

ANNEXURE

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BAVIAANS MUNICIPALITY

Audit Committee
Terms of Reference

**WESTERN CLUSTER
SHARED AUDIT COMMITTEE TERMS OF REFERENCE**

1. INTRODUCTION

The Municipalities of Kouga, Kou-Kamma and Bavians (referred to as "Western Cluster") have a shared Audit Committee. This document sets out the rights, powers and duties of the shared Audit Committee.

The Audit Committee is a sub-committee of the Western Cluster's Councils ("Council"), appointed to assist the Councils in fulfilling their oversight responsibilities. The Audit Committee reports directly to Council, and is responsible to discharge its duties in terms of the Municipal Finance Management Act no. 56 of 2003 ("MFMA").

Per Section 166 of the MFMA, the Audit Committee advises Council specifically in matters relating to:

- Internal financial control and internal audits.
- Risk management.
- Accounting policies.
- Adequacy, reliability and accuracy of financial reporting and information.
- Performance management and evaluation.
- Effective governance.
- Statutory compliance.

In discharging its responsibilities, the Audit Committee shall make particular reference to:

- Municipal Finance Management Act no. 56 of 2003.
- Municipal Systems Act no. 32 of 2000.
- King II Report on Corporate Governance.
- Compliance with relevant accounting standards and tax legislation.
- Common Law.
- Annual Division of Revenue Act.
- Other applicable Acts and regulatory considerations.

The Audit Committee shall make appropriate recommendations to Council on any of the above matters that it deems necessary.

2. BENEFITS OF THE AUDIT COMMITTEE

The potential benefits are:

- Increased involvement of the Council in audit, control, risk management and governance activities.
- Improved communication of critical information from auditors and management to the Council.
- Effective and efficient audit, control, risk management and governance-related decisions by the Council.

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- Improved systems of control, risk management and corporate governance.

3. COMPOSITION OF AUDIT COMMITTEE

- 3.1 The Audit Committee shall consist of at least three members with appropriate experience. Audit Committee members are appointed by the Councils' comprising the Western Cluster. All members may not be in the employ of the Municipality's comprising the Western Cluster 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 Committee may, upon Council approval, co-opt additional members onto the Committee e.g. performance management experts.
- 3.2 Members of the Audit Committee should have an enquiring attitude and an understanding of the finances, operations and statutory requirements governing the Municipalities within the Western Cluster. Members should demonstrate sound judgement and objectivity, and where necessary, members should obtain the requisite assistance to effectively discharge their responsibilities. In this regard, the Audit Committee may co-opt any other person with the requisite expertise to participate in its meetings as an invited person, or assist the Audit Committee in the execution of its duties.
- 3.3 No Councilors may serve as members of the Audit Committee.
- 3.4 Members shall be appointed by the Western Cluster's Councils to serve a minimum period of three years. Should a vacancy occur in the Audit Committee, the Chairperson of the Audit Committee shall notify the respective Councils without delay. Such a vacancy should be filled within a reasonable time frame.
- 3.5 The Cluster's Councils may, at their discretion, review and change the composition and terms of reference of the Audit 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 Committee.

4. MEETINGS

- 4.1 The Audit Committee shall meet at least four times per annum, at appropriate times, preferably preceding the submission of any audit matters to Council meetings.
- 4.2 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 Committee or the Councils, or by the external or internal auditors.

- 4.3 Notice of meetings shall be given to all members at least fourteen days prior to the date of any meeting.
- 4.4 An agenda of items for discussion, together with any supporting documents, and information, shall be distributed to all members of the Audit Committee, other interested members of the Council, and parties attending the meeting, at least seven days prior to the date of the meeting.
- 4.5 Supplementary agenda items shall only be permitted upon agreement of the members attending any Audit Committee meeting and/ or at the discretion of the Chairperson.
- 4.6 If a member, with or without an apology, does not attend three meetings of the Audit Committee in succession, Council shall be requested to appoint a replacement.
- 5. ATTENDANCE AND VOTING AT MEETINGS
- 5.1 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.
- 5.2 A quorum of any meeting will be two members of the Audit Committee.
- 5.3 If the Chairperson of the Audit 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.
- 5.4 The Chairperson of the Audit Committee shall invite the appropriate representatives of the external and internal auditors, to attend its meetings (per Municipality within the Cluster), while the Municipal Manager, and the head of finance (Chief Financial Officer) shall be standing invitees to meetings.
- 5.5 The Chairperson of the Audit 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.
- 5.6 The Audit Committee has the right to exclude from its meetings, any or all executives, where conflicts of interest are evident.
- 5.7 The Audit Committee has the right to meet separately, if so required, with the external and/ or internal auditors.
- 5.8 Only members of the Audit Committee shall be entitled to vote at duly constituted meetings of the Audit Committee.

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6. MINUTES OF MEETINGS

- 6.1 The secretariat of each Municipality within the Cluster shall ensure that proper minutes of the proceedings of every Audit Committee meeting, as it pertains to that Municipality, are recorded and retained as per municipal and statutory requirements.
- 6.2 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 Committee, the Speaker of Council, the Mayor, the Executive Committee of the Council, internal and external audit, the Municipal Manager, and the head of finance (CFO).
- 6.3 At every meeting of the Audit 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.
- 6.4 Minutes of every meeting shall be included in the agenda and meeting "packs" for the Council meeting immediately following that particular Audit Committee meeting.

7. RIGHTS AND AUTHORITY

- 7.1 The Audit Committee shall have direct and unobstructed lines of communication to all the Western Cluster's management and staff, the external and internal auditors and Council.
- 7.2 The Audit Committee shall have the right of access to any Municipality records containing information required to properly and effectively discharge its responsibilities.
- 7.3 The Audit Committee shall have the right to obtain any required legal or professional advice during the course of discharging its responsibilities, as well as the right to initiate any special investigations required to effectively discharge its duties, and may obtain special counsel to assist in such matters.
- 7.4 When seeking third party professional advice and/ or initiating investigations, the Audit Committee must take cognisance of the procurement/ supply chain management processes of the relevant Municipalities, as well as consulting with the relevant Municipal Managers on such matters.
- 7.5 The Audit Committee shall have the right to review any matter relating to audits, systems of control, risk management and governance, and make appropriate recommendations to the respective Councils for their consideration and final approval.

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8. DUTIES AND RESPONSIBILITIES

The Audit Committee shall:

Strategic Plan

- 8.1 Keep the Municipalities' "Strategic Plans/IDP's" under review insofar as it relates to the audit of the Municipalities.

Internal Control, Risk Management and Compliance

- 8.2 Evaluate and ensure that the Municipalities' management have implemented effective and efficient systems of control, risk management and governance.
- 8.3 Gain an understanding of the areas of greatest risk to the Municipalities, and review management's plans to minimise significant risk exposures.
- 8.4 Ensure that there are effective systems in place to provide reasonable assurance that assets are in existence and are adequately safeguarded.
- 8.5 Satisfy itself that adequate arrangements are in place to promote economy, efficiency and effectiveness throughout the Municipalities operations.
- 8.6 Consider how management ensures the security of computer systems, applications and records, and the contingency plans in place to ensure business continuity.
- 8.7 Review the Municipalities' risk management activities, and review that management have adequate means of identifying and mitigating risk. In addition, the Audit Committee shall seek assurances that management have set an appropriate "control culture" and have communicated the importance of systems of control and risk management, so that all employees have an understanding of their roles and responsibilities relative to risk management.
- 8.8 Monitor that the Municipalities prepare financial statements in compliance with all applicable legislative requirements.
- 8.9 Monitor the ethical conduct of Council, management and staff, and encourage the imposition of discipline and control, thus reducing the opportunity for inefficiency, resource wastage, fraud, etc.

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External Audit and Financial Statements

- 8.10 Consider, and advise Council on the appointment and/ or re-appointment of the external auditor (should the external auditor ever be other than the Auditor General), the audit fee, the provision of any non-audit services and any questions regarding the resignation or dismissal of the external auditor.
- 8.11 Discuss with the external auditor, before the audit commences, the nature and scope of the audit and ensure that no unjustified restrictions or limitations have been placed on the auditor, and also ensure that the audit plan effectively addresses the critical risk areas of the Municipalities' business.
- 8.12 Discuss problems and reservations arising from (interim and final) audits, and any other matters which the auditor may have reported.
- 8.13 Monitor the required timing of the submission of financial and other reports to Government, Municipal funders and as may be required by legislation.
- 8.14 Monitor the performance, effectiveness and independence of the external auditors, including the extent of non-audit services provided to the Municipalities.
- 8.15 Review and make recommendations on the draft and final annual financial statements. Such a review would, inter alia, include the adequacy of provisions, changes in accounting policies, the appropriateness of accounting policies, complex and/or unusual transactions, judgemental areas, the adequacy of appropriate disclosures and legal requirements governing the preparation of the financial statements.
- 8.16 Review the findings of the external auditors and ensure that management timeously responds to these findings and adequately addresses significant reported items. In addition, previously reported matters should be reviewed to ensure that these have been adequately addressed.
- 8.17 Review any material and/or unresolved audit findings and significant accounting adjustments, which were identified during the audit.
- 8.18 Consider any differences of opinion between management of the Municipalities and external audit.
- 8.19 Review the audited financial statements and make recommendations to Council for their approval.
- 8.20 Review the extent of co-ordination of efforts between external audit and internal audit.

8.31 The Audit 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 above-mentioned regulations. The Audit Committee shall not be involved with performance management as it relates to the appraisal of staff (human resources matters), determination of bonuses/rewards etc.

Institutional Performance Management

- 8.30 Review the extent of co-ordination of efforts between internal audit and external audit
- 8.29 Review all non-internal audit services rendered by internal audit, and the impact of these services on internal audit coverage and internal audit's independence.
- 8.28 Direct and determine the level of internal audit's participation in the risk management process.
- 8.27 Direct investigations required to be performed by internal audit.
- 8.26 Consider any differences of opinion between management of the Municipalities and internal audit.
- 8.25 Review the independence, resources, scope and effectiveness of the internal audit function.
- 8.24 Review the major findings of internal audit and the adequacy of management's responses thereto.
- 8.23 Review and advise Council on the approval of the annual "internal audit coverage plan".
- 8.22 Review the activities, internal audit plan, organisational structure and reporting lines of internal audit and ensure that no unjustified limitations and restrictions are placed on internal audit's work.
- 8.21 Review and advise Council on the approval of the "Internal Audit Charter", which sets out the status, rights and responsibilities of internal audit.

Internal Audit

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9. REPORTING

In addition to any reporting obligations described above, the Audit Committee shall:

- 9.1 At any time of the year, report and make recommendations to the Council.
- 9.2 Minutes of every meeting shall be included in the agenda and meeting "packs" for the Council meeting immediately following that particular Audit Committee meeting.
- 9.3 The Chairperson of the Audit Committee shall be present at the Council meeting of each Municipality comprising the Cluster where the Annual Financial Statements, Annual Report and the external auditor's report are tabled for Council approval. At this Council meeting, the Audit Committee Chairperson shall also deliver a report on the activities of the Audit Committee for the year.

10. REMUNERATION AND DISBURSEMENTS

- 10.1 Remuneration paid to any Audit 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.
- 10.2 Reimbursement for any reasonable expenditure incurred by Audit 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.

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11. APPROVAL

Approval of this Audit Committee terms of reference is evidenced thus:

(a) Kouga Municipality

Name: F. DENNIS
MUNICIPAL MANAGER
Date: 14/11/06

(b) Kou-Kamma Municipality

Name: M. NDOKWENI
MUNICIPAL MANAGER
Date: 06/07/06

(c) Baviaans Municipality

Name: ZOLA WUVAWA
MUNICIPAL MANAGER
Date: 6/07/2006