

SOL PLAATJE MUNICIPALITY



POLICY REGARDING AUDIT COMMITTEE

Approved
As Per Resolution CR 500 dd 17-11-2005

POLICY REGARDING THE ROLE AND RESPONSIBILITIES OF THE AUDIT
COMMITTEE

1. INTRODUCTION

1.1 The Audit Committee should specifically assist the Council in carrying out its responsibilities prescribed in the Municipal Finance Management Act, 2003, section 166. In essence these responsibilities involve the following:

- (a) Each municipality must have an audit committee;
- (b) A single audit committee may however be established for a district and the local municipalities within the district;
- © An audit committee is an independent body which must:
 - (i) Advise the municipal council, the political-office bearers, the accounting office and the management staff of the municipality, or board of directors, the accounting officer and management staff of municipal entities on matters relating to:
 - Internal financial control and internal audits;
 - Risk management;
 - Accounting policies;
 - The adequacy, reliability and accuracy of financial reporting and information;
 - Performance management;
 - Effective governance;
 - Compliance with the Act, the annual Division of Revenue Act;
 - Performance evaluation; and
 - Any other issues referred to it by the municipality.
 - (ii) Review the annual financial statements to provide the Council of the municipality with an authoritative and credible view of the financial position of the municipality, its efficiency, effectiveness and its overall level of compliance with the Municipal Finance

Management Act, No. 56 of 2003 and other applicable legislation.

- (iii) Respond to council on any issues raised by the Auditor General in the audit report;
- (iv) Carry out such investigations into the financial affairs of the municipality as the council of the municipality council may request; and
- (v) Perform such other functions as may be prescribed.

2. STATUS

- 2.1 The Audit Committee has non-executive powers and is in an advisory capacity to the Council. In no circumstances will the Audit Committee have executive powers with regards to its findings and recommendations or any operational aspects of the management activities within the Municipality.
- 2.2 The powers of the Audit Committee shall not be limited in any way which would prevent it from properly performing its duties.
- 2.3 Furthermore, the Audit Committee shall have the right to access the financial records and other relevant information of the municipality.
- 2.4 The Audit Committee shall have direct and unobstructed lines of communication to the external and internal auditors and the council.

3. CONSTITUTION OF THE AUDIT COMMITTEE

3.1 Membership of the Audit Committee

- (a) The audit committee must consist of at least three persons with appropriate experience, of who the majority may not be in the employ of the municipality.
- (b) The audit committee must meet as is required to perform its functions, but at least four times in a year.

- (c) The members of the audit committee must be appointed by the council of the municipality. One person who is not in the employ of the municipality must be appointed the chairperson of the committee. No councillor may be a member of an audit committee.
- (d) The minimum term of office for the Chairman of the Audit Committee is two (2) financial years.
- (e) If the Chairman is absent from a specific meeting, the members present shall elect a Chairperson from the members present who are not employees of the municipality to act as Chairperson of that meeting.
- (f) Members should have an enquiring mind, an ability to be objective and a reasonable understanding of the complexities of the operations of the Sol Plaatje Municipality, coupled with sound knowledge of financial matters and risk management.
- (g) The Audit Committee shall be appointed for a term ending when the next council is declared elected.
- (h) Should a vacancy in the Audit Committee exist, the Chairperson of the Audit Committee shall notify the Council thereof without delay. Council shall upon such notification, or within a reasonable time thereafter, fill the vacancy.

3.2 Representation of management

- (a) Members of management attend audit committee meetings at the invitation of the audit committee and not as members thereof.

3.3 Representation of the external auditors and internal audit

- (a) Representatives of the auditor-general, external auditors and internal audit will attend the meetings of the audit committee.

3.4 Secretary

Management is responsible for making available the service of a secretary for the audit committee.

4. DUTIES AND RESPONSIBILITIES OF AUDIT COMMITTEE.

4.1 Evaluation and approval of the Audit Policy

Except where the approval of the council is required, the Audit Committee shall periodically review the Audit Policy in order to ensure that the total function is co-ordinated and executed logically and effectively.

4.2 Evaluation of Management procedures with regard to internal control

The Audit Committee is responsible for the evaluation of the policies and procedures implemented by management in order to ensure that the accounting and information systems and related controls and security are adequate and effective.

4.3 Evaluation of Management procedures with regard to financial reporting.

The Audit Committee must review arrangements established by Management for compliance with regulatory and financial reporting requirements.

4.4 Evaluation of the Audit Plan

The objective of this evaluation is to ensure that all the high risk has been considered and that there are no deficiencies or unnecessary duplications in the planned audit coverage. In order to facilitate this evaluation, the external auditors, in conjunction with Internal Audit, should prepare a schedule of perceived risk areas in Sol Plaatje Municipality together with comments on the overall controls in each such area. This schedule should also reflect management's comments on these risk areas and on other areas which were not identified by the External Auditors or Internal Auditors. This schedule will assist the Audit Committee in determining whether or not the audit coverage with regard to the high-risk areas is adequate.

4.5 Evaluation of Internal Audit

The scope and effectiveness of the Internal Audit function should be monitored. The objective of this evaluation is to ensure that the Internal Audit is operating effectively. The evaluation should take into account *inter alia* the audit approach used, the quality of reports issued during the year, quality of personnel, co-operation with External auditors and Management satisfaction.

4.6 Evaluation of the External Audit

The objective of this evaluation is to ensure that Sol Plaatje Municipality receives the highest value form the External Audit. In carrying out this evaluation, the Audit Committee should consider *inter alia* the audit approach used by the External Auditors, quality of management letters issued, the level of the audit fee, quality of personnel, co-operation with Internal Audit, timely and satisfactory completion of the audit and management.

The Audit Committee shall review the scope of the External Audit by:

- ensuring that it is not restricted in any way;
- evaluating the sufficiency of audit procedure to be carried out in testing controls and checking accounting records;

- considering the acceptability of the materiality levels to be applied in deciding on the extent of audit procedures and the level of errors to be reported.
- noting the dates by when reports are to be submitted and when annual financial statements and other applicable requirements are to be finalized; and
- identifying steps to be taken in order to avoid problems encountered in the previous year, thereby reducing unnecessary audit work.

4.7 Considerations of problems arising out of the Financial Audit

The Audit Committee should consider the problems arising out of the financial audit and whether or not additional actions are necessary to facilitate the finalisation of the audit and to enhance the credibility and objectivity of the annual financial statements and relevant reports. This may be achieved by the evaluation, discussion and follow-up of the external Auditors statutory report and management letters.

4.8 Review of annual Financial Statements before their submission to the Council for approval

The review of the Annual Financial Statements and other relevant reports with management and the External Auditors is the Audit Committee's primary duty and should be sufficiently detailed to enable the Audit Committee to report to the council that the Audit Committee is satisfied that the Financial Statements fairly present the financial position of Sol Plaatje Municipality and that all appropriate disclosures have been made. This review of the audit results and the quality and content of financial information should include:

- 4.8.1 The fairness of presentation of the assets and liabilities (including contingent liabilities) and the calculation and adequacy of specific and general provisions.
- 4.8.2 The fairness of the presentation of the income statement;
- 4.8.3 Compliance with law and accounting standards or exposure drafts, statutory or any other regulatory authorities' requirements;

- 4.8.4 Significant accounting, auditing or disclosure problems highlighted by the auditors or management.
- 4.8.5 Adjustments proposed by External Auditors;
- 4.8.6 Changes in accounting policies during the year and disclosure of the effects thereof;
- 4.8.7 Major fluctuations in accounting figures or ratios;
- 4.8.8 The manner in which unusual circumstances are reflected in the statements;
- 4.8.9 The manner in which unusual, significant commitments or contingent liabilities are reflected;
- 4.8.10 Material differences between the annual report and management financial statements as submitted to the council;
- 4.8.11 Significant differences in format or disclosure from the previous year;
- 4.8.12 Possible qualification of the audit report;
- 4.8.13 The accounting policies and any problems encountered in the implementation thereof;
- 4.8.14 Significant judgmental decisions taken during the finalisation of the annual financial statements; and
- 4.8.15 Major variances from results reported to the Council previously.

4.9 Review and evaluation of management comments or reports issued by Internal Audit and management letters issued by the External Auditors

The Audit Committee should ensure that effective follow-up and reporting procedures are in place to ensure that significant matters are timeously addressed and rectified.

4.10 Evaluation of the total audit costs to Sol Plaatje Municipality

The Audit Committee should evaluate the costs of both the External and Internal Audit functions in terms of the value which they add to Sol Plaatje Municipality.

4.11 Approval of the external audit budget

The Audit Committee should consider and recommend the external audit fee to the council.

4.12 Monitoring of ethical conduct

The audit committee should monitor the ethical conduct of the Organisation, the Municipal Manager and Senior Officials.

4.13 Facilitate and promote communication

The Audit Committee should facilitate and promote communication between the Council, Management and the Internal and External Auditors regarding the matters referred to above or any other related matters.

4.14 Ad hoc responsibilities

The Audit Committee shall examine financial and other matters which may be referred to it by the Council from time to time.

5. RESPONSIBILITY OF THE AUDIT COMMITTEE WITH REGARDS TO THE EVALUATION OF THE RISK MANAGEMENT PROCESS

The Audit Committee shall assist the Council in evaluating the adequacy and efficiency of the risk management process followed in Sol Plaatje Municipality. The Audit Committee is therefore responsible for monitoring the management initiatives in this regard but is not responsible for the development and implementation of the risk management process.

The Audit Committee can play a valuable role in this regard for the following reasons:

- The Audit Committee receives information regarding all risks affecting Sol Plaatje Municipality.
- The Audit Committee members will generally have sound knowledge of such matters through their involvement in other organizations.
- Internal Auditors and External Auditors, who report to the Audit Committee, both consider business risk in the determination of their audit approach.

In order to carry out these responsibilities, the Audit Committee should consider the following matters:

- The overall risk management process in Sol Plaatje Municipality.
- The financial risk profile of Sol Plaatje Municipality and particular, credit risk matters and the adequacy of controls.
- The typical risks inherent to the function and activities of Sol Plaatje Municipality and control over such risk.
- Areas where there have been major changes in the risk factors.
- A detail of the actions plans of management to control the level of risk.
- Management's procedures to ensure compliance with directives as far as insurability and self-insurance are concerned.

6. RESPONSIBILITY OF THE AUDIT COMMITTEE WITH REGARD TO REPORTING TO THE FULL COUNCIL.

The Audit Committee shall keep the Council informed regarding all significant matters arising out of paragraphs 4 and 5 above. Minutes of the audit committee will be made available to council at the council meeting following the audit committee meeting. The chairperson of the audit committee will make a brief presentation of the findings and recommendations of the audit committee to the Council.

Annual Report.

The Audit Committee shall prepare and submit to the council on an annual basis prior to the approval of the annual financial statements, a report in summary form dealing with the activities of the Audit Committee during the year as well as any recommendation and decisions made by it.

7. EVALUATION OF THE EFFECTIVENESS OF THE AUDIT COMMITTEE

It is the responsibility of the full Council to evaluate the effectiveness of the Audit Committee and to make any recommendations to improve such effectiveness, if necessary.

8. MEETINGS OF THE AUDIT COMMITTEE

8.1 Frequency and objectives

The Audit Committee shall meet at least four times per annum. One of its meetings will be held immediately prior to the submission of the annual financial statements to the council. Another meeting shall be held to review the proposed audit program and audit budget for the ensuring year.

Parties to a meeting can be requested to leave a meeting for any length of time. The Chairperson will call a meeting of the audit committee if so requested by any other member, a council member, the external or internal auditors.

Notice in writing shall be given to all members of the audit committee and those required to attend such meeting, at least 14 days prior to the date on which such meeting is to be held.

The quorum for the meeting shall be the majority of the members of the audit Committee. If a quorum is not present at a meeting, the meeting may proceed with the understanding that it is subjected to ratification at the next audit committee.

9. RESPONSIBILITY FOR THE AGENDA AND THE ISUING OF MINUTES

The secretary of the audit committee is responsible for arranging the meetings of the audit committee and the gathering of and distribution of the agendas.

Agendas must be distributed at least 7 days prior to the date of the meeting.

Any person required to attend a meeting may, not less than 2 days prior to the meeting, request the Secretary to add such items as he/she deems necessary to the agenda.

Minutes of the meeting shall be distributed to all members of the audit committee and those required to attend within 14 days after the date of the meeting.

10. GENERAL

The Audit Committee has the right to initiate investigations regarding any matter it may deem necessary and for this purpose it may take such independent professional advice as it considers necessary.

11. TERMS OF REFERENCE

The terms of reference of an audit committee should be recorded in an audit committee charter which should cover the following matters:

- The objectives and responsibilities of the committee
- The committee's authority in requesting information and in obliging management to attend meetings and submit reports
- The resources available to the committee
- The minimum number of annual meetings (the Act requires at least four meetings a year)
- Who is required to attend meetings
- Minutes of meetings

The charter should provide the committee with explicit authority to investigate matters provided for therein and it shall have full and unrestricted access to the information it considers necessary to perform its duties.

12. RESOLVED TO RECOMMEND TO COUNCIL

That the draft audit committee policy be submitted to the Audit Committee for scrutinalization with recommendations to council.