



# **GEORGE MUNICIPALITY**

## **AUDIT COMMITTEE CHARTER**

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## GEORGE MUNICIPALITY – AUDIT COMMITTEE CHARTER

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### 1. MANDATE OF THE AUDIT COMMITTEE

- 1.1. The Audit Committee is an independent advisory body per Section 166(1) of the Municipal Finance Management Act No. 56 of 2003 (MFMA). The Audit Committee performs the responsibilities assigned to it in terms of Section 166 of the MFMA, the Local Government: Municipal Systems Amendment Act, 2011, Act No. 3 of the Local Government: Municipal Structures Amendment Act, 2021 and the corporate governance responsibilities delegated to it under its charter by the Council.
- 1.2. The Audit Committee also fulfils the functions of a Performance Management Audit Committee constituted in terms of Regulation 14(2) of the Local Government: Municipal Planning and Performance Management Regulations, 2001.
- 1.3. The Audit Committee should **not perform any management functions or assume any management responsibilities**. It provides *inter alia*, a forum for discussing business risk and control issues for developing relevant recommendations for consideration by the Council and management. The Audit Committee should mainly make recommendations to the Council for its approval or final decision. Consistent with these functions, the Audit Committee should encourage continuous improvement of, and should foster adherence to, the municipality's policies, procedures, and practices at all levels. The Audit Committee should also provide for open communication among the external auditor, financial and senior management, the internal audit function, and Council.

### 2. PURPOSE OF THE CHARTER

- 2.1. This charter sets out the objectives, roles and responsibilities, composition, structure and membership requirements, relationships with other stakeholders, authority for the Audit Committee to conduct enquiries and access the municipality's records and personnel, outlines procedures for meetings, addresses the confidentiality and independence of Audit Committee members, and provides for ethical conduct and reporting.
- 2.2. The charter should be reviewed annually and updated to ensure relevance and consistency with the MFMA, Municipal Systems Act (No 32 of 2000), the Local Government: Municipal Structures Amendment Act, 2021 and other related regulations, guides and leading practice.
- 2.3. The charter should be used as a basis for:
  - 2.3.1. Preparing the Audit Committee's annual work plan. The annual work plan should include input from the Accounting Officer and other sources where necessary;
  - 2.3.2. Setting the agenda for meetings;
  - 2.3.3. Requesting skills and expertise;
  - 2.3.4. Making recommendations to the Accounting Officer and municipal Council;
  - 2.3.5. Assessing the Audit Committee's performance by its members, municipal Council, management, Auditor-General and internal auditors; and
  - 2.3.6. Contributions and participation at meetings.

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- 2.4. The King IV Report on Corporate Governance for South Africa, 2016 (herein referred to as King IV) requires management to publicly confirm that they have reviewed the effectiveness of the internal controls of their organization. The implementation of control and information systems is essential to the effective discharge of the management's responsibilities.

### 3. AUTHORITY

- 3.1. The Audit Committee is authorized to conduct all activities stipulated in Section 166(2) of the MFMA. For further details refer to Section 10.1 of the Audit Committee Charter.
- 3.2. The Council authorizes the Audit Committee to fulfill the responsibilities as set out in this charter. In addition to Section 166(3) of the MFMA and in line with best practice in Corporate Governance, the Audit Committee is authorised to:
- 3.2.1. Have full access to financial records and other relevant information of the municipality. All municipal employees are directed to cooperate with any request made by the Audit Committee **provided that the proper administrative channels and procedures are adhered to.**
  - 3.2.2. Seek any information it requires from external parties, obtain outside independent professional advice and to secure the attendance of any person with relevant experience and expertise if it considers this necessary. Any such appointments shall be made subject to the Supply Chain Management Policy upon approval by the Accounting Officer.
  - 3.2.3. Assist Council in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process and the municipality's process for monitoring compliance with laws and regulations and the code of conduct.
  - 3.2.4. Liaise with **[MFMA S166 3(b)]** –
    - (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.
  - 3.2.5. Meet privately with the external or internal auditors, if so requested, without any Councillor or Official of the municipality in attendance.
  - 3.2.6. Through the chairperson, request that Councillors or Officials of the municipality or the Internal Auditors in attendance excuse themselves from meetings where warranted by the circumstances.
- 3.3. The Audit Committee is authorized to "carry out such investigations into the financial affairs of the municipality as the council of the municipality may request" in terms of Section 166(2)(d) of the MFMA. The Audit Committee must comply with relevant regulations, legislation and relevant municipal policies for all investigations. The financial impact of any such an investigation must be considered and sufficient provision be made on the appropriate municipal budget and concurrence of the Chief Financial Officer (CFO).



#### **4. COMPOSITION OF THE COMMITTEE**

- 4.1. Section 166(4)(a) of the MFMA and Regulation 14(2)(a) to (c) of the Local Government: Municipal Planning and Performance Management Regulations, 2001, stipulates that the Audit Committee must consist of at least three members.
- 4.2. The George Municipality's Audit Committee will comprise of at least three (3) to the maximum of **five (5) independent members** with appropriate experience and skills, which are not in the employ of the municipality, to enable the committee to discharge the responsibilities set out in Section 166(2) of the MFMA and Regulation 14(4) of the Local Government: Municipal Planning and Performance Management Regulations, 2001.

#### **5. SELECTION AND APPOINTMENT OF MEMBERS**

In terms of Section 166(5) of the MFMA and Regulation 14(2)(a) to (d) of the Local Government: Municipal Planning and Performance Management Regulations, 2001, the members of the Audit Committee must be appointed by the Council.

##### **5.1. Selection process for the appointment of members**

5.1.1. The Chief Audit Executive (CAE) facilitates the selection process of the Audit Committee. A service provider must be appointed to perform, inter alia:

- 5.1.1.1. The shortlisting of all applicants.
- 5.1.1.2. Conduct interviews, and if required conduct practical assessments, with shortlisted applicants.
- 5.1.1.3. Consider consulting with relevant parties including the Accounting Officer.
- 5.1.1.4. Perform background checks and confirm the validity of certifications, qualifications and professional memberships, etc.
- 5.1.1.5. Make a final recommendation for Council to consider and approve.

5.1.2. During the appointment process, Council must determine whether an applicant is serving on other Local Government Audit Committees.

5.1.3. An Audit Committee member must ensure that they serve on no more than a total of three Local Government Audit Committees concurrently (in compliance with National Treasury's MFMA Circular 65), and failure to comply will result in dismissal from the Audit Committee.

##### **5.2. Selection process for the appointment of an Audit Committee Chairperson**

5.2.1. The CAE facilitates the selection process of the Audit Committee Chairperson. A service provider must be appointed to perform, inter alia:

- 5.2.1.1. Shortlist Audit Committee members who wish to be considered for the appointment as Chairperson.

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- 5.2.1.2. Consider consulting with relevant parties including the Accounting Officer.
- 5.2.1.3. Conduct interviews, and if required conduct practical assessments, on the shortlisted Audit Committee members.
- 5.2.1.4. Perform background checks and confirm the validity of certifications, qualifications and professional memberships, etc.
- 5.2.1.5. Make a final recommendation relating to the appointment of an Audit Committee Chairperson, for Council to consider and approve.
- 5.2.2. MFMA Circular 65 provides guidance relating to the qualities and factors which should be considered amongst others, when appointing an Audit Committee Chairperson:
  - 5.2.2.1. Has good standing and ability to lead discussions;
  - 5.2.2.2. Creates vision and provides direction at meetings;
  - 5.2.2.3. Builds municipal capabilities by guiding management based on expert knowledge and skills;
  - 5.2.2.4. Promotes and achieve quality outcomes at meetings;
  - 5.2.2.5. Has the ability to speedily and effectively advise Council of any impending non-compliance with the legislative framework;
  - 5.2.2.6. Has the ability to encourage other members to participate in Audit Committee meetings; and
  - 5.2.2.7. Conducts meetings in a manner that demonstrates a desire to establish effective communication with all stakeholders.
- 5.2.3. When appointing an Audit Committee Chairperson leading practice should be considered including the Public Sector Audit Committee Forum guidance papers.
- 5.2.4. In the event that an Audit Committee Chairperson has not yet been appointed by Council, the Audit Committee Members may appoint an interim Chairperson until the appointment process is finalised (i.e. until Council appoints a new Audit Committee Chairperson).

## 6. QUALITIES OF MEMBERS

- 6.1. In line with MFMA Circular 65, in determining suitable candidates for an Audit Committee and maintaining a balanced composition, the Accounting Officer should seek to appoint candidates that have ability to:
  - 6.1.1. Perform the role as advisor to management;
  - 6.1.2. Communicate effectively with management;
  - 6.1.3. Carefully review information received and obtain clarification from management as and when appropriate;
  - 6.1.4. Raise relevant questions, evaluate responses and follow up on any matter that is unclear;

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- 6.1.5. Conduct responsibilities in the context of the municipality's strategic objectives and overall corporate governance of the Council;
  - 6.1.6. Act independently and be proactive in advising the Accounting Officer regarding issues that require further management attention;
  - 6.1.7. Encourage openness and transparency;
  - 6.1.8. Build relations with management;
  - 6.1.9. Have a professional approach to performing duties, including commitment of time and effort; and
  - 6.1.10. Each committee member must be independent and appropriately skilled.
- 6.2. MFMA Circular 65 stipulates that the members of the Audit Committee must collectively have sufficient qualifications, skills and experience to fulfill their duties, including an understanding of the following:
- 6.2.1. Private and public-sector experience;
  - 6.2.2. An understanding of service delivery priorities;
  - 6.2.3. Good governance and/or financial management experience;
  - 6.2.4. An understanding of the role of Council and Councillors;
  - 6.2.5. An understanding of the operations of the municipality;
  - 6.2.6. Familiarity with risk management practices;
  - 6.2.7. An understanding of internal controls;
  - 6.2.8. An understanding of major accounting practices and public-sector reporting requirements;
  - 6.2.9. An understanding of public sector reforms;
  - 6.2.10. Familiarity with legislation applicable to municipalities;
  - 6.2.11. An understanding of the roles and responsibilities of internal and external auditors;
  - 6.2.12. An understanding of the treatment of allegations and investigations;
  - 6.2.13. An understanding of the performance management system;
  - 6.2.14. Sustainability issues;
  - 6.2.15. Information technology governance as it relates to integrated reporting; and
  - 6.2.16. Integrated reporting.
- 6.3. When appointing Audit Committee Members leading practice should be considered including the Public Sector Audit Committee Forum guidance papers.
- 6.4. The skills and qualifications of Audit Committee members are mapped and recorded by means of a Skills Matrix and are aligned with the recommendations and identified skills priorities of King IV.



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### 6.5. Members will at least include –

- 6.5.1. Two members who should preferably have sound financial knowledge;
- 6.5.2. A member with sound performance management knowledge (stipulated in Regulation 14(2)(b) of the Local Government: Municipal Planning and Performance Management Regulations, 2001);
- 6.5.3. Members who have the necessary standing and expertise to provide the municipality with assurance that the risks are being appropriately managed;
- 6.5.4. Members who have sound legal knowledge; and
- 6.5.5. Members who have a sound knowledge and experience of local government Information Technology systems and structures.

## 7. MEMBERSHIP AND INDEPENDENCE

- 7.1. The Audit Committee must be independent and safeguarded from undue influence in exercising its responsibilities in an objective manner. To enhance the Audit Committee functioning, the following is required:
  - 7.1.1. The Audit Committee chairperson and members must be independent of the municipality;
  - 7.1.2. The Audit Committee chairperson and members must not be biased but exhibit an independence of mental attitude during deliberations;
  - 7.1.3. All Audit Committee members must declare private and business interest in every meeting; and
  - 7.1.4. Members must not carry out any business with the municipality.
- 7.2. Council adopts the principles of the King IV Report on Corporate Governance for South Africa, 2016 (King IV) in terms of the Audit Committee membership, namely that “*All members of the audit committee should be independent, non-executive members*”.
- 7.3. In terms of King IV, the following definitions relating to independence are pertinent:

King IV definitions		
Conflict of interest	of	<p>A conflict of interest, used in relation to members of the governing body [i.e. Council] and its committees [which includes an Audit Committee], occurs when there is a direct or indirect conflict, in fact or in appearance, between the interests of such member and that of the organisation.</p> <p>It applies to financial, economic and other interests in any opportunity from which the organisation may benefit, as well as the use of the property of the organisation, including information.</p> <p>It also relates to member’s related parties holding such interests. (See also “related party” and “independence”.</p>

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King IV definitions	
Related party	<p>A related party is a person or entity as set out in section 2(1) of the Companies Act.</p> <p>It applies <i>mutatis mutandis</i> to organisations other than companies [i.e. local government].</p> <p>As per section 2(1) of the Companies Act:</p> <p><i>“For all purposes of this Act—</i></p> <p><i>(a) an individual is related to another individual if they—</i></p> <p><i>(i) are married, or live together in a relationship similar to a marriage; or</i></p> <p><i>(ii) are separated by no more than two degrees of natural or adopted consanguinity or affinity;”</i></p>
Independence	<p>Independence generally means the exercise of objective, unfettered judgement.</p> <p>When used as the measure by which to judge the appearance of independence, or to categorise a non-executive member of the governing body [i.e. Council] or its committees [which includes an Audit Committee] as independent, it means the absence of an interest, position, association or relationship which, when judged from the perspective of a reasonable and informed third party, is likely to influence unduly or cause bias in decision-making.</p>

## **8. TERM OF OFFICE AND TERMINATION OF SERVICE**

### **8.1. Term of Office**

- 8.1.1. To enhance independence of the Audit Committee, the term of office for members must be strictly adhered to. Members of the Audit Committee should not be contracted continuously for a period exceeding six years. After serving consecutively for six years, a cooling off period of two years should be provided for, before appointing the same member to the same Audit Committee.
- 8.1.2. Rotation of members is encouraged as it enhances the independence of the Audit Committee.
- 8.1.3. Audit Committee members should serve at least a minimum of three years with an option to renew for another three years, based on performance (Refer to Section 13: Performance Assessments).
- 8.1.4. The chairperson should be appointed for three years or a lesser period if necessary, to ensure that the member of the Audit Committee is not contracted continuously for a period exceeding six years. This term ensures that he/she contributes most effectively and provides stability to the Audit Committee.
- 8.1.5. Recruitment of members should be staggered to prevent a loss of knowledge and skills in the committee.
- 8.1.6. The recruitment process of new members should preferably be concluded at least three months in advance of the expiry of existing members term. The CAE and the Accounting Officer must maintain records of Audit Committee member contracts and ensure recruitment is undertaken as mentioned above.

### **8.2. Termination of Service**

- 8.2.1. Members should be encouraged not to terminate their contracts until they have shared their knowledge with other new members. An Audit Committee member should preferably give two-months' notice prior to resignation.
- 8.2.2. The Audit Committee members should have the opportunity to have an exit meeting with the Audit Committee Chairperson (or in the case of the Audit Committee Chairperson, to have an exit meeting with the Mayor) to discuss the reasons for leaving and to provide feedback on their experience on the Audit Committee as well as any other issues. The date of resignation should be minuted by the secretariat of the Audit Committee.

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- 8.2.3. Audit Committee members can be dismissed by the Municipal Council under certain circumstances. The Accounting Officer or Municipal Council should consult the charter when dismissing members of the Audit Committee. Reasons for dismissal amongst others would normally be detailed in the letter of appointment and contract agreement, such as:
- 8.2.3.1. Where an on-going conflict of interest exists.
  - 8.2.3.2. Where a member has not performed to expectations.
- 8.2.4. The official dismissal processes as they relate to the municipality must be adhered to by the Accounting Officer and Municipal Council when an Audit Committee member is being dismissed. A service provider should be appointed to consider, assess and recommend to Council whether the Audit Committee member should be dismissed.
- 8.2.5. Where appropriate, the dismissal process must be linked to the charter and member's performance assessment process. The dismissal of a member must be performed by the Municipal Council and the outcome of the dismissal process should be in writing. The date of dismissal should be minuted by the secretariat of the Audit Committee.
- 8.2.6. The appointment of a member will be terminated if he/she is declared bankrupt or found guilty of fraud or corruption or any offence where dishonesty is an element, in a court of law, during his/her term of office.

## 9. INDUCTION OF MEMBERS

- 9.1. A formal process of induction must be facilitated by the CAE in consultation with the Accounting Officer. During the induction of members, the roles and responsibilities of the Audit Committee must be clarified.
- 9.2. The induction process should entail sufficient briefings and information on their roles, responsibilities, accountability and management's expectations.

**10. ROLES AND RESPONSIBILITIES OF THE AUDIT COMMITTEE**

**10.1. Statutory responsibilities in terms of Section 166 (2) and (3) of the MFMA**

10.1.1. The Committee must:

S166(2)(a) Advise the municipal council, the political office-bearers, the Accounting Officer and the management staff of the municipality, 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 the MFMA, the annual Division of Revenue Act and any other applicable legislation;
- (viii) Performance evaluation; and
- (ix) Any other issues referred to it by the municipality or municipal entity.

S166(2)(b) Review the annual financial statements to provide the Council of the municipality with an authoritative and credible view of the financial position of the municipality, its efficiency and effectiveness and its overall level of compliance with the MFMA, the annual Division of Revenue Act and any other applicable legislation.

S166(2)(c) Respond to the Council on any issues raised by the Auditor-General in the audit report.

S166(2)(d) Carry out such investigations into the financial affairs of the municipality as the Council of the municipality may request.

S166(2)(e) Perform such other functions as may be prescribed.

S166(3) In performing its functions –

S166(3)(a) Have access to the financial records and other relevant information of the municipality; and

S166(3)(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.

## 10.2. Performance Management

### 10.2.1. Statutory responsibilities in terms of Regulation 14(4) of the Local Government: Municipal Planning and Performance Management Regulations, 2001 (i.e. relating to Performance Management)

The Audit Committee shall consider matters relating to performance management at least two times per annum to discharge the responsibilities prescribed in terms of Regulation 14(4) of the Local Government: Municipal Planning and Performance Management Regulations, 2001:

Reg 14(a) A performance audit committee [duties assigned to the Audit Committee per Regulation 14(2)(c)] must -

- (i) review the quarterly reports submitted to it in terms of subregulation (1)(c)(ii) [internal audit reports on performance measurements in terms of Regulation 14(1)];
- (ii) review the municipality's performance management system and make recommendations in this regard to the council of that municipality; and
- (iii) at least twice during a financial year submit an audit report to the municipal council concerned.

Reg 14(b) In reviewing the municipality's performance management system in terms of paragraph (a)(ii), the performance audit committee [duties assigned to the Audit Committee per Regulation 14(2)(c)] 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.

Reg 14(c) A performance audit committee [duties assigned to the Audit Committee per Regulation 14(2)(c)] may –

- (i) communicate directly with the council, municipal manager or the internal and external auditors of the municipality concerned;
- (ii) access any municipal records containing information that is needed to perform its duties or exercise its powers;
- (iii) request any relevant person to attend any of its meetings, and, if necessary, to provide information requested by the committee; and
- (iv) investigate any matter it deems necessary for the performance of its duties and the exercise of its powers. [The Audit Committee must comply with relevant regulations, legislation and relevant municipal policies for all investigations. The financial impact of any such an investigation must be considered and sufficient provision be made on the appropriate municipal budget and concurrence of the CFO].

**10.2.2. Other responsibilities relating to Performance Management**

- 10.2.2.1. The Audit Committee members need to have a good understanding of the performance management system, policy and strategy of the municipality. These include:
- 10.2.2.1.1. Review and comment on compliance with statutory requirements and performance management best practices and standards;
  - 10.2.2.1.2. Review and comment on the alignment of the Integrated Development Plan (IDP), the Budget, Service Delivery and Budget Implementation Plan (SDBIP), performance agreements, alignment with Provincial and National Government frameworks;
  - 10.2.2.1.3. Review and comment on whether the “SMART” principles have been applied on the indicators to ensure they are measurable and relate to services performed by the municipality and its entities;
  - 10.2.2.1.4. Reviews compliance with in-year reporting requirements;
  - 10.2.2.1.5. Review the quarterly performance reports submitted by internal audit;
  - 10.2.2.1.6. Reviews and comments on municipality’s and entities annual financial statements and timely submission to the Auditor-General by 31 August, each year;
  - 10.2.2.1.7. Review and comment on the municipality’s and entities annual reports within the stipulated timeframes;
  - 10.2.2.1.8. Review and comment on the municipality's performance management system and make recommendations for its improvement; and
  - 10.2.2.1.9. The Chairperson, or a member in his absence, shall attend the formal evaluation of Section 56 & 57 employees.

**10.3. Internal Audit**

- 10.3.1. An important role of the Committee will be to monitor, assess and report on the effective functioning of internal audit, ensuring that the roles and functions of the external audit with internal audit are sufficiently clarified and co-ordinated to provide an objective overview of the operational effectiveness of the municipality’s systems of internal control and reporting.
- 10.3.2. The Audit Committee must in relation to internal audit:
- 10.3.2.1. Ensure that the charter, independence and activities of the internal audit function are clearly understood and respond to the objectives of the municipality and the legal framework;



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- 10.3.2.2. Regularly advise on the functional and administrative reporting lines of the internal auditor to ensure that the organizational structure is consistent with the principles of independence and accountability;
- 10.3.2.3. Review and approve the internal audit charter, including internal audit strategic plan;
- 10.3.2.4. Confirm that the annual audit plan makes provision for critical risk areas in the municipality;
- 10.3.2.5. Advise the municipality on resources allocated to give effect to the work outputs of the internal audit function;
- 10.3.2.6. Confirm whether there is support for the internal audit unit and external auditors from senior management;
- 10.3.2.7. Confirm with management that internal audit findings are submitted to the Audit Committee on a quarterly basis;
- 10.3.2.8. Confirm actions taken by management in relation to the audit plan;
- 10.3.2.9. Consider and review reports relating to difficulties encountered during the audit engagement, including any scope limitation or access to information reported to the Accounting Officer that remain unresolved;
- 10.3.2.10. Evaluate the performance of internal audit activity in terms of the agreed goals and objectives as captured in the audit plan annually;
- 10.3.2.11. Ensure that the CAE has reasonable access to the chairperson of the Audit Committee;
- 10.3.2.12. Conduct a high-level review of internal audit on an annual basis, to ascertain whether the internal audit unit complies with the International Standards for the Professional Practice of Internal Auditing;
- 10.3.2.13. Consult with the relevant structures regarding the appointment, termination and annual performance evaluation of the services of the CAE;
- 10.3.2.14. Review the Quality Assurance and Improvement Programme (QAIP) and the results of the ongoing, annual internal and the 5-year external quality assurance reviews (QARs); and
- 10.3.2.15. Follow-up on the implementation of the recommendations of the external QAR on at least an annual basis.

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10.3.3. Internal audit unit is accountable to the Audit Committee as follows:

- 10.3.3.1. Maintain open and effective communication with the Audit Committee;
- 10.3.3.2. Develop a flexible annual audit plan using a risk-based methodology, addressing any weaknesses in risks or controls identified and submit the audit plan to the Audit Committee for review and adoption;
- 10.3.3.3. Report on the implementation and results of the annual audit plan including special tasks requested by management and the Audit Committee;
- 10.3.3.4. Draft, update and implement the QAIP and report on the results of:- the ongoing, annual internal and the 5-year external QARs;
- 10.3.3.5. Implement and report on the status of implementation of the recommendations of the external QAR on at least an annual basis;
- 10.3.3.6. Assist in drafting the agenda and documentation, and facilitate the distribution thereof to the Audit Committee in advance of meetings;
- 10.3.3.7. Meet periodically with the chairperson of the Audit Committee to discuss whether the material and information furnished meets the requirements of the Audit Committee;
- 10.3.3.8. Obtain advice from the Audit Committee whether the frequency and time allocated to the committee is sufficient to attend effectively to all matters;
- 10.3.3.9. Cooperate with the Audit Committee as they conduct annual reviews of the performance of the internal audit function; and
- 10.3.3.10. Submit the internal audit charter to the Audit Committee for review and adoption on an annual basis and as necessary.

### **10.4. Control Environment**

- 10.4.1. The Audit Committee members need to have a good understanding of the control environment, in fulfilling this responsibility the committee should:
- 10.4.1.1. Determine whether management follows a sound process to draw conclusions on the adequacy and effectiveness of the system of internal control and comment to management as such;
  - 10.4.1.2. Establish whether management has relevant policies and procedures in place and that these are adequate, effective and regularly updated;
  - 10.4.1.3. Determine whether appropriate processes are followed and complied with on a regular basis;

10.4.1.4. Consider measures applied on any required changes to the design or implementation of internal controls; and

10.4.1.5. Assess steps taken by management to encourage ethical and lawful behaviour, financial discipline and accountability for use of public resources.

## **10.5. Risk Management**

10.5.1. The Accounting Officer is responsible for the establishment of effective risk management within the municipality.

10.5.2. It is expected that the Audit Committee will provide an independent and objective view of the effectiveness of the municipality's risk management.

10.5.3. Where there is a separate risk management committee, the Audit Committee will be required to review recommendations made and consider these in line with this charter.

10.5.4. The Audit Committee must also provide feedback to the Accounting Officer and municipal Council on the adequacy and effectiveness of risk management in the municipality.

## **10.6. External Audit**

10.6.1. The Audit Committee will attend to the following matters in conjunction with duly authorised representatives from the Office of the Auditor-General.

10.6.2. The Audit Committee must in relation to external audit:

10.6.2.1. Take cognizance of the scope of work undertaken by the external auditor and the extent of co-ordination with the internal audit unit;

10.6.2.2. Review annual external audit plans, audit fees and other compensation;

10.6.2.3. Review reports and monitor management's implementation of audit recommendations and municipal Council resolutions in the new financial year;

10.6.2.4. Review the report on the financial statements and matters raised therein for reasonability and accuracy;

10.6.2.5. Review any interim reports issued to take cognizance of the issues raised in determining the follow up work of the internal audit;

10.6.2.6. Conduct a review of the extent to which previously reported findings by the external auditor have been addressed by the municipal Council;

10.6.2.7. Provide advice to the Accounting Officer on actions taken relating to significant matters raised in external audit reports;

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## GEORGE MUNICIPALITY – AUDIT COMMITTEE CHARTER

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- 10.6.2.8. Liaise with the external auditors on any matter that the Audit Committee considers appropriate to raise with the external auditor;
- 10.6.2.9. Confirm whether the external auditors have reasonable access to the management and chairperson of the Audit Committee;
- 10.6.2.10. Address any potential restrictions or limitations with the Accounting Officer and Council; and
- 10.6.2.11. Address outstanding matters raised by the external auditors and any findings are dealt with conclusively in an expeditious manner.

### 10.7. Annual Financial Statements

- 10.7.1. In terms of Section 166(2)(b) the Audit Committee must review the Annual Financial Statements to provide Council with an “authoritative and credible view of the financial position of the municipality”.
- 10.7.2. In order for the Audit Committee to adequately fulfil their obligations, the financial statements should be submitted to the Audit Committee for their review at least two days before submission to the Auditor-General. The process and timelines for Audit Committee meetings should be changed accordingly.
- 10.7.3. Refer to guidance below relating to processes which the Audit Committee should perform:
  - 10.7.3.1. Confirming if the municipal audit file is prepared in line with the applicable standards and guidance contained in MFMA Circular 50, or as updated;
  - 10.7.3.2. Reviewing the unaudited annual financial statements of the municipality to confirm that the quality, integrity and content is consistent with applicable standards and compliant with the legal framework;
  - 10.7.3.3. Evaluating the annual financial statements of the municipality for reasonableness, completeness and accuracy, and provide comment thereon, on a timely basis;
  - 10.7.3.4. Considering the Auditor-General’s opinion on the quality and appropriateness of the municipality’s accounting policies; and
  - 10.7.3.5. Reviewing efficiency and effectiveness of internal controls over AFS preparation and reporting.
- 10.7.4. Specifically, with regards to Annual Financial Statements, the Audit Committee should review and challenge where necessary:
  - 10.7.4.1. Arithmetical accuracy and consistency;

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## GEORGE MUNICIPALITY – AUDIT COMMITTEE CHARTER

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- 10.7.4.2. Consistency of, and any changes to, accounting policies, comparing to prior years;
- 10.7.4.3. Methods used to account for significant or unusual transactions where different approaches are possible;
- 10.7.4.4. Whether the municipality has followed appropriate accounting standards and made appropriate estimates and judgements, considering previous audit outcomes;
- 10.7.4.5. The quality of disclosure in the municipality's financial reports and the context in which statements are made;
- 10.7.4.6. 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);
- 10.7.4.7. All material issues in prior reports by the Auditor-General have been appropriately accounted for, resulting in fair presentation; and
- 10.7.4.8. Conduct 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.

### **10.8. Compliance with laws, regulations and ethics**

- 10.8.1. The Audit Committee shall assess whether the management of the municipality has the necessary mechanisms in place to ensure that there is compliance with pertinent laws and regulations and is conducting its affairs ethically.
- 10.8.2. This must include maintaining effective controls against conflicts of interest, fraud and corrupt practices.
- 10.8.3. The specific steps involved in carrying out this responsibility include:
  - 10.8.3.1. Reviewing policy documents which should incorporate compliance with laws, regulations, ethics, policies and rules regarding conflict of interest;
  - 10.8.3.2. Monitoring the compliance with the policy documents;
  - 10.8.3.3. Taking note of significant cases of conflicts of interest, misconduct, or fraud and the resolution of the cases;
  - 10.8.3.4. Make recommendations regarding any potential conflicts of interest or questionable situations of a material nature, which are brought to its attention;

- 10.8.3.5. Reviewing the Internal and External Auditor's written reports concerning the scope of reviews of compliance, any significant findings, and the resolution and follow-up on findings and recommendations;
- 10.8.3.6. Monitoring developments and changes in the law relating to the responsibilities and liabilities of management and to monitor and review the extent to which the management is meeting its obligations;
- 10.8.3.7. Monitoring developments and changes in the various rules, regulations and laws which relate generally to the Municipal operations and to monitor and review the extent to which the municipality is complying with such laws;
- 10.8.3.8. Reviewing the process for communicating the code of conduct to the municipality's personnel, and for monitoring compliance therewith; and
- 10.8.3.9. Obtaining regular updates from management and where necessary, legal counsel regarding compliance matters.

#### **10.9. Information Technology (IT) and Governance**

- 10.9.1. The Audit Committee also needs to provide advice on IT governance, controls, access, safeguarding of information in the municipality and its entities.
- 10.9.2. 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 Audit 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.

#### **10.10. Combined assurance**

- 10.10.1. The Audit Committee should confirm whether an effective, combined assurance model is applied to provide a coordinated approach to all assurance activities, and in particular the Committee should:
  - 10.10.1.1. Review whether the combined assurance received is appropriate to address all the significant risks facing the municipality; and
  - 10.10.1.2. Monitor the relationship between the external assurance providers and the municipality.

## **11. REPORTING AND ACCOUNTABILITY**

### **11.1. Reporting to Council**

- 11.1.1. The Audit Committee should submit regular reports to Council on the operations of the internal audit unit and the Audit Committee. The report should include:
  - 11.1.1.1. A summary of the work performed by the internal audit and the Audit Committee against the annual work plan;
  - 11.1.1.2. Effectiveness of internal controls and additional measures that must be implemented to address identified risks;
  - 11.1.1.3. A summary of key issues dealt with, such as significant internal and external audit findings, recommendations and updated status thereof;
  - 11.1.1.4. Progress with any investigations and their outcomes;
  - 11.1.1.5. Details of meetings and the number of meetings attended by each member; and
  - 11.1.1.6. Other matters requested of the internal audit and Audit Committee.
- 11.1.2. As stipulated in Regulation 14(4)(a) (ii) and (iii) and 14(4)(b) of the Local Government: Municipal Planning and Performance Management Regulations, 2001:
  - 11.1.2.1. The Audit Committee must review the performance management system and make recommendations in this regard to the Council: focusing on the economy, efficiency, effectiveness and impact in so far as the key performance indicators and key performance targets set by the municipality are concerned.
  - 11.1.2.2. At least twice during a financial year submit an audit report to the Council.
- 11.1.3. The CAE should obtain the Instruction Sheets and monitor and report to the Audit Committee within two (2) months on the implementation status of Audit Committee recommendations which were approved by Council.

### **11.2. Reporting in terms of the Annual Report**

- 11.2.1. In terms of Section 121(3)(j) of the MFMA, together with other leading practice, the Audit Committee shall prepare a report annually which will be incorporated into the municipality's Annual Report and those of its entities covering:
  - 11.2.1.1. The Audit Committee's composition;
  - 11.2.1.2. Any recommendations of the Audit Committee;
  - 11.2.1.3. Describing the functions performed by the Audit Committee and meetings attended;
  - 11.2.1.4. Resolutions taken by Council and implementation status of recommendations made; and



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11.2.1.5. Other relevant comments that may enhance governance and accountability.

11.2.2. The chairperson of the Audit Committee must submit the Audit Committee's Report at least annually, or at other intervals, to the Municipal Public Accounts Committee (MPAC), for consideration during the MPAC engagements on the oversight report.

11.2.3. The chairperson of the Audit Committee or a member in his absence, must always be available whenever MPAC needs clarity on the Annual Audit Committee Report. Therefore, the roles and responsibilities and outputs of the internal auditor and Audit Committee assist to inform the work of the MPAC and oversight structures.

### 11.3. Reporting to the Municipal Public Accounts Committee (MPAC)

11.3.1. In terms of S79A(3)(a) and (b) of Act No. 3 of 2021: Local Government: Municipal Structures Amendment Act, 2021, the Audit Committee must report to MPAC on the Auditor-General's reports, and also on the Internal Audit's reports.

## 12. MEETINGS AND PROCEDURE FOR CONDUCTING MEETINGS

### 12.1. Frequency and duration

12.1.1. Statutory meeting requirements:

12.1.1.1. Section 166(4)(b) of the MFMA: the Audit Committee must "*meet as often as is required to perform its functions, but at least four times a year.*"

12.1.1.2. Regulation 14(3)(a) of the Local Government: Municipal Planning and Performance Management Regulations, 2001: "*a performance audit committee must meet at least twice during the financial year of the municipality concerned.*"

12.1.1.3. Regulation 14(3)(b) of the Local Government: Municipal Planning and Performance Management Regulations, 2001: "*A special meeting of the performance audit committee may be called by any member of the committee.*"

12.1.1.4. Section 166(2)(b) of the MFMA: the Audit Committee must review the Annual Financial Statements to provide Council with an "authoritative and credible view of the financial position of the municipality". A Special Audit Committee Meeting may need to be scheduled to fulfil this responsibility.

12.1.2. Other meeting considerations:

12.1.2.1. The Audit Committee should consider meeting with internal and external auditors at least once a year without management being present.

12.1.2.2. The Audit Committee should consider meeting in-person or via virtual platform as required. To ensure members can interact directly with one

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another to discuss specific agenda items and general matters that could impact on and enhance the quality of participation and deliverables.

### 12.1.3. The George Municipal Council authorises:

- 12.1.3.1. Ordinary Audit Committee Meetings: Quarterly meetings to address its roles and responsibilities, including those relating to performance management per Regulation 14(3)(a) of the Local Government: Municipal Planning and Performance Management Regulations.
- 12.1.3.2. Special Audit Committee Meeting to attend to its responsibilities relating to the review of the Annual Financial Statements, per Section 166(2)(b) of the MFMA.
- 12.1.3.3. Any other Special Audit Committee meetings when deemed necessary by the Audit Committee. Audit Committee will be held accountable for justification, rationale, objective and outcomes of Special Audit Committee meetings and must report on these meetings to Council. The Chairperson should as a courtesy organise these meetings in consultation with the Secretariat and Accounting Officer.

## 12.2. Attendance

- 12.2.1. Reasonable notice of meetings and the business to be conducted shall be given to the Audit Committee Members and invitees, to make proposals as necessary.
- 12.2.2. If the appointed Chairperson is absent from a meeting, the members present must elect a member present to act as Chairperson. (Regulation 14(2)(3) of the Local Government: Municipal Planning and Performance Management Regulations, 2001.)
- 12.2.3. The Audit Committee should consider standing invitations to attend the Audit Committee meetings to:
  - 12.2.3.1. Municipal Manager;
  - 12.2.3.2. Political representatives determined by the Audit Committee Chairperson;
  - 12.2.3.3. Chief Audit Executive (CAE);
  - 12.2.3.4. Chief Risk Officer (CRO);
  - 12.2.3.5. Chief Financial Officer (CFO);
  - 12.2.3.6. External Auditor (Auditor-General);
  - 12.2.3.7. Provincial Treasury;
  - 12.2.3.8. National Treasury; and
  - 12.2.3.9. Any other person on invitation by the chairperson of the Audit Committee.
- 12.2.4. The CFO, CAE and a duly authorised representative from the Office of the Auditor-General shall be invited to attend the meetings of the Audit Committee and shall

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have unrestricted access to the chairperson or any other member of the Audit Committee as is required in relation to any matter falling within the scope of the Audit Committee.

- 12.2.5. The Audit Committee Chairperson, in his or her discretion, may invite Councillors or Officials to attend and be heard at meetings of the Audit Committee when there is a functional responsibility to be discussed. No such attendee shall have a vote at meetings of the Audit Committee.
- 12.2.6. If the invitee is not able to attend the Audit Committee meeting, a proxy should attend on behalf of the invitee if possible.
- 12.2.7. Invitees will be informed (as far as possible) of proposed timeslots for agenda points relevant to them.

### **12.3. Proceedings**

- 12.3.1. Unless varied by these terms of reference, meetings and proceedings of the Audit Committee will be governed by the municipality's code regulating the meetings and proceedings of the Council and sub-committees of the Council.

### **12.4. Agenda and minutes**

- 12.4.1. The Audit Committee must establish an annual work plan for each year to ensure that all relevant matters are covered by the agendas of the meetings planned for the year.
- 12.4.2. The annual plan must ensure proper coverage of the matters laid out in the Audit Committee Charter: the more critical matters will need to be attended to each year while other matters may be dealt with on a rotation basis over a three-year period.
- 12.4.3. The number, timing and length of meetings, and the agendas are to be determined in accordance with the annual plan.
- 12.4.4. The dates of meetings should preferably be determined at least six months in advance and submitted to members as well as the determined invitees. This will assist members and invitees to diarize meetings in advance.
- 12.4.5. A detailed agenda, together with supporting documentation, must be circulated, preferably at least one week prior to each meeting to the members of the Audit Committee and other invitees.
- 12.4.6. Audit Committee members must be fully prepared for Audit Committee meetings, to provide appropriate and constructive input on matters discussed.
- 12.4.7. The minutes must be completed as soon as possible after the meeting and circulated to the chairman and members of the Audit Committee for review thereof.
- 12.4.8. The minutes must be formally approved by the Audit Committee at its next scheduled meeting.

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- 12.4.9. Minutes of meetings shall be taken by the Secretariat and shall be reviewed and approved by the members of the Committee.
- 12.4.10. Audit Committee agendas and minutes of meetings should be forwarded to the CAE for information and for attending to any Council actions as may be required in consequence of such agendas, briefing papers and minutes.
- 12.4.11. The CAE is responsible for submission of minutes/reports of the Audit Committee to the Council.
- 12.4.12. In the event of the duly authorised representative of Office of the Auditor-General not being present at meetings, copies of the agenda and minutes of each meeting shall be forwarded to the Office of the Auditor-General for their information and records.

### **12.5. Quorum**

- 12.5.1. The quorum for decisions of the Committee shall be any 50% plus 1 member present at the meeting of the Committee where the decisions are approved.

## **13. PERFORMANCE ASSESSMENTS**

### **13.1. Self-Assessments**

- 13.1.1. The Audit Committee should assess its performance and achievements against its charter on an annual basis. The assessment would cover the performance of the individual member as part of the overall audit committee with reference to the skills the member has brought to the audit committee as a whole.
- 13.1.2. The aim of the self-assessment is to ensure that the audit committee is meeting its objectives efficiently and effectively. The findings of the self-assessment should be presented by the chairperson to the accounting officer and municipal Council.
- 13.1.3. Where the self-assessment highlights a need for enhancements to the role, operational processes or membership of the Audit Committee, the chairperson should act to ensure that such enhancements are implemented. The chairperson may need to consult with the Accounting Officer and municipal Council to obtain appropriate support to ensure all enhancements are implemented.
- 13.1.4. It may be beneficial for the Audit Committee to use an external facilitator to provide assistance with, or to supervise the self-assessment process. It is up to the Audit Committee to decide whether the services of an external facilitator are required.

### **13.2. Independent and Objective Performance Assessments**

- 13.2.1. An independent and objective performance assessment will be performed on the Audit Committee members at least once during a three-year term. An external facilitator / service provider will provide an impartial and objective view and approach the evaluation process without bias or preconceived ideas.

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13.2.2. The chairperson and external facilitator should provide feedback to the Audit Committee members and present the findings of the evaluation to the Accounting Officer and Municipal Council.

13.2.3. When considering whether to renew an Audit Committee member's contract for a second and final term, Council will consider the results of the independent and objective performance assessments and conclude whether the member performed and whether to renew the contract for another term.

### 13.3. Performance Concerns

13.3.1. Where the Audit Committee is not performing in accordance with their charter and this has been observed by various stakeholders such as for example, internal audit, external audit or management, it would be appropriate for this or other issues to be brought to the attention of the Accounting Officer and municipal Council.

13.3.2. If an individual Audit Committee member is not performing, then the member must be given an opportunity to address such with the municipal Council. If it is considered necessary to terminate the services of an Audit Committee member prior to the end of the term of appointment, proper procedures should be followed. (Refer to Section 8.2: Termination of Service).

## 14. REMUNERATION

14.1. Having regard to the functions performed by the members of the Audit Committee, and pursuant to the powers of the Council, members of the Audit Committee shall be paid such remuneration in respect of their appointment as shall be fixed by the Council from time to time.

14.2. Council applies the hourly rate, in line with the remuneration Regulations and Guidelines set out by the National Treasury and revised on an annual basis.

14.3. As per MFMA Circular 65, the CAE, in consultation with the Chairperson of the Audit Committee, must determine the time frames of all meetings. In light of the financial implications, the Accounting Officer in consultation with the Chairperson of the Audit Committee must agree, if meetings go beyond a one day sitting.

14.4. Audit Committee members will be remunerated at the rates specified below, with total remuneration limited to the Council approved annual Audit Committee's budget:

14.4.1. **Quarterly Audit Committee Meetings:** 8 hours (includes preparation and reporting time).

14.4.2. **Special Audit Committee Meeting held for the review of the draft Annual Financial Statements** before they are submitted to the Auditor-General: seated time plus preparation time at a rate of *1 hour preparation time for every 1 hour seated time*.

14.4.3. **Other Special Audit Committee Meetings:** seated time plus preparation time at a rate of *½ hour preparation time for every 1 hour seated time*.

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## GEORGE MUNICIPALITY – AUDIT COMMITTEE CHARTER

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- 14.4.4. **Attendance at the Disciplinary Board Meetings:** seated time plus preparation time at a rate of *1 hour preparation time for every 1 hour seated time*.
- 14.4.5. **Attendance at the Performance Evaluations Meetings:** seated time and no preparation time.
- 14.4.6. **Invitations by the Accounting Officer to attend meetings including training workshops:** seated time and no preparation time.
- 14.4.7. **Attendance at Council Meetings and Council Committee meetings (excluding Bid Adjudication Meetings):** seated time and no preparation time.
- 14.4.8. **Attendance at the MPAC meeting** for the review of the Annual Audit Committee Report (note: the chairperson of the Audit Committee or a member in his/her absence, must always be available whenever MPAC needs clarity on the Annual Audit Committee Report): seated time and preparation time at a rate of *1 hour preparation time for every 1 hour seated time*.
- 14.4.9. **Attendance at Risk Management Committee Meetings:** seated time plus preparation time at *1 hour preparation time for every 1 hour seated time*.
- 14.4.10. **All other meetings and responsibilities not listed above:** seated time plus preparation time at a rate of *½ hour preparation time for every 1 hour seated time*.
- 14.5. Remuneration will only be applicable to persons employed outside the public service. No remuneration for participating in Audit Committees will be payable to officials employed at national, provincial and local government, its agencies or other entities regarded as falling within the definition of an organ of state, except for out of pocket expenses which may be reimbursed.
- 14.6. The reimbursement of all members for travel expenditure must be determined in accordance with the relevant approved Council policies or the rate per kilometre as published and updated by the National Department of Transport.
- 14.7. The Accounting Officer, in consultation with the CFO, is required to pre-approve the reimbursement of all travel expenditure for members of the Audit Committee based on the above mentioned or make alternative arrangements to pay for modes of travel to such meetings, in terms of Council's policies.
- 14.8. The chairperson and members of the Audit Committee will be required to complete all of their respective travel to and from the venue of the Audit Committee meetings.
- 14.9. Members will be remunerated at an hourly rate for attending the Provincial Forum for Audit Committee Chairpersons (the chairperson or delegate in his absence), working on special, pre-approved assignments or investigations, compulsory training and municipal, provincial or national workshops.

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### 15. GENERAL

- 15.1. The Committee in carrying out its tasks under these terms of reference may obtain such outside or other independent professional advice, as it considers necessary to carry out its duties upon approval of the Accounting Officer.

### 16. ROUND-ROBIN APPROVALS

- 16.1.1. The Audit Committee may approve/ resolve on matters other than at an Ordinary/ Special Audit Committee meeting via the Round-Robin Approval Process.
- 16.1.2. Audit Committee members will be required to respond in writing to the request, and the resolutions ratified at the next Ordinary/ Special Audit Committee meeting.

### 17. REVIEW OF THE AUDIT COMMITTEE CHARTER

- 17.1. The charter should be reviewed annually and updated when required to ensure relevance and consistency with the MFMA, Municipal Systems Act (No 32 of 2000) and other related regulations, guidance, and best practice.
- 17.2. Amendments are subject to the approval of the Council.

### 18. VERSION

APPROVED / REVISED	MEETING	DATE
AMENDMENTS APPROVED BY COUNCIL	COUNCIL MEETING ITEM 7.2.25	30 JUNE 2022
AUDIT COMMITTEE REVIEWED	26 JUNE 2023	26 JUNE 2023

### 19. APPROVAL

As approved by Council at the Ordinary Council Meeting which was held on 26 October 2023



.....  
L Waring, Acting Municipal Manager

**MUNICIPAL MANAGER: DR M GRATZ**

### 20. ACKNOWLEDGED ON BEHALF OF THE AUDIT COMMITTEE



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**AUDIT COMMITTEE CHAIRPERSON: MR E LE ROUX**