

EMNAMBITHI/ LADYSMITH
MUNICIPALITY
INTERNAL AUDIT SECTION



AUDIT COMMITTEE CHARTER

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1. DEFINITIONS

For purposes of this charter, unless the context indicates otherwise, the –

“Accounting Officer” means the Municipal Manager;

“Audit Committee” means an independent advisory body established in terms of Section 166 of the Municipal Finance Management Act, Act No. 56 of 2003 (MFMA) to advise the Municipal Council, Political Office Bearers, the Accounting Officer and management staff of the municipality on matters relating to internal financial control and internal audits, risk management, and others;

“Auditor-General” means the public service external auditor appointed in terms of the Auditor-General Act, 1995 and Public Audit Act, Act 25 of 2004 to express an opinion on the Council’s financial statements, as to whether they fairly represents the financial position, and the results and cash flows are prepared in accordance with prescribed accounting practice;

“Council” means the Emnambithi Local Municipality Council;

“Internal Audit Unit” is a component within the Emnambithi Local Municipal Council that is established in terms of Section 165 of the MFMA;

“Internal Controls” are measures, methods, techniques, systems whether manual, electronic or otherwise, policies, procedures and processes that have been put in place by management to prevent, detect and correct a risk;

“Municipal Entity” means a company, co-operative, trust, fund or any other corporate entity established in terms of any applicable national or provincial legislation and which operates under the ownership control of one or more municipalities; and includes, in the case of a company under’ such ownership control, any subsidiary of (that company; or a service utility.

2. PURPOSE

The purpose of this charter is to:

- 2.1 provide guideline framework on the organisation, functioning and the position of the Audit Committee (‘the Committee’) within the municipality structures;
- 2.2 define the scope, activities, purpose, statement of policy, authority, terms of reference, disclosure & removal of audit committee members from office;
- 2.3 create common understanding between the Emnambithi Local Municipal Council (‘the Council’), Political Leadership, Management and the Audit Committee members; and
- 2.4 serve as a reference in case of disagreements and disputes arising between Council, Political Leadership, Management and the Audit Committee members on matters relating to the functions, powers and authority of the Audit Committee.

3. ORGANISATION

3.1. Constitution of the Audit Committee

3.1.1 It is a committee established by Council and, reporting to the Council in terms of Section 166 of the MFMA. This committee shall be known as the Emnambithi Municipal Audit Committee (EMAC).

3.1.2 The EMAC shall be an independent advisory body which shall:-

3.1.2.1 advice the Municipal Council, the political office-bearers, the accounting officer and management staff of the municipality, on matters relating to:-

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

3.1.2.2 Review financial statements;

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

3.1.2.4 Carry out investigations into the financial affairs of the municipality;

3.1.2.5 Review the quarterly reports submitted to it in terms of Regulation (1) (c) (ii) of LGP&PMR;

3.1.2.6 Review the municipality's performance management system and make recommendations in this regard to the council of the municipality;

3.1.2.7 At least twice during a financial year submit an audit committee an audit report to the municipal council; and

3.1.2.8 In reviewing the municipality's performance management system in terms of paragraph 2.1.3.6 above, the Audit 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.

3.2 Composition of the Audit Committee

3.2.1 The EMAC shall consist of at least a minimum of three members, appointed by the Council. The Chairperson shall be appointed by the Council from among members of the EMAC and not an elected representative of the municipality in terms of Local Government Municipal Structures Act, Act 117 of 1998.

- 3.2.2 The Council shall appoint appropriately qualified, experienced, competent, fit, sober, solvent, proper, and have integrity with no criminal record and be from any relevant sector persons to serve as members of the EMAC.
- 3.2.3 All members must be independent of management, free from any conflicting relationship with any member of the Council, management and staff that would interfere with the exercise of independent judgment as an Audit Committee member.
- 3.2.4 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. The members of the committee shall as a minimum have the necessary exposure at a strategic level of Local Government environment, governance, risk management, internal audit and IT governance as a collective. 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.
- 3.2.5 The members of the committee shall serve the Audit Committee for a period to be decided by the Council, but the Council shall strive for continuity when appointing the Audit Committee members.
- 3.2.6 The Chairperson of the Audit Committee and/or Audit Committee is empowered to communicate directly and freely with the Council, Mayor, Municipal Manager or the Chief Audit Executive; and Auditor-General or to any official of the municipality.
- 3.2.7 A representative of the Auditor-General shall be invited to attend all meetings of the Audit Committee with an observer status as well to table audit reports on all Auditor-General activities and progress on audits carried out at the municipality.
- 3.2.8 The Manager Internal Audit shall also attend all meetings of the Audit Committee.
- 3.2.9 The Municipal Manager must attend all Audit Committee meetings with his Executive Managers and other Managers and staff members which in his view believe it is of necessity for them to attend.
- 3.2.10 The Audit Committee may invite Executive Managers or any other officials or consultant appointed by the municipality to appear in person before the committee to provide pertinent information, reports, clarity on issues or answer questions, as it deems necessary.
- 3.3 Secretariat to the Audit Committee
- 3.3.1 A secretariat shall be provided by Emnambithi Local Municipality to the committee to consolidate and distribute the agenda. The chairperson of the Audit Committee shall prepare the agenda in consultation with Audit Committee members and liaise with the Manager Internal Audit and Committee Officer where necessary.

- 3.3.2 Any further administrative work of the committee shall be the responsibility of internal audit unit of the municipality. .
- 3.3.3 The secretariat shall co-ordinate agenda items from the members of the audit committee, Auditor-General, Manager Internal Audit and the Municipal Manager. This activity shall take place at least fourteen (14) calendar days before the ensuing audit committee meeting.
- 3.3.4 The agenda shall be included on the Audit Committee pack and distributed to all stakeholders seven calendar (7) days before the ensuing audit committee meeting.
- 3.3.5 The secretariat shall document proper minutes of all the proceedings of the audit committee meetings and keep these minutes as determined by the archives legislation.
- 3.3.6 The Secretariat shall ensure that draft minutes are checked and verified Executive Manager: Corporate Services and the Municipal Manager and circulate the draft minutes of the Audit Committee meetings to all members & Manager Internal Audit within seven (7) working days of the Audit Committee meeting.
- 3.3.7 Minutes must be kept of all meetings of the Audit Committee, and all the resolutions, conclusions and opinions of the committee must be included therein. The Secretariat shall keep a register of all resolutions of the Audit Committee in a separate document which shall be devised by the Audit Committee.
- 3.3.8 The secretariat shall keep all audit committee matters strictly confidential and shall not disclose any matters to any official and member of the public.

4. STATEMENT OF POLICY

The audit committee shall:

- 4.1. Endeavour to adopt The King III Report on Corporate Governance in its discharge of its duties and responsibilities as a best practice.
- 4.2. 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 Emnambithi Local Municipality.
- 4.3. Evaluate the systems of internal control, risk management and governance processes that are aimed at ensuring that the municipality:
- (i) Safeguard the assets and its control;
 - (ii) Achieve on its statutory mandate;
 - (iii) Produce reliable and relevant financial and operational information;
 - (iv) Comply with laws, regulations, policies and set procedures; and
 - (v) Conduct their operations in the most effective and efficient manner.

- 4.4. Provide a forum for communication between the Council, Municipal Manager, management, Manager Internal Audit and the Auditor-General.
- 4.5. Introduce such measures as in the committee's opinion may serve to enhance the reliability, integrity and objectivity of financial statements, performance information, systems, policies, practices, operations, and financial administration and management affairs of the Municipality.

5. FREQUENCY OF MEETINGS

The committee shall meet at least four times a year, with authority to convene additional meetings, as circumstances require. The Audit Committee shall have its sittings in each quarter. All committee members are expected to attend each meeting, in person. A quorum must consist of 50% plus one member. Whenever a quorum of two-thirds 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. Decisions taken at a meeting where at least 50% members were present but did not constitute a quorum shall be ratified in the next meeting that quorate.

6. AUTHORITY OF THE AUDIT COMMITTEE

- 6.1. 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.
- 6.2. 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 outside or other independent professional advice shall be acquired through Supply Chain Management Policies, Procedures and Processes.
- 6.3. The committee is to act in a review and advisory function to the Council.

7. REPORTING AND ACCOUNTABILITY BY THE AUDIT COMMITTEE

- 7.1. The Audit Committee shall draft and adopt an Audit Committee Report which shall be presented to Council by the Chairperson of the Audit Committee on quarterly basis, summarizing the activities, recommendations and decisions/resolutions of the Audit Committee during the mid-term and financial year under review.

- 7.2. The Audit Committee Report for mid-term review shall include but not limited to the following:
- 7.2.1. interim financial statements;
 - 7.2.2. budget adjustment;
 - 7.2.3. Conditional Grants & Investments;
 - 7.2.4. Monitoring of borrowings;
 - 7.2.5. Revenue including debtors age analysis;
 - 7.2.6. Financial recovery plan/Long term Financial Plan;
 - 7.2.7. Performance management;
 - 7.2.8. Other matters of interest.
- 7.3. The Audit Committee Report to be included in the annual report of the municipality shall include but not limited to the following:
- 7.3.1. Systems of internal control;
 - 7.3.2. Risk management;
 - 7.3.3. Annual financial statements;
 - 7.3.4. Financial reporting;
 - 7.3.5. Performance management;
 - 7.3.6. Internal audit function;
 - 7.3.7. Loss Control;
 - 7.3.8. Accounting policies;
 - 7.3.9. Effective governance;
 - 7.3.10. Compliance with the MFMA, the Division of Revenue Act, and any other applicable legislation;
 - 7.3.11. Matters relating to Auditor-General; and
 - 7.3.12. Other matters of interest.
- 7.4. The Audit Committee shall draft and adopt an Audit Committee Report which shall be presented to Council by the Chairperson of the Audit Committee on quarterly basis and also as when it deems necessary. The committee must also:-
- 7.4.1. report on the effectiveness of internal control in the annual report of the Municipality;
 - 7.4.2. on the effectiveness annual report should encapsulate in summary all aspects as encapsulated in paragraph 6.2 above and also paragraph 7 below in terms of the duties and responsibilities;
 - 7.4.3. comment on its evaluation of the financial statements and accounting policies in the annual report;
 - 7.4.4. comment on the integrity of the municipality's financial and non- financial information, the legal and ethical conduct of management and employees;
 - 7.4.5. comment on the municipality's financial reporting requirements and the significant policies and principles that underpin these reports;
 - 7.4.6. comment on the management of the municipality's performance by Executive and Council;
 - 7.4.7. management and operations of internal audit unit.

- 7.5. The Chairperson of the Audit Committee or a member delegated by the Audit Committee shall avail himself or herself for the purposes of briefing Executive Management Committee or Council on matters of internal audit function.
- 7.6. Should a report from internal audit (or any other source) to the Audit Committee implicate any member(s) of the Municipal Council, the Political Office Bearers, the Municipal Manager and the Management staff of the Municipality in fraud, corruption or gross negligence, the chairperson of the Audit Committee must promptly report this to the Mayor.
- 7.7. The Municipal Council shall develop a performance management tool to evaluate the Audit Committee's performance on annual basis. The Council shall bring to the attention of the Audit Committee the tool developed for that purpose for comments before it is implemented. The Council or delegated committee shall be responsible for evaluation of the Audit Committee's performance.

8. DUTIES & RESPONSIBILITIES OF THE AUDIT COMMITTEE

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. However, the functional responsibility in these matters rest with the Council

8.1. General Duties and Responsibilities of the Audit Committee

The Audit Committee shall amongst other things be responsible for the following:

- (i) review its charter and update it with any changes that may be necessary taking into account changes in legislation, Policies and Procedures of the Municipality Directives from National Treasury, King III Report on Corporative Governance and best practice and make recommendations to the Municipal Council for consideration and approval before adoption by the Audit Committee;
- (ii) review and update Internal Audit Charter with any changes that may be necessary taking into account changes in legislation, Policies and Procedures of the Municipalities, Directives from National Treasury, King III Report on Corporative Governance and best practice and approve it;
- (iii) evaluate the adequacy and effectiveness of the Municipality's administrative, operating, and accounting policies through active communication with operating management and internal audit;
- (iv) 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;
- (v) upon reasonable notice, request the Municipal Manager and his Senior Management staff to attend a meeting to explain any matter relating to any audit undertaken;
- (vi) direct the Municipal Manager to provide status reports detailing progress made in the implementation of the Audit Committee's resolutions;
- (vii) evaluate the municipalities' exposure to fraud;

- (viii) consider reports from the Council's Legal Advisor where they have an impact on systems of internal control, risk management and governance or they are of interest generally;
- (ix) take an active interest in ethical considerations regarding the Council's policies and practices;
- (x) monitor the standard of corporate conduct in areas such as arm's-length dealings and likely conflicts of interest;
- (xi) 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;
- (xii) review and comment on all significant accounting policy changes;
- (xiii) identify and direct any special projects or investigations deemed necessary;
- (xiv) prepare a report to the Council summarising work performed by the audit committee to fully discharge its duties during the year;
- (xv) receive reports on all material fraud and irregularities and ensure that adequate/appropriate action has been taken to prevent recurrence thereof;
- (xvi) prepare reports on quarterly basis to the Oversight Committee/Executive Committee/Council in respect of all the committee's activities undertaken during each quarter;
- (xvii) provide the Municipal Manager reports related committee findings and recommendations or resolutions from a meeting, within two (2) weeks of that meeting.

8.2. Duties in Relation to Internal Audit Function

- (i) review internal audit approach and methodology to ensure its alignment to internal audit charter and internal audit standards;
- (ii) review the approach, methodology and procedures adopted by Internal Audit Unit, Municipal Manager and his management staff for identifying and assessing inherent risks and residual risks as well as identification and evaluation of the design of controls;
- (iii) evaluate and comment on the audit approach adopted by Internal Audit Unit for auditing policies and procedures relating to risk management, governance and systems of internal control;
- (iv) review and approve the three year rolling audit plan and annual audit plan or internal audit program for each financial year prepared by internal auditors for adequacy and any adjustments throughout the financial year;
- (v) review, monitor progress on implementation of the annual audit and take resolutions on significant internal audit findings and recommendations by the Internal Audit unit as well as management comments and agreed implementation plan;
- (vi) evaluate the overall efficiency and effectiveness of the internal audit function through regular meetings & utilising a tool that has been approved by Council;
- (vii) resolve any difficulties or unjustified restrictions or limitations on the scope of Internal Audit activity or any significant disagreements between the Chief Audit Executive and Management;

8.3. Duties in Relation to Risk Management Function

- (i) review the risk management framework for the municipality;
- (ii) consider risk assessment reports;
- (iii) Consider the appropriateness of management's risk appetite and risk tolerance in accordance with the risk management strategy set by the Council;
- (iv) review and monitor implementation of risk management strategy including its effectiveness in managing the risks facing the Municipality;
- (viii) Provide regular feedback to the Council on the adequacy and effectiveness of risk management in the Municipality, including recommendations for improvement.
- (ix) evaluate the overall efficiency and effectiveness of the risk management function through reports by Chairperson of the Risk Management Committee as well oversight provided by Council and its committees on risk management strategy;

8.4. Duties in Relation to Performance Management

Audit Committee shall have no jurisdiction over Performance Management duties and responsibilities as the Council has a separate committee for this purpose in terms of Local Government: Municipal Planning and Performance Management Regulations of 200, promulgated in terms of S120 of the Local Government: Municipal Systems Act, 32 of 2000 (as amended).

8.5. Duties in Relation to Financial Management & Reporting

- (i) review the monthly management reports including Section 71 Monthly Budget Statements, Quarterly Financial Performance Reports, in-year monitoring, Section 72 Mid-year Budget and Quarterly Performance Assessment, Annual Report and Oversight Report;
- (ii) review report on the following statements
 - Financial Position
 - Financial Performance
 - Changes in Net Assets
 - Cash flow
 - Report on Grants & Investments
 - Report on Monitoring of Borrowings (all loans)
 - Revenue Report including the debtors age analysis report
 - Report on Progress on Long Term Financial Plan/Revenue Enhancement Strategy/Debt Recovery Strategy

Review financial statements

- (i) review the financial statements and establish that they have been prepared by management in accordance with GRAP and circulars issued by National Treasury from time to time in the preparation of annual financial statements;
- (ii) consider if accounting policies are in compliance with GRAP;

- (iii) consider changes in accounting policies or their application, the reasons for changes, the effect of the changes on the current and future financial statements, and the Auditor-General's views on these;
- (iv) consider differences of opinion between management and the auditors, and their resolution;
- (v) review material adjustments made because of the audit;
- (vi) review reasons for results different to those suggested by information such as budgets, forecasts and prior year results
- (vii) Consider if disclosure in the financial statements is appropriate and complies with GRAP, National Treasury Circulars, legislation and the requirements of the Office of the Auditor-General
- (viii) Review developments likely to affect financial reporting, for example:
 - ✓ proposed changes in format of financial statements
 - ✓ new accounting standards and disclosure requirements
 - ✓ changes in accounting policies
 - ✓ any new or proposed legislation which will affect the financial statements
 - ✓ changes in activity which may require new accounting policies or expanded disclosure in the accounts
 - ✓ political, economic and foreign currency exposure and potential financial effects.

8.6. Information Technology Governance

The Committee shall amongst other things be responsible for oversight on IT Governance to ensure it addresses:

- (i) Strategic alignment with the business and collaborative solutions, including the focus on sustainability and the implementation of 'green IT' principles;
- (ii) Value delivery: concentrating on optimising expenditure and value for money;
- (iii) Risk management: addressing the safeguarding of IT assets, disaster recovery and continuity of operations; and
- (iv) Resource management: optimising knowledge and IT infrastructure.

8.7. Duties in Relation to Auditor-General Arrangements

- (i) confirm that any difficulties experienced with regard to audit engagement issues are appropriately dealt with.
- (ii) determine that no management restrictions are being placed upon either the internal auditors or the Auditor-General;
- (iii) 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;
- (iv) review and comment on the overall strategic audit plan, of the Auditor-General, for the audit of the Municipality;

- (v) hold regular meetings with Auditor-General and Municipal Manager and his management staff to discuss weaknesses and matters of concerns identified by Auditor-General in the management letter, audit report and management responses and action plan;
- (vi) review and monitor the Municipal Manager responses to the audit of annual financial statements relating to weaknesses and shortcomings in internal accounting controls and governance issues and the action taken or proposed as a result of the Office of the Auditor-General's management letters and audit reports.
- (i) review and monitor the Municipal Manager responses to the regularity audits relating to weaknesses and shortcomings on compliance issues and the action taken or proposed as a result of the Office of the Auditor-General's management letters and audit reports.
- (ii) review and monitor the Municipal Manager responses to the audit of performance information and weaknesses and shortcomings thereof and the action taken or proposed as a result of the Office of the Auditor-General's management letters and audit reports.
- (iii) review and monitor the Municipal Manager responses to the special and performance audits and investigations relating to weaknesses and shortcomings thereof and the action taken or proposed as a result of the Office of the Auditor-General's management letters and audit reports.

8.8. Combined Assurance

The Committee shall ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities, and in particular the Committee shall:

- (i) Ensure that the combined assurance received is appropriate to address all the significant risks facing the organisation and King III Practice Notes; and
- (ii) Monitor the relationship between the external assurance providers and the Municipality.

9. DISCLOSURE OF INTEREST BY AUDIT COMMITTEE MEMBER

- 9.1. Every member, appointed or co-opted, involved in the EMAC meetings, deliberation and resolutions, is obliged to declare in writing any conflict of interest at the date of appointment as well verbally in each and every meeting which shall be recorded in the minutes of all meetings.
- 9.2. Every member of the EMAC is responsible for representing the interests of the EMAC and the Emnambithi Local Municipality.
- 9.3. A member of the EMAC 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 EMAC ;

- (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 EMAC 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 EMAC and that of the Emnambithi Local Municipality.

10. REMUNERATION OF THE AUDIT COMMITTEE MEMBERS

The Chairperson and members of the Audit Committee shall be paid emoluments in lieu of their time spent on the Audit Committee activities at Emnambithi Local Municipality. Emoluments shall be determined by Council and reviewed on an annual basis in line with the National Treasury Guidelines and also taking to account the trend in the public sector organisations of a similar size and nature.

11. REMOVAL FROM OFFICE OF THE AUDIT COMMITTEE MEMBERS

- 11.1. The Council may remove a member of the EMAC 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, MSA and this charter.
- 11.2. The Council must remove a member of the EMAC from office if the member -
 - (i) is convicted of an offence involving dishonesty, including but not limited to offences such as theft, fraud, corruption, 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 to imprisonment without the option of a fine.

12. APPROVAL

Approved by the Council

Date:

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Signature of the Speaker:

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Adopted by the Audit Committee

Date:

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Signature of the Chairperson of the Audit Committee:

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