

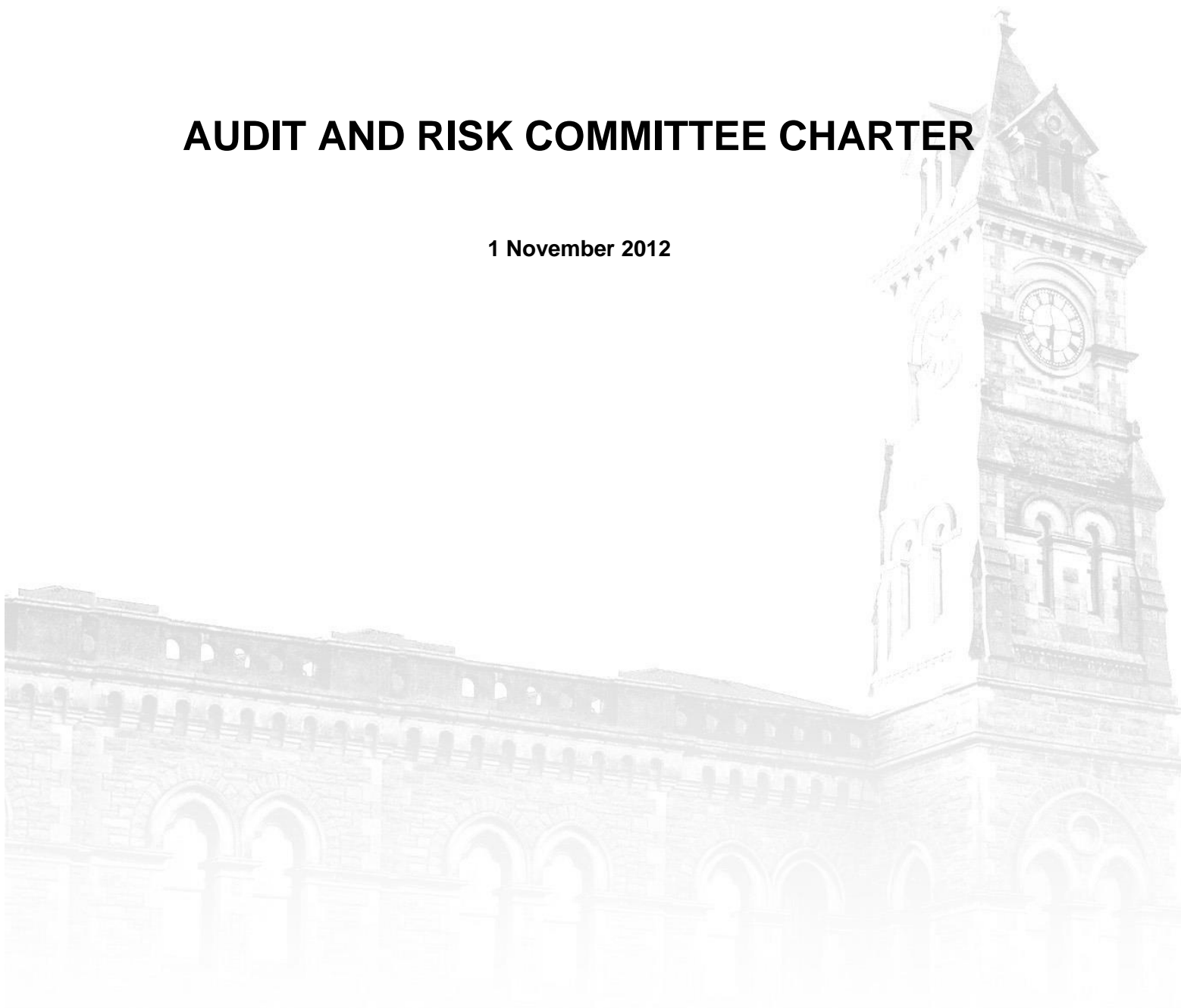


MAKANA
MUNICIPALITY | EASTERN CAPE

MAKANA MUNICIPALITY

AUDIT AND RISK COMMITTEE CHARTER

1 November 2012



MAKANA MUNICIPALITY AUDIT AND RISK COMMITTEE CHARTER

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1. PURPOSE

- 1.1 The Code of Corporate Practices and Conduct published in the King Report on Corporate Governance 2010 requires management to publicly confirm that they have reviewed the effectiveness of the internal control of their organisation. The implementation of control and information systems is essential to the effective discharge of the management's responsibilities.
- 1.2 In terms of Section 166 of the Municipal Finance Management Act, 56 of 2003, "each municipality must have an Audit Committee".
- 1.3 The Audit and Risk Committee assists the Municipal Council (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. Section 3 provides a comprehensive list of the responsibilities of the Audit and Risk Committee.
- 1.4 This charter sets out the specific responsibilities of the Audit and Risk Committee and details the manner in which the Audit and Risk Committee will operate.

2. AUTHORITY

- 2.1 The Audit and Risk Committee is hereby established and authorised to conduct or authorise investigations into any matter within the scope of its responsibility.
- 2.2 The Council authorises the Audit and Risk Committee to fulfil the responsibilities as set out in this charter. In doing so, the Audit and Risk Committee is authorised to:
 - have full and free unrestricted access to all the activities, records, property and staff of the municipality. All municipal employees are directed to cooperate with any request made by the Audit and Risk Committee; and
 - seek any information it requires from external parties, obtain outside legal or other 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 procurement/supply chain management processes of the municipality, as well as consulting with the Municipal Manager on such matters.

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3. RESPONSIBILITIES

3.1 In terms of Section 166 of the MFMA, the Audit and Risk Committee, as an independent advisory body, must advise the municipality, accounting officer and the management staff of the municipality on matters relating to:

- internal financial control and internal audits ;
- risk management ;
- accounting policies ;
- the adequacy, reliability and accuracy of financial reporting and information ;
- performance management ;
- effective governance ;
- compliance with this Act, the annual Division of Revenue Act and any other applicable legislation;
- performance evaluation ; and
- any other issues referred to it by the municipality.

3.2 must 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 this Act, the annual Division of Revenue Act and any other applicable legislation ;

3.3 must respond to the council on any issues raised by the Auditor-General in the audit report;

3.4 must carry out such investigations into the financial affairs of the municipality as the council of the municipality may request;

3.5 must perform such other functions as may be prescribed.

3.6 in performing its functions, the Audit and Risk Committee –

3.6.1 has access to the financial records and other relevant information of the municipality ; and

3.6.2 must liaise with –

3.6.2.1 the Internal Audit Unit of the municipality; and

3.6.2.2 the person designated by the Auditor-General to audit the financial statements of the municipality.

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3.7. Financial management

The Audit and Risk Committee shall:

- Review and assess the adequacy of reporting to the council by the accounting officer in terms of the quantity, quality and timing of information necessary to understand and report internally and externally on the municipality's risks, operations and financial condition.
- Review and assess the accounting policies and practices in the light of the applicable statutory requirements.
- Review the nature and impact of any changes in accounting policies during the year.
- Review and assess the annual financial statements of the municipality for completeness, consistency with information known to members and appropriate accounting principles.
- Review with management and the external auditors the results of the annual statutory audit, including any difficulties encountered.
- Review other sections of the annual report before release and consider the accuracy and completeness of information.

3.8 Risk Management

The Audit and Risk Committee shall understand and consider the major risk areas including the financial, legal and fiscal risks and the internal control environment. It shall monitor the control process and the adequacy of the system of internal control by reviewing Internal and External Audit reports and –

- being constantly aware of the current areas of greatest risk and ensure management are effectively managing the risks;
- satisfying itself that effective systems of accounting and internal control are established and maintained to manage risk;
- satisfying itself as regards the integrity and prudence of management control systems, including the review of policies and/or practices;
- ensuring that council and management are aware of matters that came to the Audit and Risk Committee's attention that might have a significant impact on the financial condition or affairs of the municipality;
- monitoring risks and ensuring that controls are in place to accomplish the objectives set out in the mission statement, business plan and any transformation processes;

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- discussing any communication from management regarding their processes for identifying and responding to the risks of fraud in the municipality;
- communicating any fraud, suspected fraud or fraud investigation being conducted of which they are aware, with external audit;
- discussing any concerns about the nature, extent and frequency of management's assessment of the accounting and control systems in place to prevent and detect fraud with external audit;
- notifying council when the accounting officer has been implicated in fraud, corruption or gross negligence, and
- reviewing the controls designed to ensure that assets are safe guarded.

3.9 Performance Management

The Audit and Risk Committee shall give oversight relative to “performance management” matters as outlined in the “Local Government – Municipal Planning and Performance Management Regulations of 2001, unless the “council forms a separate Performance Audit Committee. Performance management here specifically relates to institutional performance management and systems as prescribed in the abovementioned regulations.

3.10 Compliance with laws, regulations and ethics

The Audit and Risk Committee shall ensure that 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. This must include maintaining effective controls against conflicts of interest, fraud and corrupts practices. The specific steps involved in carrying out this responsibility include:

- reviewing policy documents which should incorporate:
 - compliance with laws, regulations, ethics, policies and
 - rules regarding conflict of interest.
- monitoring compliance with the policy documents;
- taking note of significant cases of conflicts of interest, misconduct, or fraud and the resolution of the cases;
- 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;

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- 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;
- 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;
- reviewing the process for communicating the code of conduct to the municipality's personnel, and for monitoring compliance therewith; and
- obtaining regular updates from management and where necessary, legal counsel regarding compliance matters.

3.11 Reporting Responsibilities

Reporting responsibilities include, inter alia, the following:

- reporting to the council about committee activities, issues, and related recommendations when deemed appropriate;
- providing an open avenue of communication between internal audit, the external auditors, and the council;
- reviewing any other reports and issues that relate to committee responsibilities; and
- reporting on an annual basis (in the Annual Report), describing the committee's composition, confirming that all responsibilities outlined in this charter have been carried out, reporting on the effectiveness of internal controls and commenting on its evaluation of the financial statements.

The Audit and Risk Committee may forward specific Audit and Risk Committee meeting minutes and reports to the council.

Any material findings shall immediately be reported to the Municipal Manager, the Auditor-General and to the Executive Mayor, if appropriate. Where appropriate the Audit and Risk Committee may also report to higher authorities.

3.12 Responsibilities related to the Internal Audit Function

The Audit and Risk Committee shall concur with the appointment, replacement and /or dismissal, of the head of the internal audit unit. In the event of replacement,

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dismissal, resignation or early retirement of the head of the internal audit unit, the full detail of the circumstances surrounding the action must be revealed to the Audit and Risk Committee.

The Audit and Risk Committee shall ensure that the Internal Audit function performs their responsibilities effectively and efficiently by –

- reviewing and approving the Internal Audit Charter;
- reviewing the organisational structure, competence and qualifications of the Internal Audit Unit;
- reviewing the plans and budgets of the Internal Audit Unit. Ensuring that the plans address the high risk areas and that adequate resources are available;
- reviewing the internal audit results and action plans of management;
- evaluating the performance and effectiveness of internal audit;
- requesting specific audit projects where necessary;
- reviewing the results of quality assessment reviews;
- meeting separately with Internal Audit to discuss matters that the Committee or Internal Audit believe should be discussed privately;
- reviewing management requests for extra work to be carried out by Internal Audit in particular areas of the accounting and control systems;
- ensuring that internal audit's work is co-ordinated with that of external audit; and
- ensuring that internal auditors are independent and objective and that there are no restrictions or limitations placed on the internal auditors.

3.13 Responsibilities related to the External Audit Function performed by the Auditor-General

The Audit and Risk Committee shall also –

- ensure that there are no restrictions or limitations placed on the external auditors;
- review the external auditors' proposed audit scope and approach, including co-ordination with internal audit;
- review audit results, quality and contents of financial information and action plans of management;
- consider significant disagreements between the external auditors and management;
- consider material unresolved accounting and auditing problems;

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- ensure direct access by the external auditors to the Audit and Risk committee and the chairperson of the Audit and Risk committee or accounting officer, as appropriate;
- review the performance of the external auditors; and
- meet separately with the external auditors to discuss matters that the committee or the auditors believe should be discussed privately.
- identify key matters arising in the current year's management letter and satisfy itself that these are being addressed properly.

3.14 Responsibilities related to the Municipal Public Accounts Committee (MPAC)

The Audit and Risk Committee shall:

- Submit all reports received to the MPAC to assist in its functions and to capacitate the MPAC.

3.15 Other responsibilities

The Audit and Risk Committee shall:

- perform or undertake on behalf of the municipality any such other tasks or actions as the municipality may from time to time authorise;
- review and revise the charter annually or as and when the need arises; and
- evaluate the committee's and individual members' performance at least annually.

4. COMPOSITION OF AUDIT AND RISK COMMITTEE

4.1 The Audit and Risk Committee shall consist of at least three members with appropriate experience. Audit and Risk Committee members are appointed by Council. All members may not be in the employ of the municipality or another municipality i.e. they must be independent, non-executive members. The chairperson should ideally have requisite local government background and experience in finance, accounting and auditing matters. The Audit and Risk Committee may, upon council approval, co-opt additional members onto the committee e.g. performance management experts.

4.2 Members of the Audit and Risk Committee should have an enquiring attitude and an understanding of the finances, operations and statutory requirements governing the municipality. Members should demonstrate sound judgement and objectivity, and where necessary, members should obtain the requisite assistance to effectively

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discharge their responsibilities. In this regard, the Audit and Risk Committee may co-opt any other person with the requisite expertise to participate in its meetings as an invited person, or assist the Audit and Risk Committee in the execution of its duties.

- 4.3 The Council must ensure that the Audit and Risk Committee members do not serve on more than three local government audit committees simultaneously as the practice of serving on too many committees' impacts negatively on the performance of audit committees.
- 4.4 No councilors may serve as members of the Audit and Risk Committee.
- 4.5 Members shall be appointed by council to serve a minimum period of three years. Should a vacancy occur in the Audit and Risk Committee, the chairperson of the Audit and Risk Committee shall notify Council without delay. Such a vacancy should be filled within three months. Recruitment of members should be staggered to prevent a loss of knowledge and skills in the Audit and Risk Committee.
- 4.6 Members of the Audit and Risk 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 and Risk Committee.
- 4.7 Members should not terminate their contracts until they have shared their knowledge with other new members. A committee member should give two months notice prior to resignation.
- 4.8 Council may, at its discretion and after consultation with the chairperson of the Audit and Risk Committee, review and change the composition and charter of the Audit and Risk Committee from time-to-time, taking into account the need for adequate audit and financial expertise required to be represented thereon, while also considering the need to bring a fresh perspective to the Audit and Risk Committee.

5. MEETINGS

- 5.1 The Audit and Risk Committee shall meet at least four times per annum, at appropriate times, preferably preceding the submission of any audit matters to council meetings.

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- 5.2 Additional meetings may be held for the purpose of conducting any specific or special business deemed necessary. These additional meetings may be called by either the chairperson or any member of the Audit and Risk Committee or Council, or by the external or internal auditors.
- 5.3 Notice of meetings shall be given to all members at least fourteen days prior to the date of any meeting. In the case of special Audit and Risk Committee meetings the notice period may be less than fourteen days.
- 5.4 An agenda of items for discussion, together with any supporting documents and information, shall be distributed to all members of the Audit and Risk Committee, other interested members of the Council, and parties attending the meeting, at least seven days prior to the date of the meeting.
- 5.5 Supplementary agenda items shall only be permitted upon agreement of the members attending any Audit and Risk Committee meeting and/ or at the discretion of the chairperson.
- 5.6 If a member, with or without an apology, does not attend three meetings of the Audit and Risk Committee in succession; Council shall be requested to appoint a replacement.

6. ATTENDANCE AND VOTING AT MEETINGS

- 6.1 The secretariat shall, at least seven days prior to any meeting, ensure that sufficient members shall be present at the meeting to satisfy the quorum requirement.
- 6.2 A quorum of any meeting will be two members of the Audit and Risk Committee (where only 3 members are appointed) or 50% of members plus 1 (where 4 or more members are appointed).
- 6.3 If the chairperson of the Audit and Risk Committee is absent from a specific meeting, the members present shall elect a chairperson from the members present to act as chairperson for that meeting.

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- 6.4 The chairperson of the Audit and Risk Committee shall invite the appropriate representatives of the external and internal auditors, to attend its meetings, while the Municipal Manager, and the Chief Financial Officer shall be standing invitees to meetings.
- 6.5 The chairperson of the Audit and Risk Committee and/ or the Municipal Manager may also invite any other person(s) who might have meaningful input to the meeting, to attend such meetings.
- 6.6 The Audit and Risk Committee has the right to exclude from its meetings, any or all executives, where conflicts of interest are evident.
- 6.7 The Audit and Risk Committee has the right to meet separately, if so required, with the external and/ or internal auditors.
- 6.8 Only members of the Audit and Risk Committee shall be entitled to vote at duly constituted meetings of the Audit and Risk Committee.

7. MINUTES OF MEETINGS

- 7.1 The secretariat of the municipality shall ensure that proper minutes of the proceedings of every Audit and Risk Committee meeting, as it pertains to that municipality, are recorded and retained as per municipal and statutory requirements.
- 7.2 Minutes of every meeting shall be recorded within fourteen days of any meeting. Copies of the minutes shall be timeously circulated to all members of the Audit and Risk Committee, the Speaker of Council, the Mayor, the Executive Committee of the Council, internal and external audit, the Municipal Manager, and the Chief Financial Officer.
- 7.3 At every meeting of the Audit and Risk Committee, the Chairperson shall ensure that the minutes of the preceding meeting are approved, whether with amendment or not, and signed as being a true record of the proceedings at such meeting.
- 7.4 Minutes of every meeting shall be included in the agenda and meeting “packs” for the council meeting immediately following that particular Audit and Risk Committee meeting.

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8. REMUNERATION AND DISBURSEMENTS

8.1 Remuneration paid to any Audit and Risk Committee member(s) for services rendered shall be at the entire discretion of the Council, and in compliance with any statutory regulations governing such payment for services rendered and prevailing council-approved rates/ tariffs.

8.2 Reimbursement for any reasonable expenditure incurred by Audit and Risk Committee members shall be considered by the municipality at the conclusion of every meeting. Such reimbursement shall also be at the entire discretion of the Council, and in compliance with any statutory regulations and council-approved rates/ tariffs governing such payment for expenditure incurred, and shall be paid against documentary proof thereof.

9. REVIEW PERIOD

This charter will be reviewed on an annual basis, or as and when the need arises, and submitted to council for approval.

10. APPROVAL

This Audit and Risk Committee Charter has been recommended for approval by the Chairperson of the Audit and Risk Committee and adopted and approved by Council accordingly:

Name:

MAYOR

Date:

Name:

MUNICIPAL MANAGER

Date:

Name:

CHAIRPERSON OF AUDIT AND RISK COMMITTEE

Date: