

AUDIT COMMITTEE CHARTER

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| Item A-CORP (78-2009) CM 26/11/2009 | UPDATED AUDIT COMMITTEE CHARTER |
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RESOLVED:

That the updated Audit Committee Charter, attached as **Annexure “A”** to the report, **BE NOTED** and **APPROVED**.

ANNEXURE "A"

**EKURHULENI METROPOLITAN MUNICIPALITY
AUDIT COMMITTEE CHARTER**

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1. GENERAL DEFINITIONS

1.1 General definitions

In this Audit Committee Charter, unless the context indicates otherwise, a word or expression to which a meaning has been given, has the same meaning, and —

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|---------------------------|---|
| “Accounting Officer” | means the Municipal Manager, referred to in section 60 of the Municipal Finance Management Act, Act 56 of 2003 |
| “Act” | means the Municipal Finance Management Act, Act 56 of 2003 |
| “Audit Committee” | means the committee established in terms of Section 166 of the Act |
| “Chief Financial Officer” | means the employee designated in terms of section 80(2)(a) of the Act |
| “Council” | The legislated body governing the activities of the Ekurhuleni Metropolitan Municipality |
| “Local Municipality” | means a municipality that shares municipal executive and legislative authority in its area with a district municipality within whose area it falls, and which is described in section 155(1) of the Constitution as a category B municipality |
| “Employee” | means a person in the employ of the Municipality |
| “External Auditors” | means the Office of the Auditor-General |

2. INTRODUCTION AND PURPOSE

- 2.1 The Audit Committee is constituted in terms of Section 166 of the Act.
- 2.2 The Audit Committee is a specially appointed sub committee of Council to assist the Ekurhuleni Metropolitan Municipality ("EMM") in the execution of its duties. The Audit Committee performs an advisory role to EMM and is accountable to Council to properly consider and evaluate any matter that it has to deal with or is referred to it.
- 2.3 The Council must continuously review current trends and best practice in relation to corporate governance. To assist and advise Council in fulfilling its obligations to demonstrate greater accountability and ensure higher quality of service, the Act provides for the establishment of an Audit Committee in Section 166.
- 2.4 The purpose of the Audit Committee is to assist and advise 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.
- 2.5 This Charter sets out the specific responsibilities assigned by the Executive Mayor 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.
- 2.6 In terms of paragraph 14 (2) (a) of the local government Municipal planning and Performance Management Regulations, 2001, the Municipality must annually appoint and budget for a Performance Audit Committee.

Paragraph 14 (2) (b) and (d) states that:

- (a) A performance Audit Committee appointed in terms of 14 (2) (a) must include at least one person who has expertise in Performance Management.
- (d) The Council of a Municipality must designate a member of the Performance Audit Committee who is not a councillor or an employee of the Municipality as Chairperson of the Audit Committee.
- 2.7 Section 166 of the Act states that:
- (1) Each Municipality and each Municipal Entity must have an Audit Committee,...
- (5) The member of an Audit Committee must be appointed by the Council of the Municipality or, in the case of a municipal entity, by the Council of the parent Municipality. One of the members who is not in the employ of the Municipality or municipal entity, must be appointed as the chairperson of the Audit Committee. No councillor may be a member of an Audit Committee.

3. AUDIT COMMITTEE'S MANDATE

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

- (i) The Audit Committee is advisory in nature and does not have any executive powers.
- (ii) 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 prepare annual financial statements.
- (iii) 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 Council in respect of the activities, which form part of the Committee's terms of reference (as set out in section 3 below).
- (iv) The Audit Committee shall be authorised to perform the functions as contained in this charter. In carrying out this mandate the Audit Committee shall have full, free and unrestricted access to all Council's activities, records, property and staff.
- (v) The Audit Committee shall consider any matters relating to the financial affairs of the Council and to internal and external audit that is determined to be desirable. In addition, the Committee shall examine any other matters referred by its management, provided that such requests are legitimate and within scope of the Committee's duties and responsibilities.

3.1 Specific duties of the Audit Committee in terms of Section 166 of the Act shall include:

3.1.1 Responsibilities related to management and internal control

The Audit Committee should assist Council in carrying out its responsibilities in terms of the Act. The following amongst others, would be expected from the Committee:

- (i) Consider the effectiveness of the Municipality's internal control system, both financial and operational;
- (ii) Understand the scope of internal and external auditor's review of internal control over financial reporting and obtain reports on significant findings and recommendations, together with management's responses;
- (iii) Review the content, quality, adequacy, reliability and accuracy of the financial information (monthly and quarterly reports) provided to Council and other users of such information;
- (iv) Review any accounting and auditing concerns identified as a result of internal and external audits performed;
- (v) Review the Auditor-General management letter and management response;
- (vi) Review changes in accounting policies and practices;

- (vii) Review significant adjustments resulting from the audit;
- (viii) Evaluate the financial statements.

3.1.2 Responsibilities related to the Internal Audit function

The Audit Committee should ensure that the internal Audit function performs their responsibilities effectively and efficiently through:

- (i) Review and approval of the internal Audit Services Charter;
- (ii) Approval of internal Audit strategic and operational plans and review achieved performance against these plans. Review of these plans to ensure all high risk areas are addressed and that adequate resources are available;
- (iii) Review the appointments of the Internal Audit resources in terms of prescribed tender procedures;
- (iv) Concur the appointment, replacement or dismissal of the Internal Audit function;
- (v) Review the organizational structure and qualifications of the Internal Audit function;
- (vi) Review of audit results and the action plans of management;
- (vii) Consider the scope and objectives of any additional work undertaken by the internal Auditors to ensure that there are no conflicts of Interest and that independence is not compromised;
- (viii) Request for specific audit projects;
- (ix) Review of the results of the quality assurance reviews;
- (x) Meet with the External Auditors at their request as they deem necessary;
- (xi) Co-ordination of Internal Audit work with External Audit; and
- (xii) Ensure that the Chief Audit Executive has direct access to the Audit Committee and Chairperson and the Chief Financial Officer.

3.1.3 Responsibilities related to the External Audit performed by the Auditor- General

- (i) Review and evaluate the efficiency and effectiveness of the External Auditors in relation to their responsibilities;
- (ii) Ensure that there are no restrictions or limitations placed on the auditors;
- (iii) Review of the plan and scope of External Audit with regard to the critical risk areas and the sufficiency of audit coverage and procedures, including co-ordination with the Internal Audit function;
- (iv) Review of audit results quality and contents of financial information and the action plans of management;

- (v) Review and confirm the independence of the External Auditors, with specific reference when the work is outsourced by the Office of the Auditor General, by reviewing the non audit services provided and the auditor's assertion of their independence in accordance with Professional Standards;
- (vi) Consider significant disagreements between the External Auditors and management;
- (vii) Consider material unsolved accounting and auditing problems;
- (viii) Review the External Auditors fee arrangements; and
- (ix) Ensure direct access by the External Auditors to the Audit Committee, the Chairperson of the Audit Committee and the Municipal Manager.

3.1.4 Risk Management

- (i) 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 these risks.
- (ii) In order to carry out this responsibility, the Audit Committee should be informed of and consider the following matters:
 - a. The overall risk management processes in the Municipality.
 - b. The typical risks inherent to the functions and activities of the Municipality as well as the management and control of such risks.
 - c. Areas where there has been a major change in the risk factors.
 - d. Details of the action plans of management to control the level of risk.

3.1.5 Compliance Management

- (i) Review the effectiveness of the systems for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instance of non-compliance;
- (ii) Ensure that the Audit Committee's activities comply with all requirements, as determined by any applicable legislation and regulations promulgated there under, as well as any regulatory/supervisory authority and shall review the Municipality's compliance with any statutory requirements and regulations, in respect of accounting and financial reporting;
- (iii) Request and consider reports and presentations by management on measures implemented to ensure compliance with statutes, internal policies, procedures and controls, including accounting systems and record keeping controls, information systems and technology controls, internal auditing processes, management information systems and reports applied to the day to day management of the Municipality's business, and review the internal control structure including financial control, accounting systems and reporting; and
- (iv) Consider the impact of new legislation on the affairs of the Municipality.

3.1.6 Performance Management

- (i) Review the quarterly reports submitted by the Internal Audit Function relating to audits of performance measures on the municipality;
- (ii) Review the municipality's performance management system and make recommendations in this regard to council of the municipality, focussing on economy, effectiveness and the impact in so far as they key performance indicators and performance targets set by the municipality;
- (iii) Submit a Performance Management report to Council at least twice during a financial year

3.2 Best practice

3.2.1 The Audit Committee shall:

- a. Take into account International Auditing Standards, Standards for Professional Practice of Internal Auditing and generally recognised accounting practices in its operations and functioning; and
- b. Undertake such other reviews as the Audit Committee deems necessary in order to fulfil its responsibilities or as may be requested by the Municipality.

3.3 Management reports

3.3.1 The Audit Committee shall be furnished with and consider reports containing details amongst others:

- a. Budget control;
- b. Internal audit scope, findings and conclusions;
- c. Risk mitigation analysis reports;
- d. Such additional information that the Audit Committee or management determines to be necessary for the efficient functioning of the Audit Committee.

3.3.2 The Audit Committee may refer any matter of concern to the Accounting Officer or his/her delegate for further evaluation.

3.4 Special investigations

3.4.1 Where circumstances necessitate, the Audit Committee may initiate special investigations or undertake special investigations referred to it by the Council and the Accounting Officer.

4. REPORTING TO COUNCIL

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

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

- 4.3 In addition, the Chairperson must report annually to the Council, in person and by means of a written report, summarising the activities, recommendations and decisions of the Audit Committee during the previous financial year.
- 4.4 The Chairperson must immediately report any material findings or concerns to the Executive Mayor and the Mayoral Committee.
- 4.5 The Chairperson must also report regularly to the Municipal Public Accounts Committee any material findings pertaining to irregularities.

5. COMPOSITION OF THE AUDIT COMMITTEE

5.1 Membership

- 5.1.1 The appointment of Audit Committee members is set out in section 166 (5) of the Act. The Audit Committee members are appointed by the Council and shall consist of five (5) members. No councillors or person employed by the Municipality may be a member of the Audit Committee.
- 5.1.2 In appointing members to serve on the Audit Committee, consideration should be given to:
 - a. The incumbent's knowledge of financial and risk management matters, of which one whom shall have Performance Management background;
 - b. The incumbent's independence;
 - c. At least one member should be a financial expert; and
 - d. At least one member should have expertise in Performance Management.
- 5.1.3 All members appointed to the Audit Committee shall enter into a contract with the Municipality.

5.2 Non-Members attending Ex-Officio

- (i) The Municipal Manager and the Chief Financial Officer with all the Executive Directors.
- (ii) A representative from the Office of the Auditor-General and (where applicable) a representative from the external auditors.
- (iii) The Chief Audit Executive.
- (iv) 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.
- (v) Other members of management may be invited to attend Audit Committee meetings when there is a functional responsibility to be discussed.
- (vi) The Audit Committee may also invite such other persons, as it deems necessary in the light of the particular agenda to be considered.

5.3 Chairperson

- 5.3.1 The members of the Audit Committee, shall, amongst themselves, appoint a Chairperson. The Chairperson of the Audit Committee must be independent and shall not be any person in the employ of the Municipality and may not be a political office bearer.
- 5.3.2 In the event that the Chairperson is not present at a meeting, the Audit Committee shall elect a member to act as the Chairperson.

5.4 Co-opted members, expert consultants and/or advice

5.4.1 The Audit Committee may:

- (i) With the concurrence of the Accounting Officer, co-opt members, with appropriate skills and experience, to add value to the decision-making process and a recommendation to the executive mayor must be made to consider the co-opted member.
- (ii) Invite in consultation with the Accounting Officer any expert consultant to attend a meeting to contribute to the effective functioning of the Audit Committee;
- (iii) Obtain independent professional advice on any area of concern relating to the Municipality's activities, at the Municipality's expense. In addition, the Audit Committee may secure the attendance of outsiders with relevant experience and expertise at its meetings, if considered necessary; and
- (iv) Request any investigation within the ambit of its mandate in order to fulfil its role and responsibilities.

5.4.2 Secretariat of the Audit Committee

- 5.4.2.1 The Municipality shall provide a staff member to act as a secretary to the Committee.
- 5.4.2.2 The secretary shall keep minutes of all meetings and shall include the minutes with the agenda of the next Audit Committee meeting.

5.5 Remuneration of members

- 5.5.1 Subsistence and other allowances may be paid to members in accordance with his/her conditions of service.
- 5.5.2 Audit Committee members not holding executive office in the organisation or not being in the public service shall be remunerated for their services on the Audit Committee based on meetings attended. The Chairperson of the Audit Committee shall be paid additional remuneration for such attendance and for services related to the Audit Committee.
- 5.5.3 Remuneration shall be determined in line with guidelines issued by the National Treasury or the South African Institute of Chartered Accountants, in consultation with the Auditor General.

5.6 Indemnity of members

- 5.6.1 The members of the Audit Committee will use reasonable skill and care in the provision and delivery of the services and the deliverables required.
- 5.6.2 All findings and recommendations will be made by the Audit Committee in good faith and based on information available at the time. Accordingly, no statement in any report, letter or other document issued or adopted by the Audit Committee is to be deemed to be in any circumstances a representation, undertaking, warranty or guarantee and no claim whatsoever will lie against the Audit Committee if such statement proves inaccurate.
- 5.6.3 The Council or in the case of the Chairman, with the concurrence of the other members of the Audit Committee, may terminate the services of a committee member when it has been determined that the member has acted in a negligent manner

5.7 Vacation of the office

An Audit Committee member must vacate office during a term if that person:

- 5.7.1 Resigns as a member of the Audit Committee.
- 5.7.2 Failed to attend Audit Committee in three consecutive meetings.
- 5.7.3 Expiry of term of office.
- 5.7.4 In the event of a vacancy occurring amongst the members of the Audit Committee, the municipality must fill that vacancy for the unexpired portion of the vacating member's term.

6. OPERATION

6.1 Frequency of meetings

- 6.1.1 The Audit Committee shall meet at least four times in a financial year and must meet annually with the external auditors to ensure that there are no unresolved issues of concern.
- 6.1.2 At least one Audit Committee meeting should be held each quarter.
- 6.1.3 Special meetings of the Audit Committee can be convened as and when required. Any member of the Audit Committee may call a special meeting. Internal or External Audit may call special meetings, if they consider it necessary. Meetings called by auditors may be for the fixed members of the Audit Committee.

6.2 Quorum

- 6.2.1 The quorum for meetings will be any three (3) of the five (5) fixed members of the Audit Committee referred to in sub-paragraph 5.1.1 above.

6.3 Conflict of Interest

- 6.3.1 Subject to the provisions of any Act, regulation or prescript, where a member of the Audit Committee has an interest in a matter being considered, this interest shall be

declared at the beginning of the proceedings of the meeting and the member must recuse use him/herself from the decision making process.

6.4 Access to Information

6.4.1 The Audit Committee may obtain access to all records and information that it may require from management or employees of the Municipality. The Audit Committee has direct access to the Accounting Officer, management, internal and external auditors.

6.5 Notice of meetings

6.5.1 Notice of each meeting shall be given in writing to all members of the Audit Committee, at least fourteen days prior to the date on which such meeting is to be held.

6.6 Agenda, papers and distribution

6.6.1 The agenda of each meeting shall be prepared and distributed at least seven days prior to the meeting date, any person attending the meeting may add items to the agenda up to three days before the agenda is finalised. Such items must be provided to the secretary of the Audit Committee.

6.7 Minutes

6.7.1 The secretary shall prepare draft minutes of the meeting for review by the Chairperson within 10 working days of a meeting. The minutes shall be tabled at the next meeting of the Audit Committee for adoption.

6.8 Reporting procedure

6.8.1 The Chairperson of the Audit Committee should report to the Executive Mayor within 30 working days after the date of the Audit Committee meetings. This report will include recommendations and decisions made in the Audit Committee meetings.

7. OTHER MEETINGS OF THE CHAIRPERSON

7.1 Should the external auditors, internal auditors, legal manager or any other party request an audience from the Audit Committee, the Chairperson shall consult the other members prior to convening such a meeting.

7.2 The Chairperson may at his/her discretion meet separately with the external auditors, internal auditors and management to discuss any matter.

8. EVALUATION OF THE EFFECTIVENESS OF THE AUDIT COMMITTEE

8.1 The Chairperson of the Audit Committee should evaluate the performance of individual committee members and the Council should evaluate the performance of the Chairperson. Input from management, internal and external auditors will be part of the assessment process.

8.2 Evaluation criteria include the following:

- Expertise and know how
- Inquiry attitude, objectivity and Independence
- Judgement
- Knowledge of local government and its objectives

- Understanding of and commitment to the Audit Committee's duties and responsibilities
- Devotion of time in order to participate effectively in the Audit Committee
- Timely responses
- Attendance of meetings

8.3 The results of the performance evaluation should be reviewed by the Audit Committee and Council in order to determine what actions, if necessary, are to be taken. Members who do not meet the performance assessment criteria should be removed from the committee.

9. APPROVAL

The Audit Committee's Terms of Reference as set out in this charter is hereby approved for and on behalf of the Municipality:

**Ekurhuleni Metropolitan Municipality
Executive Mayor**

Date:

**Ekurhuleni Metropolitan Municipality Audit
Committee Chairperson**

Date: