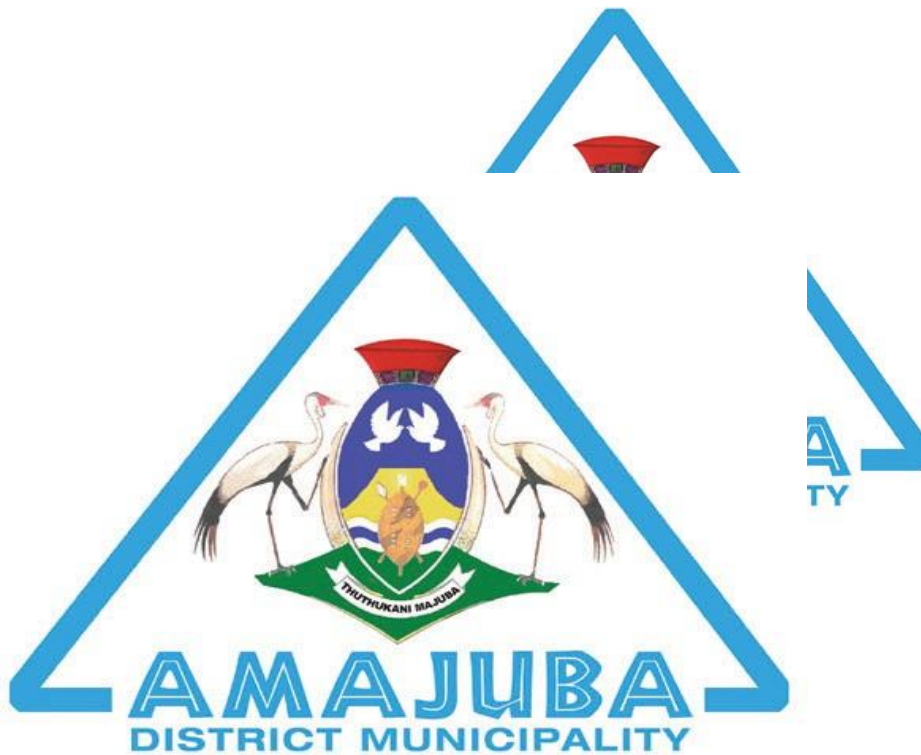




**AMAJUBA DISTRICT MUNICIPALITY AUDIT COMMITTEE CHARTER AND TERMS
OF REFERENCE**



**AUDIT COMMITTEE CHARTER
2017/2018**



AMAJUBA DISTRICT MUNICIPALITY AUDIT COMMITTEE CHARTER AND TERMS OF REFERENCE

TABLE OF CONTENTS

	Subject	Page
1	Purpose	3
2	Organization	3
3	Statement of Policy	6
4	Frequency of Meetings	6
5	Authority	7
6	Terms of Reference	7
7	Disclosure of Interest	10
8	Removal from Office of the ADMAC Members	10



AMAJUBA DISTRICT MUNICIPALITY AUDIT COMMITTEE CHARTER AND TERMS OF REFERENCE

1. PURPOSE

The purpose of this charter is to:

- 1.1. Provide guideline framework on the organization, functioning and the position of the audit committee within the municipality structures.
- 1.2. Define the scope, activities, purpose, statement policy, authority, terms of reference, disclosure & removal of audit committee members from office
- 1.3. Create common understanding between the Municipal Council and Management and the Audit Committee members.
- 1.4. Serve as a reference in case of disagreements and disputes arising between Municipal Council and Management and the Audit Committee members.

2. ORGANISATION

2.1. Constitution

2.1.1 A committee established by Amajuba District Municipal Council and, reporting to the Council in terms of S166 of the Municipal Finance Management Act ("MFMA") read with the Local Government: Municipal Planning and Performance Management Regulations of 2001 (LGP&PMR), promulgated in terms of S120 of the Local Government: Municipal Systems Act, 32 of 2000 (as amended) (LGMSA) is appointed to meet the statutory responsibilities outlined in the MFMA, LGP&PMR & LGMSA and Circular 65 of the MFMA

2.1.2 The Council of Amajuba District Municipality took a resolution to consolidate the Performance Audit Committee established in terms of the LGP&PMR with Audit Committee established in terms of the MFMA into a single committee in terms of Regulation 14 (2) (c) of the LGP&PMR. This committee shall be known as the Amajuba District Municipality Audit Committee (ADMAC).

2.1.3 The ADMAC shall be an independent advisory body which shall;

2.1.3.1 advise the Municipal Council, the political office-bearers, the accounting officer and management staff of the municipality, on matters relating to-



AMAJUBA DISTRICT MUNICIPALITY AUDIT COMMITTEE CHARTER AND TERMS OF REFERENCE

- (i) Internal financial control and internal audits;
- (ii) Risk management;
- (iii) Accounting policies;
- (iv) The adequacy, reliability and accuracy of financial reporting and information;
- (v) Performance management; (vi) Effective governance;
- (vii) Compliance with MFMA, the annual Division of Revenue Act and any other applicable legislation;
- (viii) Performance evaluation; and
- (ix) Any other issues referred to it by the municipality

2.1.3.2. Review financial statements;

2.1.3.3 Respond to the Council on any issues raised by the Auditor- General in the audit report;

2.1.3.4 Carry out investigations into the financial affairs of the municipality.

2.2 Composition

2.2.1 The ADMAC shall consist of at least three and no more than five members, appointed by the Council. The Chairperson shall be appointed by the Council from among members of the ADMAC not appointed under the Municipal Systems Act, Act 32 of 2000 or elected representatives of the municipality in terms of Local Government Municipal Structures Act, Act 117 of 1998. In the absence of the chairperson of the Audit Committee from a specific meeting, the members present shall elect a chairperson from members present to act as chairperson for that meeting.

2.2.2 The Council shall appoint appropriately qualified, fit, and proper persons to serve as members of the ADMAC.

2.2.3 The majority of the members must be independent of management and free from any relationship with the Amajuba District Municipality that would interfere with the exercise of independent judgement as an Audit Committee member.

2.2.4 Each committee member shall be both independent and financially literate. At least one member shall have expertise in financial matters. The Council shall also appoint a person with expertise in performance management.



AMAJUBA DISTRICT MUNICIPALITY AUDIT COMMITTEE CHARTER AND TERMS OF REFERENCE

2.2.5 The Council shall, at the time of appointment, determine the term of office of each member, up to a maximum period of five years.

2.2.6 The Chairperson of the Audit Committee is empowered to communicate freely with the Council, Mayor, member of the Council and Municipal Manager or to any official of the municipality.

2.2.7 A representative of the Office of Auditor-General shall be invited to attend meetings with an observer status as well to table audit reports on all its activities at the municipality.

2.2.8 The head of internal audit or alternative service provider appointed as an internal auditor for the municipality if the function has been outsourced shall also attend all meetings.

2.2.9 The Municipal Manager and Directors must attend all audit committee meetings.

2.2.10 Any other officials shall appear in person before the committee to provide pertinent information, reports, clarity on issues or answer questions, as it deems necessary.

2.3 Secretariat

2.3.1 A secretariat shall be provided by the Office of the Municipal Manager to the committee to prepare and distribute the agenda, audit committee packs, record deliberations in all its meetings; liaise with audit committee members, external auditors, internal auditors, management and undertake any further administrative work of the committee.

2.3.2 The secretariat shall co-ordinate agenda items from the members of the audit committee, internal auditors, external auditors and the Municipal Manager. This activity shall take place at least fourteen (14) calendar days before the ensuing of the quarterly audit committee meeting. In terms of special audit committee meeting, this activity shall take place at least seven (7) calendar days before the ensuing of the special audit committee meeting.

2.3.3 The agenda shall be included on the Audit Committee pack and distributed to all stakeholders seven calendar (7) days before the ensuing of the quarterly audit committee meeting. In terms of special audit committee meeting, the agenda shall be included on the Audit Committee pack and distributed to all stakeholders three (3) calendar days before the ensuing of the special audit committee meeting.

2.3.4 The secretariat shall record all the proceedings of the audit committee meetings and



AMAJUBA DISTRICT MUNICIPALITY AUDIT COMMITTEE CHARTER AND TERMS OF REFERENCE

keep the tapes for a period of at least five years before they can be destroyed, or as determined by the archives legislation.

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

2.4 Evaluation

The audit committee shall be evaluated annually by council, based on best practice guides and appropriate considerations of the requirements and expectations of the AC as per the Municipal Finance Management Act (MFMA) 2003 and the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

3. STATEMENT OF POLICY

The audit committee shall:

3.1 Assist the Council in the evaluation of the adequacy, effectiveness and efficiency of the internal control systems, accounting practices, information systems, policies, performance management policy, practices and systems, risk management, governance and all auditing processes applied in the day to day management of Amajuba District Municipality.

3.2 Evaluate the systems of internal control, risk management and governance processes that are aimed at ensuring that the municipality:

- Safeguard the assets and its control;
- Achieve on its statutory mandate;
- Produce reliable and relevant financial and operational information;
- Comply with laws, regulations, policies and set procedures;
- Has Organizational Performance Management systems that are efficient, effective and economical and that service delivery is achieved; and
- Conduct their operations in the most effective and efficient manner.

3.3 Provide a forum for communication between the Council, Municipal Manager, management and internal auditors and the Office of the Auditor-General.

3.4 Introduce such measures as in the committee's opinion may serve to enhance the



AMAJUBA DISTRICT MUNICIPALITY AUDIT COMMITTEE CHARTER AND TERMS OF REFERENCE

reliability, integrity and objectivity of financial statements, performance information, systems, policies, practices, operations, and financial administration and management affairs of the Municipality.

4. FREQUENCY OF MEETINGS

4.1 The committee shall meet at least four times a year, with authority to convene additional meetings, as circumstances require. All committee members are expected to attend each meeting, in person. A quorum must consist of 50% plus one member. Whenever a quorum cannot be achieved, the Chairperson must adjourn the meeting for up to fourteen days. If at least 50% of the members are present at the adjourned meeting as per the above, the Chairperson may deem the committee to be properly constituted even if a quorum is not present. Where by the Audit Committee does not quorate it should be rectified at a later stage.

4.2 The audit committee's remuneration will be determined by Council, and reviewed annually"

5. AUTHORITY

5.1 The committee is authorised by Council to investigate any activity within its terms of reference. It has, *inter alia*, the authority to interview councillors, other members of executive management, advisors and consultants and other employees of the municipality and to deal directly with the internal auditors and the Auditor- General and to investigate matters requiring further action. Furthermore, it shall have unrestricted access to records and information and be able to peruse appropriate resources.

5.2 The committee is authorised by Council to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary. Such outsourced services with regards to legal advice or any related opinions shall be in line with the MFMA and SCM prescripts

5.3 The committee is to act in a review and advisory function to the Council.



AMAJUBA DISTRICT MUNICIPALITY AUDIT COMMITTEE CHARTER AND TERMS OF REFERENCE

6. TERMS OF REFERENCE

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

6.1 General Duties and Responsibilities

- i) review and comment on the overall strategic audit plan, of the Auditor-General, for the audit of the Municipality; review and approve the audit plan of the internal auditors;
- (ii) evaluate the overall efficiency and effectiveness of the internal audit function through regular meetings;
- (iii) determine that no management restrictions are being placed upon either the internal auditors or the Auditor-General;
- (vi) evaluate the adequacy and effectiveness of the Municipality's administrative, operating, and accounting policies through active communication with operating management and internal audit;
- (v) evaluate the adequacy of the municipality's accounting control system by reviewing written reports from the Auditor-General, after having been tabled at the Council meetings and monitor management's responses and actions to correct any noted deficiencies;
- (vi) review the management reports and cash flows;
- (vii) review any regulatory reports submitted or requested by the National Department of Cooperative Governance and Traditional Affairs, Provincial Department of Cooperative Governance and Traditional Affairs, KwaZulu-Natal Provincial Treasury and National Treasury and monitor management's response to them;
- (vii) upon reasonable notice, request municipal officials to attend a meeting to explain any matter relating to any audit undertaken;



AMAJUBA DISTRICT MUNICIPALITY AUDIT COMMITTEE CHARTER AND TERMS OF REFERENCE

- (ix) direct the Municipal Manager to provide status reports detailing progress made in the implementation of the Audit Committee's resolutions;
 - (x) evaluate the municipalities' exposure to fraud;
 - (xi) consider reports from the Council's law advisor;
 - (xii) take an active interest in ethical considerations regarding the Council's policies and practices;
 - (xiii) monitor the standard of corporate conduct in areas such as arm's- length dealings and likely conflicts of interest;
 - (xv) require reports from management and the internal auditors on any significant proposed regulatory, accounting or reporting issue, and assess the potential impact upon the municipalities' financial reporting process;
 - (xvi) review and comment on all significant accounting policy changes;
 - (xvii) identify and direct any special projects or investigations deemed necessary;
 - (xviii) prepare a report to the Council summarising work performed by the audit committee to fully discharge its duties during the year;
 - (xix) receive reports on all material fraud and irregularities and ensure that adequate/appropriate action has been taken to prevent recurrence thereof;
 - (xx) prepare reports on quarterly basis to the Council in respect of all the committee's activities undertaken during each quarter;
 - (xxi) prepare and present reports to the Oversight Committee/Executive Committee/Council, in person whenever requested;
 - (xxii) provide the Municipal Manager with reports related committee findings and recommendations or resolutions from a meeting;
 - (xxiii) approve an internal Audit Charter;



AMAJUBA DISTRICT MUNICIPALITY AUDIT COMMITTEE CHARTER AND TERMS OF REFERENCE

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- (xxiv) review and recommend Audit Committee Charter to Council for ratification.
 - (xv) Concur with any appointment and termination of the services of the Chief Audit Executive.

6.1 Duties in Relation to Performance Management

In carrying out its duties and responsibilities in relation to Performance Management as required by Local Government: Municipal Planning and Performance Management Regulations of 2001, promulgated in terms of S120 of the Local Government: Municipal Systems Act, 32 of 2000 (as amended), the audit committee shall

- (i) Review mechanisms, systems and processes for the monitoring, measurement and review of performance in respect of the key performance and indicators and performance targets that have been developed and implemented by the municipality;
- (ii) ensure that its reviews focus on the economy, efficiency, effectiveness and impact in so as the key performance indicators and performance targets set out by the municipality;
- (iii) ensure that the mechanisms, systems and process for the monitoring of performance are designed in a manner that enables the municipality to detect early indications of under-performance and that there is a provision for corrective measures;
- (iv) ensure that the mechanisms, systems and processes for auditing of performance measurements have been development; implemented and are effective and part of the internal auditing process;
- (v) review the quarterly reports submitted to it in terms of Local Government Municipal Planning and Performance Regulation of 2001;
- (vi) provide for reporting to the municipal council at least twice a year.



AMAJUBA DISTRICT MUNICIPALITY AUDIT COMMITTEE CHARTER AND TERMS OF REFERENCE

7. DISCLOSURE OF INTEREST

7.1 Every member, appointed or co-opted, involved in the ADMAC meetings, deliberation and resolutions, is obliged to declare any conflict of interest.

7.2 Every member of the ADMAC is responsible for representing the interests of the ADMAC and the Amajuba District Municipality.

7.3 A member of the ADMAC may not -

(i) use his or her position to promote any special financial or other interest, including but not limited to the interest of any individual, company or other entity;

(ii) act in a manner that is inconsistent with his or her membership and the role of the ADMAC;

(iii) expose himself or herself to any situation involving the risk of a conflict between his or her official and / or professional responsibilities and a personal interest;

(iv) use his or her position or any information entrusted to him or her or obtained as a result of his or her involvement in the ADMAC to enrich himself or herself or improperly benefit any other person or entity; and

(v) act in a manner that may compromise the credibility, workings and integrity of the ADMAC and that of the Amajuba District Municipality.

8. REMOVAL FROM OFFICE OF THE ADMAC MEMBERS



AMAJUBA DISTRICT MUNICIPALITY AUDIT COMMITTEE CHARTER AND TERMS OF REFERENCE

8.1 The Council may remove a member of the ADMAC from office if the member -

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

8.2. The Council must remove a member of the ADMAC from office if the member -

- (i) is convicted of an offence involving dishonesty, including but not limited to offences such as theft, fraud, forgery, perjury or an offence under the Prevention and Combating of Corrupt Activities Act, 2004(Act No. 12 of 2004); or
- (ii) is convicted of an offence and sentenced.

Adopted by the Audit Committee on the meeting held on.....

Signature of the Chairperson of the Audit Committee:

Approved by the Council on the meeting held on

Signature of the Speaker: