

PIXLEY KA SEME DISTRICT MUNICIPALITY



AUDIT COMMITTEE CHARTER

2016/2017

TABLE OF CONTENTS**PAGE**

| | | |
|----|--|----|
| 1. | Purpose | 2 |
| 2. | Constitution | 2 |
| 3. | Legislation Associated with Audit Committee | 2 |
| 4. | Authority | 5 |
| 5 | Responsibility | 6 |
| | 5.1 Financial Statements | 6 |
| | 5.2 Internal Control and Risk Management | 7 |
| | 5.3 Compliance with laws, Policies and Other Regulations | 7 |
| | 5.4 The Internal Audit Function | 7 |
| | 5.5 The External Audit Function | 8 |
| | 5.6 Performance audit | 8 |
| | 5.7 Reporting to Council | 8 |
| | 5.8 Other Responsibility | 9 |
| 6. | Structure of the Audit Committee | 9 |
| | 6.1 Composition of the Audit Committee | 9 |
| | 6.2 Meetings of the Audit Committee | 10 |
| 7. | Remuneration of members | 11 |
| 8. | Accountability | 11 |
| 9. | Approval | 12 |

1. PURPOSE

The Council of Pixley ka Seme District Municipality continuously reviews current trends and best practice in relation to corporate governance. The Council of Pixley ka Seme District Municipality addresses its obligation to demonstrate greater accountability and for ensuring high quality standards through the establishment of an Audit Committee.

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

This Charter sets out the specific responsibilities delegated by Council to the Audit Committee and details the manner in which the Audit Committee will operate. In performing its duties, the committee must maintain effective working and communication relationships with Council, management, and the internal and external auditors.

2. CONSTITUTION

The Audit Committee was constituted as a committee of Council by resolution of the Council.

3. LEGISLATION ASSOCIATED WITH THE AUDIT COMMITTEE

The following legislation is applicable to the establishment of audit committees:

- ✓ The Constitution of the Republic of South Africa, No. 108 of 1996.
- ✓ Local Government: Municipal Structures Act, No. 117 of 1998.
- ✓ Local Government: Municipal Systems Act, No. 32 of 2000.
- ✓ Local Government: Municipal Finance Management Act, No 56 of 2003.

The Constitution of the Republic of South Africa (Act 108 of 1996)

“195 (1) Public administration must be governed by the democratic values and principles enshrined in the Constitution, including the following principles:

- (a) A high standard of professional ethics must be promoted and maintained.
- (b) Efficient, economic and effective use of resources must be promoted.
- (c) Public administration must be development-orientated.
- (d) Services must be provided impartially, fairly, equitably and without bias.
- (e) People’s needs must be responded to, and the public must be encouraged to participate in policy-making.
- (f) Public administration must be accountable.
- (g) Transparency must be fostered by providing the public with timely, accessible and accurate information.
- (h) Good human-resource management and career-development practices, to maximize human potential, must be cultivated.
- (i) Public administration must be broadly representative of the South African people, with employment and personnel management practices based on ability, objectivity, fairness, and the need to redress the imbalances of the past to achieve broad representation.”

Chapter 7 (Section 152) dealing with Local Government has relevance:

- “152 (1) The objects of local government are –
- (a) to provide democratic and accountable government for local communities;
 - (b) to ensure the provision of services to communities in a sustainable manner;
 - (c) to promote social and economic development;
 - (d) to promote a safe and healthy environment; and
 - (e) to encourage the involvement of communities and community organizations in matters of local government.
- (2) A municipality must strive within its financial and administrative capacity, to achieve the objects set out in subsection (1).”

Local Government: Municipal Structures Act. (No. 117 of 1998) (Part 5: Other committees of municipal councils)

“79. Establishment.

- (1) A municipal council may-
- (a) Establish one or more committees necessary for the effective and efficient performance of any of its functions or the exercise of any of its powers;
 - (b) appoint the members of such a committee from among its members; and
 - (c) dissolve a committee at any time.
- (2) The municipal council-
- (a) must determine the functions of a committee;
 - (b) may delegate duties and powers to it in terms of section 32;
 - (c) must appoint the chairperson;
 - (d) may authorise a committee to co-opt advisory members who are not members of the council within the limits determined by the council;
 - (e) may remove a member of a committee at any time; and
 - (f) may determine a committee’s procedure.

80. Committees to assist executive committee or executive mayor.

- (1) If a municipal council has an executive committee or executive mayor, it may appoint in terms of section 79, committees of councillors to assist the executive committee or executive mayor.
- (2) Such committees may not in number exceed the number of members of the executive committee or mayoral committee.
- (3) The executive mayor-
- (a) appoints a chairperson for each committee from the mayoral committee;
 - (b) may delegate any powers and duties of the executive mayor to the committee;
 - (c) is not divested of the responsibility concerning the exercise of the power or the performance of the duty; and
 - (d) may vary or revoke any decision taken by a committee, subject to any vested rights.
- (4) Such a committee must report to the executive committee or executive mayor in accordance with the directions of the executive committee or executive mayor.”

Local Government: Municipal Systems Act (No. 32 of 2000)

Chapter 6 dealing with Performance Measurement has relevance:

45. "The results of performance measurements in terms of section 41 (1)(c) must be audited-
- (a) as part of the municipality's internal auditing processes; and
 - (b) annually by the Auditor-General."

Government Notice No 796 Regulation No. 7146 of 24 August 2001 under Sections 120, and 37, 43 and 49 of Act. 32 of 2000. Section 14.

Local Government: Municipal Finance Management Act, No 56 of 2003.

"Audit committees

166. (1) Each municipality and each municipal entity must have an audit committee, subject to subsection (6).
- (2) An audit committee is an independent advisory body which must—
- a) Advise the municipal council, the political office-bearers, the accounting officer and the management staff of the municipality, or the board of directors, the accounting officer and the management staff of the municipal entity, 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 this Act, 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 or municipal entity;
 - b) Review the annual financial statements to provide the council of the municipality or, in the case of a municipal entity, the council of the parent municipality and the board of directors of the entity, with an authoritative and credible view of the financial position of the municipality or municipal entity, its efficiency and effectiveness and its overall level of compliance with this Act, the annual Division of Revenue Act and any other applicable legislation;
 - c) Respond to the council on any issues raised by the Auditor-General in the audit report;
 - d) carry out such investigations into the financial affairs of the municipality or municipal entity as the council of the municipality, or in the case of a municipal entity, the council of the parent municipality or the board of directors of the entity, may request; and
 - e) perform such other functions as may be prescribed.

(3) In performing its functions, an audit committee—

- a) has access to the financial records and other relevant information of the municipality or municipal entity; and
- b) must liaise with—
 - i. the internal audit unit of the municipality; and
 - ii. the person designated by the Auditor-General to audit the financial statements of the municipality or municipal entity.

(4) An audit committee must—

- a) consist of at least three persons with appropriate experience, of whom the majority may not be in the employ of the municipality or municipal entity, as the case may be; and
- b) meet as often as is required to perform its functions, but at least four times a year.

5) The members of an audit committee must be appointed by the council of the municipality or, in the case of a municipal entity, by the council of the parent municipality. One of the members who are not in the employ of the municipality or municipal entity must be appointed as the chairperson of the committee. No councillor may be a member of an audit committee.

(6) A single audit committee may be established for—

- a) a district municipality and the local municipalities within that district municipality; and
- b) a municipality and municipal entities under its sole control.

General responsibilities of the accounting officer

“62. (1) The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure—

(c) that the municipality has and maintains effective, efficient and transparent systems—

- (i) of financial and risk management and internal control; and
- (ii) of internal audit operating in accordance with any prescribed norms and standards;”

4. AUTHORITY

The Audit Committee is hereby established, authorised and mandated to conduct or otherwise authorise investigations into any matter within the scope of its responsibility. Council authorises the Audit Committee to:

- 4.1 Seek any information it requires from any employees, and all employees shall be directed to cooperate with any request made by the Audit Committee and parties appointed by the Audit Committee;
- 4.2 Meet with External and Internal Auditors without the presence of any executive management of the Municipality in attendance on request and when necessary; however the Audit committee meetings and Engagement and Audit steering committee meetings with the external auditors will serve as the normal platforms for any discussions;

- 4.3 Secure the attendance of any officers of the Municipality or party's external to the Municipality as considered necessary;
- 4.4 Have unlimited access to any record and information under the control of the Municipality.
- 4.5 Require, at its discretion, any employee of the Municipality to attend its meetings or part of meetings.
- 4.6 Seek independent advice when necessary.
- 4.7 Have the right to review the activities of Internal and External Auditors.
- 4.8 Have the power to investigate any matter within the ambit of its mandate.

5. RESPONSIBILITIES

It is the Audit Committee's responsibility to evaluate and monitor the overall audit process and to facilitate communication on audit related matters between Council, Management and the Auditors.

In addition to the responsibilities set out below, the Audit Committee shall perform or undertake on behalf of Council any such other tasks or actions as Council may from time to time authorise.

5.1 Financial Statements

In terms of MFMA Circular 64, 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 judgements, taking into account previous audit outcomes;
- 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 in prior reports by the AGSA have been appropriately accounted for, resulting in fair presentation;
- Conduct Analysis of trends and other financial ratio calculations e.g. year-on-year comparisons and composition of primary group e.g. salaries as per component of operations, whether operations are undertaken on sustainable basis, operations at surplus of deficit, efficiency and solvency ratios, etc.

5.2 Internal controls and Risk management.

- a) The Audit Committee shall understand and consider the major risk areas for the Municipality. It shall monitor the adequacy of the system of internal control by reviewing risk management, internal control processes and,
- b) Be constantly aware of the current areas of greatest risk and ensure management are effectively managing the risks;
- c) Satisfy itself that effective systems of accounting and internal control are established and maintained to manage risk;
- d) Ensure that Council and Management are aware of any matters that might have a significant impact on the financial condition or affairs of the Municipality;
- e) Ensure that controls are in place to accomplish the objectives set out in the business plan of the Municipality.
- f) Review the control measures to ensure that the safeguarding of assets is adequate.

5.3 Compliance with laws, policies and ethics

The Audit Committee shall ensure that the management of the Municipality is conducting its affairs ethically and has the necessary mechanisms in place to ensure that there is compliance with relevant legislations, Municipality's policies, procedures and other regulations.

This must include maintaining effective controls against conflicts of interest and fraud.

5.4 The Internal Audit function

The Audit Committee, in ensuring that the Internal Audit function performs its responsibilities effectively and efficiently shall;

- a) Review and approve the Internal Audit Charter.
- b) Review the Internal Audit plans, activities, staffing and organisational structure.
- c) Review the Internal Audit function's compliance with its mandate as approved by the Audit Committee.
- d) Review and confirm the independence of the Internal Auditors and ensure that there are no unjustified restrictions or limitations placed on them.
- e) Review the effectiveness of the Internal Audit function, including compliance with the Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing.
- f) Review the adequacy of corrective action taken in response to significant internal audit findings.
- g) Review significant differences of opinion between management and the Internal Audit function.
- h) 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.
- i) Considers the appointment, dismissal or resignation of the Manager: Internal Audit and make appropriate recommendations to Council.
- j) Assess the adequacy of the performance of the Internal Audit function and the adequacy of available resources.

5.5 The External Audit Function

The Audit Committee shall –

- a) Take cognizance of the scope of work undertaken by the external auditor and the extent of co-ordination with the internal audit unit at the Engagement and Audit Steering committee meetings with the external auditors;
- b) Review reports and monitor management's implementation of audit recommendations and municipal council resolutions in the new financial year;
- c) Review the report on the financial statements and action plans of Management;
- d) Review any interim reports issued in order to take cognizance of the issues raised in determining the follow up work of the internal audit;
- e) Review the implementation of the External Auditor's recommendations, by Management.
- f) Provide advice to the accounting officer on actions taken relating to significant matters raised in external audit reports;
- g) Liaise with the external auditors on any matter that the audit committee considers appropriate to raise with the external auditor;
- h) Ensure that the external auditors have reasonable access to the management and chairperson of the audit committee;
- i) Address any potential restrictions or limitations with the accounting officer and council;
- j) Address outstanding matters raised by the external auditors and any findings are dealt with conclusively in an expeditious manner.

5.6 Performance Auditing

- Review the list of significant measurement goals and results;
- Review quarterly reports of the Internal Audit activity on the Performance Management System of the municipality;
- Review the monitoring system to ensure that the Municipality is achieving the performance targets set;
- Review the performance indicators of the respective departments.

5.7 Reporting to Council

The Audit Committee shall report to Council by forwarding the internal audit quarterly reports to Council. The Audit Committee shall attend all Council meetings where these reports are discussed. Presenting of these reports will be done by the Chairperson of the Audit Committee.

Any material findings shall immediately be reported to Management or, where appropriate, to the Mayor of the Municipality.

Audit Committee shall provide Council at its last meeting of the year with a review of the committee's work of the year, including an assessment of its performance and compliance with its charter.

5.8 Other responsibilities

The Audit Committee shall –

- Confirm annually that all its responsibilities outlined in this Charter have been carried out;
- Evaluate the Audit Committee's and individual members' performance on a regular basis
- Review and revise this Charter annually or as and when the need arises.

6. STRUCTURE OF THE AUDIT COMMITTEE

6.1 Composition of the Audit Committee

- a) Council has the authority to appoint, replace or dismiss the members of the Audit Committee. The Audit Committee may recommend to Council the appointment of additional members of the Audit Committee.
- b) The Audit Committee shall comprise of at least three members appointed by Council. Due to the relative size of Pixley ka Seme District Municipality it is suggested that an audit committee comprising of three to five members should be practical in size. Majority of the members must be persons who are not employed by the Municipality (External members) or connected to the Municipality. Members of the Audit Committee serve in the Committee in their individual capacity. No Councillor may be a member of the Audit Committee.
- c) Council appoints a Chairperson and a Deputy Chairperson from among the independent members of the Committee.
- d) The Deputy Chairperson presides over meetings in the absence of the Chairperson
- e) The Chairperson and Deputy Chairperson must have the ability to preside over meetings and direct the discussions along constructive lines.
- f) Council retains the right, after due consideration, to withdraw members from the Committee and to replace them with other members.
- g) The Committee is constituted every three years at the last meeting of Council.
- h) The Committee may recommend to Council for appointment as independent members to the Committee the names of non-Council members who are not employed by the Municipality or elected councillors of the municipality.
- i) At least one member of the Audit Committee must have financial experience, especially in financial reporting and auditing.
- j) The Mayor or a person duly acting as Mayor, the Municipal Manager or a duly designated representative of the Municipal Manager shall attend the meeting of the Audit Committee in ex-officio capacity.

- k) The Chief Finance Officer or a duly designated representative of the Chief Financial Officer, the Manager: Internal Audit or a duly designated representative of the Manager: Internal Audit and a representative from the Office of the Auditor General shall attend meetings of the Committee as advisors.
- l) The chairperson of the Committee may, on the advice of the Mayor, invite any other person, to attend all or any of the meetings of the committee.
- m) Members of the committee must have the necessary knowledge and expertise to ensure the optimal functioning of the committee.
- n) Should a vacancy occur in the Audit Committee, the Chairperson of the Audit Committee must notify the Council without delay. Council must fill the vacancy at the earliest opportunity.
- o) Designated Council officials should carry out the secretariat function of the audit committee.
- p) Members shall serve on the Audit Committee for a period of three years, renewable to a maximum of six years reckoned from the date on which a member actually assumes duty.
- q) Audit Committee members may not be in arrears to the Municipality for rates and service charges, for a period longer than 3 months.

6.2 Meetings of the Audit Committee

6.2.1 Frequency

- a) The Committee meets as often as it considers appropriate, but not fewer than four times a year. The timing of meetings should correspond with major phases of the financial reporting, external audit, and internal audit cycles.
- b) The Mayor, the Municipal Manager, The External Auditor, and the Manager: Internal Audit may request the Chairperson to call a special meeting of the committee. The written request must be supported by at least two-thirds majority independent members of the Committee.
- c) The Executive Mayor will not be a member of the Audit Committee, but might be invited to attend the Audit Committee meetings.
 - d) The Municipal Manager and Managers reporting directly to him should be present at all meetings of the Audit Committee.

6.2.2 Minutes

- a) The committee must ensure that full minutes are kept of its meetings and a proper record of its recommendations. The minutes of all meetings of the Audit Committee, or summaries thereof, must be submitted to the Council at the immediate following Council meeting.
- b) The secretary shall be responsible for keeping minutes of all meetings and shall include the minutes with the agenda of the next Audit Committee meeting. Draft minutes shall be distributed to all members of the Audit Committee within two (2) weeks after the Audit Committee meeting.

6.2.3 Quorum

- a) Two-thirds members, present throughout the meeting, form a quorum for decisions.
- b) Recommendations are taken by majority of votes, with the chairperson having only a deliberative vote.

6.2.4 Notice

- a) Notice must be given in writing to all members of the Audit Committee and other interested parties, of each meeting to be held, at least 7 days prior to the date on which such meeting is to be held.
- b) The agenda of the meeting must be prepared and distributed at least seven (7) days prior to the meeting date. The finalisation of the agenda would be coordinated by the Manager: Internal Audit in consultation with the Chairperson of the Audit committee and the Municipal Manager.

7. Remuneration of members

It is common practice to compensate Audit Committee members for their services. Furthermore members are reimbursed for expenses.

Remuneration of Audit Committee members can pose a dilemma for both management and committee members. Excessive amounts could imply buying loyalty to management. It is therefore suggested that audit committee members of Pixley ka Seme District Municipality are reimbursed for expenses and that members from outside the Council receive remuneration for services that is in line with current trends.

Members will be paid a fixed amount per sitting, plus travelling expense calculated on the Government Garage tables. Accommodation costs should be paid, by Council, when necessary.

8. Accountability

The Audit Committee will be accountable to the Council for any decisions taken.

9. REVIEW AND APPROVAL

Thus signed and approved at.....*De Aar*.....

on this *14th* day of *November* 2016 by:



.....
Mayor

14/11/2016

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Date



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Chairperson: Audit Committee

14/11/2016

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Date