

TERMS OF REFERENCE
FOR
THE AUDIT COMMITTEE
OF THE
MATATIELE LOCAL MUNICIPALITY

AUDIT COMMITTEE

1. INTRODUCTION AND BACKGROUND

An audit committee (hereinafter referred as the committee) is a committee established in terms of section 165 of the Municipal Finance Management Act No. 56 of 2003 (the MFMA) to provide additional assurance to the Council regarding the quality and reliability of both the financial and performance monitoring mechanism of the Matatiele Local Municipality.

The Council hereby agrees to establish an Audit Committee in the manner set out hereunder as per resolution no.

The committee will be accountable to the Council of the Matatiele Local Municipality. The overall objective of the audit committee is to assist the local municipality in its efforts to ensure that good corporate governance is observed and practiced by the municipality. As a result, the terms of reference reflected in this policy document have been prepared in accordance with the recommendations of the reports on corporate governance in South Africa as updated.

Corporate Governance is a guideline of a set of principles (and practices) which need to be observed and practiced by both non-executive as well as executive management for the sole purpose of protecting the interests of the shareholders and relevant stakeholders in the course of managing the affairs and the day to day operations of a given entity.

The audit committee itself is a sub-committee of the council with a duty to give direct feedback to the council on the items falling within the scope of the audit committee.

The overall and all encompassing purpose of the existence of the audit committee is to assist the council in the course of it (the council) fulfilling and achieving its developmental objectives which are to deliver a quality service to the ratepayers, service consumers and stakeholders utilizing minimum resources, while simultaneously creating or bringing about a self-sufficient district municipality.

These terms of reference shall deal with the membership of the committee, its authority as well as its duties.

2. CONSTITUTION OF THE AUDIT COMMITTEE

In terms of the recommendations of King II on Corporate Governance and in terms of the MFMA for the purpose of guaranteeing the independence and objectivity of the audit committee, the majority of the members of the audit committee shall both be non-executive and independent. The audit committee of the Matatiele Local Municipality shall be constituted as follows:

- The audit committee shall be constituted of four with a maximum of five members.
- The members of the audit committee shall be external, non-executive, independent and be financially literate with finance expertise.
- On matters requiring a vote and where necessary, the Chairperson shall have a casting vote.
- The audit committee shall be accountable to the council.
- Neither the members of the council nor members of executive management shall be members of the audit committee. However, the Mayor, the Portfolio Head of Budget and Treasury Standing Committee, the Municipal Manager, the Chief Finance Officer and the Chief Internal Auditor, shall be invited to the audit committee meetings. As and when necessary the Speaker of the Council and other members of staff may be invited to the audit committee.
- A quorum shall be constituted by 50% and any two members of the audit committee shall constitute a quorum.
- Each member nominated to the committee shall serve for a period of three years and may be nominated for the second ensuing term. A member shall not serve for more than two terms unless there are extenuating circumstances and such an exception shall be specifically approved by the council.
- The local municipality shall provide appropriate secretarial services to the audit committee and shall assume the secretariat role.
- In the event that a member of the audit committee for a satisfactory reasons is unable to continue as a member of the committee he/she be replaced forthwith.
- As determined by absolute necessity thereof and subject to the council's approval, the audit committee may enlist special expertise of a third party.

3. MEETINGS

The audit committee shall meet at least once per quarter and may convene special meetings as and when circumstances dictate.

4. THE ROLE OF THE AUDIT COMMITTEE

At a high level, the role of the audit committee can be summarized as follows:

- To provide a channel of communication between the council, executive management, internal and the external auditor.
- To ensure an effective internal control system entailing adequate protection of the local municipality's assets and income.
- To ensure that adequate accounting records are maintained.
- To ensure that both the external auditors and internal audit adequately execute their respective mandates.
- To be the custodian of the local municipality's code of ethics. This responsibility entails following up any ethical or legal issues within the local municipality.

While the Audit Committee has as its sole interest the functionality of controls and sustainance of a generally good corporate governance environment at the local municipality, it is important to emphasize the fact that, the committee is however not responsible for bringing about such desired state of affairs, that responsibility remains and is the responsibility of Executive Management. The responsibility of the audit committee is to validate the performance of Executive Management in this regard through the assurance work of both internal and external audit and to thus provide feedback to the council.

It is recognized that in accordance with the MFMA, the external audit function of the district municipality is being done by the Auditor General's office.

5. AUTHORITY

- The perceived and the actual independence of the audit committee is the overall overriding factor in the committee's ability to fully execute its mandate.
- The audit committee is fully authorized and empowered by the council to carry out its mandate as referred to above.
- The committee is authorized to seek any information it requires from any employee / officials of the local municipality and all employees shall co-operate in this regard.
- Where necessary, the committee shall seek any information from the members of the council.
- While the audit committee shall work with Executive Management it shall however be accountable to the Council.
- In addition to statutory work, the audit committee shall institute investigations on any matters falling within its scope.

6. DUTIES OF THE AUDIT COMMITTEE

As far as the external audit is concerned the duties of the audit committee will be to consider the following:

- The annual financial statements prior to submission to Council and to the Auditor-General for the annual audit.
- The scope of the external audit engagement.
- The Auditor-General's report on the financial statements and management responses thereto with a view to ensuring satisfactory responses and corrective action, where necessary.
- To bring salient features of the Auditor General's report to the attention of the Council.
- The timing of engagements.
- The remuneration of the external auditors
- The effectiveness of the external auditors.

The internal audit function falls under the supervision of the audit committee. In this regard, the committee's responsibilities are to:

- To consider, review and approve the audit plans of the internal auditor to ensure that it addresses the critical risk areas of the business of Council and to formulate instructions to the internal auditor.
- Receive relevant reports from internal audit.
- Review the performance of internal audit.
- Determine the internal audit function's mandate.
- The district municipality shall consult with the committee on the appointment and removal of the head of internal audit.
- Follow up on significant internal audit findings and highlighting the same to the Council.
- Monitor the co-ordination of activities between internal audit and external audit.
- Satisfy itself that there are adequate controls in place to mitigate the risk of fraud and error.
- Issue the audit committee's report in the annual report of the municipality

General functions entail the following:

- To ensure that no restrictions are placed on the scope and functionality of both internal and external auditors.
- To ensure compliance by the Local Municipality with major legal and regulatory provisions, code of conduct, by-laws, procedures and rules established by the council.
- To ensure an effective accounting system and reliable financial reporting.
- To assist the Council in its evaluation of the adequacy and efficiency of the internal control systems, accounting practices, information systems and auditing processes applied within the district municipality on the day to day management of its business.
- Introduce such measures as in the committee's opinion may serve to enhance the credibility and objectivity of the financial statements and related reports.

6. DUTIES OF THE AUDIT COMMITTEE (cont.)

- Provide feedback to the Council on the extent to which executive management is succeeding in managing the primary / key risk factors that have been identified and highlighted by the council.
- In summary, the overriding objective of the Audit Committee will to the extent that such responsibilities are within the scope of the audit committee, function to ensure that the Council or the local municipality meets its own primary objective which is to deliver a quality service to the communities of the Matatiele Local Municipality and thus improve the quality of life for the ordinary citizens.

7. REPORTING

The audit committee through its chairperson will account for the work done to the council. The Chairperson of the audit committee is accountable to the Speaker of the Council in his capacity as the Non-executive Chairperson of the Council. On its reports to the Council, the audit committee will address the following issues:

- Approval of the financial statements;
- A highlight of the significant audit findings for the explicit attention of the Council as the ultimate accountable and controlling body;
- Feedback on the performance of both internal and external audit work performed;
- Feedback to the Council on the extent to which Executive Management is performing as far as addressing various categories of risk as identified by the council;
- The audit committee will at its discretion bring any other matter(s) to and for the attention of the council.

8. OTHER RESPONSIBILITIES OF THE AUDIT COMMITTEE

As custodians of the code of ethics for the district municipality, over and above the structured responsibilities referred to above, the audit committee has the following additional responsibility:

- Any member of staff may in writing, refer to Internal Audit and/or the Chairperson of the Audit Committee for a potential investigation provided that such staff member has reason to believe that there is an act or omission on the part of any member of the district municipality that is improper, illegal or otherwise unlawful and constitutes an act that does not further the interests of the district municipality and / or those of stakeholders.
- Internal Audit, the Council, Executive Management and the Audit Committee (the structures) will endeavor to protect the identity of such staff member.
- The structures will to the extent that there is perceived or prima facie merit in such anonymous report, ensure that such investigation is carried out diligently, with a report being presented
- While this platform is intended to promote a culture of good governance i.e. by anonymously reporting improper conduct and the structures are fully committed to conduct such ad hoc investigations as aforementioned, it is recognized that

the structures must nonetheless guard against the abuse of this facility and platform.

9. REMUNERATION

External members shall be remunerated for services rendered at prevailing Auditor General Rates applicable from year to year.

10. REPORTING ON THE AUDITED FINANCIAL STATEMENTS

As far as reporting on the audited financial statements, both the 2002 King Report on Corporate Governance and the MFMA prescribe the following:

- That in the annual report the entity must disclose whether or not the audit committee has adopted formal terms of reference and
- If so, whether the committee has satisfied its responsibilities for the year in compliance with its terms of reference.
- Membership of the audit committee should be disclosed in the annual report and
- The Chairperson of the committee should be available at the council meeting called to consider the annual report for the purpose of answering questions about the work of internal audit and the general conduct of the external audit.

11. APPROVAL OF THE TERMS OF REFERENCE

<i>Chairperson of the Audit Committee:</i>
Name: _____
Signature: _____
Date: _____
<i>Municipal Manager:</i>
Name: _____
Signature: _____

Date: _____

Executive Mayor:

Name: _____

Signature: _____

Date: _____