

Audit Committee Charter for Ulundi Municipality

Revised June 2024.

“ The City of Heritage ”



Table of Contents

1. Introduction	3
2. Mandate	3
3. Authority.....	3
4. Role and relationships	3
5. Responsibilities.....	4
6. Constitution and Membership	8
7. Independence and Confidentiality	Error! Bookmark not defined.
8. Fees payable	9
9. Secretariat	10
10. Effectiveness of the Audit Committee.....	10
11. Conclusion	13
12. Approval	13

1. Introduction

The Ulundi Municipality has established an Audit and Performance Committee in accordance with section 166 of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA).

2. Mandate

The purpose of the Audit Committee Charter is to set out the status, authority, roles and responsibilities of the Audit Committee of the Ulundi Municipality as delegated to it by the Council and forms the policy of the Audit Committee. The status, authority, roles and responsibilities are in accordance with section 166 of the MFMA and MFMA Circular No. 65 issued by the National Treasury in November 2012. Consideration has also been given to the recommendations contained in the King Report on Governance for South Africa 2009 (King III) and King IV™ being the latest edition (The King IV effective date was 1 April 2017). This Charter guides the Audit Committee in fulfilling its obligations.

3. Authority

The Audit Committee of Ulundi Municipality is authorized, in terms of this charter, to perform the duties and functions required to ensure adherence to the provisions of the MFMA, and the Local Government: Municipal Structures Act, 1998 (Act No. 117 of 1998) and applicable regulations.

The Audit Committee shall have the authority to perform functions, and to obtain any information and advice, from within or outside Ulundi Municipality, in order to perform its functions as legislated. Appropriate resources will be made available to the Audit Committee to perform its functions as agreed in this charter.

The Audit Committee may:

- Communicate with the Council, Chief Executive Officer or the internal and external auditors of Ulundi Municipality.
- Have access to Ulundi Municipality's records containing information that is needed to perform its duties or exercise its powers.
- Request any relevant person to attend any of its meetings, and, if necessary, to provide information requested by the Audit Committee.
- Conduct investigations into the financial affairs of Ulundi Municipality, as may be requested by the Council.
- Obtain outside legal or other professional advice within the scope of its responsibilities and allocated budget provision.

4. Role and relationships

The role of the Audit Committee is to assist the Council and the Chief Executive Officer (Accounting Officer) in fulfilling their oversight responsibilities with regard to the integrity of internal control and accounting function, internal auditing and external auditing and reporting practices of Ulundi Municipality and other such duties as may be directed by the Council and Accounting Officer.

In performing its duties, the Audit Committee will maintain effective working relationships with the Council, MPAC, COGTA, Provincial Treasury, Chief Executive Officer, management, staff and the internal and external auditors. To perform their duties

effectively, each committee member will obtain an understanding of the detailed responsibilities of committee membership as well as the Council's business, operations and risks.

5. Responsibilities

The Audit Committee is required to consider any matters relating to the financial affairs of Ulundi Municipality as well as internal and external audit matters. The Audit Committee must review and assess the qualitative aspects of financial reporting, Ulundi Municipality's processes to manage business and financial risk, governance processes and compliance with applicable legal, ethical and regulatory requirements.

The Audit Committee does not assume the functions of management which remain the responsibility of EXCO, Council and the delegated officials.

Internal Control Environment

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

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

Financial Reporting

a) General

The Audit Committee should:

- Consider the current areas of greatest financial risk and how management is managing these effectively.
- Consider with the internal and external auditors any fraud, illegal acts, deficiencies in internal control, or other similar issues.
- Review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- Review changes in accounting policies.
- Review any legal matters which could significantly impact the financial statements.

b) Annual Financial Statements

The Audit Committee must review the annual financial statements to provide Ulundi Local Municipality with an authoritative and credible view of the financial position by:

- Confirming if the municipal audit file is prepared in line with the applicable standards and guidance contained in MFMA Circular 50, or as updated.
- Reviewing the unaudited annual financial statements of Ulundi Municipality to ensure that the quality, integrity and content is consistent with applicable standards and compliant with the legal framework.
- Evaluating the annual financial statements of Ulundi Municipality for reasonableness, completeness and accuracy, and provide comment thereon, on a timely basis.
- Considering the Auditor-General's opinion on the quality and appropriateness of Ulundi Municipality's accounting policies.
- Reviewing efficiency and effectiveness of internal controls over AFS preparation and reporting.

Specifically with regards to Annual Financial Statements, the Audit Committee should review and challenge where necessary:

- Arithmetical accuracy and consistency.
- Consistency of, and any changes to, accounting policies, comparing to prior years.
- Methods used to account for significant or unusual transactions where different approaches are possible.
- Whether Ulundi Municipality has followed appropriate accounting standards and made appropriate estimates and judgments, taking into account previous audit outcomes.
- The quality of disclosure in Ulundi Municipality's financial reports and the context in which statements are made.
- 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).
- All material issues in prior reports by the Auditor-General have been appropriately accounted for, resulting in fair presentation.
- Conduct analysis of trends and other financial ratio calculations.

Internal Audit

The Audit Committee must in relation to internal audit:

- Ensure that the charter, independence and activities of the internal audit function are clearly understood and respond to the objectives of Ulundi Municipality and the legal framework.
- Regularly review 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.
- Review and approve the internal audit charter annually.
- Confirm that the annual audit plan makes provision for critical risk areas of Ulundi Municipality.
- Advise Ulundi Municipality on resources allocated to give effect to the work outputs of the internal audit function, including internal audit strategic plan, audit fees and other compensation.
- Ensure that there is support for the internal audit unit and external auditors from senior management.

- Confirm with management that internal audit findings are submitted to the audit committee on a quarterly basis.
- Confirm actions taken by management in relation to the audit plan.
- Consider and review reports relating to difficulties encountered during the course of the audit engagement, including any scope limitation or access to information reported to the accounting officer that remain unresolved.
- Evaluate the performance of internal audit activity in terms of the agreed goals and objectives as captured in the audit plan.
- Ensure that the head of internal audit has reasonable access to the chairperson of the audit committee and meet separately with the Audit Committee when the need arise to discuss matters privately.
- Conduct a high-level review of internal audit on an annual basis to ascertain whether the internal audit unit complies with the internal audit charter.
- Confirm annually that a quality control process is in place to ensure compliance with International Standards for the Professional Practice of Internal Auditing.
- Concur with any appointment and termination of the services of the Internal Audit Manager.

External Audit

The Audit Committee must in relation to external audit:

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

Compliance with Laws and Regulations

The Audit Committee should:

- Obtain regular updates from management and the council's legal advisor regarding compliance matters.

- Review the effectiveness of the system by which management investigates and follows-up any alleged fraudulent acts or non-compliance.
- Be satisfied that all regulatory compliance matters have been considered in the preparation of the financial statements.
- Review the findings of any examinations by regulatory agencies.

Reporting Responsibilities

The chairperson of the audit committee will report on a quarterly basis, or more frequently if required, to the municipal council on the operations of the internal audit unit and the audit committee. The report should include:

- A summary of the work performed by the internal audit and the audit committee against the annual work plan;
- Effectiveness of internal controls and additional measures that must be implemented to address identified risks;
- A summary of key issues dealt with, such as significant internal and external audit findings, recommendations and updated status thereof;
- Progress with any investigations and their outcomes;
- Details of meetings and the number of meetings attended by each member; and Other matters requested of the internal audit and audit committee.

The audit committee shall prepare a report annually which will be incorporated into the municipality's annual report and those of its entities covering:

- Describing the functions performed by the audit committee and meetings attended;
- Resolutions taken by council and implementation status of recommendations made; and Other relevant comments that may enhance governance and accountability.
- The chairperson of the audit committee must submit a copy of its 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. The chairperson of the audit committee must always be available whenever MPAC needs clarity on the report of the audit committee.

Risk Management

The Audit Committee should provide an independent and objective view of the effectiveness of Ulundi Municipality's risk management. In doing so, it should:

- Consider Ulundi Municipality's key risk management strategy and policy and provide appropriate advice on financial reporting risks, internal financial controls, and fraud risks as it relates to financial reporting and IT risks as it relates to financial reporting.
- Review the risk management plan including the IT disaster recovery and continuity plans for the year and provide advice on possible focus areas.
- Consider the risk management reports and assess measures in place to mitigate the inherent risks identified.
- Review the opinion of internal audit regarding Ulundi Municipality's risk management systems.
- Review the recommendations made by the risk management committee.
- Provide quarterly feedback to Council on the adequacy and effectiveness of the risk management process.

Information Technology (IT) Governance

The Audit Committee should provide advice on IT governance, controls, access, safeguarding of information in Ulundi Municipality.

Specific expertise may be required from within or outside Ulundi Municipality from time to time, to assist the internal audit unit and audit committee formulate recommendations on systems and controls and these should be made available. The committee should advise on the appropriateness of disaster recovery and continuity plans supporting IT risks, regular testing and evaluation of plans, systems and processes.

Combined Assurance

The Audit Committee should ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities, and in particular the Committee should:

- The audit committee should review and provide guidance on the combined assurance model and mapping / plan and the combined assurance model should be approved by council.
- That the combined assurance received is appropriate to address all the significant risks facing the Council and
- Monitor the relationship between the external assurance providers and Ulundi Municipality; and comment on the effectiveness of the combined assurance model.

Integrated Reporting

The Audit Committee should review the integrated (annual) report that includes the financial statements and should have regard to all factors and risks that may impact on the integrity of the integrated report, and in particular the Committee must:

- Oversee integrated reporting;
- Have regard to all factors and risks that may impact on the integrity of the integrated report;
- Review and comment on the financial statements included in the integrated report;
- Review the disclosure of sustainability issue in the integrated report to ensure that it is reliable and does not conflict with the financial information.

6. Constitution and Membership

- 6.1 The Audit Committee will comprise of at least three but not more than four independent members and shall be appointed by the Council. All members should have the necessary knowledge and expertise to expedite the working of the committee and should be knowledgeable in financial matters and local government issues. Each member should be capable of making a valuable contribution to the committee. One of whom should have the necessary expertise in performance management.
- 6.2 The term of office of the committee shall be at least three years, renewable for another three years at the discretion of the Council and based on performance.
- 6.3 A quorum for any meeting will be two members.
- 6.4 The Chairperson shall be appointed by the Council.

- 6.5 No Council member may be a member of the Audit Committee.
- 6.6 Members should give two months' notice prior to resignation.
- 6.7 Should a member be dismissed by Council, the official dismissal process as it relates to Ulundi Municipality should be adhered to.
- 6.8 Meetings shall be held not less than four times a year. Special meetings may be convened as required. Internal audit or the external auditors may request a meeting to be convened if they consider that it is necessary. The Chairperson or any member may be invited by Council or the Accounting officer to attend other official functions, training workshops, MPAC or other meetings as deemed necessary.
- 6.9 Any member failing to attend three meetings in a financial year will be automatically dismissed and the Council will be required to appoint an alternative.
- 6.10 The Audit Committee members of Ulundi Municipality should receive remuneration for services rendered and reimbursement of cost as per rates approved by the council and as set out in the appointment contract for all meetings as indicated in paragraphs 6.8 and 6.11. Such rates should be reviewed on an annual basis during the budget process.
- 6.11 The Chairperson of the Audit Committee will be required to sit on the panel for evaluating the performance of the Accounting officer and all section 57 employees and will be remunerated for services rendered and reimbursement of cost as per the rates approved by the Council.
- 6.12 Members who are in the employ of an organ of state will not be remunerated, except for out of packet expenses which will be reimbursed.
- 6.13 Members may not serve on more than three municipal audit committees unless specifically approved by Council.

7. Independence and Confidentiality

The Audit Committee should be independent and safeguarded from undue influence in exercising its responsibilities in an objective manner. To enhance the Audit Committee's functioning, the following is required:

- The Audit Committee Chairperson and members should be independent of Ulundi Municipality.
- The Audit Committee Chairperson and members should not be biased but exhibit an independence of mental attitude during deliberations.
- All Audit Committee members should declare private and business interest in every meeting.
- All members should not carry out any business with Ulundi Municipality.
- All members shall maintain strict confidentiality in respect of any information of a confidential nature to which he/she may become privy at meetings of the committee, and shall only disclose such information as may become necessary or required for the proper performance of his/her duties and functions.

8. Fees payable

Audit Committee fees payable are as approved from time to time by the Ulundi Municipality, currently:

Chairperson - **R 7000** per meeting attended inclusive of preparation hours and R 1000 for data allowance.

Members - **R7000** per meeting attended inclusive of preparation hours and R 500 for data allowance.

Reimbursed travelling at the rates approved by the Department of Transport on a monthly basis

9. Secretariat

The Corporate Services department will perform secretariat responsibilities and ensure that:

- The dates of meetings be agreed upon at the commencement of each financial year and should be included in the Ulundi Municipality events calendar.
- Notice of each meeting be given in writing to all members of the Committee and other invited parties, at least 14 days prior to the date of the meeting.
- The agenda of the meeting together with the audit pack be prepared and distributed to members at least 7 days prior to the meeting date.
- Minutes of all meetings are kept and circulated to all members and attendees within 7 days after the meeting to confirm the factual correctness thereof.
- Claims are paid promptly within 30 days.
- Invitations to attend the Audit Committee meetings be extended to the following:
 - The Accounting Officer
 - All Heads of Department
 - The Head of Internal Audit
 - Legal Advisor
 - The Auditor-General
 - The Chairperson of MPAC
 - The Provincial Treasury representative
 - The COGTA representative
 - Any other person as and when requested by the chairperson of the Audit Committee.

10. Effectiveness of the Audit Committee.

10.1 In order for the Audit Committee to remain effective, its objectives and responsibilities should come under annual performance evaluation by Council to ensure that:

- Its activities meet Ulundi Municipality's needs.
- Changes in the environment in which Ulundi Municipality operates are taken into account on a timely basis.

10.2 Members of the Audit Committee should also assess their effectiveness bi-annually against pre-set criteria such as, number of meetings attended, members' participation in meeting discussions, co-operation of internal audit, Council, MPAC, management and the Auditor-General.

10.3 The Auditor-General will independently report on the effectiveness and efficiency of the Audit Committee.

10.4 The Provincial and National Treasuries as a monitoring function could also conduct evaluations based on good governance principles.

10.5 Performance Assessments

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 particular skills the member has brought to the audit committee as a whole.

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.

Where the self-assessment highlights a need for enhancements to the role, operational processes or membership of the committee, the chair should take action 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.

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.

An external facilitator can provide an impartial and objective view and can approach the evaluation process without bias or preconceived ideas. 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.

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.

The Self-assessment will be conducted as follows:

1. The Member will self-score based on the categories listed on the assessment sheet.
2. The Audit Committee Chairperson will also score each member either reduce or agree to scoring ,
3. Where there are lower score the member will be notified through in writing and personal development plan will be compiled with timeframes which should not exceed the term of office.
4. The audit committee chairperson will self-score and the scoring document will be provided to the His Worship The Mayor to evaluate on behalf on the Municipal Council.
5. The result will be presented to council on performance and evaluation of audit committee performance.
6. Where the results indicate a low score – Council will make decision on corrective measures.

Individual audit committee member is performance Assessment.

Each audit committee member should fully contribute and commit to the audit committee functions. A self-Assessment should be thoroughly reviewed based on contribution in each task or meeting held. The assessment must cover , the meeting full attendance (unless valid reasons are provided in advance , attentiveness to issues discussed , follow up on previous engagement, lending an extended assistance to receive the results, preparedness for the meeting through engagement, professional knowledge displayed while engaging with the municipality.

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.

The procedure to be followed are

- 1) the member will be provided an opportunity to explain the reason for nonperformance through a letter stating the nature of the nonperformance,
- 2) the member will be provided with 14 days to respond ,
- 3) The responses will be assessed and the matter will be deliberated on either corrected or taken to council for a decision.
- 4) The member will be provided with an opportunity to present to council.
- 5) The council will make final decisions on dismissal or reinstate the audit committee member.

11. Attendance of Meetings.

Each member of the audit committee should attend all meeting and is encourage to prepare for the meeting to add value on the agenda to be discussed. This will assist in ensuring the effectiveness of audit committee functionality. Should audit committee member fail to attend the meeting in two consecutive planned meeting without valid reason reported prior to the meeting which forces the audit committee member to be absent, stringent actions will be taken including termination of contract.

11.1 Audit Committee Functionality.**11.1 Attendance of meeting by Senior Management.**

All senior management should attend the audit committee meetings to ensure that all the corrective actions are discussed.

12. Evaluation of the Audit Committee's Performance.

The audit committee performance should be assessed on regular bases to ensure that the work performed is in line with MFMA and other statutory regulation. The Audit committee members should perform self- evaluations which should be reviewed and signed for by the audit committee chairperson. The audit committee chairperson should also perform his self -evaluation which will be reviewed and approved by the Mayor of the Municipality.

13. Induction and training.

A formal process of induction must be facilitated by the chief audit executive in consultation with the accounting officer. During the induction of members, the roles and responsibilities of the audit committee must be clarified. The induction process should entail sufficient briefings and information on their roles, responsibilities, accountability and management's expectations. Induction of members can also be facilitated by Provincial Treasury or National Treasury, upon request.

New members should meet and be briefed by the accounting officer, chief financial officer, chairperson of the audit committee and the head of internal audit. New members should also be introduced to the external auditors. The information to be provided to new members should include:

- The municipality's governance and operational structures and how the audit committee operates within this structure;
- Copy of the audit committee's charter, including any policies, recent audit committee minutes, audit management letter, audit opinion, including details of outstanding issues, council resolutions and recommendations presented to the municipal council;
- Copies of the relevant legislation;
- Copies of the latest municipalities' and entities' annual report, annual financial statements,

integrated development plan, budgets, service delivery and budget implementation plans, in-year reports, code of conduct, performance agreements, risk register and risk management plans;

- Information from management and the internal auditor on the risk profile, status of internal controls and system of delegation; and
 - A copy of the internal audit charter and annual work plans, among others.
 -

The audit committee should continuously improve their skills in order to meet the ever-changing environment. Training and inductions should be conducted on regular bases.

14. Reporting to council.

The audit committee chairperson should report at quarterly basis in a financial year to council on functionality of the audit committee and internal audit function. The audit committee should also report to Mpac on quarterly on internal audit reports, financial report and other reports presented on the Audit committee meetings. This should include minutes and resolutions that were taken by the Audit committee.

11. Conclusion

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

These terms of reference shall be reviewed at least annually and amended as required, subject to the approval of the Council.

12. Approval

APPROVED BY COUNCIL RESOLUTION: _____

Signed by:

Mayor on behalf of Ulundi Municipality: _____

Date: _____

ON BEHALF OF THE AUDIT COMMITTEE:

Chairperson on behalf of the Audit Committee: _____

Date: _____

