



MOLEMOLE LOCAL MUNICIPALITY AUDIT COMMITTEE CHARTER 2020/21

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1. Purpose

The purpose of this document is to outline the role, responsibilities, composition and operating guidelines of the Audit Committee of Molemole Local Municipality.

The Audit Committee is established in compliance with and reference to the following:

- 1.1. Local Government: Municipal Finance Management Act no 56, 2003(Chapter 14 Section 166)
- 1.2. Local Government: Municipal System Act no 32, 2000 (Chapter 6).
- 1.3. National Treasury Internal Audit Framework (Chapter 2).
- 1.4. The King III and King IV Report on Corporate Governance.
- 1.5. Local Government Municipal Planning and Performance Management Regulations 2001(Paragraph 2(a) and 2(c).
- 1.6. Municipal Finance Management Act, Circular 65.

2. Authority and independence

- 2.1 An Audit Committee is an independent advisory body which must in terms of Section 166(2)(a) of the MFMA
- (a) Advise the municipal Council, the political office bearers, the accounting officer and the management staff of the municipality or the board of directors, 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 legislations.
 - (viii) performance evaluation;
 - (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.

2.2 The Audit Committee needs to review with relations to MSCOA:

- (a) Whether management has a comprehensive risk management framework guiding the management of mSCOA project risks;
- (b) Whether a sound and effective approach has been followed in developing the strategic risk management plan for the mSCOA project;
- (c) The impact of the municipality's risk management framework on particularly the control environment of the mSCOA project; and
- (d) The municipality's "mSCOA project" - fraud prevention plan to be satisfied that the municipality has appropriate processes and systems in place to capture, monitor and effectively investigate any fraudulent activities related to the project.

2.3. The audit committee shall have the authority to perform functions, and to obtain any information and advice, from within or outside the municipality or entity, in order to perform its functions as legislated. Appropriate resources will be made available to the audit committee to perform its functions as agreed in its charter.

2.4. The Audit Committee may:

- (a) Communicate with the council, municipal manager or the internal and external auditors of the municipality or municipal entity;
- (b) Have access to municipal records containing information that is needed to perform its duties or exercise its powers;
- (c) Request any relevant person to attend any of its meetings, and, if necessary, to provide information requested by the committee; and
- (d) Conduct investigations into the financial affairs of the municipality or municipal entity, as may be requested by 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.
- (e) Resolve any disagreements between management and the external auditors(AGSA) regarding financial reporting;
- (f) Pre-approve all internal audit services;
- (g) Obtain advice from external parties as necessary.

The MPAC, in discharging its responsibilities, may make use of any information provided by the audit committee to avoid duplication of effort.

3. Composition

The Audit Committee (AC) shall consist of a minimum of three (3) members and a maximum of five (5) members of which none of them will be an employee of the municipality. The committee is constituted so as to ensure independence and its membership will be disclosed in the annual report of the municipality. Members should be qualified in different disciplines such as Financial management, Legal, Performance management, Engineering, IT, Legal, Human Resources, Risk Management, Internal Audit.

The following non-members shall attend all meetings:

- (i) The Accounting Officer or his/her nominee
- (ii) All Senior Managers
- (iii) Manager Internal Audit
- (iv) The Risk Officer

The following non-members may attend meetings:

- (i) Chairperson of Finance Portfolio.
- (ii) Chairperson of the Municipal Public Accounts Committee.
- (iii) Chairperson of Technical Services Portfolio.
- (iv) Representatives from the Office of the Auditor-General; Provincial Treasury; National Treasury and Department of Co-operative Governance, Human Settlements and Traditional Affairs and Capricorn District Municipality.

3.1. Appointment of members

- 3.1.1. The Audit Committee members must be appointed by the Council of the municipality as required by Section 166(5) of the MFMA.
- 3.1.2. One of the members not in the employ of the municipality shall be appointed as the Chairperson.
- 3.1.3. Councilors are not allowed to be members of the Audit Committee.
- 3.1.4. The Council shall ensure that Audit Committee members do not serve on more than three (3) local government Audit Committees simultaneously.

3.2. Duration of the term

- 3.2.1 The duration of membership of the Audit Committee shall be three (3) years which may be renewed/extended by Council based on performance.
- 3.2.2 The Chairperson shall be appointed for a period of three (3) years.
- 3.2.3 Members should not be contracted continuously for a period exceeding six (6) years.

- 3.2.4 A cooling off period for two years should be allowed before appointing the same members after serving continuously for six (6) years.
- 3.2.5 The appointed members shall enter into contract with the municipality.
- 3.2.6 Rotation of members shall be undertaken as it enhances the independence of the Audit Committee.

3.3. Induction of members

- 3.3.1. A formal process of induction must be facilitated by the Manager Internal Audit in consultation with the Accounting Officer. During the induction of members, the roles and responsibilities of the Audit Committee must be clarified.
- 3.3.2. The induction process should entail sufficient briefings and information on their roles, responsibilities, accountability and management's expectations.
- 3.3.3. Induction of members can also be facilitated by Provincial Treasury or National Treasury, upon request.
- 3.3.4. New members should meet and be briefed by the Accounting officer, Chief Financial Officer, Chairperson of the Audit Committee and the Manager Internal Audit.
- 3.3.5. New members should also be introduced to the External Auditors.

4. Meetings

- 4.1. The Audit Committee shall meet at least four times a year, with authority to convene additional meetings as circumstances require.
- 4.2. The Chairperson of the Audit Committee is responsible for calling meetings and should do so in consultation with the Accounting Officer and Manager Internal Audit.
- 4.3. The committee may invite members of management, external auditors, or others to attend meetings and provide pertinent information as required.
- 4.4. The secretariat will in consultation with the Chairperson prepare and send notices of meetings.
- 4.5. Meeting agenda will be prepared and provided seven (7) days before the meeting to members, along with appropriate briefing materials.
- 4.6. Minutes should be prepared, submitted to the members within five (5) working days after the meeting.
- 4.7. A Chairperson may convene a special meeting at the request of any member where necessary which should be reported to the Municipal Council.
- 4.8. The relevant Council support personnel shall be the secretariat of the committee meetings or such other person as nominated by the Council.
- 4.9. The meeting shall be valid when there is a quorum of 50% plus one members.

5. Membership and Independence

Audit Committee members should be independent in exercising their responsibility and the following are required-

- 5.1. The Audit committee and members should be independent of the municipality.
- 5.2. The Audit committee should not be biased but exhibit an independent mental attitude during deliberations.
- 5.3. No member should carry out business with the municipality.
- 5.4. No member may act in a manner that may compromise the credibility, workings and integrity of the committee and the municipality.

6. Responsibilities

6.1. Annual Financial Statements the Audit Committee should:

Review and challenge where necessary:

- 6.1.1. Arithmetical accuracy and consistency;
- 6.1.2. Consistency of, and any changes to, accounting policies, comparing to prior years;
- 6.1.3. Methods used to account for significant or unusual transactions where different approaches are possible;
- 6.1.4. Whether the Municipality has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account previous audit outcomes;
- 6.1.5. The quality of disclosure in the Municipality's financial reports and the context in which statements are made;
- 6.1.6. 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;
- 6.1.7. Whether all material issues in prior reports by the AGSA have been appropriately accounted for, resulting in fair presentation;
- 6.1.8. The 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, efficiency and solvency ratios, etc.

6.2. Internal Control

- 6.2.1. Review the effectiveness of the municipality's risk management and related policies, internal control system, including information technology security and control.
- 6.2.2. Review the controls designed to ensure that assets are safeguarded.
- 6.2.3. Consider the effectiveness of the municipality's system of internal control, including information technology security and control; and
- 6.2.4. Monitor the implementation of the corrective measures over the weaknesses identified by both the internal and external auditors.
- 6.2.5. Establish whether the municipality has relevant policies and procedures in place and that those are adequate, effective and regularly updated.
- 6.2.6. Determine appropriate processes are complied with on a regular basis.

6.3. Internal Audit

The Audit Committee must in relation to Internal Audit:

- 6.3.1. Review and approve with management and the Manager Internal Audit the charter, strategic and operational plans, internal audit activities, staffing, and municipality structure of the Internal Audit Activity (IAA);
- 6.3.2. Review and approve the Internal Audit plan, its scope and any major changes to it, ensuring that it covers the key risks and that there is appropriate coordination with the External Auditors.
- 6.3.3. Resolve any difficulties or unjustified restrictions or limitations on the scope of Internal Audit work;
- 6.3.4. Resolve any significant disagreements between Auditors and management.
- 6.3.5. Review significant findings and recommendations by Internal Audit and management responses thereof;
- 6.3.6. Concur with the appointment , replacement or termination of the services of the Manager Internal Audit;
- 6.3.7. Review the effectiveness of IAA, including compliance with the Institute of Internal Auditor's International Standards for the Professional Practice of Internal Auditing;
- 6.3.8. Review the Internal Audit development plan and discuss related budget with the Accounting Officer; and
- 6.3.9. 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.

6.4. External Audit

The Audit Committee must in relation to external audit:

- 6.4.1. Review the external auditor's proposed audit scope and approach, including coordination of audit effort with internal audit; and
- 6.4.2. On a regular basis, meet separately with the external auditors to discuss any matters that the committee or auditors believe should be discussed privately.
- 6.4.3. Ensure that there are no restrictions and limitations placed on the External Auditors.
- 6.4.4. Review any interim reports issued in order to take cognizance of the issues raised in determining the follow up work by the Internal Audit.
- 6.4.5. Provide advice to the Accounting Officer on action taken relating to significant matters raised in external audit reports.

6.5. Risk Management

The Audit Committee responsibilities in relation to risk management shall include;

- 6.5.1. To receive and review risk Management report on a quarterly basis.
- 6.5.2. The Audit Committee must provide an independent and objective view of the effectiveness of the municipality's risk management.
- 6.5.3. Ensuring that the Internal Audit plans are aligned to the risk profile of the municipality;
 - (i) Financial reporting risks, including risk of fraud.
 - (ii) Internal financial control.
 - (iii) Information Communication Technology risk
 - (iv) Performance management
 - (v) Municipal Standard Chart of Accounts (mSCOA) risks
- 6.5.4. Provide feedback to the Accounting Officer and report to Council on the adequacy and effectiveness of risk management, including recommendations for improvements.

6.6. Compliance Management

The Audit Committee responsibilities in relation to compliance management shall include;

- 6.6.1. 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;
- 6.6.2. Review the findings of any examinations by regulatory agencies and any auditor observations;
- 6.6.3. Obtain regular updates from management and company legal counsel regarding compliance matters.

6.7. Performance Management System

The Audit Committee will also serve as a Performance Audit Committee as prescribed by the Regulation 14(2)(c) of the Local Government: Municipal Planning and Performance Management Regulations, 2001. The committee shall be responsible for amongst others:

- 6.7.1. Review the quarterly performance reports submitted to it by the Internal Audit.
- 6.7.2. Review the municipality's Performance Management System and make recommendations in this regard to the Council of the municipality.
- 6.7.3. At least twice during a financial year submit an Performance audit report to the Council.
- 6.7.4. In reviewing the municipality's Performance Management System, the committee must focus on economy, efficiency, and effectiveness and impact in so far as the key performance indicators and performance targets set by the Municipality.

6.8. Information Technology (IT) Governance

The audit committee needs to provide advice on IT governance, controls, access, 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 formulate recommendations on systems and controls. The committee may have to advise on the appropriateness of disaster recovery and continuity plans supporting IT risks, regular testing and evaluation of plans, systems and processes.

6.9. Relationship with Stakeholders

The audit committee is required to maintain good relations with key stakeholders, such as:

- (i) Municipal Council
- (ii) Municipal Public Accounts Committee
- (iii) Finance Committee
- (iv) Accounting Officer
- (v) Management and staff
- (vi) Internal Auditors and External Auditors
- (vii) Provincial Treasury
- (viii) Cooperative Governance Human Settlements and Traditional Affairs.
- (ix) National Treasury

7. Reporting Responsibilities

- 7.1. The Audit Committee shall report to Council on a quarterly basis on the operations of Internal Audit activity and Audit Committee;
- 7.2. Review any other reports that relate to committee responsibilities.
- 7.3. Report annually on committee composition, responsibilities and how they were discharged and other relevant comments that may enhance governance and accountability.

8. Performance assessments

In order to make sure that the Audit Committee is meeting its objectives efficiently and effectively;

- 8.1. It is the responsibility of the Council to evaluate performance of the Audit Committee on an annual basis.
- 8.2. Management shall assess performance of Audit Committee on an annual basis.
- 8.3. Self-evaluation by the Committee shall be conducted annually.

9. Remuneration

- 9.1. Audit Committee members shall be remunerated for their services based on the meetings attended.
- 9.2. No remuneration will be paid for participating in the Audit Committee by officials employed by National, Provincial and Local Government ,its agencies or other entities regarded as falling within the definition of an organ of state, except out of pocket expenses which may be reimbursed.
- 9.3. Remuneration (sitting allowance) shall be determined in line with guidelines issued by National Treasury up to a maximum amount to be determined by Council.
- 9.4. The reimbursement for travelling expenses shall be made in accordance with the approved Council policy or the rate per kilometer as published and updated on a monthly basis by the National Department of Transport.

10. Resignation by Audit Committee members

- 10.1. An Audit Committee member, who wishes to resign, must give at least thirty (30) days written notice prior to resignation to the Chairperson Audit Committee and the Accounting Officer.
- 10.2. In the event of the Chairperson resigning, he/she must give at least sixty (60) days written notice of resignation to the Accounting Officer.
- 10.3. The Committee members should have the opportunity to have an exit meeting with the Council to discuss the reason for leaving and to provide feedback on their experience on the Audit Committee as well as any other issues.

11. Termination of Audit Committee membership

Termination of membership of the Audit Committee may be approved by the Council upon:

- 11.1. Failure by the Audit Committee Member to attend two ordinary consecutive meetings as per the annual schedule without valid reasons;
- 11.2. Lack of independence and/or conflict of interest;
- 11.3. Where a member has not performed to expectations; or
- 11.4. Any reason that Council may deem just and credible.

12. Declarations

All the people attending Audit Committee meetings should declare conflict of interest on matters to be discussed.

13. Approval

The Charter establishes the authority, procedures and responsibility of the Audit Committee and is to be reviewed by the Audit Committee annually and be approved by Council.

PREPARED BY



FK Moruane
Chief Audit Executive

_____ Date

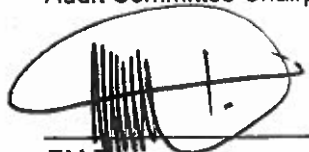
REVIEWED BY



SAB Ngobeni
Audit Committee Chairperson

_____ Date

ADOPTED BY



EM Paya
Mayor

_____ Date

GLOSSARY

Charter:	A formal written document that defines the activity's purpose, authority and responsibility.
CAE:	Top position within the Municipality responsible for the internal audit function.
IAA:	Internal Audit Activity.
Auditor General (AGSA):	Auditor-General responsible for the external audits of the Municipality.
Fraud:	Any illegal act characterised by deceit, concealment or violation of trust.
SAICA:	South African Institute of Chartered Accountants.
Internal Auditors:	In-house staff members tasked with the responsibility to perform audit activities.
Management:	Members of the Senior Management Service of the Municipality i.e. Municipal Manager, Senior Manager Corporate Services, Chief Financial Officer, Senior Manager Planning and Economic Development, Senior Manager Community Services, Senior Manager Technical Services.
EA:	Executive Authority or Council of the municipality.
Risk:	An uncertainty of an event occurring that could have an impact on the achievement of objectives.
Accounting Officer:	A municipal official referred to in section 60 of the MFMA and excluding a person acting as the accounting officer.
Senior Management:	Municipal official referred to in section 77 of the MFMA.
Audit Committee:	Committee referred to in section 166 (4) (5) of the MFMA.