

EMNAMBITHI/LADYSMITH  
MUNICIPALITY

AUDIT COMMITTEE CHARTER

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## **1. PURPOSE**

The Audit Committee is non-executive committee in an advisory capacity to the Accounting Officer primarily responsible for oversight over Emnambithi/Ladysmith Municipality's governance, control and risk management processes.

The purpose of this charter is to set out the membership, authority, responsibility, and status of the Audit Committee within the Emnambithi/Ladysmith Municipality. The Audit Committee of the Emnambithi/Ladysmith Municipality shall perform its activities in line with this charter and the charter shall be reviewed at least annually to ensure its relevance.

## **2. LEGISLATIVE MANDATE**

**MUNICIPAL FINANCE MANAGEMENT ACT 56 OF 2003.**

**SECTION 166: REQUIREMENTS FOR THE AUDIT COMMITTEE.**

- (1) Each Municipality and each municipal entity must have an audit committee, subject to subsection (6).
- (2) An audit committee is an independent advisory body which must:
  - (a) advise the municipal council, the political office-bearers, the accounting officer and the management staff of the municipality, or the board of directors, the accounting officer and the management staff of the municipal entity, 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;
    - (vi) effective governance;
    - (vii) compliance with this Act, the annual Division of Revenue Act and any other applicable legislation; and
    - (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.

(3) In performing its functions, an audit committee

(a) has access to the financial records and other relevant information of the municipality or municipal entity; and

(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 or municipal entity.

(4) An Audit committee must:

(a) consist of at least three persons with appropriate experience, of whom the majority may not be in the employ of the municipality or municipal entity, as the case may be; and

(b) meet as often as is required to perform its functions, but at least four times a year.

(5) The members of an audit committee must be appointed by the council of the municipality

or, in the case of a municipal entity, by the council of the parent municipality. One of the members who is not in the employ of the municipality or municipal entity, must be appointed as the chairperson of the committee. No councillor may be a member of an audit committee.

(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.

### **3. OBJECTIVE AND MISSION**

The primary objective of the Audit Committee is to assist the Accounting Officer in the effective discharge of his/her responsibilities with the ultimate aim of the achievement of Emnambithi/Ladysmith Municipality's objectives. The Audit Committee oversees the functions of risk management, control and governance.

The mission of the Audit Committee is to provide Emnambithi/Ladysmith Municipality's with an oversight to governance, control and risk management processes by reviewing financial statements, reports from the internal and external auditors, status of internal control and risk management and thus providing meaningful advice to the Accounting Officer.

The Audit Committee shall provide the Internal Audit Unit with the status and level of independence it requires to effectively perform its responsibilities, as the Internal Audit Unit will report functionally to the Audit Committee.

#### **4. SCOPE**

The Audit Committee shall review the financial reporting process, the system of internal control; risk management, governance, the audit process, and the municipality's process for monitoring compliance with laws and regulations and its own code of conduct.

#### **5. AUTHORITY**

The Audit Committee is authorised to:

- Investigate any activity within its terms of reference as set out below.
- Seek independent advice, and to secure the attendance of outsiders with relevant experience and expertise, in Audit Committee meetings if it considers this to be necessary.
- Seek any information that it requires from any employee of the municipality and all employees are directed to cooperate with any request made by the committee, and
- Have direct access to the Chief: Internal Audit, Executive Management, the Accounting Officers, and the municipality's Internal and External Auditors.

The authority of the Audit Committee may be terminated and / or amended by Council from time to time if deemed necessary, however caution should be exercised to ensure that the committee is not restricted from achieving its legislated mandate.

#### **6. COMPOSITION**

The Audit Committee should consist of a minimum of three external members who have appropriate experience.

The Executive Committee will appoint members to the Audit Committee and will also elect a Committee Chair.

Ex Officio members will be the Municipal Manager, Internal Audit Unit, the Chief Financial Officer, Executive Managers, Managers and the Auditor General.

The term of appointment of the Audit Committee members is a minimum of three (3) years, and not exceeding six (6) years.

## **7. MEETINGS**

The Committee will meet at least four times a year, after consultation with the Municipal Manager to convene additional meetings as circumstances require. One such meeting shall be held prior to the preparation of the Annual Financial Statements to deal with and highlight problems raised in the previous year's Audit Report. The Committee may invite members of Management, Auditors, or others to attend meetings and provide pertinent information as necessary. Minutes will be prepared and circulated to the Executive Committee. The quorum of the Committee shall be two members.

## **8. RESPONSIBILITIES**

The Committee will carry out the following responsibilities:

### **8.1. FINANCIAL STATEMENTS**

Review interim financial reports with management and the external auditors, before filing with Provincial or National Government, and consider whether they are complete and consistent with the information known to Committee members.

### **8.2. INTERNAL CONTROL**

Consider the effectiveness of the Council's internal control over annual and interim financial reporting, including information technology security and control.

Understand the scope of internal and external auditor's review of internal control, and obtain reports on significant findings with specific reference to the safeguarding of assets, accounting records and the maintenance of effective internal control systems.

### **8.3. INTERNAL AUDIT**

Review with Management and the Internal Audit Unit the Municipality's Internal Audit charter, plans, activities, and organisational structure of the internal audit unit.

Ensure there are no unjustified restrictions or limitations on the functioning of the Internal Audit Unit.

Review the effectiveness of the internal audit activity, including compliance with the Institute of Internal Auditor's Standards for the Professional Practice of Internal Auditing.

As and when required, meet separately with the Internal Audit Section to discuss any matters that the Committee or Auditors believe should be discussed privately.

#### **8.4. EXTERNAL AUDIT**

As and when required, meet separately with the External Auditors to discuss any matters that the Committee or External Audit believes should be discussed privately.

#### **8.5. 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 observations.

Review the process for communicating the code of conduct to Council personnel and for monitoring compliance therewith.

#### **8.6. RISK AND RISK MANAGEMENT**

Review the risk management policy, risk management strategy, risk management implementation plan, and fraud risk management policy.

Review of the process implemented by management in respect of fraud prevention and ensuring that all fraud related incidents have been followed up appropriately.

#### **8.7. OTHER RESPONSIBILITIES**

Perform other activities related to this charter as requested by Management.

Institute and oversee special investigations as needed.

Review and assess the adequacy of the committee charter annually, requesting Executive Committee approval for proposed changes.

Confirm annually that all responsibilities outlined in this charter have been carried out.

Evaluate the Committee's performance on a regular basis.

## **9. REMUNERATION**

Audit Committee members shall be remunerated for their services on the Audit Committee based on the meetings attended. Remuneration shall be determined in line with the guidelines issued by National Treasury.

## **10. GENERAL**

The Council's Executive Committee has authority to make appointments, terminate and determine such remuneration as may be necessary to ensure that the Audit Committee is successfully established.

In fulfilling its role and in carrying out its duties and responsibilities, the Audit Committee may:

- Conduct such investigations and seek from any employee or Councillor such information as it considers necessary to enable it to fulfill its functions, and all employees and Councillor's shall be required to co-operate with any request made by the Audit Committee:
- To appraise and recommend improvements in financial control and accounting systems as well as to assess extraordinary items or abnormal disclosures with specific reference to:
  - the annual financial statements;
  - accounting policies and practices;
  - specific strategic reports;
  - External Audit procedure;
  - the Annual External Audit Report before submission to the relevant committee;
  - all Internal Audit Activity;
  - compliance with law, audit and accounting standards; and
  - Reports of the Head: Internal Audit.

Audit Committee members do not have any authority to make any decisions on behalf of the Council.

## 11. APPROVAL

This charter was reviewed and approved on the \_\_\_\_\_ day of \_\_\_\_\_ 2012:

\_\_\_\_\_  
**Approved by: Acting Accounting Officer**  
**M P Khathide**

\_\_\_\_\_  
**Date**

\_\_\_\_\_  
**Accepted by: The Audit Committee Chairperson**  
**G C H Gard (Chairman)**

\_\_\_\_\_  
**Date**