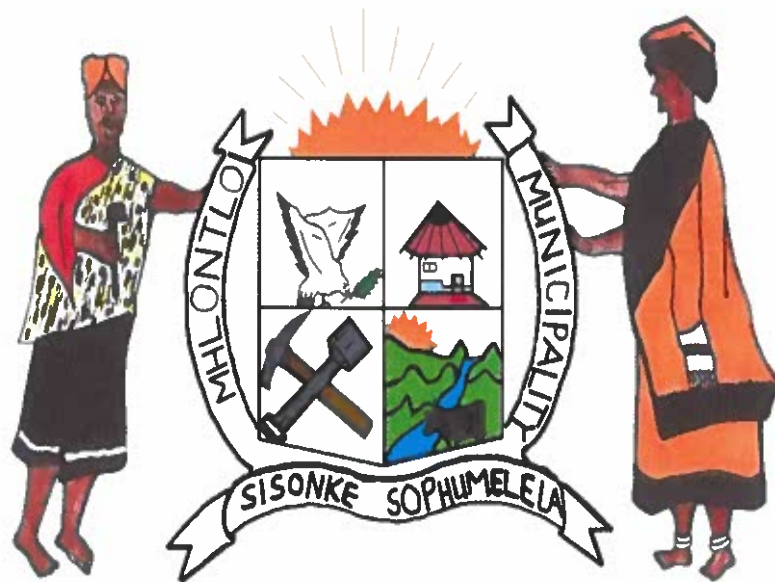


MHLONTLO LOCAL MUNICIPALITY



AUDIT COMMITTEE CHARTER

2020/2021

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1 Introduction

Mhlontlo Local Municipality (MLM) has established an Audit Committee in accordance with section 166 of the Municipal Finance Management Act, no 56 of 2003 read with Regulation 14 of the Planning and Performance Management Regulations, 2001.

2 Purpose Statement

- 2.1 The purpose of the Audit Committee charter is to set out the status, authority, roles and responsibilities of the Audit Committee of the municipality.
- 2.2 The status, authority, roles and responsibilities are in accordance with section 166 of the Municipal Finance Management Act (MFMA), no 56 of 2003 read together with MFMA Circular 65 of 2012 as issued by National Treasury.
- 2.3 Consideration has also been given to the recommendations contained in the King Report on Governance for South Africa 2017 (King IV). This charter guides the Audit Committee in fulfilling its obligations.

3 Authority of Audit Committee

- 3.1 The Audit Committee of MLM is authorised, in terms of this charter, to perform the duties and functions required to ensure adherence to the provisions of the Municipal Finance Management Act, the applicable provisions of the Municipal Systems Act and the Municipal Structures Act and other applicable regulations.
- 3.2 In carrying out its mandate, the Audit Committee must have regard to the strategic goals of council and its strategic focus areas and development priorities as outlined in the Integrated Development Plan (IDP) and the Service Delivery Budget Implementation Plan (SDBIP).
- 3.3 The Audit Committee may:
 - 3.3.1 Communicate with the council, municipal manager, the internal and external auditors of the municipality.
 - 3.3.2 Have access to municipal records containing information that is needed to perform its duties or exercise its powers.
 - 3.3.3 Request any relevant person to attend any of its meetings, and, if necessary, to provide information requested by the Audit Committee.
 - 3.3.4 Conduct investigations into the financial affairs of the municipality, as may be requested by the council.
 - 3.3.5 Obtain outside legal or other professional advice within the scope of its responsibilities and allocated budget provision.

4 Role of Audit Committee

- 4.1 The role of the Audit Committee is to assist the council and the municipal manager in fulfilling its oversight responsibilities with regard to the integrity of internal control and accounting function, internal auditing and external auditing and reporting practices of the municipality and other such duties as may be directed by the council and in so doing shall:
 - 4.1.1 Advise the municipal council, the political office-bearers, the municipal manager, the management and staff of the municipality on matters relating to:
 - 4.1.1.1 internal financial control and internal audits;
 - 4.1.1.2 risk management;

5.2 Internal Control

The audit committee members need to have a good understanding of the control environment. In fulfilling this responsibility the Audit Committee should:

- 5.2.1 Ensure that management follows a sound process to draw conclusions on the adequacy and effectiveness of the system of internal controls.
- 5.2.2 Establish whether management has relevant policies and procedures in place and that these are adequate, effective and regularly updated.
- 5.2.3 Determine whether appropriate processes are followed and complied with on a regular basis.
- 5.2.4 Consider measures applied on any required changes to the design or implementation of internal controls.
- 5.2.5 Assess steps taken by management to encourage ethical and lawful behaviour; financial discipline and accountability for use of public resources.
- 5.2.6 Monitor the responses of the council to internal control recommendations made by the internal and external auditors, with a view to enhancing appropriate accountability.

5.3 Financial Reporting

- 5.3.1 The Audit Committee should:
 - 5.3.1.1 Consider the current areas of greatest financial risk and how management is managing these effectively.
 - 5.3.1.2 Consider with the internal and external auditors any fraud, illegal acts, deficiencies in internal control, or other similar issues.
 - 5.3.1.3 Review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on the financial statements.
 - 5.3.1.4 Review changes in accounting policies.
 - 5.3.1.5 Review any legal matters which could significantly impact the financial statements.
- 5.3.2 The Audit Committee shall receive and consider a report prepared by internal audit on the financial statements in which they express their findings on the following:
 - 5.3.2.1 Confirming if the municipal audit file is prepared in line with the applicable standards and guidance contained in MFMA Circular 50, or as updated.
 - 5.3.2.2 Reviewing the unaudited annual financial statements of the municipality to ensure that the quality, integrity and content is consistent with applicable standards and compliant with the legal framework.
 - 5.3.2.3 Evaluating the annual financial statements of the municipality for reasonableness, completeness and accuracy, and commenting thereon, on a timely basis.
 - 5.3.2.4 Review and comment on the municipality's annual financial statements and timely submission to the Auditor-General by 31 August each year
- 5.3.3 The Audit Committee must:
 - 5.3.3.1 Consider the Auditor-General's opinion on the quality and appropriateness of the municipality's accounting policies.

- 5.4.13 Confirm annually that a quality control process is in place to ensure compliance with International Standards for the Professional Practice of Internal Auditing (ISPPIA).
- 5.4.14 Concur with any appointment and termination of the services of the internal audit.
- 5.4.15 Confirm compliance with laws and regulations.
- 5.4.16 Review the qualification of internal audit personnel and concur in the appointment, replacement, reassignment or dismissal of the Chief Audit Executive
- 5.4.17 Ensure that the IAF goes through external assessment at least every five years as required by the ISPPIA.

5.5 External Audit

The Audit Committee must in relation to external audit:

- 5.5.1 Take cognizance of the scope of work undertaken by the external auditor and the extent of co-ordination with the IAF.
- 5.5.2 Note the annual external audit plans, audit fees and other compensation.
- 5.5.3 Review reports and monitor management's implementation of audit recommendations and council resolutions in the new financial year.
- 5.5.4 Review the report on the financial statements and matters raised therein for reasonability and accuracy.
- 5.5.5 Review any interim reports issued in order to take cognizance of the issues raised in determining the follow up work of the internal audit.
- 5.5.6 Conduct a review of the extent to which previously reported findings by the external auditor have been addressed by the council.
- 5.5.7 Provide advice to the accounting officer on actions taken or to be taken relating to significant matters raised in external audit reports.
- 5.5.8 Liaise with the external auditors on any matter that the Audit Committee considers appropriate to raise with the external auditor.
- 5.5.9 Ensure that the external auditors have reasonable access to the relevant management and chairperson of the Audit Committee.
- 5.5.10 Address any potential restrictions or limitations with the accounting officer and council.
- 5.5.11 Address outstanding matters raised by the external auditors and ensure that findings are dealt with conclusively in an expeditious manner.

5.6 Information Technology (IT) Governance

- 5.6.1 Advice on IT governance, controls, access, safeguarding of information in the municipality.
- 5.6.2 Specific expertise may be required from within or outside the municipality from time to time, to assist the IAF and audit committee formulate recommendations on systems and controls.
- 5.6.3 Advise on the appropriateness of disaster recovery and continuity plans supporting IT risks, regular testing and evaluation of plans systems and processes.

5.9 Reporting Responsibilities

- 5.9.1 The chairperson of the Audit Committee will report on a quarterly basis after each and every meeting, or more frequently if required, to the council on the operations of the Audit Committee.
- 5.9.2 The report should include:
 - 5.9.2.1 A summary of the work performed by the internal audit and the Audit Committee against the annual work plan.
 - 5.9.2.2 Effectiveness of internal controls and additional measures that must be implemented to address identified risks.
 - 5.9.2.3 A summary of key issues dealt with, such as significant internal and external audit findings, recommendations and updated status thereof.
 - 5.9.2.4 Progress with any investigations and their outcomes.
 - 5.9.2.5 Details of meetings and the number of meetings attended by each member.
 - 5.9.2.6 Other matters requested of the internal audit and Audit Committee.
 - 5.9.2.7 The audit committee shall prepare a report annually, which will be incorporated into the Municipality's annual report covering:
 - 5.9.2.8 The descriptions of the functions performed by the Audit Committee and meetings attended.
 - 5.9.2.9 Resolutions taken by Audit committee and implementation status of recommendations made.
 - 5.9.2.10 Other relevant comments that may enhance governance and accountability.
 - 5.9.2.11 To enhance coordination between the Audit Committee and MPAC, the MPAC Chairperson will be invited to the Audit Committee meetings.

5.11 Term of Office

- 5.11.1 To enhance independence of the audit committee, the term of office for members must be strictly adhered to.
- 5.11.2 The chairperson should be appointed for a minimum of three years to ensure that he/she contributes most effectively and provides stability to the Audit Committee.
- 5.11.3 Other Audit Committee members should serve at least a minimum of three years with an option to renew for another three years, based on performance.
- 5.11.4 Recruitment of members should be staggered to prevent a loss of knowledge and skills in the Audit Committee.
- 5.11.5 The recruitment process of new members should be concluded at least three months in advance of the expiry of existing members term.
- 5.11.6 The Chief Audit Executive and the accounting officer must maintain records of audit committee member contracts and ensure recruitment is undertaken as mentioned above.
- 5.11.7 Rotation of members is encouraged as it enhances the independence of the audit committee. Members of the Audit Committee should not be contracted continuously for a period exceeding six years.
- 5.11.8 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.
- 5.11.9 Members should be encouraged not to terminate their contracts until they have shared their knowledge with other new members.
- 5.11.10 A committee member should give two months' notice prior to resignation. The committee members should have the opportunity to have an exit meeting with the council to discuss the reason for leaving and to provide feedback on their experience on the Audit Committee as well as any other issues. The date of resignation should be minuted by the secretariat of the audit committee.

- 7.2.5 Act in a manner that may comprise the credibility, workings and integrity of the Audit Committee and council
- 7.2.6 The audit committee chairperson and members should be independent of the municipality;
- 7.2.7 The audit committee chairperson and members should not be biased but exhibit an independence of mental attitude during deliberations;
- 7.2.8 All audit committee members should declare private and business interest in every meeting; and
- 7.2.9 All members should not carry out any business with the municipality.

8 Relationship with stakeholders

8.1 Attendance by officials and other parties

- 8.1.1 Invitations to attend the Audit Committee meetings will be extended to the following:
 - 8.1.1.1 The Accounting Officer/Municipal Manager;
 - 8.1.1.2 All Heads of Department;
 - 8.1.1.3 Internal Audit, PMS Practitioners;
 - 8.1.1.4 The Chairperson of Municipal Public Finance Accounts;
 - 8.1.1.5 The Provincial Treasury representative;
 - 8.1.1.6 The Co-operative Governance and Traditional Affairs representative
 - 8.1.1.7 The Auditor General;
 - 8.1.1.8 Any other person as and when requested by the Chairperson of the Audit Committee;
 - 8.1.1.9 OR Tambo District Municipality (Internal Audit & Risk); and
 - 8.1.1.10 BTO Portfolio Councillor
- 8.1.2 Furthermore, any person may be requested to attend a meeting of the audit committee when the need may arise. Officials must give the audit committee their full co-operation. Invitees may not vote on any matter before the committee.

8.2 Secretariat

- 8.2.1 The dates of meetings should be agreed upon at the commencement of each financial year. Notice of each meeting shall be given in writing to all members of the Audit Committee and other invited parties, at least 14 days prior to the date of the meeting.
- 8.2.2 The agenda of the meeting together with the audit pack shall be prepared and distributed at least 7 days prior to the meeting date.
- 8.2.3 The secretariat shall keep minutes of all meetings and shall be circulated 7 days after each meeting to the chairperson and later to audit committee meetings within 14 days.

11. Maintenance of charter

- 10.6 The charter should be reviewed annually and updated to ensure relevance and consistency with the MFMA, Municipal Systems Act and other related regulations, guides and best practice.
- 10.7 The reviewing and amending of the Audit Committee charter is the responsibility of the audit committee in conjunction with the internal audit function and subject to the approval of the Council.

12. Conclusion

The role of the Audit Committee is to assist Mhlontlo municipality in achieving its strategic goals and objectives, by helping to maintain effective internal controls, risk management, accurate financial reporting and corporate governance principles.


13. Approval

Recommended by the municipal manager


Mr T.P. Mase
Acting Municipal Manager


25/06/2020
Date

Accepted by Audit Committee and signed on its behalf by the Audit Committee

Chairperson

Mr A.M. Langa
Chairperson of the Audit Committee

25/06/2020
Date

Approved by the council


Hon Mayor N Dywili
On behalf of Council

28-08-2020
Date

Resolution number: 02-2020/2021