

THEMBISILE HANI LOCAL MUNICIPALITY



AUDIT COMMITTEE CHARTER

2014/2015

1. INTRODUCTION

In terms of Section 166 (1) of the MFMA, the act states that “each municipality and each municipal entity must have an Audit Committee, subject to subsection (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.

2. PURPOSE OF THE CHARTER

The purpose of this charter is to assist the Audit Committee in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control & risk management, the audit process, and municipality’s process for monitoring compliance with laws and regulations and the code of conduct.

3. AUTHORITY AND POWERS OF THE AUDIT COMMITTEE

The Audit Committee has authority to conduct or authorize investigations into any matters within its scope of responsibility in conjunction with subsection (3) of the MFMA, Section 166.

In performing its functions, the Audit Committee shall:-

- a) Have access to the financial records and other relevant information of the municipality; and
- b) Liaise with—
 - i. The internal audit unit of the municipality; and
 - ii. The person designated by the Auditor-General South Africa to audit the financial statements of the municipality.

The Audit Committee is empowered, but not limited to, the following:

- a) Resolve any disagreements between management and the auditors regarding financial reporting;
- b) Pre-approve all auditing and non-audit services;
- c) Retain independent counsel, accountants or others in consultation with council, to advise the committee or assist in the conduct of an investigation;
- d) Seek any information it requires from all employees; and
- e) Meet with management, Auditor-General or any designee external auditor, or outside counsel, as necessary.

4. COMPOSITION

The Audit Committee shall consist of at least three members who are neither in the employ of an organ of state nor are Councillors of Thembisile Hani Local Municipality. They shall be recruited from independent experts in audit, finance, accounting, information technology and related fields. The Council in consultation with the Accounting Officer shall appoint the committee members and the chairperson.

The Council of Thembisile Hani Local Municipality shall, from time to time, review and revise (when appropriate) the composition of the Audit Committee in accordance with recommendations received, taking into account the need for an adequate combination of financial and business skills and knowledge. At least one member must be a financial expert as defined by the legislation and each member must be independent and financially literate.

5. MEETINGS

In terms of Section 166 (4) (b) of the MFMA, the Audit Committee must meet as often as required to perform its functions, but at least four times a year.

5.1. Number of Meetings and Attendance

A minimum of four (4) meetings shall be held during each financial year (one meeting per quarter) with authority to convene additional meetings as circumstances may require. A minimum of two (2) meetings per annum shall be for the purpose of municipal performance evaluation. All committee members are expected to attend each meeting. If a member of the Audit Committee fails to attend two consecutive meetings as scheduled during the financial year, the matter shall be brought to the attention of the Council of Thembisile Hani Local Municipality for it to take a decision regarding the membership of such a member.

Special meetings may be convened with the Chairperson's approval. Any member of the Audit Committee, the Accounting Officer, the Chief Financial Officer, the Chief Internal Auditor or the Auditor-General South Africa may request a special meeting if they consider that one is necessary.

The committee will invite members of management, auditors, or others as standing invitees namely SALGA, National & Provincial Treasury, Department of Co-operative Governance and Traditional Affairs, Department of Agriculture and Rural Development and Nkangala District Municipality, to attend meetings and provide pertinent information as necessary. All MFMA Section 56 Managers, the Accounting Officer and the Chief Financial Officer are compulsory standing invitees in each Audit Committee meeting.

5.2. Quorum

Where the members are 3, the quorum for the meetings shall be 2 members present in the meeting.

5.3. Notice of Meetings

The Chairperson through the Secretariat of the Audit Committee shall give in writing to all members of the Audit Committee and other stakeholders notice of each meeting to be held, at least seven (7) days prior to the date on which such a meeting is to be held. The Chairperson may waive the notice period for a special meeting where circumstances necessitate it. However, the Chairperson must submit reasons for such a decision to the meeting.

5.4. Agenda for meetings

The agenda of the meeting together with the audit pack shall be prepared and distributed at least five (5) days prior to the meeting date. All agenda items should be provided to the Secretariat of the Audit Committee at least two (2) days before the agenda is distributed. In an event where the audit packs did not reach the members within the stipulated times, the Audit Committee will use its discretion and may consider waiving the number of days pending the reasonability of circumstances.

5.5. Minutes of meetings

All meetings of the Audit Committee shall be recorded. The Secretariat of the Audit Committee shall circulate the minutes of the meetings to all Committee members within seven (7) days after such a meeting and such minutes shall be approved in subsequent meetings.

5.6. Declaration of interest

All Audit Committee members shall be required to sign declaration of interest forms in each meeting attended.

6. REMUNERATION

Audit committee members not holding executive office in the municipality or not being in the public service shall be remunerated for their services on the Audit Committee based on the meetings attended. The members of the Audit Committee shall be paid in line with the Council Resolution. The chairperson of the Audit Committee shall be paid additional remuneration for attendance to and/or for other services related to the Audit Committee.

7. RESPONSIBILITIES

The Audit Committee shall carry its functions in terms of Section 166 of the MFMA (Municipal Finance Management Act). In addition, the committee shall examine any other matter referred to it by senior management, provided that such requests are legitimate and within the scope of the committee's duties and statutory roles as outlined in Section 166 of Municipal Finance Management Act.

These amongst others include the following responsibilities:

7.1. Financial Statements and Financial Reporting

- Review significant accounting and reporting issues, including complex or unusual transactions and highly judgemental areas and recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- Review with management and auditor-general or designee external auditor the results of the audit, including any difficulty encountered.
- Review the annual financial statements and consider whether they are fairly presented, complete and reflect appropriate accounting principles;

- Review other sections of the annual report and related regulatory filings before release and consider the accuracy and completeness of the information;
- Review with management and external auditors all matters required to be communicated to the committee under the generally accepted auditing standards or legislation; and
- Understand how management develops interim financial information, and nature and extent of internal and external involvement.
- Review all periodic financial compliance reports such as Section 71 Reports and mid-year & quarterly reports.

7.2. Internal Control

- Review the effectiveness of the municipality's system of internal control in addressing municipal risks, including information technology security and control; and
- 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 the management's responses.

7.3. Internal Audit

- Review with management and approve the internal audit charter, strategic and operational plans, internal audit activities, staffing (including competence and qualifications), and organisational structure of the Internal Audit Unit;
- Approve the annual internal audit plan and all major changes to the plan.
- Review the internal audit activity's performance relative to its plan;
- Ensure there are no unjustified restrictions or limitations, and review and concur on the appointment, replacement, or dismissal of the Chief Internal Auditor;
- Review with Chief Internal Auditor the internal audit budget, resource plan, activities, and organizational structure of the internal audit function;
- Review the effectiveness of the internal audit unit, including compliance with the IIA's international standards for the professional practice of Internal Auditing;
- Review and monitor management remedial action plan on internal audit findings; and
- On a regular basis, meet separately with the Chief Internal Auditor to discuss any matters that the committee or internal audit believes should be discussed privately.

7.4. Risk Management

- Review whether management has a comprehensive risk management framework;
- Review whether a sound and effective approach has been followed in developing strategic risk management plans;
- Review the impact of the municipality's risk management framework on the control environment; and

- Review the municipality's fraud prevention plan so as to be satisfied that the municipality has appropriate processes and systems in place to capture, monitor and effectively investigate fraudulent activities.

7.5. External Audit

- Review the Auditor-General 's proposed audit scope and approach, including coordination of audit effort with internal audit; and
- On a regular basis, meet separately with the Auditor-General to discuss any matters that the committee or auditors believe should be discussed privately.
- Evaluate management responses to the reports or findings of the Auditor-General.

7.6. Compliance

- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of non-compliance;
- Review the findings of any examinations by regulatory agencies and any auditor; and
- Obtain regular updates from management and municipality legal department regarding compliance matter.
- Appropriately respond to Council resolution(s) pertaining to it and its function.

7.7. Performance Management and Performance Evaluation

- Carry out the functions of a Performance Audit Committee and:
 - a. review the quarterly reports submitted to it and the MM by the internal auditors;
 - b. review the municipality's performance management system and make recommendations in this regard to Council; and
 - c. at least twice during a financial year submit reports to Council.
- In reviewing the municipality's performance management system, the Committee must focus on economy, efficiency, effectiveness and impact in so far as the key performance indicators and performance targets set by the Municipality are concerned.

7.8. Effective governance

7.9. Other Responsibilities

- Perform other activities related to this charter as requested by the Council;
- Institute and oversee special investigations as needed;
- Annually review and assess the adequacy of the committee charter, requesting the Council approval for proposed changes and ensure appropriate disclosure as may be required by applicable legislation, regulation or policy; and
- Annually confirm that all responsibilities outlined in this charter have been carried out.

8. REPORTING

The Audit Committee shall:-

- Report quarterly to the Council of Thembisile Hani Local Municipality about the Committee activities, issues, and related recommendations;
- Make recommendations to the Accounting Officer and management;
- Make comments on the annual report of the municipality regarding the effectiveness of the internal control, risk management and governance processes; and
- Report annually to the Council of Thembisile Hani Local Municipality, describing the Audit Committee's composition, responsibilities and how they were discharged, and any other information required.

9. EFFECTIVENESS


The effectiveness of the Audit Committee and its members shall be evaluated on an annual basis by the municipality through appropriate tools and technologies and feedback shall be provided to the Audit Committee members thereafter.

10. REVIEW OF THE CHARTER

This Charter shall be reviewed annually by the Audit Committee.

11. APPROVAL:


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Audit Committee Chairperson


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Council Representative

23 JUNE 2014
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Date

23/06/2014
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Date