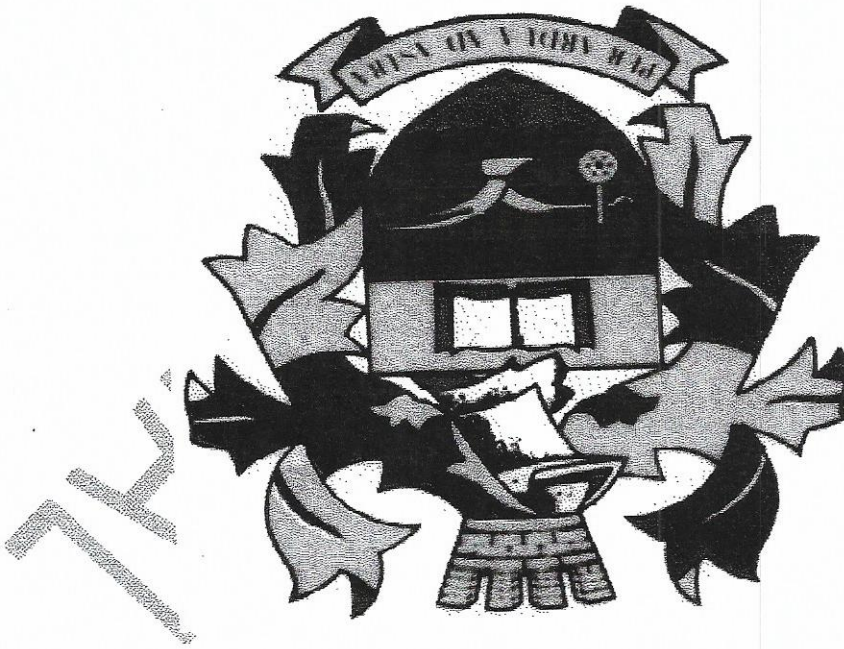


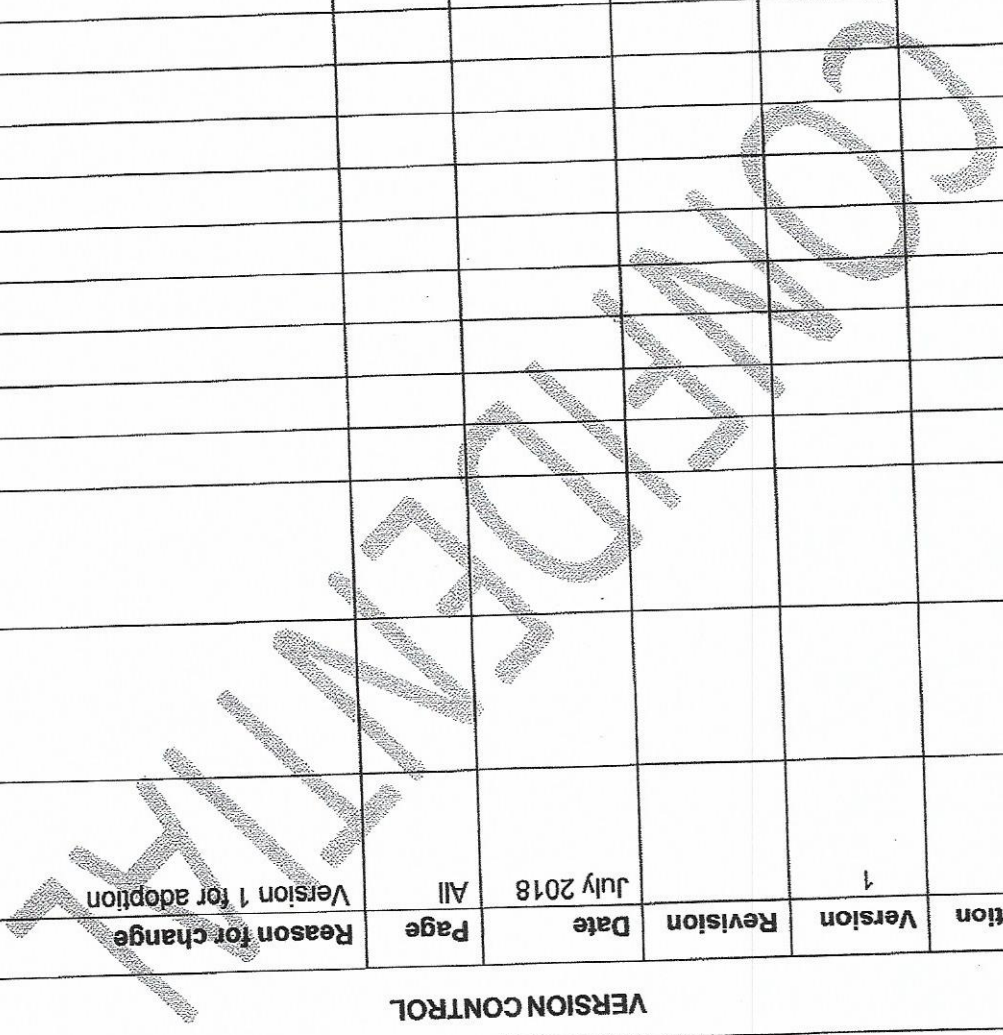
**AUDIT COMMITTEE CHARTER**  
**2018/19 FINANCIAL YEAR**



**DIPALESENG MUNICIPALITY**



AUDIT COMMITTEE CHARTER		AUDIT COMMITTEE BY: A C KEYSER		POLICY OWNER: DIPALESENG AUDIT COMMITTEE		DATE: JULY 2018		POLICY EFFECTIVE DATE:	
<b>VERSION CONTROL</b>									
Section	Version	Revision	Date	Page	Reason for change				
	1		July 2018	All	Version 1 for adoption				



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## 1. PURPOSE AND OBJECTIVE

- 1.1 The Code of Corporate Practices and Conduct published in the King IV Report on Corporate Governance for South Africa of 2016 requires management to publicly confirm that they have reviewed the effectiveness of the internal control of their organization. The implementation of control and information systems is essential to the effective discharge of the management's responsibilities.

- 1.2 In terms of Section 166 of the Municipal Finance Management Act, 56 of 2003, "each Municipality must have an Audit Committee".

- 1.3 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.

- 1.4 The Audit Committee operates as a statutory committee of the Dipaleseng Municipal Council. The Audit Committee performs the responsibilities assigned to it by the MFMA (section 166), and the corporate governance responsibilities delegated to it under its charter, approved and adopted by Council.

- 1.5 This charter sets out the specific responsibilities of the Audit Committee and details the manner in which the Audit Committee will operate.

## 2. AUTHORITY

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

- 2.2 The Dipaleseng Municipal Council authorise the Audit Committee to fulfil 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;
- 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 auditors; and
- Pre-approve all auditing and non-audit services.

2.3 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.

### 3. STRUCTURE OF THE AUDIT COMMITTEE

#### 3.1 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.

#### 3.2 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 is 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 Dipaleseng Municipality. No councillor or Dipaleseng 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;
- build relations with management;
- have a professional approach to performing duties, including commitment of time and effort, and that;

A formal process of induction must be facilitated by the Manager: Internal Audit 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 members should meet and be briefed by the Accounting Officer, Chief Financial Officer, Chairperson of the Audit Committee and the Manager: Internal Audit. New members should also be introduced to external auditors. The information to be provided to new members should include:

### 3.4 Induction of Audit Committee member(s)

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

### 3.3 Membership and independence

- an understanding of the performance management
  - an understanding of the treatment of allegations and investigations; and auditors;
  - an understanding of the roles and responsibilities of the internal and external auditors;
  - familiarity with legislation applicable to municipalities;
  - an understanding of public sector reforms;
  - reporting requirements;
  - an understanding of major accounting practices and public sector reporting requirements;
  - an understanding of internal controls;
  - familiarity with risk management practices;
  - an understanding of the operations of the municipality;
  - an understanding of the role of council and councillors;
  - good governance and/or financial management experience;
  - an understanding of service delivery priorities;
  - private and public sector experience;
- Collectively, the appointed Audit Committee members should possess the following skills and experience:
- Each committee member must be independent and appropriately skilled.

- 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 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 plan

### 3.5 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 Dipaleseng Municipal 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.

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3.6 Reporting

The chairperson of the Audit Committee will report to the Dipaleseng Municipal Council on the operations of the Internal Audit unit and the 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 Dipaleseng Municipal 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 Dipaleseng Municipal 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, and 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.

Any material findings shall immediately be reported to the Accounting Officer, the Auditor-General and to the Executive Mayor and where appropriate the Audit Committee may also report to higher authorities

4. ROLES AND RESPONSIBILITIES

4.1 Internal Audit

The Audit Committee shall concur with the appointment, replacement and/or dismissal, of the Manager of the Internal Audit unit. In the event of replacement, dismissal, resignation or early retirement of the Manager 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 performs 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;
- 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 coordinated 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.
- 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 co-ordination 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;
  - ensure direct access by the external auditors to the Audit Committee and the Chairperson of the Audit Committee or Accounting Officer, 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;

**4.2 External Audit**

- identify key matters arising in the current year's management letter and satisfy themselves that it (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 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.

### 4.3 Annual Financial Statements

The Municipality's annual financial statements (including relevant information and lead schedules) should be reviewed by the Audit Committee before submission to the Auditor General.

The Audit Committee must review the annual financial statements to provide the Dipaleseng Municipality 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;
- 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.

#### 4.4 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.

#### 4.5 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;
- review internal and external auditor's written reports concerning compliance,

- any significant findings and recommendations, and follow-up on the implementation of recommendations;
- monitor developments and changes in the law relating to the responsibility and accountability of management and review the extent to which management is meeting its obligations; and
- Ensure legal counsel regarding compliance, where necessary.

#### 4.6 Performance Management

The Audit Committee shall perform the role of a Performance Audit Committee (PAC) which will review the performance of the municipality.

The Performance Audit Committee members need to have a good understanding of the performance of the municipality. Its responsibilities shall include:

- review and comment on compliance with statutory requirements and the 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 financial statements and timely submission to the Auditor-General by 31 August, each year;

- review and comment on the municipality's annual reports within the stipulated timeframes; and

- Review and comment on the municipality's performance management system and make recommendations for its improvement.

#### 4.7 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 based on the IT Governance Framework.

**4.8. Relationship with stakeholders**

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

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

**4.9.**

**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:

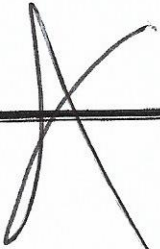
- reviewing policy documents which should incorporate compliance with laws, regulations, ethics, policies, rules regarding conflict of interest;
- monitoring the compliance with the policy documents; and
- Taking note of significant cases of conflict of interest, misconduct, or fraud and the resolution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

**5. 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 Manager: Internal Audit.

Special meetings of the Audit Committee may be convened as required. Any member of the Audit Committee may call a special meeting. The Internal or External Auditors may request a meeting if they consider that one is necessary.



The Audit Committee may hold in Committee meetings with internal and external auditors and executive sessions as necessary.

**5.1 Quorum**

The quorum for meetings will be 66,7 % (1) plus one member.

**5.2 Notice of meetings**

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.

**5.3 Agenda of meetings**

The agenda of the meeting shall be prepared and distributed at least seven days prior to the meeting date. 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.

**5.4 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.

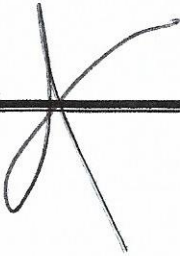
**6. Remuneration**

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.

Audit Committee members not being in the public service shall be remunerated for their services on the Audit Committee based on meetings attended. The Chairperson of the Audit Committee shall be paid additional remuneration for such attendance and for services related to the Audit Committee.

The Audit Committee members shall be remunerated in accordance with the day tariff as prescribed and amended in terms of National Treasury Regulations (Regulation 20.2.2 and Chapter 3 paragraph 3.1.6).

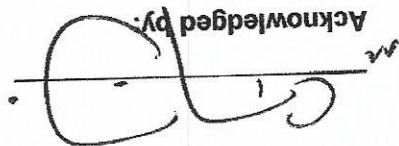
The amount payable is an all-inclusive amount less any deductions which the Dipaleseng Municipality may require to make in respect of Tax. The municipality shall not be obliged to pay any amounts to any pension fund or medical aid on behalf of the member.



The Audit Committee member shall be reimbursed for kilometers travelled in accordance with the applicable legislation.

### 7. Review period

The Audit Committee Charter is subject to annual review and amendments and must be approved by Council. The charter will remain in place until reviewed.

Acknowledged by: 

Acting Accounting Officer

Signed on behalf of the Audit Committee

Audit Committee Chairperson

Approved by Council on the: 31<sup>st</sup> July 2018

Council resolution number: C 124/07/18

31<sup>st</sup> July 2018  
Date

31<sup>st</sup> July 2018  
Date

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