

UMJINDI LOCAL MUNICIPALITY



2008/2009

AUDIT COMMITTEE CHARTER

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AUDIT COMMITTEE CHARTER

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UMJINDI MUNICIPALITY

AUDIT COMMITTEE

CHARTER

A. INTRODUCTION

1. The Code of Practices and Conduct published in the King II Report on Corporate Governance requires management to publicly confirm that they have reviewed the effectiveness of the internal control, risk management, corporate governance and financial reporting of the organizations. The implementation of control and information systems is essential to the effective discharge of Management's responsibilities.
2. Management continuously reviews current trends and best practice in relation to corporate governance. As part of management's plan to fulfill its obligations to demonstrate greater accountability and ensuring higher quality of service, Management has decided to address internal control through the establishment of an Audit Committee.
3. The charter sets out the specific responsibilities delegated by the member of the Executive Committee and the Accounting Officer to the Audit Committee and details the manner in which the Audit Committee will operate.
4. Section 10 of the Local Government Transition Act (Act 209 of 1993) as incorporated into the Municipal Structures Act (Act 177 of 1998) and sections 165 and 166 of the Municipal Finance Management Act (Act 56 of 2003), state that each municipality must establish an Internal Audit function and an Audit Committee.
5. It is for these reasons therefore that Council resolved on 25 May 2004 (B 2) to appoint an Audit Committee.

B. PURPOSE OF THE CHARTER

6. This Charter sets out the specific responsibilities delegated by the Council to the Audit Committee and spells out the manner in which the Audit Committee will operate.
7. The Charter is subject to annual review.

C. EXPECTATIONS OF COUNCIL PERTAINING TO THE AUDIT COMMITTEE

8. The implementation of risk management, performance management, corporate governance principles, accurate financial reporting, control and financial systems is essential for the effective discharge of management's responsibilities.
9. Council has the expectation that the Audit Committee will add value to Council's strive towards ensuring that:
 - 9.1 The best possible financial, administrative and technical systems are in place to support management in their endeavors to fulfill the vision and mission statements of Council.

- 9.2 Credible audit reports which represents a true reflection of Council's performance in the delivery of services to the community, in terms of the IDP (Integrated Development Plan) and the PMS
- 9.3 Credible audit reports in terms of Council's financial statements, internal control and the supply chain management (procurement of goods and services)

D. ROLE OF THE AUDIT COMMITTEE

- 10. The Committee will assist council by providing inputs to ensure effective systems that complement service delivery, safeguarding of municipal assets, the maintenance of financial records, risk management, corporate governance and an effective internal control system.
- 11. The Committee shall consider any matters relating to the financial affairs of the Council and to the internal and external audit function, which is desirable. The Committee shall also investigate any other matters referred to it by Council or the Municipal Manager, provided that such request is legitimate and within the scope of the Committee's duties.

E. AUTHORITY AND POWERS OF THE AUDIT COMMITTEE

- 12. In terms of section 166 (2) of the Municipal Finance Management Act, the Committee is an independent advisory body with no executive powers.
- 13. The Committee shall function as a sub-committee of Council
- 14. The Committee will not perform any management functions or assume any management responsibilities.
- 15. The Committee will make recommendations to management via Council, resulting from activities carried out by the Committee in terms of its reference, see attached annexure A.

F. COMPOSITION OF THE COMMITTEE

- 16. Section 166 (4) (a) of the MFMA states that 'an Audit Committee must consist of at least three persons with appropriate experience, of whom the majority may not be in the employ of the municipality.
- 17. Council must appoint the members of the Committee to serve for at least two years.
- 18. The following non-members will on invitation attend Committee meetings:
 - 18.1 - The Municipal Manager or his/her nominee;
 - 18.2 - The Chief Financial Officer or his/her nominee;
 - 18.3 - Senior Management Staff;
 - 18.4 - The Internal Auditor or his/her nominee;
- 19. The following non-members may attend meetings:
 - 19.1 A representative from the Office of the Auditor General;
 - 19.2 The Committee may excuse any of the non-members from the meeting.
 - 19.3 The Committee may invite any other official or councilor to attend a meeting when there is a functional responsibility to be discussed.
 - 19.4 One of the members who is not in the employ of the municipality must be appointed as the chairperson of the committee

- 19.5 The Audit Committee may appoint the Internal Auditor to be the secretary of the committee.
- 19.6 No councilor may be a member of the audit committee.

G. Vacancy

- 20. In the event of a vacancy occurring amongst the members of the Audit Committee, the municipality must fill that vacancy for the un-expired portion of the vacating member's term of appointment

H. OBJECTIVES

- 21. In order to fulfill its role, the Committee will have the following objectives in terms of section 166 (2) (a) (I to IX) of the Municipal Finance Management Act of 2003:
 - 22. Advise the municipal Council, the political office-bearers, the accounting officer and the management staff of the municipality, on matters relating to:
 - 22.1 Internal financial control and internal audits;
 - 22.2 Risk management
 - 22.3 Accounting policies;
 - 22.4 The adequacy, reliability and accuracy of financial reporting and information;
 - 22.5 Performance management
 - 22.6 Effective governance
 - 22.7 Compliance with the MFMA, Division of Revenue Act (DoRA) and any other applicable legislation;
 - 22.8 Performance evaluation; and
 - 22.9 Any other issues referred to it by the municipality.
 - 23. Section 14 (2) (c) of the Local Government Municipal Planning and Performance Management Regulations (R796 dated 24 August 2001) states that a municipality may utilize any Audit Committee established in terms of other applicable legislation as the Performance Audit Committee of the said municipality.
 - 24. Council has on 30 September 2003 resolved with item A.382 that, the Performance Management System be audited and that an External Audit Committee be appointed to fulfill the following objectives:
 - 24.1 To advise Council on the functionality of the performance management system
 - 24.2 To advise Council whether the PMS complies with the Act
 - 24.3 To advise Council on the extent to which the municipality's performance measures are reliable in measuring performance
 - 24.4 To advise Council on the effectiveness of the financial administrative system in terms of systems auditing as well as making recommendations with regard to perceived shortcomings.
 - 24.5 To ensure effective functioning of the Internal Audit unit as required by the office of the Auditor General.
 - 24.6 To advise Council on the standard of service pertaining to internal audit function.

I. FUNCTIONS

- 25. In order to reach the objectives, the Audit Committee will have the following functions as prescribed in section 166 (2) (a-e) of the Municipal Finance Management Act, 2003, Local

Government Municipal and Performance Management Regulation, 2001 and the office of the Auditor-General:

- 25.1 To advise the Council on all matters related to compliance and effective governance;
- 25.2 To review the annual financial statements to provide Council with an authoritative and credible view of the financial position of the municipality, its efficiency and its overall level of compliance with the MFMA, the annual DoRA and other applicable legislation;
- 25.3 Respond to the council on any issues raised by the Auditor-General in the audit report;
- 25.4 Carry out such investigations into the financial affairs of the municipality as council may request;
- 25.5 To perform such other functions as may be prescribed to it by council;
- 25.6 To review the quarterly reports submitted to it by the internal audit;
- 25.7 To evaluate audit reports pertaining to financial, administrative and technical systems;
- 25.8 To evaluate the compliance to existing policies and relevant legislation;
- 25.9 To evaluate audited financial statements and reports with regard to the procurement of items and services;
- 25.10 The compilation of reports to Council, at least twice during a financial year;
- 25.11 To review the performance management system and make recommendations in this regard to Council;
- 25.12 To assess whether the performance indicators are sufficient;
- 25.13 To determine possible reasons for discrepancies between performance and targets;
- 25.14 To identify major risks to which Council is exposed and determine the extent to which risks have been minimized;
- 25.15 To review significant transactions that does not normally form part of Council's business;
- 25.16 To review the disaster recovery plans;
- 25.17 To review the annual report of the municipality;
- 25.18 Investigating cases of fraud, misbehavior and conflict of interest involving employees;
- 25.19 To focus on and review changes in the accounting policies.
- 25.20 Making recommendations to Council and also carrying out its responsibility to implement the recommendations.
- 25.21 Investigate any matter it deems necessary for the performance of its duties and the exercise of its powers.
- 25.2 On a regular basis, review its own effectiveness against pre-set criteria such as:
 - 25.2.1 Did the Audit Committee have enough meetings?
 - 25.2.2 Did all members participate fully in the discussions at the meeting?
 - 25.2.3 How good was the co-operation with the internal Audit function, Management and the Office of the Auditor-General?
26. Review the plans of the Internal Audit function and in so doing; ensure that the plan addresses the high-risk areas and ensure that adequate resources are available.
27. Review audit results and action plans implemented by management.
28. Provide support to the Internal Audit function.
29. Ensure that no restrictions or limitations are placed on the Internal Audit section.
30. Evaluate the activities of the Internal Audit function in terms of their role as prescribed by legislation.

31. Provide council with comments and recommendations with regard to the proposed budget for the following year.

J. ACCESS TO INFORMATION

32. It is stated in section 166 (3) of the Municipal Finance Management Act that, in performing its functions, an Audit Committee: -

- (a) has access to the financial records and other relevant information of the municipality.
- (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.

K. REPORTING RESPONSIBILITIES

33. The Committee reports directly to the Mayor, Executive Committee and Council.

34. Written reports should be submitted after each meeting of the Committee.

35. The Chairperson of the committee shall, at the end of each financial year submit an annual report to council, summarizing its activities and recommendations during the previous financial year.

- 35.1 The Audit Committee must, in the annual report of the institution comment on;

- the effectiveness of the internal control;
- the quality of in year management and monthly reports submitted in terms of the MFMA and the Division of Revenue Act, and;
- Its evaluation of the financial statements

35.2 Responsibilities in respect of the appointment and discharge of the Internal and External Auditor

No appointment and discharge of the Internal and External Auditor (contractual appointments) shall take place without the recommendation to the Executive Management by the Audit Committee, and which should emanate only after assuring itself about all the relevant facts and circumstances, and gaining satisfaction about the fairness and acceptability of the indicated outcome (not applicable to Office of the AG)

In the case of the appointment and discharge of the Head of Internal Audit personnel (in full time employment), the Audit Committee should be involved in the process.

35.3 Specialized Investigation

When deemed necessary due to certain facts that may come to the notice of the Audit Committee, coupled with the special nature and/or technical requirements of the situation at hand, the Audit Committee may consult with the Accounting Officer, (on the basis of authorized procedures and within budgetary limits and restrictions) for the procurement of forensic, computer and other experts, to shed some light on specific problematic and/or complex issues.

L. COMMUNICATION

- 36. According to the office of the Auditor-General, there should be a direct line of communication between the Audit Committee and the Internal Audit section, the office of the Auditor-General and Council.
- 37. The Internal Audit section must submit quarterly reports to the Committee pertaining to their audits and investigations. These reports must be parts of the agenda of the Committee.

M. ADMINISTRATIVE PROCEDURES

- 38. The directorate of the Municipal Manager is responsible for all administrative matters pertaining to the Committee.
- 39. The office of the Municipal Manager will provide reports to the Committee and will see to it that reports from the Committee serve before Council.
- 40. The Chairperson of the Committee or his/her representative may attend the meetings of the Finance Committee, Procurement Committee, Executive Committee and Council, when reports of the Committee serve before such Committees.
- 41. The Committee may initiate its own reports to serve before Council, in relation to its terms of reference (section 166 of the MFMA, 2003).
- 42. All meetings of the Committee will be recorded and the minutes will be circulated to all members, the Municipal Manager and members of the Executive Committee.

N. MEETINGS

- 43. In terms of section 166. (4) (b) of the Municipal Finance Management Act, an Audit Committee must meet as often as required to perform its function, but at least four times a year.
- 44. Council has resolved that the Committee must meet four times a year, but any member of the Audit Committee may call a special meeting of the Audit Committee.
- 45. A quorum of 50% of members will be needed to constitute a meeting.
- 46. Notice in writing shall be given to all members of the committee and other interested parties of each meeting to be held at least 14 days prior to the date on which such meetings is to be held.

O. AGENDA OF MEETINGS

- 47. At least seven days prior to each meeting an agenda of items to be discussed at the meeting shall be prepared and distributed to all members of the audit committee.
- 48. Any person who is going to attend a meeting may, not less than two days prior to the meeting, request the secretary of the audit committee to add such items, as he/she deems necessary to the agenda.

P. MINUTES OF MEETINGS

49. The Audit Committee shall keep minutes of its meetings, which conform to the requirements of committees of a municipal council, but the minutes must be made available to all attendees within 14 days after the sitting.

Q. REMUNERATION

50. Members of the Audit Committee will be remunerated as per agreement between council and each member.
51. Council resolved with item FA. 108 (dated 29-07-2008) that, the Chairperson and the members of the Audit Committee be remunerated at R2 484.00 and R1 508.00 respectively per meeting/day subject to annual review/adjustment as per National Treasury's regulations. An additional fixed Preparation Time fee of R700.00 and R500.00 per meeting be payable to the Chairperson and the members of the Audit Committee respectively.
52. Traveling expenses for the members to attend committee meetings shall be re-imbursed at the rate determined by the latest SARS annual guidelines.
53. Section 14(2) (i) of the Municipal Planning and Performance Management Regulations states that Councilors and employees may not receive any remuneration pertaining to any activities of the Audit Committee.

R. CONFIDENTIALITY

54. A member of the committee shall maintain strict confidentiality in respect of any information of a confidential nature to which he/she may become privy at meetings of the committee, and shall only disclose such information as may become necessary or required for the proper performance of his/her duties and functions.

S. REVIEW OF CHARTER

55. Consideration for the review of this charter should be given on an annual basis, should changes in legislation or functional circumstances necessitate such review.

T. CONCLUSION

56. Umjindi Municipality's mission is to provide quality, accessible and affordable basic services and creating an environment that stimulates sustainable socio economic development and caring society through local democratic culture and practice.
57. Council trust that the Audit Committee will assist in this regard by helping Council to maintain effective internal control, risk management, accurate financial reporting and corporate governance principles.

Council resolution: A(216), dated: 10 AUGUST 2004

Place: Barberton (Umjindi Municipal Offices)

_____: Municipal Manager
Ms. SF MNISI

_____: Executive Mayor
Councilor RV LUKHELE

_____: Committee Chairperson
Mr. AC KEYSER