

BUFFALO CITY METROPOLITAN MUNICIPALITY



Audit Committee Charter 2022/23

Table of Contents

1. Introduction
2. Structure of the Audit Committee
 - 2.1. Membership and Size of the Audit Committee
 - 2.2. Non-Members Attending Meetings
 - 2.3. The Audit Committee Chairperson
 - 2.4. Expert Consultants and/or Advice
 - 2.5. Meetings
 - 2.6. Quorum
 - 2.7. Reporting Procedures
 - 2.8. Powers
 - 2.9. Conflict of Interest
 - 2.10. Remuneration
 - 2.11. Authority
 - 2.12. Protocol
 - 2.13. Performance Assessments
 - 2.14. Confidentiality
3. Responsibilities
 - 3.1. Responsibilities Relating to the Internal Audit Unit
 - 3.2. Responsibilities Relating to Management
 - 3.3. Responsibilities Relating to Financial Statements and Annual Reports
 - 3.4. Responsibilities Relating to Risk Management and Fraud
 - 3.5. Responsibilities Relating to Internal Controls
 - 3.6. Responsibilities Relating to the Auditor General South Africa
 - 3.7. Responsibilities Relating to Compliance
 - 3.8. Responsibilities Relating to Performance Management
 - 3.9. Responsibilities Relating to Reporting
 - 3.10. Other Responsibilities – Council
 - 3.11. Other Responsibilities – Management
4. Amendments
5. Adoption
6. Approval

1. Introduction

- 1.1. The purpose of these terms of reference is to set out the Audit Committee's role and responsibilities, as well as the requirements for its composition and meeting procedures. This is done in accordance with the applicable National and Local Government Legislation and Regulations.
- 1.2. The Audit Committee established in terms of Section 166(1) of the Municipal Finance Management Act no 56 of 2003 (MFMA) also fulfils the functions of an Audit Committee constituted in terms of Regulation 14(2) of the Local Government: Municipal Planning and Performance Management Regulations, 2001. The Audit Committee Chairperson and members shall fulfil the function of performance management review and oversight.
- 1.3. This charter sets out the objectives, roles and responsibilities, composition, structure and membership requirements, relationships with other stakeholders, authority for the Audit Committee to conduct enquiries and access to municipality and municipal entity's records and personnel, outlines procedures for meetings, addresses the confidentiality and independence of Audit Committee members, and provides for ethical conduct and reporting.
- 1.4. The charter should be reviewed annually and updated to ensure relevance and consistency with the MFMA, Municipal Systems Act (No 32 of 2000) and other related regulations, guides and best practice.
- 1.5. The charter should be used as a basis for:
 - 1.5.1. Preparing the Audit Committee's annual work plan;
 - 1.5.2. Setting the agenda for meetings;
 - 1.5.3. Requesting skills and expertise;
 - 1.5.4. Making recommendations to the Accounting Officer and Municipal Council;
 - 1.5.5. Assessing the Audit Committee's performance by its members;
 - 1.5.6. Council, management, the Auditor-General of South Africa and the Internal Auditors; and,
 - 1.5.7. Contributions and participation at meetings.

- 1.6. The Code of Corporate Practices and Conduct published in the King IV Report on Corporate Governance of South Africa 2016 requires the Audit Committee to confirm if it has considered all significant matters in relation to the Annual Financial Statements and how these were addressed by the Audit Committee.
- 1.7. The Audit Committee is an independent advisory body/ sub-committee of Council and, in terms of **(MFMA – S166 (2) (a-d))**:
- (a) Advises the Council, the political office-bearers, the City Manager and the management staff of the Municipality, on matters relating to:*
 - i) Internal financial control and internal audits;*
 - ii) Risk management;*
 - iii) Accounting policies;*
 - iv) The adequacy, reliability and accuracy of financial reporting and information;*
 - v) Performance management;*
 - vi) Effective governance;*
 - vii) Compliance with the local government: municipal finance management act, the local government: municipal systems act, the annual division of revenue act, and any other applicable legislation;*
 - viii) Performance evaluation; and,*
 - ix) Any other issues referred to it by the municipality.*
 - (b) Reviews the annual financial statements to provide the Council with an authoritative and credible view of the financial position of the Municipality, its efficiency and effectiveness and its overall level of compliance with the Local Government: Municipal Systems Act, the Annual Division of Revenue Act and any other applicable legislation;*
 - (c) Responds to the Council on any issues raised by the Auditor-General of South Africa in the audit report;*
 - (d) Carries out investigations into the financial affairs of the Municipality as the Council of the Municipality may request.*
- 1.8. The Audit Committee is an independent governance structure whose function is to provide an oversight role on the system of internal control, risk management, and governance.

- 1.9. Governance entails the combination of processes and structures implemented by the Council and Management in order to inform, direct, manage and monitor the activities of the organization toward the achievement of its objectives. It details how an organization is managed, which includes culture, policies and strategies and the way it deals with key stakeholders.
- 1.10. The Audit Committee is constituted in terms of the requirements of sound corporate governance practices and operates within that framework.
- 1.11. The Audit Committee is required to maintain good relations with key stakeholders, such as the:
 - 11.1. Municipal Council;
 - 11.2. Board of Directors of Municipal Entities;
 - 11.3. Municipal Public Accounts Committee;
 - 11.4. Finance Committee;
 - 11.5. City Manager;
 - 11.6. Management and staff;
 - 11.7. Internal Auditors and External Auditors;
 - 11.8. Provincial Treasury; and,
 - 11.9. National Treasury.
- 1.12. The Audit Committee does not perform any management functions or assume any management responsibilities. It provides a forum for discussing risks and control issues for developing relevant recommendations for consideration by the Council and management. The Audit Committee should mainly make recommendations to the Council for its approval or final decision or for noting.

2. Structure of the Audit Committee

2.1. Membership and Size of the Audit Committee

- 2.1.1. The Audit Committee shall:
 - 2.1.1.1. Consist of at least three (3) persons, and not more than seven (7) members with appropriate experience who shall not be in the employ of the City.
 - 2.1.1.2. Keep the Council resolution on approval of the composition of the Audit Committee; and,
 - 2.1.1.3. Meet as often as is required to perform its functions, but at least four (4) times a year.

- 2.1.2. The members of the Audit Committee shall be appointed by Council following consideration and recommendation by the Executive Mayor. No Councilor may be a member of the Audit Committee.
- 2.1.3. The Chairperson of the Audit Committee shall be appointed by Council following consideration and recommendation by the Executive Mayor.
- 2.1.4. The chairperson should be appointed for a minimum of three (3) years to ensure that he/she contributes most effectively and provides stability to the Audit Committee.
- 2.1.5. Other Audit Committee members should serve at least a minimum of three (3) years with an option to renew for another three (3) years, based on performance except in the case of shared Audit Committees.
- 2.1.6. The Audit Committee members must not serve on more than three (3) local government audit committees simultaneously.
- 2.1.7. It is important that members of the Audit Committee possess knowledge and expertise in Performance Management.
- 2.1.8. The skills and experience of members that would enhance the Audit Committee representation shall be drawn from the following spheres of expertise:
 - 2.1.8.1. Financial Management;
 - 2.1.8.2. Legal profession;
 - 2.1.8.3. Admin and Governance (i.e. Internal Audit, Risk Management, Information Technology, General Controls and Application Controls, Human Resources Management, Planning, etc.);
 - 2.1.8.4. Performance Management;
 - 2.1.8.5. Engineering (i.e. Civil, Electrical, Environment, Water).
- 2.1.9. The appointed members should collectively possess the following skills and experience:
 - 2.1.9.1. Good governance;
 - 2.1.9.2. Financial management experience;
 - 2.1.9.3. Private and public sector experience;

- 2.1.9.4. An understanding of service delivery priorities;
 - 2.1.9.5. An understanding of the role of Council and councilors;
 - 2.1.9.6. An understanding of the operations of the organization;
 - 2.1.9.7. Familiarity with risk management practices and necessary requirements;
 - 2.1.9.8. An understanding of internal controls;
 - 2.1.9.9. An understanding of major accounting practices and public sector reporting requirements;
 - 2.1.9.10. Familiarity with legislative applicable to Municipalities;
 - 2.1.9.11. An understanding of the roles of internal audit and external audit;
 - 2.1.9.12. An understanding of the treatment of allegations and investigations (legal requirements); and,
 - 2.1.9.13. An understanding of a performance management system.
- 2.1.10 Recruitment of members shall be staggered to prevent a loss of knowledge and skills in the Audit Committee. The recruitment process of new members shall be concluded at least three (3) months in advance of the expiry of existing members term.
- 2.1.11 The Head: Governance and Internal Audit and the Accounting Officer shall maintain records of the Audit Committee member contracts and ensure recruitment is undertaken as mentioned above.
- 2.1.12 The Municipal Council, at its discretion, shall retain two (2) members of the Audit Committee who have not served in the committee for a continued period of six (6) years in order to ensure continuity in the operations of the Audit Committee and continued value add.
- 2.1.13 Members of the Audit Committee shall not be contracted continuously for a period exceeding six (6) years. After serving consecutively for six (6) years, a cooling off period of two (2) years shall be provided for, before appointing the same member to the Audit Committee.
- 2.1.14 Members shall be encouraged not to terminate their contracts until they have shared their knowledge with new members. Audit Committee members are required to give two months' notice prior to resignation.

- 2.1.15 The Audit Committee members shall have the opportunity to have an exit meeting with the Executive Mayor and the Accounting Officer to discuss the reason for leaving and to provide feedback on their experience serving the Audit Committee as well as any other issues. The date of resignation shall be minuted by the secretariat of the Audit Committee.
- 2.1.16 A formal process of induction will be facilitated by the Head: Governance and Internal Audit in consultation with the City Manager.
- 2.1.17 During the induction of members, the roles and responsibilities of the Committee will be clarified. The induction process should entail enough briefings and information on their roles, responsibilities, accountability and management's expectations.
- 2.1.18 New members shall meet and be briefed by the City Manager, Chief Financial Officer, Chairperson of the Audit Committee and the Head: Governance and Internal Audit. New members shall also be introduced to the External Auditors.
- 2.1.19 Information to be provided to members will include:
- 2.1.19.1. The governance structure and how the Audit Committee operates within this structure;
 - 2.1.19.2. Copy of the approved Audit Committee Charter and recent Audit Committee minutes including details of outstanding issues;
 - 2.1.19.3. Copies of relevant legislation;
 - 2.1.19.4. Copies of the annual report, strategic plan (IDP), code of conduct, risk management plans, etc.
 - 2.1.19.5. A briefing from Top Management and Internal Audit on the risk, internal control and governance processes; and,
 - 2.1.19.6. A copy of the approved Internal Audit Charter, annual internal audit plan and all recent audit reports applicable.
- 2.1.20 Audit Committee members can be dismissed by the Municipal Council under certain circumstances. The Accounting Officer or Municipal Council should consult the charter when dismissing members of the Audit Committee.
- 2.1.21 Reasons for dismissal, amongst others, would normally be detailed in the letter of appointment and contract agreement, such as:

- 2.1.21.1. Where an on-going conflict of interest exists;
- 2.1.21.2. Where a member has not performed to expectations;
- 2.1.21.3. Where there is reported conflict between members by the Chairperson; and,
- 2.1.21.4. Where there is non- attendance of ordinary meetings without valid reason or apology.

2.2. Non-Members Attending Meetings

- 2.2.1. The following persons will have a standing invitation to the Audit Committee meetings:
 - 2.2.1.1. The City Manager, the Chief Financial Officer and the Section 57 Managers (Heads of Directorate).
 - 2.2.1.2. The Head: Governance and Internal Audit of the City, and, where applicable, representatives of Internal Audit Unit.
 - 2.2.1.3. The Chairperson of the Risk Committee or his/her representative.
 - 2.2.1.4. Representatives from the Auditor-General South Africa.
 - 2.2.1.5. Representatives from the National Treasury.
 - 2.2.1.6. Representatives from the Department of Cooperative Governance and Traditional Affairs.
 - 2.2.1.7. Other members of management may be invited to attend the Audit Committee meetings when required.
 - 2.2.1.8. The Audit Committee may also invite such other persons as it deems necessary to address particular agenda items to be considered.

2.3. The Audit Committee Chairperson

- 2.3.1. The Chairperson of the Audit Committee must be independent and shall not be any person in the employ of the City and may not be a political office bearer.
- 2.3.2. The Chairperson shall be appointed for a minimum of three (3) years.
- 2.3.3. If the Chairperson is not present at a meeting, the Audit Committee shall elect a member to act as the Chairperson and provide feedback to the Chairperson.
- 2.3.4. To provide effective leadership, the Audit Committee Chairperson should at least:

- 2.3.4.1. Have a clear understanding of the committee's duties and responsibilities;
- 2.3.4.2. Be able to commit the necessary time depending on the complexity and circumstances of the City;
- 2.3.4.3. Be readily available on urgent matters and in times of crisis; and,
- 2.3.4.4. Have the requisite business, financial, communication, and leadership skills.

2.4. Expert Consultation and/or Advice

- 2.4.1. The Audit Committee may:
 - 2.4.1.1. Invite, in consultation with the City Manager, any expert consultant to attend a meeting to contribute to the effective functioning of the Audit Committee;
 - 2.4.1.2. Obtain independent professional advice on any area of concern relating to the City's activities.
 - 2.4.1.3. The above should be done after taking into consideration the role of the Internal Audit activity in providing the Audit Committee with the necessary assurance over the areas of concern that the Committee may have;
 - 2.4.1.4. Where such professional advice is to be compensated at the City's expense, Council approval shall be obtained prior to such invite; and,
 - 2.4.1.5. Request any investigation within the ambit of its mandate in order to fulfill its role and responsibilities.
- 2.4.2. The Audit Committee's assistance for the above items is subject to the City's procurement processes.

2.5. Meetings

Frequency

- 2.5.1. A minimum of four (4) ordinary meetings shall be held during a financial year (one (1) meeting per quarter). Special meetings of the Audit Committee may be convened as required and shall be capped to three (3) hours.

- 2.5.2. The Chairperson may call any additional meetings, as deemed necessary, at his/ her own volition or upon the request of the internal and/or external auditors and/or any Committee member.
- 2.5.3. Meetings of the Audit Committee will be held as frequently as the Audit Committee considers appropriate, but not less than four (4) times a year. **(MFMA – S166 (4) (b)).**
- 2.5.4. Audit Committee meetings may be held in a physical, virtual or hybrid format. Virtual meetings are encouraged in line with any health regulations as well as to save costs in line with the National Treasury and the City's cost containment measures.
- 2.5.5. Any member of the Audit Committee, the external auditors and the Head: Governance and Internal Audit may call special meetings of the Audit Committee when deemed necessary.
- 2.5.6. The Audit Committee should meet with internal and external auditors at least once a year without management being present.
- 2.5.7. Performance Management matters need to be addressed on at least two meetings per annum. Additional meetings to address Performance Management matters may be scheduled.

Meeting Attendance

- 2.5.8. Reasonable notice of meetings and the business to be conducted shall be given to the members of the Audit Committee, City Manager, the Top Managers, and the Office of the Auditor-General to make proposals as necessary at least fourteen (14) working days' prior the scheduled meeting.
- 2.5.9. Attendees are expected to confirm attendance within three (3) days after the meeting notice is circulated.
- 2.5.10. The Head: Governance and Internal Audit, in consultation with the chairperson of the Audit Committee, must determine the time frames of all meetings.

- 2.5.11. Considering the financial implications, the City Manager in consultation with the chairperson of the Audit Committee must agree, if meetings go beyond a one-day sitting. The Chief Financial Officer and other Head of Directorates, a duly authorized representative from the Auditor-General South Africa, and, the Head: Governance and Internal Audit shall be invited to attend the meetings of the Audit Committee and shall have unrestricted access to the Chairperson or any other member of the Audit Committee as is required in relation to any matter falling within the scope of the Audit Committee.
- 2.5.12. The chairperson, in his or her discretion, may invite Councilors or Officials to attend and be heard at meetings of the Audit Committee when there is a functional responsibility to be discussed. No such attendee shall have a vote at meetings of the Audit Committee.
- 2.5.13. Non-attendance of Audit Committee members shall be considered if in writing with valid reasons and submitted to the secretariat of the Audit Committee within three (3) working days before the meeting.
- 2.5.14. Continued non- attendance of three (3) ordinary Audit Committee meetings without valid reason shall deem termination of the service contract of the respective member. Such termination shall be in line with paragraphs 2.1.20 and 2.1.21 of this Charter and shall be recommended by the Chairperson.
- 2.5.15. Upon determination of non-attendance the member shall be informed in writing by the Audit Committee Chairperson and shall be given seven (7) days to state their case before the Audit Committee. Reasonableness of such motivations shall be determined by the Audit Committee.
- 2.5.16. Subsequent to those deliberations the Audit Committee shall make an undertaking advising the Accounting Officer, through its secretariat, of the outcomes and make recommendations.

Proceedings

- 2.5.17. Unless varied by these terms of reference, meetings and proceedings of the Audit Committee will be governed by the City's code regulating the meetings and proceedings of the Council and sub-committees of the Council.

2.5.18. The Chairperson shall ensure participation of members through probing interaction for contribution from each member.

Agenda and minutes

2.5.19. The Audit Committee must establish an annual work plan for each year to ensure that all relevant matters are covered by the agendas of the meetings planned for the year.

2.5.20. The annual plan must ensure proper coverage of the matters laid out in the Audit Committee charter. The more critical matters will need to be attended to each year while other matters may be dealt with on a rotation basis over a three (3) year period.

2.5.21. The number, timing and length of meetings, and the agendas are to be determined in accordance with the annual work plan.

2.5.22. The dates of meetings should be determined at least annually and approved by Council. Once Council has approved a municipal calendar, it will be circulated to members as well as the determined invitees as above. This will assist members and invitees to diarize meetings in advance.

2.5.23. A detailed agenda, together with supporting documentation, must be circulated, at least one (1) week, five (5) working days prior to each meeting to the members of the Audit Committee and other invitees.

2.5.24. Audit Committee members must be fully prepared for Audit Committee meetings, to provide appropriate and constructive input on matters discussed.

2.5.25. The minutes must be completed within ten (10) working days of each meeting sitting and circulated to the chairperson and members of the Audit Committee for review thereof. The minutes must be formally approved by the Audit Committee at its next scheduled meeting.

2.5.26. Minutes of meetings shall be taken by the Secretariat and shall be reviewed and approved by the members of the Committee.

Secretariat of the Committee

2.5.27. Internal Audit shall provide secretariat support to the Committee. The secretary shall keep minutes of all meetings and shall include the minutes with the agenda of the next Audit Committee meeting.

2.6. Quorum

- 2.6.1. The quorum for meetings shall be the majority of members (appointed) of the Audit Committee present.

2.7. Reporting Procedures

- 2.7.1. The Chairperson of the Audit Committee shall provide a report to the Council on a quarterly basis, or more frequently as may be necessary, and annually summarize the activities, recommendations and decisions of the Audit Committee during the financial year.
- 2.7.2. Notwithstanding the foregoing, the Chairperson shall provide a report at least twice during a financial year to the Council on matters related to the performance management system and its operation.
- 2.7.3. The Chairperson of the Audit Committee shall provide a copy of its report at least annually, or at other intervals, to the Municipal Public Accounts Committee (MPAC), for consideration during the MPAC engagements on the oversight report.
- 2.7.4. A representative of the Audit Committee will be available whenever MPAC needs clarity on the report of the Audit Committee.
- 2.7.5. The Chairperson of the Audit Committee shall provide reports to the City Manager as may be necessary, and annually summarize the activities, recommendations and decisions of the Audit Committee during the financial year.
- 2.7.6. The Audit Committee may determine its own meeting procedures substantially in accordance with the Standard Rules of Order relating to meetings.
- 2.7.7. The Audit Committee shall make recommendations to the City Manager and prepare a report, for inclusion in the annual report of the Municipality, commenting on, at least:
- 2.7.7.1. The effectiveness of internal controls;
 - 2.7.7.2. Oversight of the financial reporting process;
 - 2.7.7.3. Compliance with laws and regulations; and,
 - 2.7.7.4. Its evaluation of the annual financial statements.

2.7.8. Should a report from internal audit or any other source implicate the City Manager in fraud, corruption or gross negligence, the Chairperson of the Audit Committee shall promptly report this to the Executive Mayor.

2.7.9. The Audit Committee may communicate any concerns it deems necessary to the Executive Mayor, Council, Provincial and National Treasury and the Auditor General South Africa.

2.8. Powers

2.8.1. In performing its functions, the Audit Committee has access to the financial records and other relevant information of the City and shall liaise with the Internal Audit Unit of the City as well as the person designated by the Auditor-General South Africa to audit the financial statements of the City.

2.8.2. In performing its work, the Audit Committee may advise the City Manager relating to matters such as the safeguarding of assets, the operation of adequate systems, control processes, the preparation of accurate financial reporting and statements in compliance with applicable legal requirements and accounting standards.

2.8.3. The Audit Committee may, through formal requests to the City Manager, or through the minutes of the Audit Committee, require any official or Directorate to appear before it or provide a report, comment or answer any questions posed by the Audit Committee.

2.8.4. Notwithstanding the above, it is the responsibility of management to report to the Audit Committee on a regular basis on the various matters contained in this Charter.

2.8.5. In all matters, the status and role of the Audit Committee as a legislated Audit Committee of the Council shall be respected.

2.8.6. The Audit Committee may if it deems it necessary, report directly to the Council in its own name.

2.9. Conflict of Interest

2.9.1. Subject to the provisions of any act, regulation or prescript, where a member of the Audit 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 recuse him/herself from the decision-making process.

- 2.9.2. Any member of the Audit Committee, who is aware of an existing or potential conflict of interest between his / her work in the Audit Committee with his / her private work, shall promptly disclose such conflict of interest.
- 2.9.3. The chairperson of the Audit Committee shall excuse the member from any meeting or part thereof, who could, in his / her opinion, have any potential conflict of interest.
- 2.9.4. Prior to the commencement of the meeting, an appropriate disclosure form shall be signed by all members. Disputes relating to a conflict of interest shall be dealt with by the City Manager or alternate.

2.10. Remuneration

- 2.10.1. Audit Committee members will be remunerated at rates determined by the Council.
- 2.10.2. Having regard to the functions performed by the members of the Audit Committee and in relation to the activities of the Audit Committee, and pursuant to the specific power conferred upon them by the MFMA that governs the spheres of government, members of the Audit Committee shall be paid such remuneration in respect of their appointment as shall be fixed by council.
- 2.10.3. The chairperson of the Audit Committee shall, in addition to his or her remuneration as member, receive an additional 20 percent (%) of the normal fee by virtue of being a Chairperson.
- 2.10.4. The Chairperson of the Audit Committee shall be remunerated at a fixed amount of R10,680.00 for each ordinary meeting sitting subject to annual review/adjustment. An additional Preparation Time fee of R6,000.00 payable capped to a maximum of three (3) hours shall be payable for each meeting.
- 2.10.5. The members of the Audit Committee shall be remunerated at a fixed amount of R8,900.00 for each ordinary meeting sitting subject to annual review/adjustment. An additional preparation time fee of R6,000.00 payable capped to a maximum of three (3) hours shall be payable for each meeting.
- 2.10.6. The Chairperson and members of the Audit Committee shall arrange their own accommodation and travelling expenses to attend Audit Committee meetings and shall be reimbursed upon providing supporting invoices/ receipts to the City as per the applicable Subsistence and Travel policy for the City.

2.10.7. On request by the City Manager, the chairperson of the Audit Committee shall attend advisory and Council meetings and shall be given an allowance of R1 862.50. for per hour for a member and R2 085.00 per hour for the Chairperson respectively, capped to three (3) hours per meeting.

2.10.8. Audit Committee members will be entitled to be reimbursed travel expense for such official Council business based on the Council's subsistence and travel policy.

2.11. Authority

2.11.1. The Audit Committee is granted authority to perform each of the specific duties in this charter and, upon approval of the City Manager, to arrange for the investigation of any specific activity within its terms of reference. Such approval shall not be unreasonably withheld.

2.11.2. The City Manager will provide the Audit Committee with the resources it needs to execute any of its duties or for any investigation undertaken. The provisos of the foregoing will apply in respect of such duties or investigations

2.11.3. The Audit Committee is empowered to seek such independent professional advice to assist them in fulfilling their responsibilities, as it considers necessary, but will notify and receive prior approval from the City Manager. The provisos of the foregoing sections will apply.

2.11.4. The Audit Committee may seek any relevant information it requires from officials who are directed to cooperate with the Audit Committee's requests.

2.11.5. In all matters, the status and role of the Audit Committee as a legislated Committee of Council shall be respected.

2.12. Protocol

2.12.1. All persons attending meetings shall address all communications via the Chairperson.

2.13. Performance Assessments

2.13.1. The Audit Committee shall assess its performance and achievements against its charter on an annual basis.

- 2.13.2. The assessment would cover the performance of the individual member as part of the overall Audit Committee with reference to the particular skills the member has brought to the Committee as a whole.
- 2.13.3. The Audit Committee shall provide the Internal Audit Unit, Management and the Council an opportunity to annually assess the operations and status of the Audit Committee. These assessments will be utilized to further develop the operations of the Audit Committee.
- 2.13.4. The Audit Committee shall conduct a self-assessment on the committee's effectiveness and independence, a report will then be compiled by the Chairperson to express findings of the self-assessment and presented to the City Manager and Council for consideration.

2.14. Confidentiality

- 2.14.1. The Audit Committee undertakes that it will not, at any time, disclose confidential information to any third party for any reason or purpose whatsoever without the express prior written consent of Buffalo City Metropolitan Municipality.

3 Responsibilities

3.1. Responsibilities Relating to the Internal Audit Unit

- 3.1.1. The Internal Audit Unit is a major source of information to the Audit Committee on the performance of the organization. To maximize the value of the Internal Audit Unit activity open lines of communication are established between the Internal Audit Unit and the Audit Committee.
- 3.1.2. The Audit Committee will:
- 3.1.2.1. Evaluate and approve the Internal Audit Charter;
 - 3.1.2.2. Review and approve the strategic internal audit plan based on its assessment of key areas of risk for the institution, having regard to the current operations of the institution and those proposed in the strategic plan and risk management strategies;
 - 3.1.2.3. Review and approve the annual internal audit plan for the first year of the strategic internal audit plan and any subsequent revision thereof;
 - 3.1.2.4. Approve all non-audit services;

- 3.1.2.5. Review reports submitted by Internal Audit Unit detailing its performance against the annual internal audit plan;
- 3.1.2.6. Evaluate the overall efficiency and effectiveness of the internal audit unit considering the following;
 - a) The audit approach,
 - b) The scope and depth of internal audit coverage,
 - c)The quality of reports issued,
 - d) Training and retention of personnel,
 - e) Internal audit Unit's budget,
 - f) Internal audit Unit's compliance with the Institute of Internal Auditors Standards for the Professional Practice of Internal Audit, and,
 - g) Management satisfaction.
- 3.1.2.7. Review significant differences of opinion between management and the Internal Audit Unit.
- 3.1.2.8. Ensure that no management restrictions are placed upon the Internal Audit Unit.
- 3.1.2.9. Ensure direct access by the Head: Governance and Internal Audit to the Audit Committee, the Chairperson of the Audit Committee and the City Manager;
- 3.1.2.10. Meet with the Head: Governance and Internal Audit as deemed necessary;
- 3.1.2.11. Support the risk management assessment to determine the material risks to which the institution may be exposed and evaluate the strategies for managing those risks (the risk assessment will be used to direct internal audit effort and priority and will be reviewed and updated on an annual basis);
- 3.1.2.12. Act as a forum for communication between management and the Internal Audit Unit and external audit;
- 3.1.2.13. Advise the City Manager on the adequacy of the Internal Audit Unit resources to carry out auditing responsibilities, including the completion of the approved internal audit plan;

- 3.1.2.14. Review all internal audit reports and provide advice to the City Manager on significant issues identified in audit reports;
 - 3.1.2.15. Monitor management's implementation of Internal Audit Unit's recommendations through reports from management (action plan);
 - 3.1.2.16. Concur with any appointment and termination of the services of the Head: Governance and Internal Audit;
 - 3.1.2.17. Regularly review the functional and administrative reporting lines of the Internal Audit Unit to ensure that the organizational structure is consistent with the principles of independence and accountability;
 - 3.1.2.18. Advise the City on resources allocated to give effect to the work outputs of the Internal Audit Unit; and,
 - 3.1.2.19. Ensure there is support for the Internal Audit Unit and external auditors from Top Management.
- 3.1.3. The City Manager is responsible to ensure that the Internal Audit Unit is capacitated to perform their responsibilities effectively and efficiently by reviewing with the Audit Committee and the Head: Governance and Internal Audit the charters, plans, staffing, and organizational structure of the Internal Audit Unit.
- 3.1.4. The following operational guidelines will be implemented to ensure the effective operations of the Internal Audit Unit:
- 3.1.4.1. The Head: Governance and Internal Audit will be responsible for reporting directly to the Audit Committee on all matters relating to the execution of the internal audit functions as required by the MFMA.
 - 3.1.4.2. The Head: Governance and Internal Audit will administratively report to the City Manager in terms of leave, attendance of courses and any administrative requirements.
 - 3.1.4.3. Administrative support for the Internal Audit Unit will be provided by the City Manager. Such support shall include dealing with all budget and other administrative matters.

- 3.1.4.4. The Audit Committee requires that all internal audit work performed shall comply with the Standards for the Professional Practice of Internal Audit, as published by the Institute of Internal Auditors.

3.2. Responsibilities Relating to Management

- 3.2.1. The Audit Committee will assist management by exercising an independent oversight role relating to the financial reporting process, the systems of internal control, the audit process, and the processes for monitoring compliance with laws and regulations and codes of conduct.
- 3.2.2. The Audit Committee will assist management in carrying out its responsibilities in terms of legislation through:
 - 3.2.2.1. Considering the Internal Audit Unit's strategy and operational plans and reviewing performance against them;
 - 3.2.2.2. Discussing with the Head: Governance and Internal Audit findings contained in reports, and the response of management to recommendations including views on the quality of internal control;
 - 3.2.2.3. Considering the objectives and scope of any additional work undertaken by the Internal Audit Unit to ensure there are no conflicts of interest and that independence is not compromised;
 - 3.2.2.4. Supporting a risk management assessment to determine the material risk to which the institution may be exposed and evaluating strategies for managing those risks (the risk assessment will be used to direct internal audit effort and priority and will be reviewed and updated on an annual basis).
 - 3.2.2.5. Reporting on the effectiveness of internal control in the annual report of the institution; and,
 - 3.2.2.6. Reviewing the Internal Audit Unit's reports on the municipality's institutional performance management system based on the principles of economy, effectiveness and impact insofar as the key performance indicators and targets are concerned and making recommendations relating thereto.
- 3.2.3. It is specifically recorded that in fulfilling its responsibilities to the Internal Audit Unit, the Audit Committee requires that management provide comment on all draft findings of the Internal Audit Unit within, at maximum, three (3) days of receipt thereof. These timeframes are necessary to ensure that the Audit Committee receives timely reports on internal audits conducted.

3.3. Responsibilities Relating to Financial Statements and Annual Reports

- 3.3.1. The Audit Committee is responsible for reviewing the financial statements and the annual report. The objective of the review is to ensure that disclosure is adequate, and that fair presentation is achieved, including contingent liabilities and any outstanding litigation.
- 3.3.2. As part of the financial statements review, the Audit Committee shall:
- 3.3.2.1. Obtain explanations from top management for all significant variances in financial statements, between years;
 - 3.3.2.2. Obtain clarity from management regarding the accounting policies or major changes in policies;
 - 3.3.2.3. Obtain explanations from management regarding the effect of changes in generally accepted accounting practice;
 - 3.3.2.4. Enquire regarding compliance with accounting standards and other regulatory requirements;
 - 3.3.2.5. Enquire from top management about outstanding litigations, contingencies and claims and how these matters are reflected in the financial statements;
 - 3.3.2.6. Enquire regarding any significant financial reporting issues discussed between management and Internal Audit Unit during the accounting period and how they were resolved;
 - 3.3.2.7. Enquire and assess significant judgmental decisions that may have a major impact on the financial statements;
 - 3.3.2.8. Enquire about any significant adjustments resulting from the audit;
 - 3.3.2.9. Enquire about any significant transactions that are not a normal part of the entities business;
 - 3.3.2.10. Enquire about the adequacy of doubtful debts and stock provisions;
 - 3.3.2.11. Enquire and discuss significant proposed changes in the financial statements and any concerns over the disclosure of any item;
 - 3.3.2.12. Enquire about legal and regulatory matters that may have a material impact on the financial statements, related departmental compliance policies and programs and reports received from the regulators.
 - 3.3.2.13. Review the Performance Chapter of the Annual Report and consider the accuracy and completeness of the information; and,
 - 3.3.2.14. Recommend to the City Manager such measures as the Audit Committee may considered necessary to enhance the credibility of the financial statements and annual reports.

- 3.3.3. In addition, the Audit Committee shall be entitled to
 - 3.3.3.1. Enquire regarding how top management develops interim financial information; and,
 - 3.3.3.2. Receive quarterly financial, performance and other reports from management and consider whether they are complete and consistent with the information known to the Audit Committee members.

3.4. Responsibilities Relating to Risk Management and Fraud

- 3.4.1. Risk management is an essential part of effective corporate governance and whilst it is a management responsibility, management expects the Audit Committee to provide advice on the risk management processes.
- 3.4.2. The Audit Committee will therefore review:
 - 3.4.2.1. Whether management has adopted a comprehensive risk management framework;
 - 3.4.2.2. Whether a sound and effective approach has been followed in developing strategic risk management plans;
 - 3.4.2.3. The impact of the risk management framework on the control environment of the Municipality; and,
 - 3.4.2.4. The fraud prevention plan.
- 3.4.3. The Audit Committee will:
 - 3.4.3.1. Assist management through consideration of internal audit reports evaluating the adequacy and effectiveness of the risk management process followed and the development, maintenance and enhancement of the fraud prevention plan and providing advice thereon;
 - 3.4.3.2. Monitor and advise on the initiatives of management but will not develop and implement risk management strategies and processes; and,
 - 3.4.3.3. Provide input on the process for monitoring the attainment of specific goals and objectives developed by management in the strategic operational plans.
- 3.4.4. In order to carry out this responsibility, the Audit Committee shall be informed at each meeting of the progress on the following matters:

- 3.4.4.1. The overall risk management process;
- 3.4.4.2. The key risks inherent to the Municipality's functions and activities as well as the management and control of such risks;
- 3.4.4.3. Areas where there have been major changes in the risk factors; and,
- 3.4.4.4. Details of the action plans of management to control/reduce the level of risks.

3.5. Responsibilities Relating to Internal Controls

- 3.5.1. The Audit Committee will:
 - 3.5.1.1. Assess the efficiency and effectiveness of the City's system of internal control.
 - 3.5.1.2. Such assessment will include financial control and business risk management through evaluation of Internal Audit reports, the reports of the Auditor General South Africa as well as those of the other regulatory bodies as may be applicable;
 - 3.5.1.3. Assess significant matters reported by internal and external auditors;
 - 3.5.1.4. Assess responses of management to reported weaknesses in internal, operating and financial controls, management information systems and safeguarding of assets;
 - 3.5.1.5. Monitor remedial actions through progress reports (action plans);
 - 3.5.1.6. Assess the effectiveness of the system for monitoring compliance with applicable laws, regulations and policies and the results of management's investigation and follow-up (including disciplinary action) of any instance of non-compliance through evaluation of management progress reports, the reports of the Auditor General South Africa, Internal Audit Unit, as well as those of the other regulatory bodies as may be applicable;
 - 3.5.1.7. Assess through management progress reports the actions implemented by management to ensure that the policies and procedures accounting, and information systems, related controls and security are adequate and effective;
 - 3.5.1.8. Assess through management progress reports (action plans) the actions implemented by management to ensure the adequacy, and effectiveness of the risk management process;
 - 3.5.1.9. Assess through management progress reports (action plans) whether recommendations made by the Internal Audit Unit are adhered to and taken into consideration for the improvement of internal control structure;

- 3.5.1.10. Assess through management progress reports (action plans) the actions implemented by management to ensure that significant cases of employee conflict, misconduct are resolved timeously; and,
- 3.5.1.11. Assess through management progress reports actions implemented by management to ensure that any unresolved issues and matters that exist between the internal and external auditors and management are dealt with and where necessary encourage ways to resolve these incidents.

3.6. Responsibilities Relating to the Auditor General South Africa

- 3.6.1. The Audit Committee will:
 - 3.6.1.1. Highlight problem areas through interaction with the Auditor General South Africa at meetings or private sessions;
 - 3.6.1.2. Assess management's comments on the Audit Report issued by the external auditors;
 - 3.6.1.3. On a periodic basis, meet separately with the Auditor General South Africa to discuss any matters that the committee or auditors believe should be discussed privately; and,
 - 3.6.1.4. Assess any limitations placed on the Auditor General South Africa through participation on the Audit Steering Committee when necessary.

3.7. Responsibilities Relating to Compliance

- 3.7.1. The Audit Committee will:
 - 3.7.1.1. Enquire after the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of non-compliance;
 - 3.7.1.2. Enquire after the findings of examinations by regulatory agencies and any observations arising there from; and,
 - 3.7.1.3. Obtain regular updates from management regarding compliance matters.

3.8. Responsibilities Relating to Performance Management

- 3.8.1. The Audit Committee will:

- 3.8.1.1. Review the quarterly reports submitted by the Internal Audit Unit;
- 3.8.1.2. Review the municipality's performance managementsystem through consideration of the reports of the Internal audit Unit and the Auditor General South Africa and make recommendations to the Council;
- 3.8.1.3. At least twice (2) during a financial year, submit a report to the Council on the performance management system;
- 3.8.1.4. Assess through consideration of the reports of the Internal Audit Unit and the Auditor General South Africa, the effectiveness of the systems for monitoring compliance with the Performance Management System and measuring indicators and targets; and,
- 3.8.1.5. Obtain regular updates from management regarding the Performance Management system.

3.9. Responsibilities Relating to Reporting

- 3.9.1. The Audit Committee shall disclose in the Annual Report, the Audit Committee's composition, responsibilities and how they were discharged, and any other appropriate information.
- 3.9.2. The following shall be disclosed in relation to the Audit Committee;
 - 3.9.2.1. Significant matters that the Audit Committee has considered in relation to the annual financial statements and how these were addressed by the Audit Committee;
 - 3.9.2.2. The Audit Committee's views regarding the effectiveness of the design and implementation of internal financialcontrols, and on the nature and extent of any significant weaknesses in the design, implementation or execution of internal financial controls that resulted in a material financial loss, fraud, corruption or error;
 - 3.9.2.3. The Audit Committee's view regarding the effectivenessof the CFO and the finance directorate and;
 - 3.9.2.4. The arrangements of combined assurance and the Audit Committee's views on its effectiveness.

3.10. Other Responsibilities – Council

- 3.10.1 The Audit Committee may perform other such other activities related to this charter as may be requested by the Council after consideration and agreement by the Audit Committee.

- 3.10.2 Appropriate written terms of reference for such activities or assignments shall be agreed upon between the Council and the Audit Committee so as not to undermine the independent nature of the Audit Committee.
- 3.10.3 In performing such other related activities, as may be agreed upon, the Municipality shall make specific resources, additional to those set out in the approved budget for the operations of the Audit Committee or the Internal Audit Unit, available for such activities or assignments.
- 3.10.4 All procurements of goods or services providers, etc. required to perform such activities shall be procured by the City Manager through the Council's Supply Chain Management processes.
- 3.10.5 The Audit Committee may provide input into the process but shall bear no responsibility for any deviations from policy which may occur during such process or for any resultant over expenditure or irregular expenditure in relation thereto.
- 3.10.6 Neither the Audit Committee nor the Head: Governance and Internal Audit will procure goods or service providers for such activities or assignments nor shall they project manage such activities or assignments. For such purposes, the role of the Committee shall be that of a Special Committee of the Council.

3.11 Other Responsibilities – Management

- 3.11.1 The City Manager may request that the Audit Committee consider performing other activities related to this charter. In all such cases, the request shall be submitted for the consideration of the Audit Committee under the hand of the City Manager.
- 3.11.2 The Audit Committee, after consideration of such report, may refer the matter back to the City Manager for attention and resolution, or may require the development of written terms of reference for such activity or assignment.
- 3.11.3 Where such activity or assignment is considered necessary, the City shall make specific resources, additional to those set out in the approved budget for the operations of the Audit Committee or the Internal Audit Unit, available for such activities or assignments.

- 3.11.4 All procurements of goods or services providers, etc required to perform such assignment shall be procured by the City Manager through the Council's Supply Chain Management processes.
- 3.11.5 The Audit Committee may provide input into the process but shall bear no responsibility for any deviations from policy which may occur during such process or for any resultant over expenditure or irregular expenditure in relation thereto.
- 3.11.6 Neither the Audit Committee nor the Head: Governance and Internal Audit will procure goods or service providers for such assignment nor shall they project manage such assignment. For such purposes, the role of the Audit Committee shall be that of a Special Committee of the Council.
- 3.11.7 In all requests, the City Manager shall be mindful of the status and role of the Audit Committee and shall ensure that the independence of the Audit Committee and its members is respected.

4. Amendments

- 4.1. The Audit Committee shall review and assess the adequacy of this charter annually.
- 4.2. Any amendments to this Charter shall only be effective once approved by the Council in consultation with the Audit Committee.

5. Adoption

- 5.1. This Charter is hereby adopted as the guiding document for the operation of the Buffalo City Metropolitan Municipality Audit Committee.

6. Approval

The Head: Governance and Internal Audit shall facilitate a periodic assessment by the Audit Committee as to whether this charter continues to be adequate to enable the Audit Committee to accomplish its objectives.

The result of this periodic assessment should be communicated to translated into a revision of the Charter for subsequent approval by the Buffalo City Metropolitan Municipality Council.

- 6.1. Charter approved vide **Minute No. TM 307/11** dated **06 September 2011**.
- 6.2. Charter approved vide **Minute No BCMC 195/11** dated **31 October 2011**.
- 6.3. Charter updated and approved vide **Minute No. BCMC 307/13** dated **31 JULY 2013**.
- 6.4. Charter updated and approved vide **Minute No. BCMC 393/14** dated **02 OCTOBER 2014**.
- 6.5. Charter updated and approved vide **Minute No. BCMC 296/1** dated **26 MAY 2017**.
- 6.6. Charter updated and approved vide **Minute No VBCMC 521/21** dated **08 JUNE 2021**.
- 6.7. Charter updated and approved vide **Minute No BCMC 384/22** dated **27 July 2022**.