



STELLENBOSCH
STELLENBOSCH • PNIEL • FRANSCHHOEK

MUNICIPALITY • UMASIPALA • MUNISIPALITEIT

Audit Committee Charter

(Terms of Reference)

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1 OBJECTIVES

- 1.1 The objectives of the Audit Committee are to:
 - 1.1.1 Assist the Council in discharging its duties relating to the safeguarding of Council's assets;
 - 1.1.2 Develop and oversee the operation of an adequate system and internal controls and control processes;
 - 1.1.3 Oversee the preparation of accurate financial reporting and statements in compliance with all applicable legal requirements, corporate governance and accounting standards;
 - 1.1.4 Provide support to the Council on the risk profile and risk management of the Council; and
 - 1.1.5 Ensure that there is an internal audit function in place and that the roles of the internal and external audit functions are co-ordinated.

- 1.2 The membership, resources, responsibilities and authorities (composition, functions and operation) of the Audit Committee to perform its role effectively is stipulated in these terms of reference, which may be amended by Council in consultation with the Audit Committee Chairperson as and when required.

- 1.3 The Audit Committee is constituted in terms of the requirements of King III and sound corporate governance practices and operates within that framework.

2 MEMBERSHIP

- 2.1 The Audit Committee is Statutory Committee of Council and therefore Council should determine its composition.

- 2.2 The recommended composition is that the Audit Committee shall consist of at least 3 (three) and not more than 5 (five) independent audit specialists and/or professionals, who have a working knowledge of one or more of the fields of business, finance, legal, auditing and/or performance management.

- 2.3 To ensure efficiency and transparency the Chairperson and other members shall be appointed by Council at a Council meeting.
- 2.4 Members shall be appointed for a term of 3 (three) years and, if re-appointed may only serve for one further 3 (three) year term. The terms of appointment of the members appointed in the first year will vary to ensure continuity of expertise in the future.
- 2.5 When a member of the Audit Committee cannot for any reason continue as a member he / she shall be forthwith replaced by Council. Such a replacement may either be for the balance of the period that the member being replaced would have served for, or a full 3 (three) year period. This shall be at the discretion of the Council on the recommendation of the Municipal Manager in conjunction with the Chief Audit Executive.
- 2.6 The Audit Committee members shall declare any conflict of interest that may arise and remove themselves from any proceedings and/or discussions in relation to the matter giving rise to that conflict.
- 2.7 An agenda with all supporting documents (meeting pack) shall be circulated, at least 1 (one) week prior to each meeting, to the members and invitees of the Audit Committee.

3 RESPONSIBILITIES AND DUTIES OF THE AUDIT COMMITTEE

- 3.1 The Audit Committee will be responsible for the oversight of internal controls, financial reporting and compliance with regulatory matters, mainly make recommendations to the Management.
- 3.2 The committee must perform the following responsibilities:
- 3.2.1 Review the effectiveness of the councils system of internal controls and risk management;
- 3.2.2 Review the financial reporting;
- 3.2.3 Review of the financial statements;

- 3.2.4 Review the Internal Audit function;
- 3.2.5 Review the Auditor General's report;
- 3.2.6 Review the Council's compliance with legislation and regulation;
- 3.2.7 Review the Compliance with the Council's Code of Conduct and ethics;
- 3.2.8 Performance Management; and
- 3.2.9 Other Responsibilities as determined by legislation and by Council from time to time.

3.3 The Audit Committee shall advise Council, political office bearers, the accounting officer and management of the municipality on the matters pertaining to the duties listed above in accordance with section 166 of the Local Government: Municipal Finance Management Act 56 of 2003 (MFMA).

3.4 **INTERNAL CONTROL**

The Audit Committee shall:

- 3.4.1 Review whether management has implemented internal controls and business risk management as well as getting assurance from management that all employees have an understanding of their roles in executing these controls effectively;
- 3.4.2 Review whether management implemented internal controls, as recommended by internal and external auditors;
- 3.4.3 Review management's control of Council assets and the efficient and effective utilisation thereof; and
- 3.4.4 Review whether management has an efficient risk management policy in place as well as the necessary and appropriate personnel to implement same.

3.5 **FINANCIAL, GENERAL**

The Audit Committee shall:

- 3.5.1 Review any activity of the Council, with the full co-operation of all employees as requested by the members of the Committee;
- 3.5.2 Obtain the services of professionals if necessary to assist the Committee in the executing of its responsibilities; and

3.5.3 Discuss with management the Council's major financial risk exposures and the steps management has taken to monitor and control such exposures, including proposed future requirements

3.6 **FINANCIAL STATEMENTS**

The Audit Committee shall

3.6.1 Review and discuss with management and the Auditor General the annual audited financial statements and the results of the audit;

3.6.2 Review significant accounting and reporting issues and understand their impact on the financial statements. These issues include:

3.6.2.1 Complex or unusual transactions and highly judgmental areas;

3.6.2.2 Major issues regarding accounting principles and financial statement presentations, including any significant changes in the Council's selection or application of accounting principles;

3.6.2.3 The effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of Council;

3.6.2.4 Review analyses prepared by management and/or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GRAP methods on the financial statements;

3.6.2.5 Review with management and the external auditors the results of the audit, including any difficulties encountered. This review will include any restrictions on the scope of the independent auditor's activities or on access to requested information, and any significant disagreements with management;

3.6.2.6 Discuss the annual audited financial statements with management and the external auditors; and

3.6.2.7 Review disclosures made by Municipal Manager and Chief Financial Officer about significant deficiencies in the design or operation of internal controls or any fraud that involves management or other employees who have a significant role in the Council's internal controls.

3.7 **INTERNAL AUDIT**

The Audit Committee shall:

- 3.7.1 Review and approve the annual audit plan and charter of the Internal Audit Department and ensure that the audit plan makes provision for effectively addressing the risk areas;
- 3.7.2 Review the activities and organisational structure of the internal audit department and ensure that there are no unjustified restrictions or limitations and that they have independence;
- 3.7.3 Review audit reports by the Internal Auditors and determine whether management acted on recommendations that are made;
- 3.7.4 Determine whether the Internal Audit function is adequately resourced and has appropriate standing in the Municipality, and concur with the Municipal Manager in the appointment, replacement, reassignment or dismissal of the Chief Audit Executive;
- 3.7.5 Ensure that that Internal Audit function is subject to an independent quality review every 5 (five) years and complies with The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing;
- 3.7.6 Determine whether the Internal Auditors has an effective relationship with the Auditor General's staff;
- 3.7.7 Review significant differences of opinion between management and the Internal Audit function;
- 3.7.8 Review and evaluate the performance of the Internal Audit function and the Chief Audit Executive;
- 3.7.9 Review the independence and objectivity of the Chief Audit Executive; and
- 3.7.10 Meet with the Chief Audit Executive to discuss confidential matters.
- 3.7.11 The Chief Audit Executive shall have unrestricted access to the chairperson or any other member of the Audit Committee as required.
- 3.7.12 The Chief Audit Executive must ensure that sufficient funds are budget for the activities of the Audit Committee.

3.8 AUDITOR GENERAL

The Audit Committee shall:

- 3.8.1 Review the Auditor General's proposed audit scope and approach and ensure that no unjustified restrictions or limitations are placed on the scope;
- 3.8.2 Make suggestions as to risk areas that the audit can address;
- 3.8.3 Identify key matters arising in the current year's audit report and satisfy themselves that these are properly followed up by management;
- 3.8.4 Consider whether any significant ventures, investments or operations should be subjected to an independent audit;
- 3.8.5 Ensure the independence of the Auditor General;
- 3.8.6 Ensure direct access by the Auditor General to the Audit Committee, the Chairperson of the Audit Committee and the Municipal Manager;
- 3.8.7 Review reports of significant findings and recommendations made by the Auditor General, and management's response and follow-up actions to these reports;
- 3.8.8 Review audited annual financial statements and Auditor General's audit report, prior to submission to Council for approval; and
- 3.8.9 Meet with the Auditor General to discuss confidential matters.

3.9 COMPLIANCE WITH LAWS AND REGULATIONS

The Audit Committee shall:

- 3.9.1 Review the effectiveness of the system for monitoring compliance with laws and regulations and the result of management's investigation and follow up of any fraudulent acts (including disciplinary actions);
- 3.9.2 Ensure that all regulatory compliance matters have been considered in the preparation of the financial statements; and
- 3.9.3 The Committee will have the responsibility to discuss legal matters with management that may have a material impact on the financial statements or the Council's compliance policies.

3.10 COMPLIANCE WITH CODES OF CONDUCT AND ETHICS

The Audit Committee shall:

- 3.10.1 Assist the Municipal Manager and Speaker in ensuring that all councillors and staff are aware of the codes of conduct;
- 3.10.2 Review the process for monitoring compliance with the codes of conduct; and
- 3.10.3 Monitor the ethical conduct of the Council, executive and senior officials.

3.11 PERFORMANCE MANAGEMENT

The Audit Committee shall:

- 3.11.1 Review Council's performance management system, focusing on the key performance indicators and targets set by Council; and
- 3.11.2 Review reports from the Auditor General's audit and Internal Audit reports in respect of Performance Management and make recommendations to Council.

3.12 OTHER RESPONSIBILITIES

- 3.12.1 The Committee will have the power to investigate any matter, internal controls, fraud, misconduct and conflict of interest, brought to its attention within the scope of its duties, with the power to obtain outside advice or expertise if necessary.
- 3.12.2 The Audit Committee will review and reassess the adequacy of this Charter and report annually to Council any recommended changes for its (Council's) approval, if necessary.
- 3.12.3 The Audit Committee will annually review the Audit Committee's own performance and present such review to the Council.
- 3.12.4 The Audit Committee shall, with the approval of the Council and at the Council's expense, to the extent it deems necessary or appropriate, obtain the services of special independent legal, accounting or other consultants to advise the Audit Committee in fulfilling its obligations.
- 3.12.5 The Audit Committee shall have:
 - 3.12.5.1 Direct access to the Chief Audit Executive;
 - 3.12.5.2 Direct access to Council;

3.12.5.3 Access to the office of the Executive Mayor; and

3.12.5.4 Access to the office of the Municipal Manager.

3.12.6 **Combined Assurance**

3.12.6.1 The Audit Committee is responsible for ensuring that the combined assurance model introduced by King III is applied to provide a coordinated approach to all assurance activities.

3.12.6.2 In particular to King III, the Audit Committee:

3.12.6.2.1 Will ensure that the combined assurance received is appropriate to address all the significant risks facing the Council; and

3.12.6.2.2 Will monitor the relationship between external service providers and the Council.

3.12.6.3 The Audit Committee is an integral component of the risk management process and shall oversee:

3.12.6.3.1 Financial reporting risks;

3.12.6.3.2 Internal financial controls;

3.12.6.3.3 Fraud risks as it relates financial reporting;

3.12.6.3.4 IT risks as it relates to financial reporting; and

3.12.6.3.5 Compliance risks

4 REPORTING

4.1 The Audit Committee must submit quarterly reports to Council for information.

4.2 The Committee must report annually to the Council, summarising the activities, recommendations and decisions, which can be included in the annual statements.

4.3 The chairperson of the Audit Committee or his/her nominee shall attend the Council meeting when the report is presented to answer questions concerning matters falling within the ambit of the Audit Committee.

5 MEETINGS

- 5.1 Council's Committee Secretariat Department or such other department as responsible for the function determined by the Council, will supply secretarial support to the Audit Committee, including the preparation and distribution of all agendas and minutes of meetings.
- 5.2 The Audit Committee shall meet as often as the Chairperson determines, but not less frequently than 4 (four) times during each a financial year.
- 5.3 The Municipal Manager, Chief Financial Officer and the Chief Audit Executive are obliged to attend all meetings of the Audit Committee, provided that the Chairperson of the Audit Committee may excuse any of these non-members from the meeting.
- 5.4 Other members of management may at the discretion of the Chairperson of the Audit Committee be invited to attend Audit Committee meetings, and shall be obliged to attend.
- 5.5 As necessary or desirable, the Audit Committee may invite such other persons, including a representative from the office of the Auditor General to attend a meeting of the Audit Committee, as it deems necessary and appropriate.
- 5.6 The Chairperson of the Audit Committee shall convene all meetings of the Audit Committee.
- 5.7 The Chairperson and the Chief Audit Executive shall be responsible to compile the agendas. An electronic or written agenda (meeting pack) for each meeting should be sent to all persons who are to attend the meeting in advance, not less than 1 (one) calendar week prior to the date of the Audit Committee meeting, along with any other relevant information or

documentation for allowing adequate preparation to contribute to a more effective meeting.

- 5.8 Any member of the Audit Committee may add items to the agenda at least 8 (eight) working days prior to the date of the Audit Committee meeting. Such items shall be provided to the Chairperson or the Chief Audit Executive.
- 5.9 Special meetings of the Audit Committee may be convened with the Chairperson's approval. Any member of the Audit Committee, the Internal or External Auditors may request a special meeting if they consider that one is necessary.
- 5.10 3 (Three) members will form a quorum, and if the chairperson is absent, the members that are present, shall elect 1 (one) of those members present to serve as chairperson for that meeting.
- 5.11 If there is no quorum the meeting will be adjourned to a new date and time as determined by the Chairperson, not exceeding 2 (two) weeks.
- 5.12 The members of the Audit Committee as appointed by Council, and excluding the management of the Municipality, are the only persons with voting rights. Voting shall be by a show of hands unless decided by all members that it be by ballot. The Chairperson shall have a casting vote in the event that the votes are tied.
- 5.13 If a member wishes to dissent or protest against a decision he or she may request that it is recorded in the minutes.

6 PROCEEDINGS

- 6.1 Unless varied by these terms of reference, meetings and proceedings of the Committee will be governed by the Municipality's Rules of Order as adopted by Council or any other municipal guidelines regulating the meetings and proceedings of committees as adopted by Council from time to time.

6.2 The minutes of meetings shall be reviewed and approved by the members of the Committee at the following meeting of the Audit Committee.

7 AUTHORITY OF THE COMMITTEE AND RESOURCES AVAILABLE TO IT

The Audit Committee, in carrying out its tasks under these terms of reference:

7.1 Is authorised to investigate any activity within its terms of reference;

7.2 May, at the discretion of the Audit Committee, require other employees of the municipality to attend its meetings or any part(s) of its meetings;

7.3 May consult with and seek any information it requires from any employee, and all employees shall be required to co-operate with any request made by the Audit Committee in the course of its duties. Such requests shall be directed to the Chairperson of the Audit Committee or the Chief Audit Executive;

7.4 Shall meet with external auditors without any officials / politicians in attendance at least once a year; and

7.5 Shall meet with the internal auditors without any officials / politicians in attendance at least once year.

8 REMUNERATION

8.1 Remuneration shall be on the basis of a fixed rate per meeting. This rate will include all preparation time utilised by members for meetings. The rate per meeting for ordinary members is R4 000,00 (four thousand Rand) per meeting and R5 000,00 (five thousand Rand) per meeting for the Chairperson of the Committee. Remuneration will be reviewed on an annual basis effective 1 July every year.

8.2 Travel cost will be paid for members travelling outside of the Greater Stellenbosch in line with the Municipality's Travel and Subsistence Policy.

8.3 Remuneration will be in accordance with the above tariff as approved by the Council.

8.4 The effectiveness of the Audit Committee will be monitored by Council, annually.

Executive Mayor :

Initials and Surname :

Date: :

Chairperson: Audit Committee :

Initials and Surname :

Date :

Municipal Manager :

Initials and Surname :

Date :