



**Saldanha Bay Municipality**

**Audit**

**Committee Charter**

**Approved by Council per agenda**

**item R.120/R-4 dated 28 Aug. 2014**

## **Contents**

1.	PURPOSE	1
2.	AUTHORITY AND INDEPENDENCE	1
3.	ROLE	2
4.	COMPOSITION	2
5.	APPOINTMENT & TERMS OF OFFICE	3
6.	MEETINGS	5
7.	RESPONSIBILITIES	6
7.1.	Financial Statements	6
7.2.	Risk Management	7
7.3.	Internal Control	9
7.4.	Performance Management	10
7.5.	Internal Audit	11
7.6.	External Audit	12
7.7.	Compliance	13
7.8.	Information and Communication Technology(ICT) Governance	13
7.9.	Reporting Responsibilities	13
7.10.	Other Responsibilities	15
8.	EVALUATION OF COMMITTEE ACTIVITIES	15
9.	REVIEW OF THE CHARTER	16
10.	APPROVAL OF THE CHARTER	16

## **1. PURPOSE**

The purpose of this document is to outline the objectives, roles and responsibilities, authority, composition structure and operating guidelines of the Audit Committee of Saldanha Bay Municipality ('SBM') (the Committee).

## **2. AUTHORITY AND INDEPENDENCE**

The Committee is directly accountable to the Council. In discharging its responsibilities, the Committee has authority to:

- conduct or authorize investigations into any matters within its scope of responsibility;
- access any information, records and officials as it requires to fulfill its responsibilities;
- request the attendance of any executive or official; at Committee meetings;
- conduct meetings with External Auditors (Auditor-General) and Internal Auditors as necessary;
- obtain advice from external parties as necessary;
- Resolve any disagreements between management and the auditor regarding financial reporting; and
- Pre-approve all auditing and non-audit services.

### **3. ROLE**

The role of the Committee is to provide independent assurance and assistance to the Accounting Officer on internal control, governance and risk management. The Committee does not replace established management responsibilities and delegations. The Committee will provide the Accounting Officer with prompt and constructive reports on its findings, especially when issues are identified that could present a material risk to the SBM.

### **4. COMPOSITION**

The Committee consists of a minimum of 3 members who are all independent of the SBM and will be appointed by council. The chairperson of the committee must be appointed from the appointed members and will be independent of the organization. No councilor shall serve on the committee. The Committee is constituted so as to ensure independence and its membership will be disclosed in the annual report of the SBM. Members will be selected from different areas of expertise and the roles and responsibilities of the audit committee will be used as baseline in appointing members. The Committee collectively (not necessarily individually) has an understanding of:

- Private and public sector experience;
- An understanding of service delivery priorities;
- Good governance and/or financial management experience;
- An understanding of the role of council and councilors;
- An understanding of local government
- Familiarity with risk management practices;
- An understanding of internal controls;
- An understanding of major accounting practices and public sector reporting requirements;
- An understanding of public sector reforms;

- Familiarity with legislation applicable to municipalities;
- An understanding of the roles and responsibilities of internal and external auditors;
- An understanding of the treatment of allegations and investigations;
- An understanding of the performance management system; and
- An understanding of legal and information and communication technology

Member terms and conditions are disclosed in the letter of appointment.

## **5. APPOINTMENT AND TERM OF OFFICE**

Members will be appointed by council for a period of 3 years, after which they may be re-appointed for a further 3-year period based on their individual performance. The chairperson should be appointed for a term of no less than three consecutive years. Council must ensure audit committee members do not serve on more than three audit committees. When appointing members to serve on the audit committee and to ensure a balanced composition the organization should seek to appoint candidates with the following abilities:

- Perform the role as advisor to management;
- Communicate effectively with management;
- Carefully review information received and obtain clarification from management as and when appropriate;
- Raise relevant questions, evaluate responses and follow up on any matter that is unclear;
- Conduct responsibilities in the context of the municipality's strategic objectives and overall corporate governance of the council;
- Act independently and be proactive in advising the accounting officer regarding issues that require further management attention;
- Encourage openness and transparency;

- Build relations with management;
- Have a professional approach to performing duties, including commitment of time and effort, and;
- Each committee member must be independent and appropriately skilled.

In appointing the audit committee chairperson the consideration should be given to the following factors:

- Has good standing and ability to lead discussions;
- Creates vision and provides direction at meetings;
- Builds municipal capabilities by guiding management based on expert knowledge and skills;
- Promotes and achieve quality outcomes at meetings;
- Has the ability to speedily and effectively advise council or the board of directors of any impending non-compliance with the legislative framework;
- Has the ability to encourage other members to participate in audit committee meetings; and
- Conducts meetings in a manner that demonstrates a desire to establish effective communication with all stakeholders.

Where possible, members will arrange for staggered retirements and recruitment of new members must be concluded at least three months in advance of expiry of retiring member's terms. Members will not be contracted continuously for a period exceeding six years, after completing a six year term a cooling off period of two years will apply before a member may be reappointed. Members must give at least two months' notice before terminating their contract and members are encouraged to share their knowledge prior to vacating seat on committee. An exit meeting will be held, by council, with each member upon resignation. Committee member contracts may be terminated by council under

certain circumstances and where appropriate will be linked to the charter and member's performance. Provision will be made, in appointment contract, for circumstances, reasons and processes to be followed for termination of contracts.

Members will undergo a formal induction process facilitated by the chief audit executive in consultation with the accounting officer.

## **6. MEETINGS**

The Committee will meet at least four times a year, with authority to convene additional meetings, as circumstances require and schedule of meetings will be agreed in advance. All Committee members are expected to attend each meeting, in person or via accepted communication tool. A quorum will consist of a majority of members for each meeting to be duly constituted. The following non-members or designate will be required to attend all meetings:

- i. Accounting Officer;
- ii. Chief Financial Officer;
- iii. Directors Engineering and Planning Services, Corporate and Protection Services, Community and Operational Services;
- iv. Performance Manager;
- v. Representative from the Auditor-General office;
- vi. Manager: Internal Audit and Senior Internal Auditor;
- vii. Chief Risk Officer (or Official Delegated);
- viii. Provincial and National Treasury;

- ix. Invitations to attend Audit Committee meetings will be extended to senior management and professional advisors as deemed appropriate by the Audit Committee; and
- x. All Portfolio Committee Chairpersons will have a standing invite to the meetings.
- xi. The chairperson of the MPAC will have a standing invite to the meetings

The Committee will determine its own agenda, ensuring appropriate consultation to include emerging issues and emphasis on the most significant risks.

The Accounting Officer will appoint a secretary / secretariat function to facilitate the Committee's meetings and reporting duties. The secretary will in consultation with the Chairperson, prepare and send notices and meetings packs 7 working days before the meeting. The secretary will also prepare minutes and accurately transcribe all decisions of the Committee.

## **7. RESPONSIBILITIES**

The Committee is accountable to the Council for the exercise of its responsibilities. The Committee will at all times, recognize that the primary responsibility for management of SBM rests with the Accounting Officer. While its mandate extends to all activities within the scope of the Accounting Officer, the committee will carry out the following specific responsibilities:

### **7.1. Financial Statements**

- Review the appropriateness of accounting policies;



- Review the appropriateness of assumptions made by Management in preparing the financial statements;
- Review the significant accounting and reporting issues, and understand their impact on the financial statements.
- Review the annual financial statements to ensure quality and integrity of the document and to consider whether they are complete, consistent with prescribed accounting policies and legislation and information known to Committee members;
- Evaluate the annual financial statement of the municipality and its entities for the reasonableness, completeness and accuracy and comment thereon in a timely basis;
- Obtain assurance from Management with respect to the accuracy of the financial statements;
- Obtain assurance from Management that the municipal audit file have been prepared in line with the applicable standards and guidance contained in relevant legislative documents;
- Review with management and the external auditors the results of external audit, including any significant issues identified;
- Review the annual report and related regulatory filings before release and consider the accuracy and completeness of the information; and

## **7.2. Risk Management**

Reference may be made to areas already covered by a separate Risk Management Committee.

- Review the risk management framework for identifying, assessing, monitoring and managing significant risks;
- Review the high level risk register, including the report of significant changes to the SBM's risk register;
- Review the report on risk management culture of the Institution;
- Review whether risk management is carried out in a manner that really benefits the Institution;
- Assess and contribute to the audit planning processes relating to the risks of the SBM;
- Review and recommend disclosures on matters of risk in the annual financial statements;
- Review and recommend disclosures on matters of risk and risk management in the annual report;
- Provide regular feedback to the Council / Accounting Officer on the adequacy and effectiveness of risk management in the SBM, including recommendations for improvement; and
- Satisfy itself that it has appropriately addressed the following areas:
  - financial reporting risks, including the risk of fraud;
  - internal financial controls; and
  - IT risks as they relate to financial reporting.

### **7.3. Internal Control**

- 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.
- Review the adequacy of the internal control system, including information technology security and control;
- Understand the scope of internal and external auditors' review of internal controls and financial reporting, and obtain reports on significant findings and recommendations, together with management's responses;
- Review whether relevant policies and procedures are in place and up to date, and whether they are complied with; and
- Review whether the financial internal controls are operating efficiently, effectively and economically.

#### **7.4. Performance Management**

- Review and comment on compliance with statutory requirements and performance management best practices and standards;
- Review and comment on the alignment of the Integrated Development Plan, the Budget, Service Delivery and Budget Implementation Plan and performance agreements;
- Review and comment on relevance of indicators to ensure they are measureable and relate to services performed by the municipality and its entities;
- Reviews compliance with in-year reporting requirements;
- Review the quarterly performance reports submitted by internal audit;
- Reviews and comments on municipality's annual financial statements and timely submission to the Auditor-General by 31 August, each year;
- Review and comment on the municipality's annual reports within the stipulated timeframes; and
- Review and comment on the municipality's performance management system and make recommendations for its improvement.
- Review the SBM's compliance with the performance management and reporting systems;
- Review whether performance management systems reflect the SBM's purpose and objectives; and

- Review whether the performance reporting and information uses appropriate targets and benchmarks.

#### **7.5. Internal Audit**

- Review the Internal Audit Charter, budget, activities, staffing, skills and organizational structure and functional and administrative reporting lines of the Internal Audit Activity annually ensuring consistency with the principles of independence and accountability and that resource allocation is sufficient to give effect to work outputs of the internal audit activity;
- Review and approve the annual Internal Audit plan, its scope and any major changes to it, ensuring that it covers the key risks and that there is appropriate co-ordination with the External Auditor (Auditor-General);
- Review and concur in the appointment, replacement, or dismissal of the Manager: Internal Audit;
- Assist with resolving any difficulties or unjustified restrictions or limitations on the scope of Internal Audit work;
- Assist with resolving any significant disagreements between Auditors and Management;
- Review significant findings and recommendations by Internal Audit and Management responses thereof;
- Review implementation of Internal Audit recommendations by Management;
- Review the performance of the Manager: Internal Audit;
- Review the effectiveness of the Internal Audit function, including an annual review to ascertain compliance with The Institute of Internal Auditors'

International Standards for the Professional Practice of Internal Auditing;  
and

- Meet separately with the Manager: Internal Audit to discuss any issues that the Committee or Internal Audit believes should be discussed privately.

#### **7.6. External Audit**

- Review the external auditors' proposed audit scope of work, approach and audit fees for the year and the extent of co-ordination with the internal audit unit;
- Review the findings and recommendations by External Auditor and Management responses thereof;
- Review implementation of External Auditor's recommendations by Management;
- Review the performance of External Auditors with inputs from the SBM Chief Financial Officer and provide feedback to the Auditor-General;
- Review the allocation of hours and fees by the External Auditors in relation to audit risks and make recommendations in respect thereof to the Council;
- Ensure that there is proper coordination of audit efforts between Internal and External Auditors; and
- Meet separately with the External Auditors to discuss any matters that the Committee or External Auditors believe should be discussed privately.
- Review the report on the financial statements and matters raised therein for reasonability and accuracy.

- Advise the accounting officer on actions taken relating to significant matters raised in external in external audit reports

#### **7.7. Compliance**

- Review whether Management has considered legal and compliance risks as part of the SBM risk assessments;
- Review the effectiveness of the system for monitoring compliance with laws and regulations;
- Review the findings of any examinations by regulatory agencies, and any auditor observations;
- Review the process for communicating the code of conduct to the SBM officials, and for monitoring compliance therewith; and
- Obtain regular updates from Management regarding compliance matters.

#### **7.8. Information and Communication Technology (ICT) Governance**

- Review and advise the accounting officer and management on ICT Governance, adequacy of ICT related controls and safeguarding of information
- Review and advise the accounting officer and management regarding the appropriateness of disaster recovery and continuity plans

#### **7.9. Reporting Responsibilities**

- Quarterly report to the Council about Internal Audit and Audit Committee which will include but not limited to:

- 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.
- Report annually to the Council, describing:
    - The committees composition
    - 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.
  - Submit a summary of its activities for inclusion in the annual report; and
  - Review any other reports the SBM issues that relate to Committee responsibilities.

The chairperson of the audit committee must submit a copy of its report, at least annually or more frequently, to the Municipal Public Accounts Committee (MPAC).



#### **7.10. Other Responsibilities**

- Perform other activities related to this Charter as requested by the Mayoral Committee / Council.
- Safeguard all the information supplied to it within the ambit of the law;
- Investigate matters within its powers as identified in this Charter;
- Ensure that the Executive Management has unrestricted access to the Chairperson of the Committee;
- Confirm annually that all responsibilities outlined in this Charter have been carried out; and
- Meet separately with Management to discuss any matters that the Committee or Management believe should be discussed privately (revision of reports relating to forensic investigations and/or legal cases reported).

#### **8. EVALUATION OF COMMITTEE ACTIVITIES**

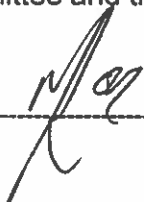
The Committee will annually undertake self-assessment on its performance. The Chairperson will also provide each member with feedback on that member's contribution to the Committee's activities at least once during a member's term of office. The assessment will include training needs for each Committee member. Feedback will be provided to the accounting officer and municipal council on the results of the findings of the evaluation.

**9. REVIEW OF THE CHARTER**

The Committee will annually review its Charter to ensure that it remains relevant with the Committee's authority, objectives and responsibilities. All changes or amendments to the Charter will be discussed and approved by the Council.


**10. APPROVAL OF THE CHARTER**

SBM Audit Committee Charter is endorsed by the Chairperson of the Committee and the Accounting Officer.

  
-----  
Name:

Audit Committee Chairperson

Date:

  
-----  
Name:

Accounting Officer

Date: JUL 29 2014

OK9/3-14 INTERNAL AUDIT CHARTER AND METHODOLOGY AND AUDIT COMMITTEE CHARTER

(3/5/5)

(Report of the Municipal Manager)  
(M Hermanus)

**RESOLVED**

- i) that the report be noted;
- ii) that the Audit Committee approve the internal audit charter and methodology in principle and recommend the internal audit methodology for approval by Council;
- iii) that the Municipal Manager endorses the audit committee charter;
- iv) that the Municipal Manager support the internal audit methodology;
- v) that the audit committee charter be work shopped with Council together with Circular 65 training on 7 April 2014 and tabled before council for approval; and
- vi) that subsequent to the approval, the internal audit charter, internal audit methodology and audit committee charter be implemented and reviewed regularly to ensure industry relevance.

OK14/9-14 CORRECTION OF AUDIT COMMITTEE MINUTES OF MEETING OF 11 MARCH 2014

(3/5/5)

(Report of the Municipal Manager)  
(M Hermanus)

**RESOLVED**

- i) that the report be noted;
- ii) that the audit committee gives approval that the minutes of the Audit Committee meeting of 11 March 2014 item OK9/3-14 be corrected to state the following "that the audit Committee approve the internal audit charter and methodology in principle and recommend the audit committee charter for approval by Council".

REVISED AUDIT COMMITTEE CHARTER

(3/5/5)

(Report of the Municipal Manager)  
(M Hermanus)

**RESOLVED**

- i) that the report be noted;
- ii) that the Audit Committee Charter be approved; and
- iii) that the Audit Committee Charter be reviewed at least annually or as circumstances required.