



finance

Department:
Finance

MPUMALANGA PROVINCIAL GOVERNMENT



AUDIT COMMITTEE CHARTER

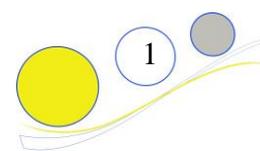


MPUMALANGA
A Pioneering Spirit

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.

According to King III an independent Audit Committee fulfils a vital role in corporate governance. The Audit Committee is vital to, amongst other things, ensure the integrity of integrated reporting and internal financial controls and identification and management of financial risk.

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) has made it compulsory for all National and Provincial Government Departments as well as Public Entities to set up Audit Committees.

2. Authority of the Audit Committee

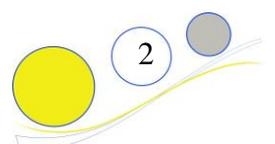
In terms of Section 38 of the Public Finance Management Act No.1 of 1999, Accounting Officers have to comply with the compulsory establishing of an effective Internal Audit Function, and an Audit Committee to monitor the scope and effectiveness of the Internal Audit function in the Department.

The Audit Committee of the Department is established and independently constituted in terms of section 38(1)(a)(ii) and 77 of the PFMA (Act 1 of 1999) 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 activities, records, property and staff.

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

- 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
- 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.

3. 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. 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.

4. Responsibilities And Duties Of The Audit Committee

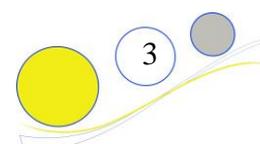
4.1. Responsibilities related to management

The Audit Committee should assist management in carrying out its responsibilities as they relate to the Department:

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

4.1.1 Financial, management and other reporting practices

- 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's risks, operation and financial condition. This would mean that internal audit planning and procedures should make provision to monitor these departments.
- To review the Department's accounting policies and practices in the light of the applicable statutory requirements and generally accepted accounting principles.
- Review significant transactions that do not normally form part of the Department's business.



4.1.2 Internal controls and management of risks

The Audit Committee should understand the Department'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's systems of internal control by reviewing Internal and External Audit reports and:

- Be constantly aware of the current areas of the greatest financial risk and ensure management are effectively managing the risks;
- Ensure that effective systems of accounting and internal controls are established and maintained to manage financial risk;
- Satisfy itself as regards the integrity and prudence of management control systems, including the review of policies and/or practices;
- Ensure that management is aware of any matters that might have a significant impact on the financial condition or affairs of the Department;
- Monitoring the accomplishment of established objectives through the mission statement business plan and the transformation process.

4.1.3 Compliance with laws, regulations and ethics

The Audit Committee should ensure that the management of the Department 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: -

- Review policy documents which should incorporate
 - Compliance with laws, regulations, ethics, and policies;
 - Rules regarding conflict of interest;
 - Disaster recovery plans;
- Monitor the compliance with the above laws and regulations;
- Take note of significant cases of employee conflicts of interest, misconduct, or fraud and the resolution of the cases;
- Ensuring that this facet is covered in the Internal Audit plan;
- 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;

- 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;
- To monitor developments and changes in the various rules, regulations and laws which relate generally to the Department's operations and to monitor and review the extent to which the Department 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.

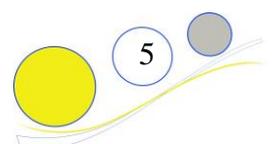
4.2. Responsibilities related to the Internal Audit Function

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

- Review and approval of the Internal Audit charter;
- Review of the organisational structure, competences and qualifications of the Internal Audit function;
- 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;
- Review of the audit results and action plans of management;
- Request for audit projects;
- Review of the results of quality assurance reviews;
- 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.



4.3. Responsibility related to the External Audit Function

The Audit Committee should also:

- Review the audit plan of the external auditors;
- Ensure that there are no restrictions or limitations placed on the auditors;
- Review audit results, quality and contents of financial information and action plans of management;
- Consider significant disagreements between External Auditors and management;
- Consider material unsolved accounting and auditing problems;
- Ensure direct access by the External Auditors, either to the Audit Committee and the Chairperson of the Audit Committee or Accounting Officer;
- 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;

4.4. 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.

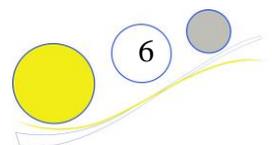
The Audit Committee must report when necessary and make recommendations to the Accounting Officer, but the latter retains responsibility for implementing such recommendations.

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 the PFMA and the Division of Revenue Act.
- (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.

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.

4.5. 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.

4.6. Other Responsibilities

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

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

5. Membership Of The Audit Committee

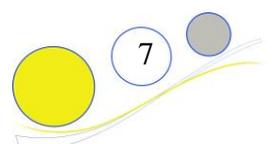
The Audit Committee will comprise of at least three members (as prescribed by the PFMA), with the majority of the members consisting of non-official members.

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

- The Accounting Officer;
- The Head of Internal Audit
- The Chief Finance Officer
- An invitee from the Auditor-General / External Auditors
- Provincial Treasury representative ;

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

The Department 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 members shall serve the Audit Committee for a period of three years with an option to renew every year from the date on which the member actually assumes duty on the terms and conditions that will be mentioned in the contract.

The members should not be contracted continuously for a period exceeding six years. After serving continuously for six years, a cooling period of two years should be allowed before appointing the same member to the same Audit Committee.

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 and his/her personal qualities are of great importance. Therefore, the chairperson must be from outside the Department in order to bring a wide range of experience to the deliberations of the Audit Committee.

6. Remuneration Of Audit Committee Members

Remuneration of Audit 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 payment of the kilometre travelled at a rate, which maybe 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 is in accordance with paragraph 20.2.2 of the Treasury Regulation.

These rates are reviewed annually by National Treasury and should be affected to the remuneration benefits of Audit Committee members.

7. Audit Committee Benefits

Certain benefits will accrue to the Department, when the Audit Committee functions effectively. These include:

- Ensuring an independent internal audit function, which operates efficiently and effectively

- Ensuring compliance with the overall audit policy
- That risk management practices are applied
- That sound corporate governance practices are applied
- That the system of internal control is adequate and functioning effectively
- That fraud and corruption is being dealt with effectively
- Capacity building to staff members

8. Audit Committee Meetings

In terms of section 77 of the PFMA the Audit Committee should meet at least twice a year, however this Audit Committee should meet at least quarterly, or as often as necessary to ensure good corporate governance.

8.1. 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.

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.

8.2. Responsibility for the agenda and the distribution of the minutes

The secretary 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.

9. Responsibilities For Reporting To The Executive Authority

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 if so required. When members attend extra ordinary meetings, they will be remunerated at the same rates.

10. 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.

11. King III Requirements for Audit Committees

The following are requirements specifically addressed in the King III reports and are noted separately on the Audit Committee charter:

- The accounting officer should set up an independent Audit Committee, which must operate in terms of written terms of reference.
- The accounting officer appoints Audit Committee members in consultation with the relevant executive authority.
- The Audit Committee is also required to meet at least twice a year, and to meet at least annually with the Auditor-General to ensure that there are no unresolved issues.
- The Audit Committee also meets annually with Internal Audit without management.
- The chairperson should be independent, knowledgeable of the status and position, and have the requisite business, financial and leadership skills. The chairperson may not be in the employ of the institution.
- The Audit Committee should be provided with the resources it needs to fulfil its responsibilities.
- The Audit Committee should oversee integrated reporting and include management reports and compliance issues, including sustainability reporting.

- The Audit Committee coordinates the assurance activities of internal audit, external audit, other assurance providers and management.
- The Audit Committee should satisfy itself of the expertise, resources and experience of the finance function.
- The Audit Committee reviews the effectiveness of internal audit as well as its annual work programme.
- The Audit Committee reviews the key areas of risk to be covered by internal and external audit. The strategic internal audit plan should be based on key areas of risk facing the institution, and take into account its risk management strategy.
- The Audit Committee reviews the scope and independence and objectivity of the external audit.
- The Audit Committee is required to in the department’s annual report include a disclosure of whether the Audit Committee has satisfied its responsibilities for the year, in compliance with its terms of reference.

12. Approval of the Audit Committee Charter

Recommended by:

Designation	Signature	Date
Chairperson of Audit Committee		

Approved by:

Designation	Signature	Date
Accounting Officer		