

**LESEDI LOCAL MUNICIPALITY**

**AUDIT COMMITTEE**

**AND**

**PERFORMANCE AUDIT COMMITTEE**

**CHARTER**

**LESEDI LOCAL MUNICIPALITY**

**AUDIT COMMITTEE CHARTER**

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## **1. INTRODUCTION**

The King Report on Corporate Governance requires management to confirm publicly that it has reviewed the effectiveness of the internal control of the organization. The implementation of controls and information systems is essential to effectively discharge management's responsibilities.

The Council must continuously review current trends and best practice in relation to corporate governance. As part of the Council's plans to fulfill its obligations it has decided to address internal controls through the establishment of an Audit Committee. The need for such an Audit Committee is also emphasized in the Municipal Finance Management Act (Act 56 of 2003).

The purpose of the Audit Committee is to assist Council in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control over financial reporting, the audit process, and the Council's process for monitoring compliance with laws and regulations and Council's code of conduct.

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

## **2. AUTHORITY AND POWERS OF THE AUDIT COMMITTEE**

The broad objectives of the Audit Committee are the followings:-

- (a) The Audit Committee is advisory in nature and does not have any executive powers.
- (b) The Committee will consider matters relating to management and the Council in the discharge of their duties to safeguard assets, operate adequate systems and controls, and review annual financial statements.

- (c) The Committee will not perform any management functions or assume any management responsibilities as this could prejudice the objectivity of the Committee. The Committee will mainly make recommendations to management in respect of the activities which form part of the Committee's terms of reference (as set out in section 3 below). All recommendations of the Committee and thereafter to Council for consideration in the first instance.

**The Audit Committee Shall :-**

- (a) Have the authority to seek any information it requires from any employee of the Council and such employee shall be compelled to respond to such enquiries.
- (b) Have unrestricted access through the Office of the Municipal Manager to information relating to all personnel, books of account, records, assets and liabilities of the Council and to any other sources of relevant information that may be required from the Council for the purpose of fulfilling the Committee's duties and responsibilities.
- (c) Be authorized to take such independent professional advice and action as it considers necessary, but provided that any expenses incurred shall be within the approved budget of the Office of the Municipal Manager.

**3. DUTIES AND RESPONSIBILITIES OF THE AUDIT COMMITTEE**

- (a) The Audit Committee shall consider any matters that it determines desirable, in relation to the financial affairs of the Council and to the internal and external audit of the Council's activities. In addition, the Committee shall examine any other matters referred to it by management or by the Council, provided that such requests are legitimate and within the scope of the Committee's duties.
- (b) Specific duties of the Committee shall include :-
  - (i) To review internal, external and other reports assessing the municipality's compliance with the law, audit and accounting standards.
  - (ii) To consider and evaluate the adequacy of performance of the internal audit function, including the degree of co-operation with external auditors.

- (iii) To review and approve the annual audit plan, scope and audit approach of internal audit.
- (iv) To satisfy itself that the internal audit plan makes provision for effectively addressing critical risk areas.
- (v) To review internal and external audit reports and other reports evaluating the effectiveness of the Council's systems of internal controls.
- (vi) To review an audit plan of the external auditors and ensure (as far as possible) that critical risk areas are addressed.
- (vii) To review and report on management's response to reported weaknesses in controls, deficiencies in systems and recommendations for improvement.
- (viii) To assess the treatment of significant accounting, auditing or disclosure problems highlighted by the auditors and by financial management.
- (ix) To consider differences of opinion between management and auditors.
- (x) To consider the quality, value and effectiveness of financial information produced.
- (xi) To direct and supervise investigations into matters within the scope of its duties and responsibilities including projects as requested by the Executive Committee and /or Council.
- (xii) To review the external audit results, the quality and content of financial information presented prior to the issuing of the annual financial statements, and to submit a report to Council in this regard for consideration at the meeting where the financial statements are to be approved.

### **3.1 Responsibilities Relating To Internal Audit Services**

The Audit Committee must ensure that the internal audit function performs its responsibilities effectively and efficiently by –

- Review and approval of the internal Audit Charter;

- Review of the organizational structure, competence and qualifications of the internal audit function;
- Review of plans and budget of the internal audit function and, in so doing, to ensure that the plans address the high-risk areas and that adequate resources are available;
- Review of audit results, action plans and/or taken by management;
- Evaluation of the results of quality assurance reviews
- Providing support to the internal audit function;
- Ensuring that the internal audit function's work is co-ordinated with that of external audit to ensure that there is no duplication of work;
- Ensuring that no unreasonable restrictions or limitations are placed on the internal audit function.
- On a regular basis meet separately with the internal auditors to discuss any matters that the committee or internal audit believes should be discussed privately.
- Ensuring that the head of internal audit has direct access to the Audit Committee, the Chairperson and the Chief Financial Officer.

### **3.2 Responsibilities Relating to the External Audit Function Performed by the Auditor – General**

The Audit Committee must also –

- Ensure that there are no restrictions or limitations placed on the external auditors;
- Review audit results, quality and content of financial information and action plans of management;
- Review the external auditor's proposed audit scope and approach, including the degree of co-ordination of audit effort with internal audit;
- Review the performance of the external auditors, including the timing of interim and final audits conducted.

- Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the Council, including non-audit services;
- On a regular basis meet separately with the external auditors to discuss any matters that the Committee or external auditors believes should be discussed privately.
- Consider significant disagreements between the external auditors and management;
- Consider material unsolved accounting and auditing problems;
- Ensure direct access to the Audit Committee and the Municipal Manager.

### **3.3 Risk Management**

The Audit Committee should ensure that there are procedures in place to effectively manage risks brought about by complexity, challenge and change. It should therefore ensure that the council has a risk management policy in place and there are procedures to identify and monitor risks.

## **4. STRUCTURE OF THE AUDIT COMMITTEE**

### **4.1 MEMBERSHIP AND SIZE OF COMMITTEE**

The Committee comprises the following persons:

- (i) Four independent individuals from outside the Council, preferably with a financial background, one of whom should have Performance Management Background, preferably with a financial background and with an interest in the affairs of the Lesedi Local Municipality to be appointed by the Council with the following attributes :-
  - Integrity
  - Dedication of the Council's business
  - Knowledge of the Council's risks controls
  - Inquisitiveness and independent judgement
  - Ability to offer new and different perspectives and constructive suggestions.
- (ii) Applications for the external members shall be invited by means of suitable advertisements placed in the press and in any other manner which the Council deems appropriate;

- (iii) The External members shall serve on the Audit Committee for a period of three years, which may be extended for a maximum of a further three years, reckoned from the date on which the external member actually assumes duty, on the terms and conditions contained in the contract of appointment.
- (iv) The contract of appointment shall specify the hourly rate of remuneration for attendance at meetings (up to an agreed maximum).

#### **4.2 Non-Members Attending Ex-Officio**

- (i) The Municipal Manager and the Chief Financial Officer with all the Executive Managers, when needed.
- (ii) A representative from the Office of the Auditor-General and (where applicable) a representative from external auditors;
- (iii) The head of the internal audit function of his or her nominee;
- (iv) The Chairperson will not be an executive member of the Committee and must have the ability to preside over meetings and to direct discussions along constructive lines.
- (v) The members referred to in (i) and (iii) above, shall be represented by their respective nominees only when the principal members, are absent or engaged elsewhere.
- (vi) Other members of management may be invited to attend Audit Committee meetings when there is a functional responsibility to be discussed.
- (vii) The Council shall provide a staff member to act as a secretary to the Committee.

#### **4.3 Meetings**

A minimum of four meetings shall be held during a financial year (one meeting per quarter).

Special meetings of the Audit Committee may be convened at the Chairperson's request or with the Chairperson's approval. Any member of the Audit committee, or the head of the internal audit function or a

representative of the external auditors may request a special meeting if they consider it necessary.

#### Quorum

The quorum for meeting will be the Chairperson and any two of the four members of the Committee referred to in sub-paragraphs (i) under 4.1 above.

#### Notice of Meetings

Notice of each meeting shall be given in writing to all members of the Audit Committee, at least seven (7) days prior to the date on which such meeting is to be held. In the case of a special meeting, if the Chairperson deems the need for the meeting to be urgent and has the reasons for so deeming it minuted at such meeting, the period of notice may be reduced to 48 hours.

#### Agenda for Meetings

The agenda of each meeting, except an special meeting as referred to above, shall be prepared and distributed at least three working days prior to the meeting date. Any person attending the meeting, may add items to the agenda up to two days before the agenda is finalized. Such items must be provided to the secretary of the Audit Committee.

#### Minutes of Meetings

The secretary shall keep minutes of all meetings and shall include the minutes with the agenda of the next Audit Committee meeting.

### **4.4 Reporting Procedure**

Minutes of the Audit Committee must be timeously submitted to the Mayoral Committee for information.

The Chairperson of the Audit Committee must report to the Mayoral Committee as soon as possible after each Audit Committee, in person and/or by means of a written report.

In addition, the Chairperson must report annually to Council, in person and/or by means of a written report, summarizing the activities, recommendations and decisions of the Audit Committee during the previous financial year.

The Chairperson must immediately report any material findings or concerns to the Executive Mayor and the Mayoral Committee.