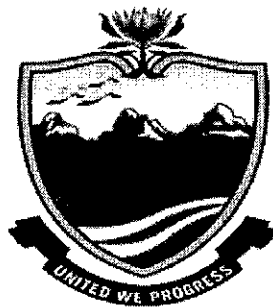


MATATIELE LOCAL MUNICIPALITY

AUDIT COMMITTEE CHARTER



MATATIELE
LOCAL MUNICIPALITY

AUDIT COMMITTEE CHARTER

2017-2018

CR No: 277/29/01/2018

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1 PURPOSE

The purpose of this document is to constitute and regulate the Audit Committee of the Matatiele Local Municipality so as to carry out the following functions:

- 1.1 To assist Council and Management in fulfilling their oversight and management responsibilities for the financial reporting process, the system of internal control over financial reporting, the audit process, performance audit, the municipality's compliance with laws and regulations and the code of conduct.
- 1.2 To perform an oversight function over the functioning of the Municipality in terms of the triple E business management principles, namely, efficiency, economically and effectiveness.
- 1.3 To monitor and enforce compliance with the all internal control measures and performance requirements of the Municipality.
- 1.4 To oversee and monitor the broader performance management systems and processes of the Municipality.
- 1.5 To account to the Executive Committee and Council for execution of its duties in terms of submitting reports and its recommendations.
- 1.6 To hold regular meetings on a regular basis to discharge its responsibilities in terms of its broader mandate and Charter requirements.

2 LEGAL FRAMEWORK AND STATUTORY REQUIREMENT

- 2.1 The Audit Committee as an independent advisory body is established in terms of Section 166 (1) of the Local Government: Municipal Finance Management Act no 53 of 2003, hereinafter referred to as the "MFMA"
- 2.2. The audit committee is also further established in terms of regulation 14(2) of the Local Government: Municipal Planning and Performance Management Regulations, 2001
- 2.3 This Committee is also formed in compliance with requirements of section 45 of the Local Government: Municipal Systems Act, No. 32 of 2000.
- 2.4 The Committee is constituted in terms of the requirements of sound corporate governance values and practices.

3. THE LEGAL MANDATE OF THE AUDIT COMMITTEE

- 3.1 The Committee shall not perform any management functions or assume any management responsibilities.
- 3.2 The Committee shall function as a forum for discussing business risk and control issues for developing relevant recommendations for consideration by the Council.
- 3.3 The Committee shall mainly make recommendations to the Executive Committee and Council for its approval or final decision.

4 MEMBERSHIP OF THE AUDIT COMMITTEE

- 4.1 The Audit Committee shall be comprised of five (5) members.
- 4.2 The members of the Committee shall be external members.
- 4.3 One member of the external members of the Committee shall be a financial expert and one member shall have Legal expertise.
- 4.4 One member of the external members of the Committee shall be versed in performance management matters.
- 4.5 The chairperson of the Committee shall be appointed by the Council
- 4.6 Each external Committee member will be both independent and financially literate as a prerequisite requirement of membership.
- 4.7 The four members of the Committee shall have voting powers in the meetings of the Committee.
- 4.8 Council shall have the power to remove any member who fails to attend three consecutive meetings of the audit committee without reasonable cause
- 4.9 The Chairperson may nominate any member from the external members of the Committee to execute the duties of the chairperson during a leave of absence of the chairperson.
- 4.10 The Council shall have the power at any time to remove any members from the Committee and to fill any vacancies created by such removal.

5 TERM OF OFFICE

- 5.1 To enhance the independence of the Audit Committee, the term of office for members must be strictly be adhered to.
- 5.2 The Chairperson should be appointed for a minimum of three (3) years to ensure that he/she contributes most effectively and provides stability to the Audit Committee.
- 5.3 Members of the Audit Committee should serve at least a minimum of three (3) years with an option to renew for another three (3) years, based on performance.

- 5.4 Recruitment of Members should not be staggered to prevent a loss of knowledge and skills in the committee.
- 5.5 Rotation of members is encouraged as it enhances the independence of the Audit Committee. Members of the Audit Committee should not be contracted continuously for a period exceeding six (6) years.
- 5.6 After serving consecutively for six years, a cooling off period of two (2) years should be provided for, before appointing the same member to the same Audit Committee.

6 PROVISION OF SUPPORT SERVICES TO THE COMMITTEE

- 6.1 The Accounting Officer, Chief Financial Officer, the General Managers and the Manager: Internal Audit shall attend meetings of the Committee in an advisory capacity only.
- 6.2 The Corporate Services Department shall perform the Secretariat function for the Committee.
- 6.3 The agenda for the Audit Committee shall be compiled by the Internal Audit Section in the Office of the Municipal Manager.
- 6.4 The minutes of the Committee meetings shall be recorded, kept and bound by the Secretariat Section within the Corporate Services Department.
- 6.5 The minutes of the Committee shall be archived in terms of the relevant policy of the Municipality.

7 RESPONSIBILITIES OF THE AUDIT COMMITTEE

7.1 PERFORMANCE MANAGEMENT

- 7.1.1 The Committee shall consider matters relating to performance management at least twice per annum in order to discharge the responsibilities prescribed in terms of Regulation 14 (4) of the Local Government: Municipal Planning and Performance Management Regulations, 2001.
- 7.1.2 The Committee shall review the draft report on performance
- 7.1.3 The Committee shall review and scrutinize general performance indicators of the Municipality.
- 7.1.4 The Committee shall review the draft internal audit plan on performance Management System and pertinent processes of the Municipality.
- 7.1.5 Review the draft annual performance report of the municipality compiled in terms of Section 46 of the Municipal Systems Act.

7.2 THESE RESPONSIBILITIES INCLUDE:

- 7.2.1 Review of the quarterly reports submitted by internal audit on performance measurement.
- 7.2.2 Review the performance management system ensuring functionality thereof and Compliance with the Act;
- 7.2.3 Focus on economy, effectiveness, efficiency, reliability and impact applicable to the Municipality's own key performance indicators; and
- 7.2.4 Reporting on the outcomes of its review and focus areas to the Council, at least twice per annum;
- 7.2.5 One member of the Audit Committee to assess the Accounting Officer, Senior Management and Middle Management performance assessments

7.3 STATUTORY RESPONSIBILITIES IN TERMS OF SECTION 166 (2) OF THE MFMA

- 7.3.1 The Committee shall report to council and advise the Municipal Council, the Political Office-bearers, the Accounting Officer, the Management and staff of the Municipality, on matters relating to:
 - a) Internal financial control and internal audits;
 - b) Risk management;
 - c) Accounting policies
 - d) The adequacy, reliability and accuracy of financial reporting and information
 - e) Performance management;
 - f) Effective governance;
 - g) Compliance with the MFMA, the annual Division of Revenue Act and any other applicable legislation;
 - h) Performance evaluation; and
 - i) Any other issues referred to it by the Municipality or Municipal entity
- 7.3.2 Review the annual financial statements to provide the Council of the Municipality with an authoritative and credible view of the financial position of the municipality, its efficiency and effectiveness and its overall level of compliance with the Municipal Finance Management Act (MFMA) the annual Division of Revenue Act and any other applicable legislation.
- 7.3.3 Respond to the Council on any issues raised by the Auditor-General in the audit report; and
- 7.3.4 Carry out such investigations into the financial affairs of the Municipality as the

Council of the Municipality may request.

7.4 MSCOA AND THE AUDIT VALUE CHAIN

Risk management is a key responsibility of management and the accounting officer (municipal manager). It is crucial that the municipality manages its *mSCOA* project risks as part of its normal risk management processes, including assigning clear responsibility for the management of *mSCOA* project risks. Internal auditors assist both management and the audit committee by examining, evaluating and reporting on the adequacy and effectiveness of the municipality's overall and particularly *mSCOA* project risk management process.

Risk management is an essential part of effective *mSCOA* project governance and whilst it is a management responsibility, management can expect the audit committee to oversee and provide advice on the risk management of such a significant reform in the municipality. The audit committee needs to review:

- Whether management has a comprehensive risk management framework guiding the management of *mSCOA* project risks;
- Whether a sound and effective approach has been followed in developing the strategic risk management plan for the *mSCOA* project;
- The impact of the municipality's risk management framework on particularly the control environment of the *mSCOA* project; and
- The municipality's "*mSCOA* project" - fraud prevention plan to be satisfied that the municipality has appropriate processes and systems in place to capture, monitor and effectively investigate any fraudulent activities related to the project.

Management is responsible for ensuring the establishment of effective risk management in the municipality and in this case, also specifically for the *mSCOA* project. The approach followed provides a mechanism of formalising the responsibility and establishing accountability for management activities. For this project, it is crucial that either the established "Risk Committee" function or alternatively, the *mSCOA* steering committee oversee the *mSCOA* project risk management. These committee(s) efforts should identify further actions that may be needed to reduce *mSCOA* project risk to an acceptable level.

National Treasury is in the process of developing an *m*SCOA position paper providing guidance to internal auditors of piloting and non-piloting municipalities on specific areas of importance in the context of a municipality's annual audit plan. The position paper will formally be communicated to all municipalities once it is finalised.

7.5 PROCEDURES FOR MAKING A DISCLOSURE

7.5.1 Initial Step

The individual should make the disclosure to the Designated Person who will normally be the Municipal Manager, who should immediately inform the Council and the Disciplinary Board unless requested not to do so by the discloser.

In cases involving financial malpractice, the Municipal Manager should act throughout in close consultation with the Designated Officer for Matatiele Local Municipality. In the event that the disclosure relates to the Municipal Manager, then the disclosure should be made to the Mayor or where collusion between the Municipal Manager and the Mayor is thought to exist then disclosures should be made to the Designated person of the

Disciplinary Board or the Chair of the Audit Committee (in a personal capacity). If the individual does not wish to raise the matter with either the Municipal Manager or the Designated person, then he or she may raise it with a person or entity as per the Protected Disclosure Act, 2000 (Act 26 of 2000)

7.5.2 Process

The Designated Person will consider the information made available to him or her and decide on the form of investigation to be undertaken. This may be:

- ✓ to investigate the matter internally; and/or
- ✓ to refer the matter to the police; and/or
- ✓ to call for an independent inquiry.

If the decision is that investigation should be conducted by more than one of these means, the Designated Person should satisfy him or herself that such a course of action is warranted. Where the matter is to be the subject of an internal inquiry, the Designated Person will then consider how to conclude whether there is a prima facie case to answer. This consideration will include determining:

- ✓ who should undertake the investigation;
- ✓ the procedure to be followed; and
- ✓ the scope of the concluding report.

7.5.3 Investigation

Normally an independent officer of Matatiele Local Municipality will undertake this investigation and will report his or her findings to the Designated Person. Investigations should not be carried out by the person who will have to reach a decision on the matter. Any investigation will be conducted as sensitively and speedily as possible. As a result of this investigation, other internal procedures may be invoked, including:

- ✓ disciplinary;
- ✓ grievance; and
- ✓ harassment;

or it might form the basis of a special investigation.

In some instances, it might be necessary to refer the matter to an external authority for further investigation as provided for in the Regulations.

7.5.4 Feedback

The Designated Person will inform the individual making the disclosure of what action, if any, is to be taken and if no action is to be taken, then the individual concerned should be informed of the reason for this. If he or she remains dissatisfied, the individual may remake the disclosure to another appropriate person. This other person will consider all the information presented, the procedures that were followed and the reason for the original decision. The outcome of this will be either to confirm that no further action is required, or that further investigation is required and will follow the procedures referred to in 4.2 above.

Where a disclosure is made, the person or persons against whom the disclosure is made will be told of it, the evidence supporting it and will be allowed to comment before any investigation, or further action, is concluded. They will also be advised of what action, if any, is to be taken.

7.5.5 Reporting of Outcomes

A report of all disclosures and any subsequent actions taken will be made by the Designated Person who will retain such reports for a period of three years. In all cases, a report of the outcome will be made to the Council and the Audit Committee. The report to the Audit Committee will be in detail where the issue falls within its purview and, in other cases, in summary form, as a means of allowing the Committee to monitor the effectiveness of the procedure.

8. RESPONSIBILITIES OF THE AUDIT COMMITTEE IN RELATION TO EXTERNAL AUDIT

The Committee will attend to the following matters in conjunction with duly authorised representatives from the Office of the Auditor General:

- 8.1 Discuss and review, with the external auditor(s) before the audit commences, the nature and scope of the audit function, procedures and to ensure co-ordination between internal and external audit to avoid duplication of effort;
- 8.2 Negotiate procedures, subject to agreement, beyond minimum statutory and professional duties - there are certain minimum procedures required from the external auditors which are not negotiable;
- 8.3 Agree to the timing and nature of reports from the external auditor (s);
- 8.4 Consider any problems identified;
- 8.5 Make suggestions as to problem areas which the audit can address;
- 8.6 Consider any accounting treatments, significant unusual transactions, or accounting judgments, which could be contentious;
- 8.7 Identify key matters arising in the current year's management letter and satisfy itself that they are being properly followed up;
- 8.8 Consider whether any significant ventures, investments or operations are subject to external audit;
- 8.9 Review overall audit role, to explore objectives, minimise duplication, discuss implications of new auditing standards and ensure that external audit fee will sustain a proper audit and provide value for money;
- 8.10 Obtain assurance from the external auditor(s) those adequate accounting records are being maintained
- 8.11 Meet at least annually with the Auditor-General to ensure that there are no unresolved issues of concern.

9 RESPONSIBILITIES OF THE AUDIT COMMITTEE IN RELATION TO THE ANNUAL FINANCIAL STATEMENTS

- 9.1 The Committee will examine and review the annual financial statements and accompanying reports to stakeholders, and any other announcements regarding the Municipality's results or other financial information to be made public, prior to submission to and approval by the Council, focusing particularly on:
 - a) The implementation of new systems;
 - b) Fiscal and litigation matters involving uncertainty;
 - c) Major judgmental areas;
 - d) Significant adjustments resulting from the audit;
 - e) The basis on which the Municipality has been determined to be a going concern
 - f) Capital adequacy;
 - g) Internal control;

- external audit functions and co-ordinating the formal internal audit work plan with external auditors to avoid duplication of work;
- k) Reviewing significant differences of opinion between management and the internal audit function;
- l) Evaluating whether or not proper and adequate accounting records are maintained;
- m) Evaluating the independence and effectiveness of the internal auditors including compliance with the Institute of Internal Auditors' Statements for the Professional practice of Internal Auditing;
- n) Evaluating controls over the overall operational and financial reporting environment;
- o) Evaluating whether or not the Municipality's assets are safeguarded against unauthorised use or disposal;
- p) Initiating investigations into matters within its scope, for example, evaluations of the effectiveness of the Municipality's internal control, cases of employee fraud, misconduct or conflict of interest;
- q) Understand the scope of internal and external auditor's review of internal control over financial reporting, and obtain reports on significant findings and recommendations together with management's responses;
- r) Ensure there are no unjustified restrictions or limitations on the work performed by Internal Audit;
- s) On a regular basis, meet separately with the Manager: Internal Audit to discuss any matters that the committee or internal audit believes should be discussed privately.

11. ETHICS

- 11.1 The Committee shall conduct its functions in light of are a number of statutory, common law and other requirements, which cover the ethical behaviour of Councillors, Municipal Managers and Council Officials. In addition, the Local Government: Municipal Systems Act, 2000 prescribes:
 - 11.1.1 A code of conduct for Councillors; and
 - 11.1.2. A code of conduct for Municipal Staff Members.
- 11.2 The Committee will be responsible for reviewing the effectiveness of mechanisms for:
 - 11.2.1 Monitoring the ethical conduct of Councillors and Municipal staff members;
 - 11.2.2 Ensuring compliance with the requirements of the Local Government:

Municipal Systems Act, 2000;

11.2.3 Ensuring compliance with the laws and regulations of any other applicable statute and of controlling bodies;

11.2.4 Identification and reporting of any material violations of ethical conduct;

11.2.5 Identification and reporting of environmental and social issues.

11.3 The Committee shall also make recommendations regarding any potential conflicts of interest or questionable situations of a material nature, which are brought to its attention.

11.4 No member of the Committee shall do any other business with the Municipality in any capacity other than as a member of the Audit Committee for advancement of the Committee business and interests.

11.5 A member of the Committee shall recuse himself or herself in the event of any conflict of interest having arisen in the course of executing the Committee business.

11.6 The members of the Committee shall declare any interest or conflict of interest at the beginning of each meeting.

11.7 A copy of a personnel file with all particulars and personal records of each Committee member shall be kept at the Human Resources Division of the Municipality

12 RESPONSIBILITIES OF THE AUDIT COMMITTEE IN RELATION TO COMPLIANCE

The Committee shall:

12.1 Review the effectiveness of the system for monitoring compliance with laws and regulations and results of the Management's investigation and follow-up (including disciplinary action) of any instances of non-compliance.

12.2 Review the findings of any examinations by regulatory agencies, and any audit observations.

12.3 Review the process for communicating the code of conduct to company personnel, and for monitoring compliance therewith.

12.4 Obtain regular updates from management and the Municipality's legal counsel regarding compliance matters.

13 REPORTING AND ACCOUNTABILITY

The Chairperson of the Committee shall:

- 13.1 Account to the Council for its activities, issues and related recommendations;
- 13.2 Make recommendations to the Accounting Officer concerning the adoption of the annual financial statements and any other matters arising from the above responsibilities;
- 13.3 Report annually to the Council and to the stakeholders of the Municipality, describing the Committee's composition, responsibilities and how they were discharged, and any other information prescribed;
- 13.4 The Chairperson, or in his or her absence, a designated member of the Committee shall respond to the Council on any issues raised by the Office of the Auditor General in the Audit report. **[MFMA - S166 (2) {c}]**
- 13.5 Provide an open avenue of communication between internal Auditors, the external Auditors, and the executive committee; and
- 13.6 Review any other reports the Municipality issues that relate to the Committee's responsibilities.

14 ACTIVITIES OF THE AUDIT COMMITTEE IN RELATION TO FINANCIAL STATEMENTS

In discharging its responsibilities, the Committee shall:

- 14.1 Review the quality of financial information, financial statements and other public regulatory reporting.
- 14.2 Review the annual report and accounts taken as a whole to ensure they present balanced and understandable assessment of the position, performance and prospects of the Municipality.
- 14.3 Review the external auditors' proposed audit report.
- 14.4 Discuss problems and reservations arising from the audit, and any matters the Auditors may wish to discuss.
- 14.5 Review the external auditors' management letter and Management response.
- 14.6 Review the credibility, independence and objectivity of the external auditors, taking into account their audit and non audit fees. Where the external auditors also supply a substantial volume of non-audit services to the Municipality, the Committee should keep the nature and extent of such services under review, seeking to balance the maintenance of objectivity and value for money.

15 ACTIVITIES OF THE AUDIT COMMITTEE IN RELATION TO THE REVIEW OF INTERNAL CONTROL AND INTERNAL AUDIT SYSTEMS

On a regular basis the Committee shall conduct the review of;

- 15.1 The procedures for identifying business risks and controlling their impact on the Municipality.
- 15.2 The Municipality's policies for preventing or detecting fraud
- 15.3 The Municipality's policies for ensuring that it complies with relevant regulatory and legal requirements.
- 15.4 The operational effectiveness of the policies and procedures.
- 15.5 Consider whether the objectives, organisation, staffing plans, financial budgets, audit plans and standing of the internal audit function provides adequate support to enable the committee to meet its objectives.
- 15.6 The results of work performed by the internal audit function in relation to Financial reporting, corporate governance, internal control, and any: significant investigations and Management response.
- 15.7 Co-ordination between the internal audit function and the external auditors and deal with any issues of material or significant dispute or concern.
- 15.8 Enquiries regarding the existence or otherwise of significant transactions not directly related to the Municipality's normal business as the Committee might deem appropriate.
- 15.9 Misconduct or fraud, or any other unethical activity by employees or the Municipality;
- 15.10 The controls over significant risks.

16. GENERAL ADVISORY ROLE OF THE AUDIT COMMITTEE

- 16.1 Perform such other functions as may be prescribed
- 16.2 Review quarterly performance reports submitted to it by Internal Audit.
- 16.3 Review the PMS and make recommendations in this regard to Council.
- 16.4 Submit a performance audit report to Council at least twice a year.
- 16.5 Assess whether the performance indicators are sufficient.
- 16.6 Assess the reliability of performance information reported.
- 16.7 Commission in-depth performance investigations where there is continued poor performance.
- 16.8 Review the PMS in the context of economy, efficiency, effectiveness and impact of the municipality's key performance indicators and performance targets.
- 16.9 Must have direct access to the council, municipal manager, internal and external auditors.
- 16.10 Must have unrestricted access to the municipal records.
- 16.11 May request any person to attend meetings and respond to questions put to him/her

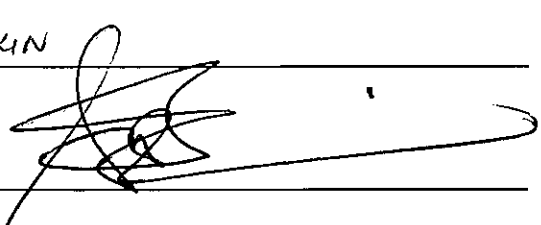
- o Travel time to and from meetings National Treasury Regulations 20.2.2 will be used.


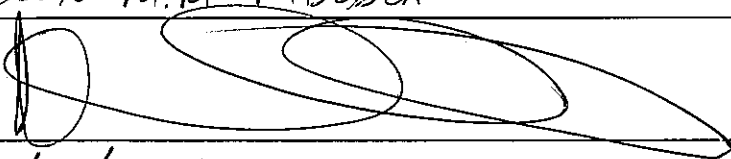
20.3 As per National Treasury MFMA Circular 65:

Remuneration will only be payable to officials employed outside the public service. No remuneration for participating in audit committees 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 organ of state, except for out of pocket expenses which may be reimbursed.

21 GENERAL

- 21.1 The Committee in carrying out its tasks under these terms of reference may obtain outside or other independent professional advice, as it considers necessary to carry duties.
- 21.2 The Council will ensure that the Committee will have access to professional advice both and outside of the Municipality in order for it to perform its duties.
- 21.3 These terms of reference may from time to time be amended as required, subject to the approval of the Council.
- 21.4 The Committee in carrying out its duties under these terms of reference will have due regard to the principles of governance and code of best practise as contained in the Report on the Corporate Governance for South Africa.
- 21.5 This charter is to be reviewed annually by the committee.

22. APPROVAL OF THE AUDIT COMMITTEE CHARTER
Municipal Manager:
Name: <u>DR DCT NAKIN</u> Signature:  Date: <u>29/01/2018</u>
Chairperson of the Audit Committee:

Name: <u>TATOLANG TSABU</u>
Signature: 
Date: <u>29/01/2018</u>
Mayor:
Name: <u>CLLR M.M MBEDZA</u>
Signature: 
Date: <u>29/01/2018</u>