
**RAMOTSHERE MOILOA LOCAL
MUNICIPALITY**



**FINAL AUDIT & RISK COMMITTEE
CHARTER 2016/2017**

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1. INTRODUCTION

Management continuously strives to adopt and implement best practice in relation to practices and corporate governance. Consequently, the Code of Corporate Practices and Conduct published in the King III Report requires management to publicly confirm that they have reviewed the effectiveness of the internal control of their organization. The implementation of control and information systems is essential to the effective discharge of the management's responsibilities.

The Municipal Finance Management Act (MFMA) 2003 (Act 56 of 2003) section 166(1) requires the establishment of an Audit Committee and as such highlights the need for the Municipalities in South Africa to move towards more responsible corporate governance.

The Audit & Risk Committee is hereby established and authorized to perform the function as described in this charter. In carrying out this mandate the Audit & Risk Committee is authorized to have full, free and unrestricted access to all the activities, records, property and staff of Ramotshere Moiloa Local Municipality.

This charter sets out the specific responsibilities delegated by the Council to the Audit & Risk Committee and details the manner in which the Audit & Risk Committee will operate.

2. PURPOSE

The primary function of the Audit & Risk Committee is to assist the Council in fulfilling its oversight responsibilities by reviewing: the financial reports and other information provided by the Ramotshere Moiloa Local Municipality; the risk management/control and assurance processes; the municipality's process for monitoring compliance with laws and regulations and its own code of business conduct; and the auditing, accounting and financial reporting processes generally. The Audit & Risk Committee's primary duties and responsibilities are to:

- Serve as an independent and objective party to monitor the risk management processes necessary for the achievement of Municipal objectives;
- Review the annual financial statements and other performance reporting to be made public; and
- Provide an open avenue of communication among the external auditors, Accounting Officer, the internal auditors and the Municipal Council (hereinafter "the Council").

This audit & risk committee charter spells out the committee's modus operandi and the rules that govern its relationship with Ramotshere Moiloa Local Municipality.

3. AUTHORITY

In terms of section 166 of the Municipal Finance Management Act, the Audit Committee shall:

- a) advise the Municipal Council, the political office bearers, the accounting officer and the management of the municipality, on matters relating to:
 - i. internal financial control and internal audit
 - ii. risk management
 - iii. accounting policies

- iv. the adequacy, reliability and accuracy of the financial reporting and information
 - v. performance management
 - vi. effective governance
 - vii. Compliance with the MFMA and any other applicable legislation.
 - viii. performance evaluation
 - ix. Any other issues referred to it by the municipality or municipal entity.
- b) Review the annual financial statements to provide the municipal council and the management with an authoritative and credible view of the financial position of the municipality, its overall level of compliance with MFMA or any other applicable legislation.
 - c) Respond to Council on any issues raised by the Auditor General in the audit report.
 - d) Carry out such investigations into the financial affairs of the municipality as requested by the municipal council,
 - e) Perform such other functions as may be prescribed

In performing its function the Audit & Risk Committee:

- a) Shall have access to the financial records and other relevant information of the municipality;
- b) Shall liaise with the Internal Audit unit of the municipality and any person designated by the Auditor General to audit the financial statements of the municipality;
- c) Has the authority to seek any information it requires from employees and external parties or stakeholders of the municipality;
- d) Shall request any relevant person to attend any of its meetings, and if necessary, to provide information requested by the committee and;
- e) Shall investigate any matter it deems necessary for the performance of its duties and the exercise of its powers; and
- f) Shall obtain outside legal or other independent professional advice and to secure the attendance of outside professionals if deemed necessary in consultation with the Accounting Officer.

4. MEMBERSHIP

4.1. Composition

The Audit & Risk Committee must be constituted so as to ensure its independence. The committee shall be appointed by the Council and should comply with the following membership composition guidelines:

- The Committee will comprise of at least five (05) members, with the majority of the members not being in the employ of the Municipality;
- The chairperson of the Audit & Risk Committee may not be in the employ of the Municipality;
- No Councilor may be a member of the Audit & Risk Committee;
- Members of the Audit & Risk Committee shall serve on the committee in their individual capacity;
- The Chairperson must have the ability to preside over meetings and to direct the discussions along constructive lines;
- The membership shall include:
 - One member with sound financial knowledge; and

- Members who have the necessary understanding and expertise to provide the Council with an assurance that the risks associated with Ramotshere Moiloa Local Municipality are being appropriately managed.
- Internal audit shall provide secretarial services to the committee including preparing the Audit & Risk Committee packs for all Audit & Risk Committee meetings and minutes taking.

4.2. Appointment

- The Council shall appoint the members of the Committee.
- The Council shall appoint the Chairperson of the Audit & Risk Committee. If the Chairperson is not available the Audit & Risk Committee members present at the meeting will elect an acting Chairperson for the day.
- The members shall serve on the Audit & Risk Committee for a period of three years, renewable to a maximum of six years reckoned from the date on which the member actually assumes duty on the terms and conditions that will be mentioned in the contract of appointment as such.

4.3. Termination or removal of members

- Members may resign from the Audit & Risk Committee at any time. The Council shall appoint a replacement for such member within one month of having received notice of such resignation.
- The Council may remove any member where such member is found to be in contravention of the code of conduct of the Municipality.
- Members may also be removed where, in the opinion of the Council, they have failed to attend more than three consecutive meetings without reasonable cause.
- The Executive Committee of Council has to concur with any premature termination of the services of an Audit & Risk Committee member.

5. MEETINGS

5.1. Frequency

- A minimum of four meetings shall at least be held during a year. These meetings shall be arranged by the secretariat (Internal Audit) to coincide with the planning of the Internal Audit and the External Audit.
- The Chairperson of the Audit & Risk Committee may call a special meeting. Special meetings of the Audit & Risk Committee may be convened as required. The Internal and External Auditors may request a meeting if they consider it necessary.
- The Chief Audit Executive and the External Auditor have unrestricted access to the Chairperson of the Audit & Risk Committee.
- As part of its job to foster open communication, the Audit & Risk Committee should meet at least annually with management, the Internal Auditors and External Auditors in separate executive sessions to discuss any matters that the Committee or each of these groups believe should be discussed privately.

- The Chairperson of the Audit & Risk Committee and the Chairperson of Municipal Public Accounts Committee (MPAC) should meet on a quarterly basis to discuss and share issues relating their oversight function.

5.2. Notice of meetings

- The Audit & Risk Committee shall annually approve the Audit & Risk Committee schedule/calendar for the dates of the Audit & Risk Committee meetings.
- Notice shall be given in writing to all members of the Audit & Risk Committee and other interested parties, of each meeting to be held, at least ten days prior to the date on which such meeting is to be held.

5.3. Agenda

- An agenda must, under the direction of the Chairperson, be prepared for each meeting and together with the relevant discussion papers be circulated to each Audit & Risk Committee member at least 04 working days before the meeting to enable adequate opportunity for formal and informal discussions. Relevant discussion papers shall be provided to the secretary of the Audit & Risk Committee.

5.4. Minutes

- The proceedings of all Audit & Risk Committee meetings will be documented in minutes. The minutes of the meetings shall be reviewed and approved by the members of the Audit & Risk Committee.
- The secretary shall keep minutes of all meetings and shall distribute draft minutes seven days after the meeting. The minutes shall be included with the agenda of the next Audit & Risk Committee meeting.

5.5. Quorum

- A quorum for meetings shall be three members.

5.6. Attendance

In addition to the members of the Audit & Risk Committee, the following persons shall be standing invitees in the Audit & Risk Committee meetings:

- A representative from the Office of the Auditor-General;
- The Accounting Officer of the Municipality;
- The Chief Financial Officer;
- The Head of Internal Audit;
- The Head of a Department when s/he has functional responsibility to be discussed at the Audit & Risk Committee; and
- Such other persons as the Audit & Risk Committee may deem necessary.
- Stakeholders: Department of Local Government Human Settlements , North West Provincial Treasury/National Treasury and National/Provincial SALGA representatives

6. RESPONSIBILITIES AND DUTIES OF THE AUDIT & RISK COMMITTEE

ON:

6.1. Management

The Audit & Risk Committee should provide an oversight function in order to ensure that the Accounting Officer and/or Accounting Authority in carrying out their responsibilities, as required by MFMA and Treasury Regulations, as they relate to the municipality.

- Financial, management and other reporting practices
- Internal controls, governance and management of risks
- Compliance with laws, regulations and ethics

The Audit & Risk Committee should ensure that the

- Accounting Officer facilitate a risk assessment to determine material risks to which the department is exposed and evaluate the strategy for managing those risks.
- Accounting Officer has an implementation plan to correct all items included in the Auditor General's audit report and that management responds timeously to recommendations by Internal Audit, Audit & Risk Committee and the Auditor General.
- Municipal Public Accounts Committee (MPAC) resolutions are implemented.
- Quarterly report of the Accounting Officer to Audit & Risk Committee is in line with the reporting framework to be developed by the Audit & Risk Committee.

6.2. Internal Control and Risk Management

The Audit & Risk Committee should understand the major risk areas including the financial, legal and fiscal risks and the internal control environment. It should monitor the control process and the adequacy of the system of internal control by reviewing internal and external audit reports, including the following:

- Be constantly aware of the current areas of greatest financial risk and ensure management is effectively managing the risks;
- Ensure that effective systems of accounting and internal control are established and maintained to manage financial risk;
- Satisfy itself as regards the integrity and prudence of management control systems, including the review of policies and/or practices;
- Ensure that the Council and management are aware of any matters that might have a significant impact on the financial condition or affairs of Ramotshere Moiloa Local Municipality;
- Monitor the accomplishment of established objectives through the mission statement, business plan and the transformation process;
- Review with the Internal and External Auditors and management the extent to which changes or improvements in financial / accounting practices or control environment, as approved by the Audit & Risk Committee, have been implemented. (This review should be conducted at an appropriate time subsequent to implementation of changes of improvements, as decided by the Committee);

- Evaluate whether management is setting the appropriate “control culture” by communicating the importance of internal control and the management of risk and ensuring that all employees have an understanding of their roles and responsibilities;
- Consider how management is held to account for the security of computer systems and applications, and the contingency plans for processing financial information in the event of a system breakdown; and
- Gain an understanding of whether internal control recommendations made by internal and external auditors have been implemented by management.

6.3. Financial Reporting

6.3.1. General

- To review and assess the adequacy of management reporting to the Council and management in terms of the quantity, quality and timing of information necessary to understand and report internally and externally on Ramotshere Moiloa Local Municipality’s risks, operations and financial condition.
- To evaluate the financial statements of Ramotshere Moiloa Local Municipality for reasonability and accuracy.
- Gain an understanding of the current areas of greatest financial risk and how management is managing these effectively.
- Consider with the internal and external auditors any fraud, illegal acts, deficiencies in internal control or other similar issues.
- Review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on the financial statement.
- Ask management and the internal and external auditors about significant risks and exposures and the plans to minimize such risks.
- Review any legal matters, which could significantly impact on the financial statements of the municipality.

6.3.2. Annual Financial Statement

- Review the annual financial statements and determine whether they are complete and consistent with the information known to committee members and assess whether the financial statements reflect appropriate accounting principles.
- Pay particular attention to complex and/or unusual transactions.
- Focus on judgmental areas, for example those involving valuation of assets and liabilities; environmental liability; litigation reserves; and other commitments and contingencies.
- Meet with management and the External Auditors to review the financial statements and the results of the audit.
- Review the annual report before its release and consider whether the information is understandable and consistent with members’ knowledge about the Municipality and its operations.

6.3.3. Quarterly Financial Reports

- Be briefed on how management develops quarterly financial information; the extent of internal audit involvement; and the extent to which the external auditors review such information.
- Assess the fairness of the quarterly financial information and disclosures, and obtain explanations from management and Internal and External Auditors on whether:
 - Actual financial results for the quarterly period varied significantly from budgeted or projected results;
 - Changes in financial ratios and relationships in the quarterly financial statements are consistent with changes in the Municipality's operations and financing practices;
 - Generally Accepted Accounting Principles (GRAP,GAMAP) have been consistently applied;
 - There are any actual or proposed changes in accounting or financial reporting practices;
 - There are any significant or unusual events or transaction;
 - The municipality's financial and operating controls are functioning effectively; and
 - The quarterly financial statements contain adequate and appropriate disclosures.

6.4. Internal Audit

The Audit & Risk Committee shall ensure that the Internal Audit function performs its responsibilities effectively and efficiently by:

- Annually reviewing and approving of the Internal Audit Charter;
- Annually review the activities and organizational structure, competence and qualifications of the Internal Audit function and ensure no unjustified restrictions or limitations are made;
- Review the Internal Audit plans and budgets of the Internal Audit function at least a month after the beginning of the financial year;
- Ensuring that the plans address the high-risk areas and that adequate resources are available;
- Quarterly review the audit results and action plans of management;
- Approving Adhoc assignments;
- Review the results of the quality assurance reviews;
- Review the qualifications of internal audit personnel and concur in the appointment, replacement, reassignment or dismissal of the Head of Internal Audit(Chief Audit Executive);
- Review the adequacy of the (Chief Financial Officer) CFO,
- Annually Review the effectiveness of the Internal Audit Function;

- Meet separately with the Chief Audit Executive to discuss any matters that the Audit Committee or Internal Auditors believe should be discussed privately;
- Ensure that significant findings and recommendations made by the Internal Auditors are received and discussed on a timely basis;
- Ensure that management responds to recommendations by the Internal Auditors; and
- Ensure that Internal Audit work is co-coordinated with External Audit to avoid duplication of work where possible.

6.5. External Audit

The Audit & Risk Committee shall:

- Review the performance of external audit;
- Review the audit results, quality and contents of financial information and action plans of management;
- Consider the independence of the External Auditor, including reviewing the range of services provided in the context of all consulting services bought by the Entity;
- Meet separately with the External Auditors to discuss any matters that the Audit Committee or External Auditors believe should be discussed privately;
- Ensure that significant findings and recommendations made by the External Auditors are received and discussed on a timely basis;
- Ensure that management responds to recommendations by the External Auditors;
- Consider significant disagreements between External Auditors and Management;
- Consider material unresolved accounting and auditing problems; and
- Ensure direct access by the External Auditors to the Audit & Risk Committee and the Chairperson of the Audit & Risk Committee or Accounting Officer, as appropriate.

6.6. Compliance with laws, regulations and ethics

The Audit & Risk Committee should ensure that the management of Ramotshere Moiloa Local Municipality has the necessary mechanisms in place to ensure that there is compliance with pertinent laws and regulations, is conducting its affairs ethically, and is maintaining effective controls against conflicts of interest and fraud. The specific steps involved in carrying out this responsibility include:

- Review the effectiveness of the system for monitoring compliance with laws, regulations, King III Report on Corporate Governance and the results of management's investigation and follow-up (including disciplinary action) of any fraudulent acts or non-compliance;
- Obtain regular updates from Management and monitoring the compliance with the policy documents;
- Taking note of significant cases of employee conflicts of interest, misconduct, or fraud and the resolution of the cases;

- Reviewing the Internal Auditor's written report concerning the scope of reviews of compliance, any significant findings, and the resolution and follow-up on findings and recommendations;
- Monitoring developments and changes in the law relating to the responsibilities and liabilities of management and to monitor and review the extent to which the management is meeting its obligations;
- Monitoring developments and changes in the various rules, regulations and laws which relate generally to Ramotshere Moiloa Local Municipality's operations and to monitor and review the extent to which Ramotshere Moiloa Local Municipality complies with such laws;
- Be satisfied that all regulatory compliance matters have been considered in the preparation of the Annual Financial Statements; and
- Review the findings of any examinations by regulatory agencies.

6.7. Compliance with the Municipality's Code of Conduct

- Ensure that the code of conduct is in writing and that the arrangements are made for all employees to be aware of it.
- Evaluate whether management is setting the appropriate "tone at the top" by communicating the importance of the code of conduct and the guidelines for acceptable behaviour.
- Review the process for monitoring compliance with the code of conduct.
- Obtain regular updates from management regarding compliance.

6.8. Performance Management

The Audit & Risk Committee shall;

- review the quarterly reports on the audit of performance measurement of the municipality submitted to it by Internal Audit and performance management unit,
- review annually the municipality's performance management system focusing on economy, efficiency, effectiveness and impact in so far as the key performance indicators and performance targets set by the municipality are concerned and make recommendation in this regard to council
- at least twice a year submit a report to municipal council
- Evaluate the annual performance of the Municipal Manager and Managers directly accountable to the Municipal Manager i.e. the Chairperson of the Audit & Risk Committee should be a member of the evaluating team.

6.9. Reporting Responsibilities

- The Chairperson of the Audit & Risk Committee shall report to the Council at the next Council meeting following an Audit & Risk Committee meeting. The report shall include:
 - Progress on Audit & Risk Committee activities;

- Issues that arise in respect to the quality or integrity of the municipal's financial statements, compliance with legal or regulatory requirements etc.; and
- Recommendations and decisions made in the Audit & Risk Committee meetings.
- The Chairperson shall report annually to the Council summarizing the activities, recommendations and decisions of the Audit & Risk Committee during the previous financial year.
- The Chairperson of the Audit & Risk Committee shall submit a report on the activities of the Audit & Risk Committee for inclusion in the Annual Report of Ramotshere Moiloa Local Municipality.
- Any material findings should immediately be reported to the Mayor, Council, and/or MEC: DLGHS, as deemed appropriate.

6.10. Other Responsibilities

- Review Ramotshere Moiloa Local Municipality's strategic plan and strategic management process;
- Review and update this Charter periodically, at least annually, or as conditions dictate;
- Perform other oversight functions as requested by the full Council;
- If necessary, institute special investigations and, if appropriate, hire special counsel or experts to assist;
- Review and update the charter, receive approval of changes from the Council; and
- Evaluate the committee's own performance on a regular basis.

7. REMUNERATION FOR SERVING IN THE AUDIT & RISK COMMITTEE

Audit & Risk Committee members must be remunerated in terms of paragraph 20.2.2 of the Treasury Regulation. Members will be remunerated taking into account tariffs determined by the South African Institute of Chartered Accountants (SAICA) in consultation with the Auditor-General as provided for in Treasury Regulation 20.2.3.

8. GENERAL

The Audit & Risk Committee Members are obliged to disclose any interests they have within the organization or outside the organization that might interfere with their performance of their duties.

Any Ramotshere Moiloa Local Municipality related information that comes to light during their performance of duties must be kept confidential. This information can only be disclosed to a statutory board on request.

The Audit & Risk Committee must report and make recommendations to the Council and Management, but Management retains the responsibility to ensure that these recommendations are implemented.

The Audit & Risk Committee through the Chairperson, upon approval by the Council may review and effect changes to the Charter.

9. REVIEW

This charter shall be subject to an annual review by the Audit & Risk Committee and approval by Council.

10. APPROVAL

Ramotshere Moiloa Local Municipality Audit Committee Charter is prepared on behalf of the Audit & Risk Committee by the Chairperson of the Ramotshere Moiloa Local Municipality Audit & Risk Committee.

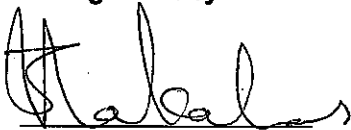


17/05/2016

Chairperson Audit & Risk Committee
Mr. S.A.B Ngobeni

Date

Contents acknowledged for and on behalf of the Ramotshere Moiloa Local Municipality Management by:



Municipal Manager

17/05/2016

Date

Approved for and on behalf of Ramotshere Moiloa Local Municipality Council:

Council Resolution number:

Date