65, and the corporate governance responsibilities delegated to it under its charter, approved and adopted by Council

The Code of Corporate Practices and Conduct published in the King II I Report on Corporate Governance 2011 requires management to publicly confirm that they have reviewed the effectiveness of the internal control of their organisation. The implementation of control and information systems is essential to the effective discharge of the management's responsibilities.

### 4. AUTHORITY

The Audit Committee is hereby authorised to conduct or authorise investigations into any matter within the scope of its responsibility.

The GKM Council authorises the Audit Committee to fulfill the responsibilities as set out in this charter. In doing so, the Audit Committee is authorised to:

- have full and free unrestricted access to all the activities, records, property and staff of the Municipality. All municipal employees are directed to co-operate with any request made by the Audit Committee;
- seek any information it requires from external parties, obtain outside legal or other independent professional advice and to secure the attendance of any person with relevant experience and expertise if it considers this necessary. Any such appointments shall be made subject to normal tender and procurement procedures;

# GREAT KEI MUNICIPALITY

## AUDIT COMMITTEE CHARTER



request or invite any relevant person to appear/ attend any of its meetings, and, if necessary, to provide information requested by the committee;

- conduct investigations into the financial affairs of the municipality as may be requested by the council of the municipality;
- resolve any disagreements between management and the auditor regarding financial reporting; and
- pre-approve all auditing and non-audit services.

The Municipal Public Accounts Committee (MPAC), in discharging its responsibilities, may make use of any information provided by the Audit Committee to avoid duplication of effort.

### **5. STRUCTURE OF THE AUDIT COMMITTEE**

#### **5.1 COMPOSITION OF THE AUDIT COMMITTEE**

The Audit Committee will comprise of not less than three and not more than five members. Members of the Audit Committee will serve on the committee in their individual capacity.

#### **5.2 APPOINTMENT, MEMBERSHIP, INDEPENDENCE AND PERFORMANCE ASSESSMENT**

Section 166(5) of the MFMA requires that the members of the audit committee be appointed by the municipal council. One of the members, who are not in the employ of the municipality, must be appointed as the chairperson of the committee. The appointed members will be required to enter into a contract with the GKM Municipality. No councillor or GKM Municipal official may be a member of the audit committee. The following factors should be considered when selecting the chairperson of the Audit Committee – that the person:

- has good standing and ability to lead discussions;
- creates vision and provides direction at meetings;
- builds municipal capabilities by guiding management based on expert knowledge and skills;
- promotes and achieve quality outcomes at meetings;
- has the ability to effectively advise council of any impending non-compliance within the legislative framework;
- conducts meetings in a manner that demonstrates a desire to establish effective communication with all stakeholders.

In determining suitable candidates to serve on the Audit Committee and maintaining a balanced composition, members will be selected from different areas of expertise. The municipal council should seek to appoint candidates who have the ability to:

- perform the roles as advisors to management;
- communicate effectively with management;
- carefully review information received and obtain clarification from management as and when appropriate, and follow up on any matter that is unclear;
- conduct responsibilities in the context of the municipality's strategic objectives and overall corporate governance of the council;
- act independently and be proactive in advising the accounting officer regarding issues that require management attention;
- build relations with management;
- have a professional approach to performing duties, including commitment of time and effort, and that;
- each committee member must be independent and appropriately

# GREAT KEI MUNICIPALITY

## AUDIT COMMITTEE CHARTER



Collectively, the appointed Audit Committee members should possess the following skills and experience:

- private and public sector experience;
- an understanding of service delivery priorities;
- good governance and/or financial management experience;
- an understanding of the role of council and councillors;
- an understanding of the operations of the municipality;
- familiarity with risk management practices;
- an understanding of internal controls;
- an understanding of major accounting practices and public sector reporting requirements;
- an understanding of public sector reforms;
- familiarity with legislation applicable to municipalities;
- an understanding of the roles and responsibilities of the internal and external auditors;
- an understanding of the treatment of allegations and investigations; and
- an understanding of the performance management system

The members shall serve on the committee for a period of three (3) years renewable to a maximum of three (3) years but limited to two terms.

AC services of the members who do not attend two consecutive meetings without valid reasons will be dismissed and the council will be required to appoint an alternative . The official dismissal processes as they relate to the municipality should be adhered to by the Accounting officer and Municipal Council when an audit committee member is being dismissed . The dismissal of a member should be performed by the Municipal Council and the outcome of the dismissal process should be in writing

### 5.3 MEMBERSHIP AND INDEPENDENCE

In order to be effective, the Audit Committee will be independent and safeguarded from any undue influence in exercising its responsibilities in an objective manner. To enhance the Audit Committee functioning, the following will be required:

- the Audit Committee chairperson and members must be independent of the municipality;
- the Audit Committee chairperson and members should not be biased but exhibit an independence of mental attitude during deliberations;
- all Audit Committee members must declare private and business interest in every meeting; and
- all members should not carry out any business with the municipality.

### 5.4 INDUCTION OF AUDIT COMMITTEE MEMBER /S

A formal process of induction must be facilitated by the Chief Audit Executive in consultation with the Accounting Officer. During the induction of Audit Committee members, the roles and responsibilities of the Audit Committee must be clarified. The induction processes should entail sufficient briefings and information on their roles, responsibilities, accountability and management expectations. New member/s should meet and be briefed by the Accounting Officer, Chief Financial Officer, existing Chairperson or member/s of the Audit Committee and the Head of Internal Audit. New members should also be introduced to external auditors.

The information to be provided to new members should include:

- the municipality's governance and operational structures and how the Audit Committee operates within this structure;
- a copy of the Audit Committee's Charter including any policies, recent Audit Committee minutes, Audit management letter, audit opinion, including details of outstanding issues, council resolutions and recommendations presented to the municipal council;
- copies of the relevant legislation;
- copies of the latest municipality's annual report, annual financial statements, integrated development plan, budget, service delivery and budget implementation plans, in-year reports, code of conduct, performance agreements, risk register and risk management plans;
- information from management and internal audit on the risk profile, status of internal controls and system of delegation; and a copy of the Internal Audit Charter and annual work plans.

# GREAT KEI MUNICIPALITY

## AUDIT COMMITTEE CHARTER



### 5.5 PERFORMANCE ASSESSMENT

The Audit Committee should assess its performance and achievements against its charter on an annual basis. The assessment must cover the performance of the individual member as part of the overall Audit Committee with reference to the particular skills the member has brought to the Audit Committee as a whole.

The aim of the self-assessment is to ensure that the Audit Committee is meeting its objectives efficiently and effectively. The findings of the self-assessment should be presented by the chairperson to the Accounting Officer and GKM Council.

Where the self-assessment highlights a need for enhancements to the role, operational processes, or membership of the committee, the chairperson should take action to ensure that such enhancements are implemented. The chairperson may need to consult with the accounting officer and municipal council to obtain appropriate support to ensure all enhancements are implemented.

Where the Audit Committee is not performing in accordance with the Audit Committee Charter and this has been observed by various stakeholders for example, external audit, internal audit or management, this or other issues will need to be brought to the attention of the accounting officer and municipal council.

If an individual Audit Committee member is not performing, then the member must be given an opportunity to address such with the municipal council. If it is considered necessary to terminate the service of an Audit Committee member prior to the end of the term of appointment, proper procedures should be followed.

### 5.6 REPORTING

The chairperson of the Audit Committee will report quarterly to the GKM Council on the operations of Audit Committee . The reporting should include a summary of the work performed by Internal Audit and the Audit Committee against the annual work plan, issues, and related recommendations. Other reporting responsibilities include:

- report to the GKM Council about the Audit Committee's activities, issues and related recommendations when deemed appropriate;
- provide an open avenue of communication between Internal Audit, the external auditors, and the GKM Council;
- review any other reports and issues related to the Audit Committee responsibilities;
- report annually in the Annual Report, describing the committee's composition, the effectiveness of internal controls, comment on its evaluation of the annual financial statements and confirming that all responsibilities outlined in this charter have been carried out.

The Audit Committee may forward specific Audit Committee meeting minutes and reports to the Municipal Council.

Auditor-General and to the Executive Mayor and where appropriate the Audit Committee may also report to higher authorities

## 6. ROLES AND RESPONSIBILITIES

### 6.1 INTERNAL AUDIT

The Audit Committee shall concur with the appointment, replacement and/or dismissal, of the head of the Internal Audit unit. In the event of replacement, dismissal, resignation or early retirement of the head of the Internal Audit unit, the full detail of the circumstances surrounding the action must be revealed to the Audit Committee.

The Audit Committee shall ensure that the Internal Audit Unit perform their responsibilities effectively and efficiently by:

- reviewing and approving the Internal Audit Charter;
- reviewing the organizational structure, competence and qualifications of the Internal Audit Unit;

# GREAT KEI MUNICIPALITY

## AUDIT COMMITTEE CHARTER



- reviewing the plans and budgets of the Internal Audit Unit. Ensuring that the plan addresses the high risk areas and that adequate resources are available;
- reviewing the audit results and action plans of management;
- evaluating the performance and effectiveness of Internal Audit;
- requesting specific audit projects where necessary;
- reviewing results of quality assessment reviews;
- meeting separately with Internal Audit to discuss matters that the Audit Committee believe should be discussed privately;
- reviewing management requests for extra work to be carried out by Internal Audit in particular areas of accounting and control systems;
- ensuring that Internal Audit's work is co-ordinated with that of External audit;
- ensuring that internal auditors are independent and objective and that there are no restrictions or limitations placed on the internal auditors; and
- ensure that there is support for the Internal Audit unit and external auditors from senior management.

### 6.2 EXTERNAL AUDIT

The Audit Committee shall also-

- ensure that there are no restrictions or limitations placed on the external auditors;
- review the external auditors' proposed audit scope and approach, including coordination with internal audit;
- review audit results, quality and contents of the financial information and action plans of management;
- consider significant disagreements between external auditors and management;
- consider material unsolved accounting and auditing problems;
- ensure direct access by the external auditors to the Audit Committee and as appropriate;
- review the performance of the external auditors;
- meet separately with the external auditors to discuss matters that the Committee or the auditors believe should be discussed privately;
- identify key matters arising in the current year's management letter and satisfy themselves that they (matters) are being addressed properly;
- review interim reports issued in order to take cognizance of the issues raised in determining the follow up work of the Internal Audit;
- conduct a review of the extent to which previously reported findings by the external auditors have been addressed by the municipal council;
- provide advice to the accounting officer on actions taken relating to significant matters raised in external audit reports; and
- address outstanding matters raised by the external auditors and ensure that findings are dealt with conclusively in an expeditious manner.

### 6.3 ANNUAL FINANCIAL STATEMENTS

The Municipality's annual financial statements (including relevant information and lead schedules) should be reviewed by the Audit Committee at least two weeks before submission to the Auditor General. The process and timelines for the Audit Committee meetings should be changed accordingly.

The Audit Committee must review the annual financial statements to provide the GKM with an authoritative and credible view of the financial position of the municipality. Specifically with regards to Annual Financial Statements, the Audit Committee should:

- review and challenge where necessary –
- arithmetical accuracy and consistency;
- consistency of, and any changes to, accounting policies, comparing to prior years;
- methods used to account for significant or unusual transactions where different approaches are possible;
- whether the Municipality has followed appropriate accounting standards and made appropriate estimates and judgments, taking into account previous audit outcomes;

# GREAT KEI MUNICIPALITY

## AUDIT COMMITTEE CHARTER



- the quality of disclosure in the Municipality's financial reports and the context in which statements are made;
- all material information presented with the financial statements, such as the operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management);
- all material issues prior reports by the AGSA have been appropriately accounted for, resulting in fair presentation; and
- conduct analysis of trends and other financial ratio calculations e.g. year on year comparisons and composition of primary group e.g. salaries as a component of operations, whether operations are undertaken on a sustainable basis, operations at surplus or deficit, efficient and solvency ratios, etc.

### 6.4 RISK MANAGEMENT

Risk management is an essential part of effective corporate governance and whilst it is a management responsibility, management expects the Audit Committee to oversee and provide advice on matters relating risk management.

The Audit Committee should understand and consider the major risk areas including the financial, legal and fiscal risks and the internal control environment. The Audit Committee should monitor the control process and the adequacy of the system of internal control by viewing internal and external audit reports and should:

- be constantly aware of the current high risk areas and ensure management is effectively managing those risks;
- satisfy itself with regards to the integrity and prudence of management control systems, including the review of policies and/or practices (procedures);
- ensure that the Municipal Council and management are aware of matters that came to the Audit Committee's attention that might have a significant impact on the financial condition or affairs of the municipality;
- monitor risks and ensure that appropriate controls are in place, to accomplish the objectives set out in the mission statement, municipal strategic plan and any other transformation processes;
- communicate with internal and external auditors any fraudulent activities, suspected fraud or fraud investigation being conducted which they are aware of;
- discuss with the internal and external auditors any concerns about the nature, extent and frequency of management assessment of the accounting and control systems in place, to prevent and detect fraud;
- notify the Municipal Council when the accounting officer has been implicated in fraud, corruption or gross negligence, and
- review the controls designed to ensure that municipal assets are safeguarded.

### 6.5 INTERNAL CONTROL ENVIRONMENT

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

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



## **6.6 PERFORMANCE MANAGEMENT**

Part of the responsibilities of the Audit Committee includes the review of the performance management. The municipality must review performance of the Audit Committees for effective management, oversight, and reporting, as envisaged by section 166 of the MFMA. The Audit Committee members need to have a good understanding of the performance of the municipality. These include:

- review and comment on compliance with statutory requirements and performance management best practices and standards, and the municipality's performance management policy;
- review and comment on the alignment of the Integrated Development Plan (IDP), the Budget, Service Delivery and Budget Implementation Plan (SDBIP) and performance agreements;
- review and comment on relevance of indicators to ensure they are measurable and relate to services performed by the municipality;
- review compliance with in-year reporting requirements;
- review the quarterly performance reports submitted by Internal Audit;
- review and comment on the municipality's annual reports within the stipulated timeframes; and
- review and comment on the municipality's performance management make recommendations for its improvement

## **6.7 INFORMATION TECHNOLOGY (IT) GOVERNANCE**

The Audit Committee needs to provide advice on IT governance, controls, access and safeguarding of information in the municipality. Specific expertise may be required from within or outside the municipality from time to time, to assist the Internal Audit unit and Audit Committee to formulate recommendations on systems and controls. The Audit

Committee may have to provide advice on the appropriateness of disaster recovery and continuity plans supporting IT risks, regular testing and evaluation of plans, systems and processes.

## **6.8. RELATIONSHIP WITH STAKEHOLDERS**

The Audit Committee is required to maintain a good relationship with key stakeholders, such as:

- Great Kei Municipal Council
- Municipal Public Accounts Committee
- Finance Committee
- Accounting Officer
- Management and municipal officials
- Internal and External Auditors
- Provincial Treasury
- National Treasury

## **6.9. COMPLIANCE WITH LAWS, REGULATIONS, ETHICS, POLICIES AND PROCEDURES**

The Audit Committee shall ensure that the management of the Municipality has the necessary mechanisms in place to ensure compliance with pertinent laws and regulations and is conducting its affairs ethically. This must include maintaining effective controls against conflicts of interest, fraud and corrupt practices. The specific steps involved in carrying out this responsibility shall include:

- reviewing policy documents which should incorporate compliance with laws,
- regulations, ethics, policies, rules regarding conflict of interest;
- monitoring the compliance with the policy documents; and
- taking note of significant cases of conflict of interest, misconduct, or fraud and the resolution of the cases.

**GREAT KEI MUNICIPALITY  
AUDIT COMMITTEE CHARTER**



**7. MEETINGS**

A minimum of four meetings shall be held during a year. The Audit Committee shall agree on an annual meeting plan that will be prepared by the Chief Audit Executive. Special meetings of the Audit Committee may be convened as required. The chairperson of the Audit Committee may request a special meeting. The Internal or External Auditors may request a meeting if they consider that one is necessary. The Audit Committee may hold a separate meeting with internal and external auditors and executive management sessions as necessary.

**7.1 QUORUM**

The quorum for meetings will be 50 % plus one member.

**7.2 NOTICE OF MEETINGS**

14 days' notice shall be given to all members of the Audit Committee and other interested parties, of each meeting to be held, within a reasonable time prior to the date on which such meeting is to be held .

**7.3 AGENDA OF MEETINGS**

The agenda of the meeting shall be prepared and distributed at least seven (7) days prior to the meeting date. The Agenda shall be prepared under the direction and approval of the Audit Committee. Any person attending the meeting may add items to the agenda two (2) days before the agenda is finalized. Such items should be provided to the Internal Audit unit who will act as the secretariat of the Audit Committee.

**7.4 MINUTES OF MEETINGS**



The proceedings of all meetings will be documented in minutes. The Internal Audit unit shall keep minutes of all meetings and shall include the minutes with the agenda of the next Audit Committee meeting.

**8. REMUNERATION**

Having regard to the functions performed by the members of the Audit Committee and in relation to the activities of the Committee and pursuant to the specific power conferred upon the Municipality, members of the Committee shall be paid such remuneration in respect of their appointment as shall be fixed by the Council.

**9. REVIEW PERIOD**

The Audit Committee Charter will be reviewed, by the Audit Committee, at least on an annual basis and submitted to the GKM Council for approval. The should be published on the municipal website to promote awareness to all stakeholders

<b>ACKNOWLEDGED BY ACCOUNTING OFFICER</b>		<b>DATE</b>	<b>25 Aug 2014</b>
<b>SIGN ON BEHALF OF AUDIT COMMITTEE</b>		<b>DATE</b>	<b>11 Sept 2014</b>
<b>SIGN ON BEHALF OF GKM COUNCIL</b>		<b>DATE</b>	

<b>POLICY SECTION</b>	<b>INTERNAL AUDIT</b>
<b>CURRENT UPDATE</b>	<b>11 SEPT 2014</b>
<b>PREVIOUS REVIEW</b>	<b>15 NOV 2013</b>
<b>APPROVAL BY COUNCIL</b>	