

## **AUDIT AND RISK COMMITTEE CHARTER**

**2023/24**

## Table of Contents

|   |       |
|---|-------|
| 1. Purpose.....                             | 2     |
| 2. Authority, Independence, Mandate.....    | 3     |
| 3. Role.....                                | 5     |
| 4. Composition.....                         | 5     |
| 5. Meetings.....                            | 8     |
| 6. Minutes.....                             | 9     |
| 7. Conflict of Interests.....               | 10    |
| 8. Responsibilities.....                    | 10-17 |
| 9. Remuneration.....                        | 18    |
| 10. Evaluation of Committee Activities..... | 19    |
| 11. Review of the Charter.....              | 19    |
| 12. Adoption and Approval .....             | 20    |

## 1. PURPOSE

The Municipal Finance Management Act No. 56 of 2003 (MFMA), in terms of Section 166, requires a Municipality to establish a Committee to be known as the "**Audit Committee**". The Audit Committee, constituted in terms of Section 166 of the Act, performs an "independent" advisory role to the Municipality, and assists the Municipal Council, the Political Office Bearers, the Municipal Manager and the Management staff of the Municipality in fulfilling oversight responsibilities, performance management and evaluation, upholding the "Code of Conduct", discharging their duties relating to safeguarding of assets, the operation of adequate systems, control process and preparation of accurate financial reporting and statements in compliance with all legal requirements and accounting standards, monitoring compliance with applicable laws and regulations.

The purpose of this document is to outline the role, responsibilities, composition and operating guidelines of the Audit and Risk Committee (the Committee) of Ngqushwa Local Municipality (NLM) as delegated by the Municipal Council.

The charter should be used as basis for:

- 1.1 Preparing the Audit Committee's annual work plan;
- 1.2 Setting the agenda for meetings;
- 1.3 Making recommendations to the Accounting Officer and Municipal Council
- 1.4 Assessing the audit committee' performance by its members, Municipal

1.5 Council, Management, Auditor General and Internal Auditors and Contributions and participation at meetings.

## **2. AUTHORITY, INDEPENDENCE AND MANDATE**

The Committee of the NLM is authorized, in terms of these Terms of Reference, to perform the duties and functions required to ensure adherence to the provisions of the MFMA, the applicable provisions of the Municipal Systems Act, the Municipal Structures Act, and other applicable regulations.

The Committee is directly accountable to the NLM Council to properly consider and evaluate any matter that it has to deal with or is referred to it. In discharging its responsibilities, the Committee may not perform any management functions or assume any management responsibilities. The Committee is constituted in terms of the requirements of sound corporate governance practices and operates within that framework. In carrying out its mandate, the Committee must have regard to the strategic goals of Council and its strategic focus areas and development priorities as outlined in the Integrated Development Plan (IDP) and the Service Delivery Budget Implementation Plan (SDBIP).

2.1 The Committee has authority to:

2.1.1 Conduct or authorize investigations into any matters within its scope of responsibility;

2.1.2 Access information, records and personnel as it requires to fulfill its responsibilities;

2.1.3 Request the attendance of any executive or employee, at Committee meetings;

- 2.1.4 Conduct meetings with External Auditors (Auditor-General) and Internal Auditors as necessary;
- 2.1.5 Obtain advice from external parties as necessary;
- 2.1.6 Resolve any disagreements between management and the auditor regarding financial reporting; and
- 2.1.7 Pre-approve all Internal Audit Plans and resources.

2.2 The broad mandate of the Committee is as following:

- 2.2.1 To advise the Council, the Accounting Officer and other municipal officials on matters relating to the Committees' roles and responsibilities as outlined in this charter;
- 2.2.2 To consider matters relating to management and the Council in the discharge of their duties to safeguard assets, operate adequate systems of controls;
- 2.2.3 Overseeing the integrity of the municipality's financial statements and the accounting and financial reporting processes and financial statements audits;
- 2.2.4 Oversee the performance of the municipality's independent auditor (Auditor General) and internal audit function;
- 2.2.5 Oversee the municipality's compliance with legal and regulatory requirements;
- 2.2.6 Oversee the municipality's systems of disclosure controls and procedures, internal control over financial reporting and compliance with ethical standards adopted by the Council.

### **3. ROLE**

The role of the Committee is to provide independent assurance and assistance to the Council, Accounting Officer on control, governance, risk management and performance. The Committee does not replace established management responsibilities and delegations. Management with the assistance from the internal audit unit (as stipulated in the Internal Audit Charter) are responsible for maintaining appropriate accounting and financial reporting principles, policies, internal controls and procedures that provide for compliance with accounting standards and applicable laws and regulations.

In fulfilling their responsibilities here under, it is recognized that members of the Committee are not full-time employees of the municipality and are not, and do not represent themselves to be, performing the functions of auditors or accountants. As such, it is not the duty or responsibility of the Committee or its members to conduct "field work" or other types of auditing or financial management or procedures.

The Committee will provide the Council with prompt and constructive reports on its findings, especially when issues are identified that could present a material risk to the municipality.

### **4. COMPOSITION**

The members and chairperson of the Committee shall be appointed by Council and shall perform its duties for a period of three (3) years from the date of appointment. The Committee is established in line with section 166 of the MFMA, the Committee of NLM will comprise of four (4) members who are independent, not a political office bearer and not in the employment of the municipality with appropriate experience. The Committee is constituted so as

to ensure independence and its membership will be disclosed in the annual report of the municipality.

4.1 The Committee collectively (not necessarily individually) understands:

4.1.1 Government environment and accountability structures;

4.1.2 Governance processes within the Institution;

4.1.3 Financial reporting;

4.1.4 Risk management;

4.1.5 Performance management

4.1.6 Internal control;

4.1.7 External audit process;

4.1.8 Internal audit process;

4.1.9 Legal process; and

4.1.10 Information technology.

4.1.11 One member of the Committee has expertise in the government practices. Member terms and conditions are disclosed in the letter of appointment and contract.

4.2 The Chairperson of the Committee is appointed by the Council from among the members of the Committee. The Chairperson;

4.2.1 Shall possess sound communication and strong leadership skills;

4.2.2 Must be independent, be knowledgeable of the status of the position and have requisite business, financial skills;

4.2.3 Shall be suitable qualified and competent with relevant knowledge of municipal legislation.

4.3 Non-Members attending Ex-Officio:

- 4.3.1 The Municipal Manager, the Chief Financial Officer, the Executive Managers, Manager: Internal Audit, Manager: IDP/PMS, Manager: Legal;
  - 4.3.2 Representatives from the Auditor-General;
  - 4.3.3 Representation from the Eastern Cape Provincial Treasury;
  - 4.3.4 Representation from the Amathole District Municipality;
  - 4.3.5 Representation from SALGA;
  - 4.3.6 The members referred to in (a) to (e) above, shall be represented by their respective nominees only when the principal members are absent or engaged elsewhere.
  - 4.3.7 Other members of management may be invited to attend Committee meetings when there is a functional responsibility to be discussed.
  - 4.3.8 The Committee may also invite such other persons as it deems necessary to address particular agenda items to be considered.
  - 4.3.9 Mayor, BTO Portfolio Head and MPAC Chairperson will be permanent invitees to the Committee meeting but may not direct the meeting.
- 4.4 The Council must approve any premature termination of the services of a person serving on the Committee.
- 4.5 No member of the Committee may serve in more than 3 Audit Committees of local government simultaneously, (inclusive of Ngqushwa Municipality Committee).
- 4.6 Members of the Committee may not serve in the Committee for more than two (2) consecutive terms and no more than six (6) years as this will impair their independence.



## **5. MEETINGS**

- 5.1 The Committee shall meet at least four (4) 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 three (3) members for each meeting to be duly constituted. The Committee will determine its own agenda, ensuring appropriate consultation to include emerging issues and emphasis on the most significant risks.
- 5.2 Notice of each meeting shall be given in writing to all members of the Committee, at least fourteen (14) days prior to the date on which such meeting is to be held.
- 5.3 Internal Audit will exercise the secretariat function to facilitate the Committee's meetings and reporting duties. The secretariat shall at least fourteen (14) days prior to any meeting, ensure that sufficient members shall be present at the meeting to satisfy the quorum requirement and will in consultation with the Chairperson, prepare and send meetings packs seven (7) days before the meeting.
- 5.4 Management must submit documents for Committee meeting within ten (10) days of the meeting date.
- 5.5 Documents for the meeting will reach members and attendees electronically within 7 days of the Committee meeting.
- 5.6 Only the Chairperson of the Committee (after consultation with relevant stakeholders) can formally postpone a scheduled Committee meeting.
- 5.7 Where a scheduled Committee meeting is postponed due to the unavailability of reports or required information, the Chairperson of the Committee shall accordingly report such instances to Council.

- 5.8 If a member, with or without an apology, fails to attend 3 scheduled Committee meetings in succession in a calendar year, the Council shall call the member before a hearing of the Council and consider his/her reasons for non-attendance and then make an objective decision as to their continued member status based on the outcome of the hearing. The Chairperson shall, in writing, raise a concern with the said member after the second consecutive meeting is missed by that member.
- 5.9 If the Chairperson of the 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.
- 5.10 The Committee shall consider the necessity of meeting separately from time to time with management, the external and internal auditors, to discuss any matters that the Committee or these groups believe should be discussed privately with the Committee.
- 5.11 The Chairperson of the Committee shall excuse from any meeting or part thereof, any member or attendee who could, in his or her opinion, have any potential conflict of interest.
- 5.12 Only members of the Committee with voting rights shall be entitled to vote at duly constituted meetings of the Committee.

## **6. MINUTES**

- 6.1 The Council Support Unit shall assign a scribe for the Committee meetings, draft minutes will be circulated to all attendees for inputs no later than fourteen (14) working days after the sitting of the Committee.
- 6.2 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 of such meeting.

## **7. CONFLICT OF INTEREST**

7.1 Subject to the provisions of any act, regulation or prescript, where a member of the Committee has an interest in a matter being considered, this interest shall be declared at the beginning of the proceedings of the meeting and the member must excuse him/herself from the decision-making process.

**Members should declare all private and business interests at every committee meeting. Specifically, members should not conduct any business with the department, public entity or municipality/municipal entity.**

## **8. 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 NLM rests with the Council. In carrying out its duties and responsibilities, the Committee shall include the review of items highlighted by internal auditors and the external auditors in order to provide the necessary assistance to the Accounting Officer and the Council. The committee will carry out the following responsibilities:

### **8.1 Financial Statements**

8.1.1 Review the Annual Financial Statements (AFS) and Annual Performance Report before submission to Council and AGSA on the 31st August of each year and establish that they have been prepared by management in accordance with applicable legislation and standards and other relevant statutory requirements.

8.1.2 Review the appropriateness of accounting policies;

8.1.3 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;

8.1.4 Review the AFS, and consider whether they are complete, consistent with prescribed accounting and information known to Committee members;

8.1.5 Obtain assurance from management with respect to the accuracy of the financial statements;

8.1.6 Review with management and the external auditors the results of external audit, including any significant issues identified;

8.1.7 Review the annual report and related regulatory filings before release and consider the accuracy and completeness of the information and

8.1.8 Consider the scope and objective of any additional work undertaken by Internal Auditors to ensure that there are no conflict of interest and their objectivity & independence is not compromised.

## **8.2 Risk Management**

8.2.1 Review the risk management framework for identifying, assessing, monitoring and managing significant risks;

8.2.2 Review the report of significant changes to the NLM's risk register;

8.2.3 Review the report on risk management culture of the NLM;

8.2.4 Liaise with management to ensure that there is a common understanding of the key risks to the NLM;

8.2.5 Review whether risk management is carried out in a manner that really benefits the NLM;

- 8.2.6 Assess and contribute to the audit planning processes relating to the risks of the NLM;
- 8.2.7 Review and recommend disclosures on matters of risk in the annual financial statements;
- 8.2.8 Review and recommend disclosures on matters of risk and risk management in the annual report;
- 8.2.9 Provide regular feedback to the Council on the adequacy and effectiveness of risk management in the NLM, including recommendations for improvement; and satisfy itself that it has appropriately addressed the following areas:
  - 8.2.9.1 financial reporting risks, including the risk of fraud;
  - 8.2.9.2 internal financial controls; and
  - 8.2.9.3 IT risks as they relate to financial reporting.
  - 8.2.9.4 The Committee's most important contribution is to assuring ethical conduct is its sincere interest in the NLM's operations and its advocacy of high standard behavior.

### **8.3 Internal Control**

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

8.3.5 Review the context, quality, adequacy, reliability and accuracy of the financial information (monthly and quarterly reports) provided to Council and other users of such information.

#### **8.4 Performance Management**

8.4.1 Ensure that the municipality has an effective Performance Management System (PMS) that is:

8.4.1.1 Commensurate with the resources;

8.4.1.2 Best suited to its circumstances; and

8.4.1.3 In line with priorities, objectives, KPIs and targets contained in the IDP / and Business plans in case of municipal entity.

8.4.2 Promote a culture of performance management within the entity and all its internal stakeholders;

8.4.3 Monitor the PMS by reviewing internal audit reports relating to performance audits and performing any other duties deems appropriate to fulfil its responsibilities;

8.4.4 Ensure performance assessment of head of departments is performed and assess those reports and

8.4.5 Prepare quarterly reports on performance management of the municipality and report to the Council.

## **8.5 Internal Audit**

- 8.5.1 Review the Internal Audit Charter, budget, activities, staffing, skills and organizational structure of the Internal Audit;
- 8.5.2 Review and approve the Internal Audit plan (3-year rolling strategic plan and annual operation plan), its scope and any major changes to it, ensuring that it covers the key risks as assessed by the NLM and that there is appropriate co-ordination with the External Auditor (Auditor-General);
- 8.5.3 Review and concur in the appointment, replacement, or dismissal of the Chief Audit Executive (CAE);
- 8.5.4 Resolve any difficulties or unjustified restrictions or limitations on the scope of Internal Audit work;
- 8.5.5 Resolve any significant disagreements between auditors and management;
- 8.5.6 Review significant findings and recommendations by Internal Audit and Management responses thereof;
- 8.5.7 Review implementation of Internal Audit recommendations by Management;
- 8.5.8 Review quarterly reports submitted by Internal Audit detailing performance against Annual Internal Audit Plan;
- 8.5.9 Review the performance of the CAE;
- 8.5.10 Review the effectiveness of the Internal Audit function, including compliance with The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing; and
- 8.5.11 Meet separately with the CAE to discuss any issues that the Committee or Internal Audit believes should be discussed privately.

## **8.6 External Audit**

- 8.6.1 Review the external auditors' proposed audit scope, approach and audit fees for the year;
- 8.6.2 Ensure that there are no restriction or limitations place on the external auditors;
- 8.6.3 Recommend to the Accounting Officer such measures as in the opinion of the Committee to enhance the creditability of the financial statements and annual report.
- 8.6.4 Review the findings and recommendations by External Auditor and Management responses thereof;
- 8.6.5 Review implementation of External Auditor's recommendations by Management;
- 8.6.6 Review the performance of External Auditors;
- 8.6.7 Ensure that there is proper coordination of audit efforts between Internal and External Auditors;
- 8.6.8 Meet separately with the External Auditors to discuss any matters that the Committee or External Auditors believe should be discussed privately and
- 8.6.9 Confirm any difficulties experienced with regard to audit steering committee and ensure that these are appropriately dealt with.

## **8.7 Compliance**

- 8.7.1 Review whether Management has considered legal and compliance risks as part of the NLM's risk assessments;
- 8.7.2 Review the effectiveness of the system for monitoring compliance with laws and regulations;
- 8.7.3 Review the findings of any examinations by regulatory agencies, and any auditor observations;



8.7.4 Review the process for communicating the code of conduct to the NLM personnel, and for monitoring compliance therewith and

8.7.5 Obtain regular updates from Management regarding compliance matters.

## **8.8 Reporting Responsibilities**

8.8.1 The Chairperson of the Committee shall report on a quarterly basis, or more frequently if necessary to the Council on the operations of the internal audit unit and Audit and Risk Committee.

8.8.2 The report will include but not limited to:

8.8.2.1 A summary of the work performed by the Internal Audit and the Committee against the annual work plan;

8.8.2.2 Effectiveness of internal controls and additional measures that must be implemented to address identified risks;

8.8.2.3 A summary of key issues dealt with, such as significant internal and external audit findings, recommendations and updated status thereof;

8.8.2.4 A summary of the usefulness and reliability of the reported performance information for the municipality

8.8.2.5 Progress with any investigations and their outcomes;

8.8.2.6 Details of meetings and the number of meetings attended by each member; and

8.8.2.7 Other matters requested of the internal audit and the Committee.

8.8.3 The Committee shall prepare a report annually which will be incorporated into the NLM's annual report that will describe the committee's composition and responsibilities and how they were discharged and any other information required by rule, including approval of non-audit services.

8.8.4 The Chairperson of the Committee must submit the copy of its report at least annually, or at other interval, to the Municipal Public Accounts Committee (MPAC), for consideration during the MPAC engagements on the oversight report.

## **8.9 Other Responsibilities**

- 8.9.1 Perform other activities related to this Charter as requested by the Council;
- 8.9.2 Safeguard all the information supplied to it within the ambit of the law;
- 8.9.3 Investigate matters within its powers as identified in this Charter and
- 8.9.4 Confirm annually that all responsibilities outlined in this Charter have been carried out.

## **8.10 ICT Governance**

8.10.1 The Committee shall consider and advise on matters relating to IT governance, controls, access, and safeguarding of information in the municipality;

8.10.2 Where required, the Committee may obtain specific expertise from within or outside the municipality, to assist the internal audit unit and Audit and Performance Committee formulate recommendations on systems and controls and

8.10.3 The Committee shall consider and advise on the appropriateness of disaster recovery and continuity plans supporting IT risks, regular testing and evaluation of plans systems and processes.

## **9. REMUNERATION**

9.1 The independent Committee members shall be remunerated for their services on the Committee based on preparation for the meeting and meeting attendance. (The Chairperson of the Committee shall be paid additional remuneration for such attendance and for services related to the Committee.)

These members will further be remunerated for any other inputs that has be provided by them to Management and Council outside a formal Committee meeting setting, only preparation time will be remunerated for such inputs.

9.2 The Council of the NLM shall determine remuneration, which shall be subject to review on an annual basis.

## **10. EVALUATION OF COMMITTEE ACTIVITIES**

10.1 Although the effective evaluation of the Committee is the responsibility of the Council, the Committee shall on an annual basis conduct a self-assessment evaluation on its performance. The results of the evaluation shall be made available to the members and the Council as soon as possible, provided that the results shall be made available within one month of consideration by the Committee. The assessment will include training needs for each Committee member.

10.2 The Council and Management will also evaluate the effectiveness of the Committee annually.

## **11. REVIEW OF THE CHARTER**

11.1 The Committee will annually review its Charter to ensure that it remains relevant and consistent with the applicable legislation, Committee's authority, objectives and responsibilities. All changes or amendments to the Charter will be discussed and approved by the Council. To promote awareness to all stakeholders the Committee Charter should be published on the NLM website.

**12. APPROVAL AND ADOPTION**

12.1 These Terms of Reference are hereby adopted as the guiding document for existence and operation of the Audit and Risk Committee.

**Recommended by:**



**15 August 2023**

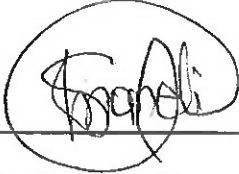
---

**Ms. V. Hlehliso**  
**Audit and Risk Chairperson**

---

**Date**

**Authorized by:**



---

**Cllr. S. Maneli**  
**Mayor**

---

29-08-2023

**Date**

**Acknowledged by:**



---

**Mr. N. Mgengo**  
**Municipal Manager**

---

29-08-2023

**Date**