



provincial treasury
MPUMALANGA PROVINCE
REPUBLIC OF SOUTH AFRICA

AUDIT COMMITTEE TOOLKIT

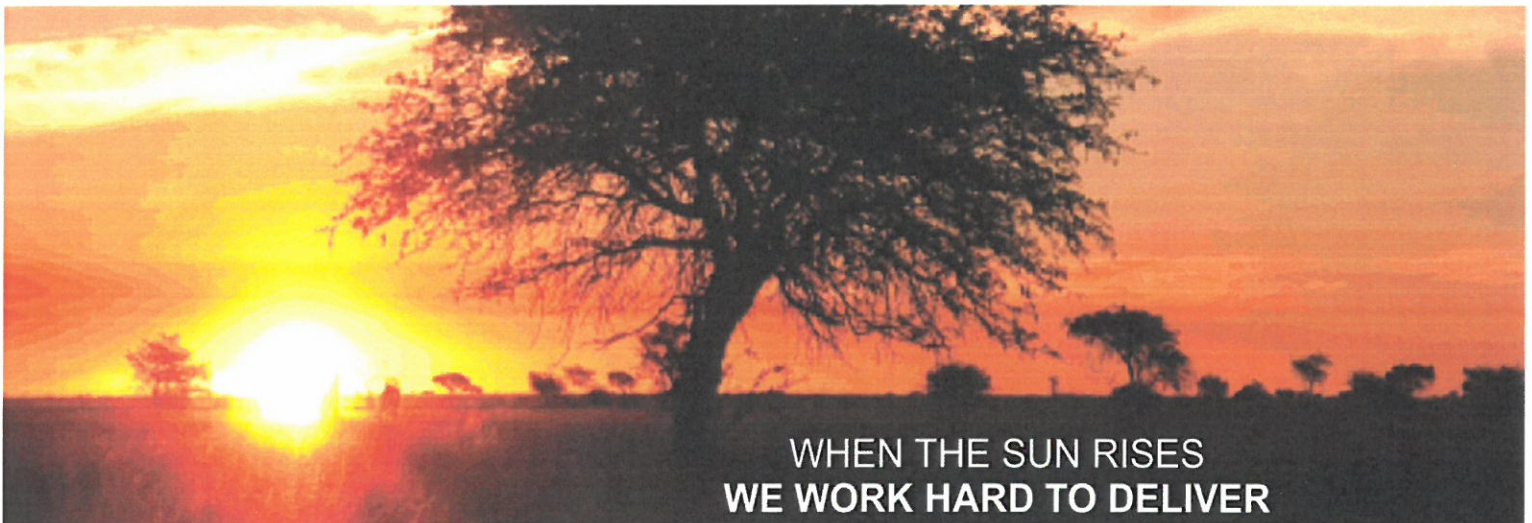


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1. INTRODUCTION

- 1.1. Good corporate governance requires independent, effective assurance about both the adequacy of financial management and reporting, and the management of other processes required to achieve the organisation's corporate and service objectives.
- 1.2. Good practice from the wider public sector indicates that these functions are best delivered by an independent Audit Committee.
- 1.3. The role of the Audit Committee is one of proactive oversight of the financial and compliance reporting and disclosure process and the results of that process.
- 1.4. Management has the responsibility to ensure the accuracy of the financial statements and compliance with laws, regulations and agreements.
- 1.5. It is the Audit Committee's function to carry out due diligence by evaluating information from Management, the Internal Auditor, and External Auditors to form conclusions.
- 1.6. The Audit Committee discharges its responsibilities for the benefit of funding sources, oversight agencies, and the public at large. Duties of the Audit Committee may differ based on the type of public sector entity.
- 1.7. The focus of this toolkit is on the duties of the Audit Committee responsible for the public reporting of results.

2. DEFINITIONS AND ABBREVIATIONS

2.1 Definitions:

"Accounting Authority" means the Board of a Public Entity.

"Accounting Officer" means the Head of a Department, the CEO of a Public Entity and the Municipal Manager of a Municipality.

"Audit Committee" means the Committee appointed in terms of Section 38(1)(a)(ii) of the Public Finance Management Act, No. 1 of 1999 and Section 166(1) of the Municipal Finance Management Act, No. 56 of 2003.

"Executive Authority" means the Member of the Executive Council responsible for a specific Department or the Executive Mayor of a municipality.

"Financial year" means the financial year ending 31 March for Departments and Public Entities and ending 30 June for Municipalities.

"The province" means Mpumalanga Provincial Government.

"Provincial Treasury" means the Programmes in the Department of Finance

responsible for treasury functions

2.2 Abbreviations:

MFMA : Municipal Finance Management Act, 2003 (Act No. 56 of 2003)
PFMA : Public Finance Management Act, 1999 (Act No. 1 of 1999)

3. PURPOSE OF THE TOOLKIT

- 3.1 The toolkit is intended to provide a more detailed set of advice, give examples and suggest good practice to assist both officers and members who are involved in the establishment and operation of an Audit Committee.
- 3.2 The toolkit was prepared taking into account the MFMA, PFMA, Treasury Regulations, King Code IV and National Treasury Internal Audit Framework.

4. LEGISLATIVE MANDATE

- 4.1 The Public Finance Management Act, No1 of 1999, as amended stipulates in Section 38 that, the accounting officer for a department, trading entity or constitutional institution:
 - a) must ensure that that department, trading entity or constitutional institution that has and maintains:
 - i) Effective, efficient and transparent systems of financial and risk management and internal control;
 - ii) A system of internal audit under the control and direction of an audit committee complying with and operating in accordance with regulations and instructions prescribed in terms of section 76 and 77
- 4.2 The Public Finance Management Act, No.1 of 1999, as amended stipulates in Section 77 that:
An audit committee-
 - a) must consist of at least three person of whom, in the case of department-
 - i) one must be from outside the public service;
 - ii) the majority may not be persons in the employ of the department, except with approval of the relevant treasury
 - iii) the chairperson may not be in the employ of the department;
 - b) must meet at least twice a year; and
 - c) may be established for two or more departments or institutions if the relevant treasury considers it to be more economical.
- 4.3 The Municipal Finance Management Act No. 56 of 2003 Section 166 stipulates that:
 - (1) Each municipality and each municipal entity must have an audit committee subject to subsection (6)
 - (2) An audit committee is an independent advisory body which must –
 - (a) advise the municipal council, the political office-bearers, the accounting officer and the management staff of the municipality, or the board of directors, the accounting officer and management staff of the municipal entity, 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 this 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 or municipal entity
- 4.4 Treasury Regulation 3.2.1 and 27.2.1 stipulates that the Accounting Officer must ensure that a risk assessment is conducted regularly to identify emerging risks of the institution.

A Risk management strategy, which must include a Fraud Prevention plan, must be used to direct Internal Audit effort and priority, and to determine the skills required of managers and staff to improve controls and manage these risks.

5. AUDIT COMMITTEE TOOLKIT

5.1 Corporate Governance in the Public Sector

The corporate governance arrangements of an organisation are the means by which strategy is set and monitored, managers are held to account, risks are managed, stewardship responsibilities are discharged and viability is ensured.

Organisations are increasingly recognising that good governance is the structural basis for achieving fundamental policy goals. As well as being a key element in improving efficiency and effectiveness within an organisation, corporate governance is one of the primary means by which a set of relationships is established between an organisation's management, its governing body and its stakeholders. There is a clear benefit to Departments, Municipalities and Entities in adopting effective frameworks of corporate governance.

If corporate governance is effective, the Public Sector Institution can flourish and, in this context, external stakeholders can rely on that Public Sector Institution. Good governance enables self-regulation and minimises the need for external regulation.

Opportunities for Public Sector Institution to demonstrate the effectiveness of their corporate governance arrangements include:

- publishing reports or reviews of corporate governance,
- publishing a statement of internal control that describes an effective system of risk management, control and governance, demonstrating that all key risks have been identified and managed,
- publishing with the financial statements a corporate governance controls assurance statement incorporating the statement on internal control,
- arranging for, and paying due heed to, the work of effective internal and external auditors.

5.2 Benefits of Audit Committee

Effective audit committees can bring many benefits to the public sector and these benefits are described as:

- raising greater awareness of the need for internal control and the implementation of audit recommendations,
- increasing public confidence in the objectivity and fairness of financial and other reporting,
- reinforcing the importance and independence of internal and external audit and any other similar review process (for example, providing a view on the Statement on Internal Control), and
- providing additional assurance through a process of independent and objective review.

Effective internal control and the establishment of an audit committee can never eliminate the risks of serious fraud, misconduct or misrepresentation of the financial position. However, an audit committee can:

- give additional assurance through a process of independent and objective review, and
- raise awareness of the need for sound control and the implementation of recommendations by internal and external audit.

5.3 Requirements and expectations of having an Audit Committee

There is a legislative requirement for all Public Sector Institutions to establish an audit committee. Audit committees are ever more widely recognised across the public and private sectors, and internationally, as a core component of effective governance.

Good corporate governance requires independent, effective assurance about both the adequacy of corporate, operational and financial management and reporting, and the management of other processes required to achieve the organisation's corporate and service objectives. Effective audit committees help raise the profile of internal control, risk management and financial reporting issues within an organisation, as well as providing a forum for the discussion of issues raised by internal and external auditors.

It is believed that these functions are best delivered by an audit committee separate from executive functions. The audit committee must also have a clear right of access to full authority, and other authority groups and committees as appropriate. Throughout the wider public sector, experience and best practice indicates that separating audit committees from the executive is the obvious way in which its independence can be guaranteed. The role of scrutiny is to review policy and challenge whether the executive has made the right decisions to deliver policy goals. This is different from the role of the audit committee which exists to provide independent assurance that there are adequate controls in place to mitigate key risks and to provide assurance that the authority, including the scrutiny function, is operating effectively. That said, an audit committee's judgments might well be informed by the results of scrutiny activity within the Public Sector Institution. Both audit committees and the scrutiny function deal with complex matters, sometimes requiring specialist knowledge and advice.

5.4 Responsibilities of Audit Committees

The primary responsibilities of an audit committee usually include oversight of the following:

- Open communication between the audit committee, management, internal auditor and external auditor;
- Internal accounting controls to safeguard assets, ensure compliance and avoid fraud;
- Budget and finance matters;
- Quality and timely financial and compliance reporting;
- The annual audit process;
- Reporting to the Executive Authority, Council and /or Accounting Authority.

Refer to **Annexure A** for detailed information regarding the above oversight responsibilities.

5.5 Recommended Skills for Audit Committee members

The Committee should be comprised of individuals with a combination of the talents listed below, the most relevant being an appropriate level of financial literacy:

- Professional certification in accounting and auditing,

- Past experience in finance or accounting at a significantly high level of responsibility,
- Legal background,
- I.T. background, or
- Other comparable experience or background which results in an appropriate level of financial sophistication;
- Ability and willingness to ask probing questions about operating and compliance risks financial matters, I.T. and other matters pertaining to the institution,
- Independence in attitude,
- Sector experience,
- Willingness to participate actively in the audit committee process, etc.

5.6 Eight best practices for Audit Committees

5.6.1 Written Charter

Create and adhere to a written charter that identifies the audit committee functions, authority and responsibilities and the skills and experience its members must possess for the audit committee to discharge its duties and function effectively.

One of the charter's most important functions is its record of the various powers and authorities the audit committee must possess, independent of the institution's senior management. The audit committee should be free to obtain the information it needs to assess adherence to rules, regulations and the organization's core values. An audit committee that has adequate authority to ask appropriate questions and get informative answers is in a better position to provide useful commentary and recommend necessary action.

Refer to **Annexure B** for a generic Audit Committee Charter.

5.6.2 Critical success factors

Specify critical success factors as competencies audit committee members must possess for the committee to discharge its duties and function effectively.

Audit committee members stay abreast of the latest developments relating to accounting rules, legislation, industry and the organisation.

5.6.3 Committee core values

Identify the audit committee core values that reflect those of the organization and establish written procedures that foster open communication, equitable dispute resolution and active participation by all audit committee members.

Audit committees need to encourage mutual respect and cooperative interaction with auditors and the organisation's staff and senior management.

The audit committee should also identify priorities for the institution's audit team and oversee the evaluation of the personnel, quality, frequency and scope of the organisation's financial and internal audit functions. The chairperson also must prepare the committee for significant challenges, whether relatively new, like understanding enterprise risk management and its corporate governance implications, or longstanding and growing, such as the struggle to build and retain a high quality staff of financial professionals.

5.6.4 Working relationships

Reserve the right to invite any group or individual to an audit committee meeting.

The chairperson must establish regular communications with the Executive Authority, Council or Accounting Authority and senior managers to obtain their views on what the audit committee should focus on and keep them apprised of audit committee activities. In his/her view, the closest relationship the chairperson should have is with the head of internal audit.

5.6.5 Committee agenda

Ensure all members actively participate in setting the committee agenda, and whenever possible avoid conducting audit committee business between meetings.

It is essential that the audit committee create a schedule of meetings for the coming year, including an agenda for each meeting.

5.6.6 Processes and procedures

Formulate decision-making processes and procedures for resolving stalemates.

Audit committee members have to agree to some ground rules, which should relate back to the charter. All audit committees are unique, and so is each institution's culture.

5.6.7 Previous meeting highlights

At the beginning of each meeting, review the previous meeting's highlights.

In addition to highlighting results from previous meetings, the audit committee should start by reviewing the institution's written organisational vision, core values and critical success factors.

5.6.8 Summarising

At the end of each meeting, summarise it. After a meeting is over, each member should have a common understanding of key aspects of the meeting without referring to notes or minutes. For this purpose, summarise key decisions, actions to be taken, who will perform them and when, and the expected results.

Require each meeting attendee to specify what aspects of the meeting he or she felt was successful or helpful and what requires improvement. Discuss whether the institution's vision and objectives are being fulfilled. In addition, the audit committee members should encourage each other to organise and share in writing any thoughts they have following the meeting that would be helpful to the audit committee.

5.6.9 Audit Committee self-assessment checklist

A structured and formal assessment of an audit committee's performance can help to ensure the audit committee delivers on its mandate and enhances continuously its contribution to the institution.

Refer to **Annexure C** for the self-assessment checklist.

6. REVIEW

This Manual will be reviewed every three years or as and when a need arises.

7. ANNEXURES

- A: Responsibilities of Audit Committees**
- B: Generic Charter for Audit Committees**
- C: Self-Assessment Checklist**

Approved:



MS GUGU MASHITENG
ACTING HEAD: PROVINCIAL TREASURY
DATE: 24/10 /2019

RESPONSIBILITIES OF AUDIT COMMITTEES

1. OPEN COMMUNICATION BETWEEN THE COMMITTEE, MANAGEMENT, INTERNAL AUDITOR AND EXTERNAL AUDITOR

The Committee should take a leadership role in establishing open and straightforward communications between the Committee and both management and the auditor. The Committee relies heavily on open and timely communication so that it may address issues in a thorough and expeditious manner. Both management and the auditor need to believe they have the ear of the Committee and that their concerns will be listened to and addressed on a timely and thorough basis.

The following are ways to stimulate open communication:

- a) Establish clear expectations of the type of proactive communication expected by the Committee, including issues, significant new developments and ideas.
- b) The Committee chairperson should periodically schedule separate meetings with management and the auditor to discuss issues, new developments and ideas.
- c) Consider the need for quarterly joint meetings or conference calls with management and the auditor. These meetings can be brief and designed to keep everyone informed of progress and any new issues.
- d) Required face-to-face meetings with management and the auditor both before year-end and after the auditor completes fieldwork and in some cases during the audit process.

2. INTERNAL ACCOUNTING CONTROLS TO SAFEGUARD ASSETS, ENSURE COMPLIANCE AND AVOID FRAUD

It is imperative that the Committee determine annually that the organization has an effective and efficient system of internal accounting and administrative controls in place to safeguard assets, ensure compliance, and to prevent and detect fraudulent activities.

The following procedures are best practice ideas to help the Committee determine that strong internal accounting controls are in place:

- a) Determine that there is an appropriate “tone at the top” of the organization which indicates the importance of sound operating ethics and business practices. This can be determined by reviewing the organization’s code of conduct and management’s internal and external communications, by assessing the quality of financial, compliance and other communications the Committee has received from management, by observing management attitudes and by interviewing financial and program management and the external auditor.
- b) Determine that the organization’s financial and program personnel have an adequate level of competency and experience and the depth of resources to perform their function effectively and efficiently. The competency, experience and integrity of the CFO/controller/administrator is a significant factor in determining the quality of controls in the organization. This assessment may include one or more of the following steps:
 - Make an assessment of the complexity of the organization and the financial competency, experience and attitude of the Accounting Officer and executive

management. This will help determine the level of sophistication and backbone that is needed in the top financial management position in the organization.

- Obtain the job description and biography of the Accounting Officer and executive management to make an assessment of whether a gap exists between their skills compared to the skill level you believe is required.
- Consider calling references to determine whether an adequate level of experience exists in the Accounting Officer and executive management.
- Discuss the competency of the Accounting Officer and executive management with the external auditor to obtain their views of the strengths and weaknesses of the individuals.
- Obtain and read the job evaluations and the current personal development plan of the Accounting Officer and executive management. The Committee should provide input to the annual personal development and training programs for the Accounting Officer and executive management.
- Obtain an understanding of the organization's key performance indicators and the processes used to measure actual results against these indicators. These indicators may provide an early warning that internal control problems are occurring.
- Obtain a communication (either verbal or written) from the auditor addressing the organization's system of internal accounting and administrative controls. Most audit firms will provide a letter addressing any known significant reportable conditions. The Committee should discuss with the auditor the significance of any reportable conditions or material weaknesses, the risk of exposure to the organization and the auditor's thoughts on how to cost-effectively remedy the exposure.

3. BUDGET AND FINANCE MATTERS

Budgeting is an important element of the financial planning, control and evaluation processes for almost all governmental entities and most non-profit organizations.

Listed below are a few ideas on how to assess the proposed budget:

- a) Assess the quality and accuracy of the organization's previous budgets. Is the organization usually able to achieve budgeted results? If not, where are the problem areas and why are these a problem?
- b) Obtain a thorough understanding of the organization's process to develop its annual budget. The Committee can gain a lot of insight by understanding the quality and thoroughness of the organization's process. The best way to obtain this understanding is to have the CFO walk the Committee through the process.
- c) Obtain an understanding of the methodology used to project the significant cost items in the budget. These usually include fixed facilities costs and head counts. In particular, it is important to see that there is an appropriate level of research, detail and assessment regarding these numbers.
- d) Obtain an understanding from management of the most difficult estimates in the budget and the process used to make such estimates.
- e) Obtain an understanding of the key objectives and new initiatives or programs of the organization for the year and the related costs to develop and implement those items.
- f) Obtain an understanding of planned efficiencies and other cost cuts. It is important that the process include a periodic re-evaluation of activities so that low value and inefficient activities can be addressed or eliminated on a timely basis.
- g) Obtain a reconciliation of the major changes between last year's actual (or forecasted) results and the new year's budgeted results.

- h) Obtain an understanding of the capital budget items. Including considering any alternatives to construction or purchase.
- i) Obtain an understanding of management's process to monitor actual vs. budgeted results and how corrective action is identified and implemented.
- j) Obtain an understanding of any regulatory or contractual requirements concerning the preparation, submission, monitoring and compliance with the annual budget.

4. QUALITY AND TIMELY FINANCIAL AND COMPLIANCE REPORTING

Another key objective of the Committee is to ensure that the organisation is providing quality and timely financial information to internal and external users. Obviously, the organisation's financial statements are the most significant component of these disclosures. However, there may be other important components of the organisation's financial communications, including written reports to the Executive Authority, Provincial Treasury and other oversight bodies.

The following thoughts are presented to help the Committee assess the quality and timeliness of financial information provided by the organisation:

- a) Obtain an understanding of the financial reports that the organisation issues internally and externally. This inventory can be obtained from the CFO and will help the Committee understand the full scope of the organisation's financial communications. Usually, there are no surprises in understanding this inventory, but sometimes there are unusual items on the list for which the Committee may have some indirect responsibility.
- b) Obtain an understanding of the timing that relevant financial reports are delivered to internal management and external users. Obviously, the timing of financial information is a key element to the relevancy of such information. The slow delivery of reports is a clear indicator that there are problems with the accounting and control system and/or the competency or depth of resources of the finance unit/department.
- c) Discuss the following items with the auditor:
- d) Obtain an understanding of the accounting principles used by the organisation. In particular, obtain an understanding of any new accounting policies selected by management or issued by National Treasury during the year
- e) Obtain an understanding of the significant accounting judgments and estimates that management must make in the preparation of its financial statements (i.e., bad debt, insurance claims or reserves)
- f) Also, obtain an understanding of the organisation's methodology in determining these estimates and whether the auditor believes management's estimates are reasonable and on the conservative or aggressive end of the acceptable range of the estimate.
- g) Obtain an understanding of the number and magnitude of the journal entries that the organisation was required to make in order for the financial statements to be prepared in accordance with generally recognised accounting principles.

5. THE ANNUAL AUDIT PROCESS

The following minimum process to be followed by the Committee with respect to the annual audit of the organisation's financial statements is recommended:

Ensure that the auditor, financial management and the Committee have maintained an open channel of dialog to discuss issues and concerns during the year including corrective action taken with respect to prior audit findings.

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Investigate any matter brought to the Committee's attention within the scope of its duties, with the power to retain outside counsel for this purpose if, in its judgment, that assistance is appropriate.

The Committee should meet with management and the auditor well in advance of year-end to discuss the following issues:

- a) Follow up on any significant prior year items that management or the audit firm was to address during the course of the year, such as compliance findings, internal control and management letter comments from the auditor.
- b) Understand any new professional standards that will affect the current year's audit and concur with management's proposed handling of such matters. The auditor should provide the Committee with summaries or copies of the relevant professional standards to help the Committee members understand the changes and the related effects on the financial statements.
- c) Understand and concur with the proposed scope of the audit, including changes in the organisation's operations and programs or significant new issues affecting the organisation's financial statements in the current year and the auditor's thoughts on materiality with respect to the financial statements to be reported on. It is recommended that the Committee understand the audit approach on significant items in the financial statements, including the organisation's responsibility to provide access to information and other assistance and compliance requirements, as well as material judgments and estimates to be made by management. This meeting provides the Committee with an opportunity to direct the activities of the auditor to additionally address any specific areas of concern. It may be necessary to excuse management from a portion of the meeting to discuss these matters privately.
- d) Agree with the proposed timing of the engagement and deliverables, including the delivery of the audited financial statements, compliance and/or regulatory reports, any reports to the Committee relating to reportable conditions, required communications and other business advice.
- e) Understand the auditor's proposed staffing.
- f) Understand and concur with the auditor's arrangement letter, including the proposed fees. It may be beneficial to excuse the auditor from a portion of the meeting to discuss management's views on the fee estimate, proposed arrangement letter or any other matters.
- g) Address any regulatory or oversight issues.
- h) Understand the extent of services provided by the audit firm to the organisation, including any tax and consulting services.

The Committee should request the CFO to periodically communicate the progress of the audit and whether any significant issues have been identified and the status of the resolution of such matters.

The Committee should meet with management and the auditor after the completion of fieldwork, but before the issuance of the final reports and letters, to discuss the results of the audit and the draft financial reports and related letters. The following matters should be discussed:

- a) Obtain an assessment from the auditor of reportable control conditions or material weaknesses in internal controls.
- b) Obtain an understanding from management of major variances in the financial statements from last year and from budget, if relevant. This will help the Committee

ANNEXURE A

- understand what is happening to the organisation's financial condition, results of operations and cash flows.
- c) Obtain an understanding of changes in the significant accounting estimates in the organisation's financial statements, the relative conservatism of such estimates and the effect of changes in these estimates on the organisation's financial statements.
 - d) Obtain an understanding of the significant audit adjustments made and any significant passed adjustments at year-end.
 - e) Discuss the auditor's observations and suggestions regarding the organisation's compliance with laws, regulations and agreements, internal controls and other business suggestions.
 - f) The Committee should excuse management for a portion of the meeting to discuss the following items with the auditor:
 - Any concerns regarding compliance with the organisation's code of conduct.
 - Any significant concerns in the accounting policies or the application of accounting principles. In particular, obtain the auditor's views of the appropriateness, not just the acceptability, of the organisation's accounting principles and the clarity of the financial disclosure practices.
 - Any concerns regarding management's estimates and judgments.
 - Any concerns about audit adjustments made or passed.
 - Any concerns about specific compliance findings.
 - Any concerns about related party transactions or conflicts of interest.
 - Any significant disagreements with management during the audit process.
 - Any difficulties in completing the audit, including the ability to obtain satisfactory audit evidence and the level of cooperation and preparedness of the organisation.
 - Any concerns about the quality of financial disclosures.
 - Any special items the Committee asked the auditor to address during the planning meeting.
 - The anticipated fees for the engagement relative to the amount agreed to in the arrangement letter.
 - The competency of the CFO/controller/administrator/etc. and other finance unit/department personnel. In particular, obtain any suggestions the auditor may have to enhance the skills and experience of the individuals.
 - Any other matters the auditor would like to discuss with the Committee.
 - The Committee should excuse the auditor for a portion of the meeting to discuss the following with management:
 - ✓ Did the auditor provide the staffing agreed to in the planning meeting?
 - ✓ Did the auditor perform the engagement professionally, effectively and efficiently?
 - ✓ Does management disagree with any of the comments made by the auditor, including instances of noncompliance and the quality of internal controls, estimates, accounting policies and disclosures?
 - ✓ Does management have any comments about the business advice comments provided to management?
 - ✓ Are there any issues that suggest that the audit firm needs to improve their service or that suggest the audit firm should be replaced?
 - ✓ Are there any fee issues or concerns that have been or should be addressed with the auditor?
 - ✓ Any other matters management would like to discuss with the Committee.

6. REPORTING TO THE EXECUTIVE AUTHORITY / ACCOUNTING AUTHORITY

The Committee chairperson should work with the Executive Authority /Accounting Authority to determine what should be reported, when it should be reported and who should make such a presentation.

The Committee may also request management and/or the auditor to discuss the following issues with the Executive Authority / Accounting Authority :

- a) Summary of changes in the financial statement items from last year and/or budget and the major reasons for those changes.
- b) Summary of the results of the key performance indicators, the reasons for any material changes and, where appropriate, the corrective action being taken by management.
- c) Significant business risks of the organisation and how management controls such risks.
- d) Significant internal control exposures and how management intends to reduce or eliminate those exposures.
- e) Significant compliance findings and related corrective action plans.
- f) The organisation's short- and long-term financing plan and how any shortfalls are being addressed by management.

AUDIT COMMITTEE CHARTER

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1. INTRODUCTION

There is increasing pressure for public officials to demonstrate a high level of accountability over the use of public funds. One means of demonstrating this and indeed ensuring a higher quality of services is through effective internal control, and more specifically, through the establishment of Audit Committees.

The establishment of an audit committee is a statutory requirement for some organisations. As a matter of leading practice, the governing body of any organisation that issues audited financial statements should consider establishing an audit committee, the role which should be to provide independent oversight of, among other:

- a) the effectiveness of the organisation's assurance functions and services, with particular focus on combined assurance arrangements, including external assurance service providers, internal audit and the finance function, and
- b) the integrity of the annual financial statements and, to the extent delegated by the governing body, other external reports issued by the organisation.

An Audit Committee is recognised as an integral part of modern control structures and governance practices both in the private and public sectors. The Public Finance Management Act (PFMA), No. 1 of 1999 and the Municipal Finance Management Act (MFMA), No. 56 of 2003, have made it compulsory for all National and Provincial Government Departments as well as Municipalities and Public Entities to set up Audit Committees.

This Charter sets out the specific responsibilities delegated by the Accounting Officer to the Audit Committee and details the manner in which the Audit Committee will operate

2. DEFINITIONS AND ABBREVIATIONS

2.1 Definitions:

"Accounting Authority" means the Board of a Public Entity.

"Accounting Officer" means the Head of a Department, the CEO of a Public Entity and the Municipal Manager of a Municipality.

"Audit Committee" means the Committee appointed in terms of Section 38(1)(a)(ii) of the Public Finance Management Act, No. 1 of 1999 and Section 166(1) of the Municipal Finance Management Act, No. 56 of 2003.

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2.2 Abbreviations:

MFMA : Municipal Finance Management Act, 2003 (Act No. 56 of 2003)
PFMA : Public Finance Management Act, 1999 (Act No. 1 of 1999)

3. AUTHORITY OF THE AUDIT COMMITTEE: DEPARTMENTS AND PUBLIC ENTITIES

In terms of Section 38 of the Public Finance Management Act No.1 of 1999, Accounting Officers have to comply with the compulsory establishing of an effective Internal Audit Function, and an Audit Committee to monitor the scope and effectiveness of the Internal Audit function in the Department or Public Entity.

The Audit Committee of the Department / Public Entity is established and independently constituted in terms of section 38(1)(a)(ii) and 77 of the PFMA and section 3.1 of the Treasury Regulations.

The Audit Committee is hereby authorised to perform the function as described in this charter. In carrying out this mandate the Audit Committee is authorised to have full, free and unrestricted access to all the Department's / Public Entity's activities, records, property and staff.

The management authorises the Audit Committee within the scope of its responsibility to:

- a) Seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Audit Committee; and
- b) Obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary. Any such appointments should be made subject to the approval of the Accounting Officer.

4. AUTHORITY OF THE AUDIT COMMITTEE: MUNICIPALITIES AND MUNICIPAL ENTITIES

In terms of Section 166 of the Municipal Finance Management Act, No.56 of 2003, Accounting Officers have to comply with the compulsory establishing of an effective Internal Audit Function, and an Audit Committee to monitor the scope and effectiveness of the Internal Audit function in the Municipality or Municipal Entity.

The Audit Committee of the Municipality / Municipal Entity is established and independently constituted in terms of section 166 of the MFMA.

The Audit Committee is hereby authorised to perform the function as described in this charter. In carrying out this mandate the Audit Committee is authorised to have full, free and unrestricted access to all the Municipality's / Municipal Entity's activities, records, property and staff.

The management authorises the Audit Committee within the scope of its responsibility to:

- a) Seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Audit Committee; and
- b) Obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary. Any such appointments should be made subject to the approval of the Accounting Officer.

5. STATUS OF THE AUDIT COMMITTEE

The Audit Committee has non-executive status in an advisory capacity to the Accounting Officer. Under no circumstances will the Audit Committee have executive powers with regard to its findings and recommendations on any operational aspects of the management and control of the Department / Public Entity / Municipality / Municipal Entity. However, the powers of the Audit Committee shall not be limited in any way, which would prevent it from properly performing its duties. Furthermore, the Audit Committee shall have unrestricted access to records and employees to obtain information needed to perform its duties.

6. RESPONSIBILITIES OF THE AUDIT COMMITTEE

6.1 Responsibilities related to management

The Audit Committee should assist management in carrying out its responsibilities as they relate to the Department / Public Entity / Municipality / Municipal Entity:

- a) Financial, management and other reporting practices;
- b) Internal controls and management of risks;
- c) Compliance with laws, regulations and ethics.

6.1.1 Financial, management and other reporting practices

- a) To review and assess the adequacy of management reporting to the management in terms of the quantity, quality and timing of information necessary to understand and report internally and externally on the Department / Public Entity / Municipality / Municipal Entity's risks, operation and financial condition. This would mean that internal audit planning and procedures should make provision to monitor these departments / units.
- b) To review the Department / Public Entity / Municipality / Municipal Entity's accounting policies and practices in the light of the applicable statutory requirements and generally recognized / accepted accounting principles.
- c) Review significant transactions that do not normally form part of the Department / Public Entity / Municipality / Municipal Entity's business.

6.1.2 Internal controls and management of risks

The Audit Committee should understand the Department / Public Entity / Municipality / Municipal Entity's major risk areas including the financial, legal and fiscal risk and the internal control environment, and should monitor the control process and the adequacy of the Department / Public Entity / Municipality / Municipal Entity's systems of internal control by reviewing Internal and External Audit reports and:

- a) Be constantly aware of the current areas of the greatest financial risk and ensure management are effectively managing the risks;
- b) Ensure that effective systems of accounting and internal controls are established and maintained to manage financial risk;
- c) Satisfy itself as regards the integrity and prudence of management control systems, including the review of policies and/or practices;
- d) Ensure that management is aware of any matters that might have a significant impact on the financial condition or affairs of the Department / Public Entity / Municipality / Municipal Entity;

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- e) Monitoring the accomplishment of established objectives through the mission statement business plan and the transformation process.

The Audit Committee should ensure that the management of the Department / Public Entity / Municipality / Municipal Entity has the necessary mechanism 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 includes: -

- a) Review policy documents which should incorporate
 - Compliance with laws, regulations, ethics, and policies
 - Rules regarding conflict of interest
 - Disaster recovery plans
- b) Monitor the compliance with the above laws and regulations;
- c) Take note of significant cases of employee conflicts of interest, misconduct, or fraud and the resolution of the cases;
- d) Ensuring that this facet is covered in the Internal Audit plan;
- e) Reviewing the Internal Auditor's written report concerning the scope of review of compliance, any significant findings, and the resolution and follow-up on findings and recommendations;
- f) To monitor 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;
- g) To monitor developments and changes in the various rules, regulations and laws which relate generally to the Department / Public Entity / Municipality / Municipal Entity's operations and to monitor and review the extent to which the Department / Public Entity / Municipality / Municipal Entity is complying with such laws.

For these and informative purpose, all intended amendments and additions to policy, statutory frameworks and guidelines that impact on financial administration should be conveyed to the Audit Committee by management.

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

6.2 Responsibilities related to the Internal Audit Function

The Audit Committee should ensure that the Internal Audit function performs its responsibilities effectively and efficiently by the –

- a) Review and approval of the Internal Audit charter;
- b) Review of the organisational structure, competences and qualifications of the Internal Audit function;
- c) Review of the plans and budgets of the Internal Audit function. Ensure that the annual and three year rolling plan addresses the high-risk areas and that adequate resources are available;
- d) Review of the audit results and action plans of management;
- e) Request for audit projects;
- f) Review of the results of quality assurance reviews;
- g) Support for communication with Internal Auditors

The Audit Committee should ensure that Internal Audit work is co-ordinated with the external auditors to ensure there is no duplication of work.

The Audit Committee on a regular basis should appraise internal audit reports. These reports should also contain a section in which unsolved previous reported matters are to be described together with the reasons for the delay with attention/rectification.

6.3 Responsibilities related to the External Audit Function

The Audit Committee should also:

- a) Review the audit plan of the external auditors;
- b) Ensure that there are no restrictions or limitations placed on the auditors;
- c) Review audit results, quality and contents of financial information and action plans of management;
- d) Consider significant disagreements between External Auditors and management;
- e) Consider material unsolved accounting and auditing problems;
- f) Ensure direct access by the External Auditors, either to the Audit Committee and the Chairperson of the Audit Committee or Accounting Officer; and
- g) Ensure that the External Auditors are informed of all known risks to enable them to evaluate these risks for possible inclusion in their audit plan.

6.4 Reporting responsibilities

The Chairperson of the Audit Committee should report to the Accounting Officer all significant findings and concerns by the Internal Audit or the External Auditors.

The Audit Committee must report when necessary and make recommendations to the Accounting Officer, but the latter retains responsibility for implementing such recommendations.

The Audit Committee may communicate any concerns it deems necessary to the Executive Authority, Provincial Treasury or the Auditor-General if appropriate.

The Audit Committee must, in the Annual report of the institution comment on:

- a) The effectiveness of internal control.
- b) The quality of in year management and monthly reports submitted in terms of legislation.
- c) Its evaluation of the annual financial statements.
- d) Its independence in the execution of its duties and the adoption of its constituency.
- e) The functioning and effectiveness of Internal Audit

Should a report to an Audit Committee, whether from the internal audit or any other source, implicate the Accounting Officer in fraud, corruption or gross negligence, the chairperson of the Audit Committee must promptly report this to the relevant Executive Authority / Accounting Authority.

The main reporting function is in terms of internal audit performance and responsibilities. This should be based on the internal audit reports submitted to the Audit Committee, as well as the review of the internal audit function.

6.5 Responsibilities in respect of the appointment and discharge of the Head of Internal Audit

In the case of appointment and discharge of the Head of Internal Audit (in full time employment), the Audit Committee shall be involved in the relevant process.

6.5 Other responsibilities

The Audit Committee should report to the management/ Accounting Authority any matter identified during the course of carrying out its duties that it considers significant.

To perform or undertake on behalf of the management / Accounting Authority any such other tasks or actions as the management / Accounting Authority may from time to time authorise.

7. MEMBERSHIP OF THE AUDIT COMMITTEE

The Audit Committee will comprise of at least three members (as prescribed by the PFMA and the MFMA), with the majority of the members consisting of non-official members.

The following persons have standing invitations to all Audit Committee meetings:

- a) Accounting Officer;
- b) Head of Internal Audit;
- c) Chief Financial Officer
- d) An invitee from the Auditor-General / External Auditors;
- e) Risk Officer;
- f) Risk Management Committee Chairperson
- g) Provincial Treasury.

The Audit Committee may also invite such other persons, as it deems necessary.

The Department / Public Entity / Municipality / Municipal Entity shall provide a staff member to act as a Secretary. The Secretary shall circulate the minutes of the Audit Committee to all members of the Audit Committee.

The non-official members shall serve the Audit Committee for a period of three years renewable to maximum of three years reckoned from the date on which the non-official member actually assumes duty on the terms and conditions that will be mentioned in the contract. Cognizance must however be taken of the need for continuity.

The chairperson must have the ability to preside over meetings and to direct the discussion constructively. The independence of the chairperson will be beneficial for the Department / Public Entity / Municipality / Municipal Entity and his/her personal qualities are of great importance. Therefore, the chairperson must be from outside the Department / Public Entity / Municipality / Municipal Entity in order to bring a wide range of experience to the deliberations of the audit committee.

8. REMUNERATION OF THE AUDIT COMMITTEE

The Audit Committee will comprise of at least three members (as prescribed by the PFMA). Remuneration of committee members will be incorporated in a services contract with each member.

A member of the audit committee from outside the public sector is entitled to remuneration for attendance of meetings. In addition members are entitled to remuneration of up to two day's allowance (one day for preparation and one day for attendance) and the kilometres travelled at a rate, which may be determined from time to time by the Accounting Officer using guidelines issued by the National Department of Transport.

The current remuneration for the members of the audit committee of the Department / Public Entity / Municipality / Municipal Entity is in accordance with the rates as prescribed by National Treasury and should be affected to the remuneration benefits of Audit Committee members.

9. AUDIT COMMITTEE BENEFITS FOR A DEPARTMENT/ PUBLIC ENTITY/ MUNICIPALITY/ MUNICIPAL ENTITY

Certain benefits will accrue to the Department / Public Entity / Municipality / Municipal Entity, when the audit committee functions effectively. These include:

- a) Ensuring an independent internal audit function, which operates efficiently and effectively
- b) Ensuring compliance with the overall audit policy
- c) That risk management practices are applied
- d) That sound corporate governance practices are applied
- e) That the system of internal control is adequate and functioning effectively
- f) That fraud and corruption is being dealt with effectively
- g) Capacity building to staff members

10. AUDIT COMMITTEE MEETINGS

The Audit Committee should meet at least quarterly, or as often as necessary to ensure good corporate governance.

11. MEETING PROCEDURES

Before commencement of any meeting all audit committee members are requested to sign a declaration of interest document.

The chairperson may request any member of staff to attend any particular meeting.

Adequate notice in writing should be given to all members of the audit committee and other interested persons, of each meeting to be held. Normally meetings will be planned for the year ahead.

The quorum for a meeting should be 50 percent plus one of the formal members. If a quorum is not present at a meeting, the meeting may proceed with the understanding that it is subject to ratification by the ensuing audit committee meeting, which would require a proper quorum.

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If the chairperson is absent from a specific meeting, the members present need to elect a chairperson from the members present to act as chairperson of that meeting.

12. ADMINISTRATIVE RESPONSIBILITIES

The secretariat of the audit committee is responsible for arranging the meetings of the audit committee and the gathering and distribution of the agenda papers and minutes. Draft minutes of the meeting should be prepared for review by the chairperson of the audit committee within fourteen days after the meeting has been held. Copies of the revised minutes must be distributed to those who were present at the meeting, absent members, Accounting Officer and the Executive Authority.

13. RESPONSIBILITY TO REPORT TO EXECUTIVE AUTHORITY/ BOARD/ COUNCIL

Minutes will be made available to the Executive Authority following an 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 Executive Authority and EXCO / Council if so required. When members attend extra ordinary meetings, they will be remunerated at the same rates.

14. EVALUATION OF THE EFFECTIVENESS OF THE AUDIT COMMITTEE

It is the responsibility of the Chairperson in conjunction with the Internal Audit unit and the Office of the Auditor General to facilitate the evaluation of the effectiveness of the Audit Committee and to make any recommendations to improve its effectiveness, if necessary. The Audit Committee should periodically review the adequacy of the Audit Committee charter.

Refer to Annexure C to the Audit Committee Toolkit for the self-assessment checklist.

15. KING IV REQUIREMENTS

The establishment of an audit committee is a statutory requirement for some organisations. As a matter of leading practice, the governing body of any organisation that issues audited financial statements should consider establishing an audit committee, the role which should be to provide independent oversight of, among other:

- c) the effectiveness of the organisation's assurance functions and services, with particular focus on combined assurance arrangements, including external assurance service providers, internal audit and the finance function, and
- d) the integrity of the annual financial statements and, to the extent delegated by the governing body, other external reports issued by the organisation.

A statutory audit committee has the power to make decisions regarding its statutory duties, and is accountable for its performance in this regard. In addition to its statutory duties, the governing body may delegate other responsibilities to the audit committee, such as the approval of the annual financial statements, but the governing body remains ultimately accountable for such delegated responsibilities.

If the governing delegates risk governance to the audit committee, the audit committee should satisfy itself that it dedicates sufficient time to this responsibility.

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Whether or not the governance of risk is delegated to the audit committee, the audit committee should oversee the management of the financial and other risks that affect the integrity of external reports issued by the organisation.

The members of the audit committee should, as a whole, have the necessary financial literacy, skills and experience to execute their duties effectively.

All members of the audit committee should be independent, non-executive members of the governing body.

The governing body should appoint an independent, non-executive member to chair the audit committee.

The audit committee should meet annually with the internal and external auditors respectively, without management being present, to facilitate an exchange of views and concerns that may not be appropriate for discussion in an open forum.

The following should be disclosed in relation to the audit committee:

- a) A statement as to whether the audit committee is satisfied that the external auditor is independent of the organisation. The statement should specifically address:
 - the policy and controls that address the provision of non-audit services by the external auditor, and nature and extent of such services rendered during the financial year,
 - the tenure of the external audit firm and, in the event of the firm having been involved in a merger or acquisition, including the tenure of the predecessor firm,
 - the rotation of the designated external audit partner, and
 - significant changes in the management of the organisation during the external audit firm's tenure which may mitigate the attendant risk of familiarity between the external auditor and management.
- b) Significant matters that the audit committee has considered in relation to the annual financial statements, and how these were addressed by the committee.
- c) The audit committee's view on the quality of the external audit, with reference to audit quality indicators such as those that may be included in inspection reports issued by external audit regulators.
- d) The audit committee's views on the effectiveness of the chief audit executive and the arrangements for internal audit.
- e) The audit committee's views on the effectiveness of the design and implementation of internal financial controls, and on the nature and extent of any significant weakness in the design, implementation or execution of internal financial controls that resulted in material financial loss, fraud, corruption or error.
- f) The audit committee's view on the effectiveness of the CFO and the finance function.
- g) The arrangements in place for combined assurance and the committee's views on its effectiveness.

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16. APPROVAL

This Charter was approved by:

Designation	Signature	Date
Accounting Officer/Board Chairperson		
Chairperson of Audit Committee		

ANNEXURE C

AUDIT COMMITTEE SELF-ASSESSMENT CHECKLIST

Priority	Issue	Yes	No	N/a	Comments/action
Role and remit					
1	Does the audit committee have written terms of reference?				
1	Do the terms of reference cover the core functions of an audit committee?				
1	Are the terms of reference approved by the Accounting Officer and reviewed periodically?				
1	Has the audit committee been provided with sufficient membership, authority and resources to perform its role effectively and independently?				
1	Can the audit committee access other committees and management as necessary?				
1	Does the organisation's statement on internal control include a description of the audit committee's establishment and activities?				
2	Does the audit committee periodically assess its own effectiveness?				
2	Does the audit committee make a formal annual report on its work and performance during the year?				
Membership, induction and training					
1	Has the membership of the audit committee been formally agreed and a quorum set?				
1	Is the chair independent of the executive function?				
1	Has the audit committee chair either previous knowledge of, or received appropriate training on, financial and risk management, accounting				

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Priority	Issue	Yes	No	N/a	Comments/action
	concepts and standards, and the regulatory regime?				
1	Are new audit committee members provided with an appropriate induction?				
1	Have all members' skills and experiences been assessed and training given for identified gaps?				
1	Has each member declared his or her business interests?				
2	Are members sufficiently independent of the other key committees of the organisation?				
Meetings					
1	Does the audit committee meet regularly?				
1	Do the terms of reference set out the frequency of meetings?				
1	Does the audit committee calendar meet the authority's business needs, governance needs and the financial calendar?				
1	Are members attending meetings on a regular basis and if not, is appropriate action taken?				
1	Are meetings free and open without political influences being displayed?				
1	Does the audit committee have the benefit of attendance of appropriate officers at its meetings?				
Internal control					
1	Does the audit committee consider the findings of the annual review of the effectiveness of the system of internal control including the review of the effectiveness of the system of internal audit?				
1	Does the audit committee satisfy itself that the system of				

ANNEXURE C

Priority	Issue	Yes	No	N/a	Comments/action
	internal control has operated effectively throughout the reporting period?				
1	Has the audit committee considered how it integrates with other committees that may have responsibility for risk management?				
2	Is the audit committee made aware of the role of risk management in the preparation of the internal audit plan?				
2	Does the audit committee review the organisation's strategic risk register at least annually?				
2	Does the audit committee monitor how the organisation assesses its risk?				
2	Do the audit committee's terms of reference include oversight of the risk management process?				
Financial reporting and regulatory matters					
1	Is the audit committee's role in the consideration and/or approval of the annual accounts clearly defined?				
1	Does the audit committee consider specifically: <ul style="list-style-type: none"> the suitability of accounting policies and treatments major judgements made large write-offs changes in accounting treatment the reasonableness of accounting estimates the narrative aspects of reporting? 				
1	Is an audit committee meeting scheduled to receive the external auditor's report to those charged with governance including a discussion of proposed				

ANNEXURE C

Priority	Issue	Yes	No	N/a	Comments/action
	adjustments to the accounts and other issues arising from the audit?				
1	Does the audit committee review management's letter of representation?				
2	Does the audit committee gain an understanding of management's procedures for preparing the annual accounts?				
2	Does the audit committee have a mechanism to keep it aware of topical legal and regulatory issues, for example by receiving circulars and through training?				
Internal audit					
1	Does the audit committee approve, annually and in detail, the internal audit strategic and annual plans including consideration of whether the scope of internal audit work addresses the significant risks?				
1	Does internal audit have an appropriate reporting line to the audit committee?				
1	Does the audit committee receive periodic reports from the internal audit service including an annual report from the Head of Internal Audit?				
1	Are follow-up audits by internal audit monitored by the audit committee and does the committee consider the adequacy of implementation of recommendations?				
1	Does the audit committee hold periodic private discussions with the Head of Internal Audit?				
1	Is there appropriate cooperation between the				

ANNEXURE C

Priority	Issue	Yes	No	N/a	Comments/action
	internal and external auditors?				
1	Does the audit committee review the adequacy of internal audit staffing and other resources?				
1	Has the audit committee evaluated whether its internal audit service complies with IIA Standards?				
2	Are internal audit performance measures monitored by the audit committee?				
2	Has the audit committee considered the information it wishes to receive from internal audit?				
External audit					
1	Do the external auditors present and discuss their audit plans and strategy with the audit committee (recognizing the statutory duties of external audit)?				
1	Does the audit committee hold periodic private discussions with the external auditor?				
1	Does the audit committee review the external auditor's annual report to those charged with governance?				
1	Does the audit committee ensure that officers are monitoring action taken to implement external audit recommendations?				
1	Are reports on the work of external audit and other inspection agencies presented to the committee, including the Audit Commission's annual audit and inspection letter?				

ANNEXURE C

Priority	Issue	Yes	No	N/a	Comments/action
1	Does the audit committee assess the performance of external audit?				
1	Does the audit committee consider and approve the external audit fee?				
Administration					
Agenda management					
1	Does the audit committee have a designated secretary from Committee/Member Services?				
1	Are agenda papers circulated in advance of meetings to allow adequate preparation by audit committee members?				
2	Are outline agendas planned one year ahead to cover issues on a cyclical basis?				
2	Are inputs for Any Other Business formally requested in advance from committee members, relevant officers, internal and external audit?				
Papers					
1	Do reports to the audit committee communicate relevant information at the right frequency, time, and in a format that is effective?				
2	Does the audit committee issue guidelines and/or a proforma concerning the format and content of the papers to be presented?				
Actions arising					
1	Are minutes prepared and circulated promptly to the appropriate people?				
1	Is a report on matters arising made and minuted at the audit committee's next meeting?				
1	Do action points indicate who is to perform what and by when?				

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