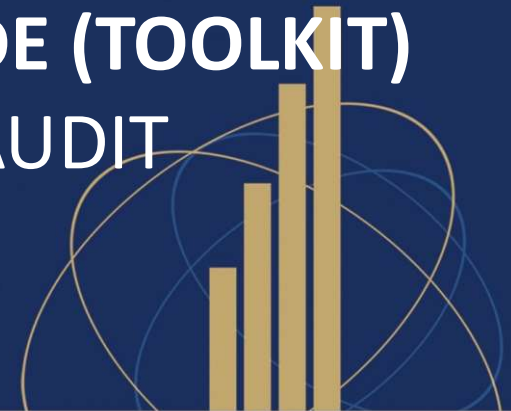




AUDIT COMMITTEE MANUAL AND GUIDE (TOOLKIT) STRENGTHENING GOVERNANCE WITHIN AUDIT COMMITTEES

Presented by: Nkululeko Gasa

Date: 06 March 2024



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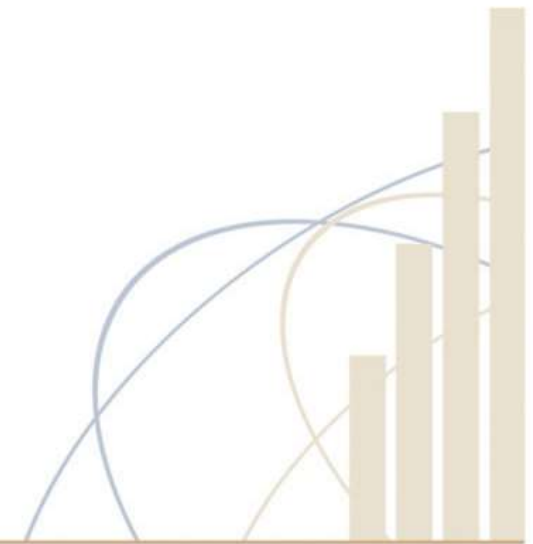
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Content



- REASON FOR THIS PROJECT
- PROJECT SPONSORS AND STAKEHOLDERS
- INTRODUCTION TO THE MANUAL
- USE OF THE MANUAL AND ANNEXURES
- USE OF TEMPLATES AND TOOLS
- ASSESSMENT PROCESS





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Reason for this Project

In executing its functions and fulfilling its obligations, the Council of a Municipality is assisted by various functions within the **governance structure** of the Municipality or Municipal Entity. One such function is the **Audit Committee**. The requirements of the legislation make the composition of Audit Committees an essential consideration.

The aim of this Guide and Tool Pack is to provide guidance on the operation of the Audit Committees of municipalities and municipal entities operating under *the Municipal Finance Management Act, Act 53 of 2003*.

The Guide is intended as a reference document for

- Councils/Boards,
- Municipal Managers,
- Chief Executive Officers,
- members of Audit Committees and
- senior managers with responsibility for Audit Committee activities.

This guide should be read and used together with the Municipal Public Accounts Committees (MPAC) Guide and Toolkit.



PROJECT SPONSORS AND STAKEHOLDERS



- Contract Authority: The Office of the Accountant General, the National Treasury, the Government of the Republic of South Africa
- Contract Sponsor: European Union



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

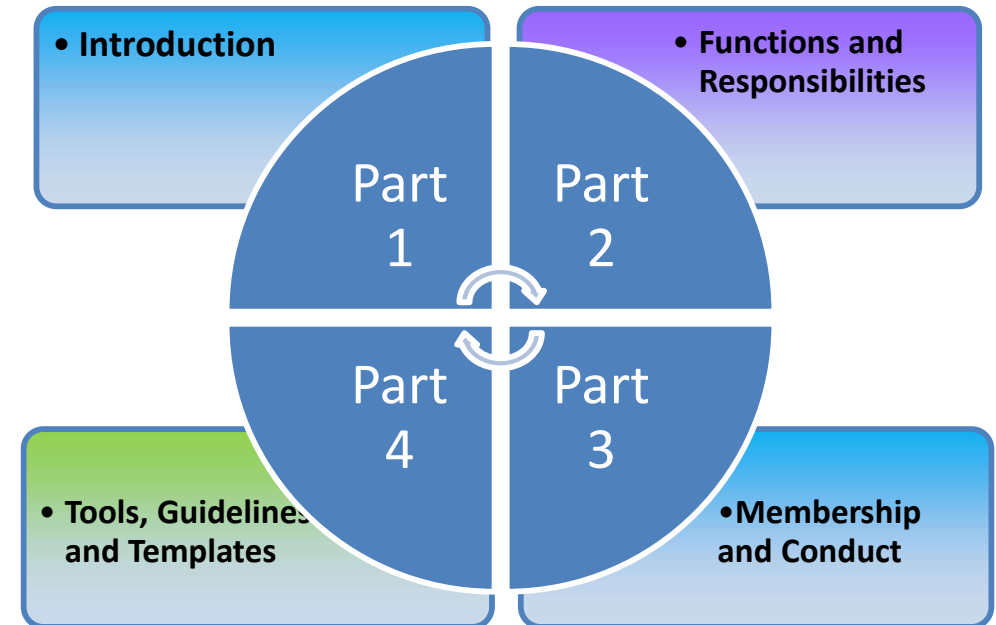


INTRODUCTION TO THE MANUAL and TOOL PACK



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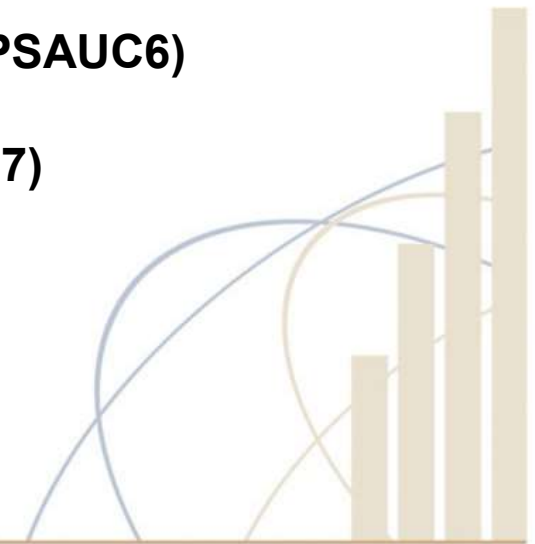
- Introduction
- The Audit Committee's Functions and Responsibilities
- Membership of the Audit Committee
 - Audit Committee Relationships with Key Stakeholders
 - Conduct of the Audit Committee
 - Assessment of the Audit Committee's Performance
- Tools, Guidelines and Templates



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MUNICIPAL AUDIT COMMITTEE MANUAL / GUIDE - 2023

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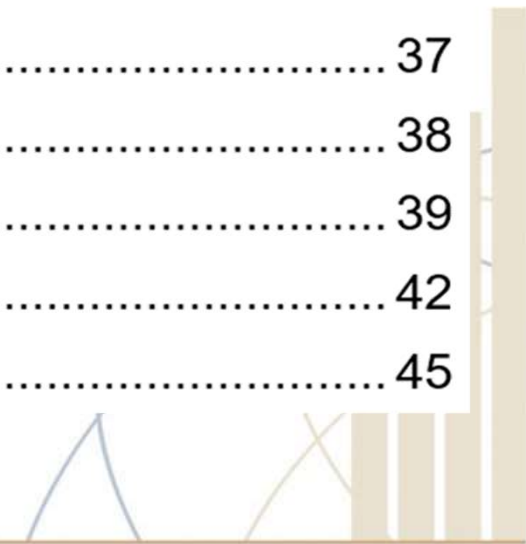


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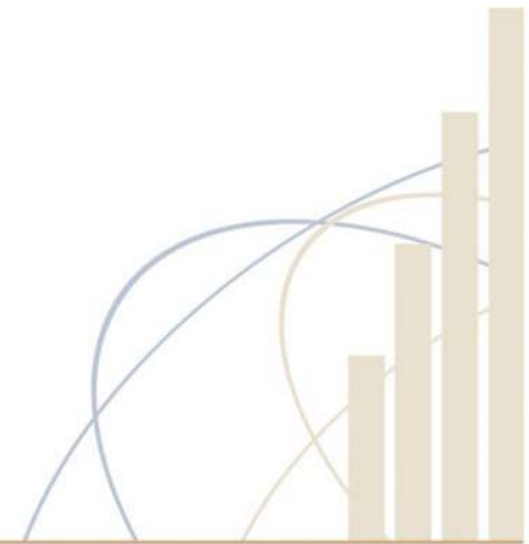
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SUPPORTING AND GUIDING DOCUMENTS



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DOCUMENT NAME	DOCUMENT NUMBER
Audit Committee Terms of Reference/Charter - MFMA	PSAUC1
Audit Committee Work Plan	PSAUC2
Audit Committee Induction Pack	PSAUC3
Internal Audit Charter Template	PSAUC4
Audit Committee Self-Assessment Template	PSAUC5
Audit Committee Competency Framework	PSAUC6
Audit Committee Guide / Manual	PSAUC7
Internal Audit Effectiveness Assessment	PSAUC8
Audit Committee Assessment of the Finance Function	PSAUC9

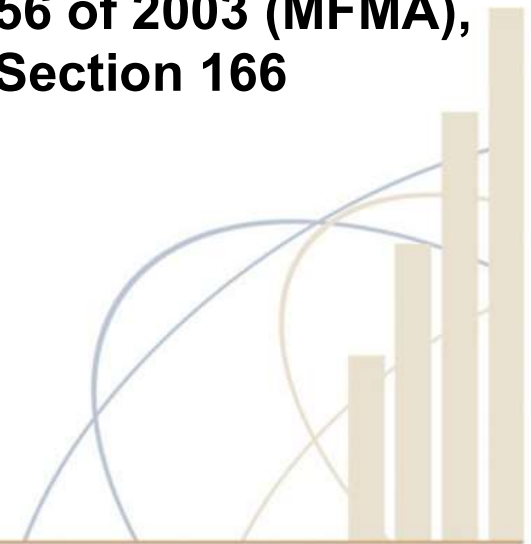
The Audit Committee's Functions and Responsibilities



- Internal Controls
- Internal Audit
- Risk Management
- Financial Statements
- Performance Management
- Effective Governance
- Compliance Requirements
- Other Responsibilities
 - External Audit
 - Combined Assurance

Functions and Responsibilities

**Municipal Finance Management
Act No 56 of 2003 (MFMA),
Section 166**



INTERNAL CONTROLS



- Reviewing the adequacy of the Municipality's / Municipal Entity's **internal control environment**
- Obtain information from management and also from internal and external audit on the design and operation of key **internal controls, including financial controls**
- Have a good understanding of the Municipality's / Municipal Entity's internal control framework

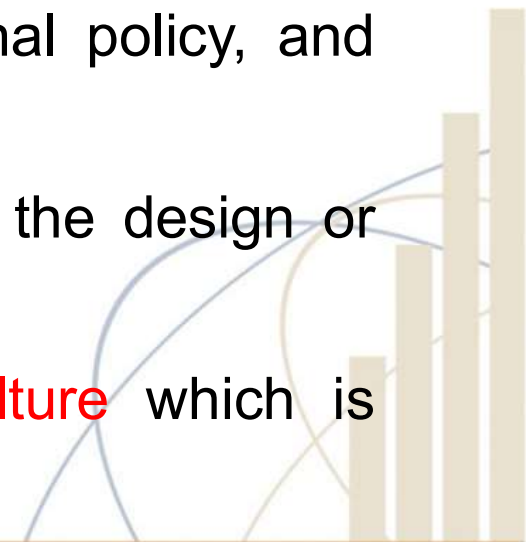
INTERNAL CONTROLS



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Oversight and Review

- Management's **approach** to maintaining an effective internal control framework,
- Management has in place relevant **policies and procedures**,
- Appropriate **processes** to assess compliance with legislation and key policies;
- Appropriate policies and supporting procedures for the management and exercise of **compliance**, internal policy, and delegations' requirements;
- Management identifies any required changes to the design or implementation of **key internal controls**; and
- Management has taken steps to embed a **culture** which is committed to **ethical** and **lawful behaviour**.



INTERNAL AUDIT



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- Oversight responsibilities over the effective functioning of Internal Audit
 - ✓ Planning
 - ✓ Execution
 - ✓ Reporting
 - ✓ Against approved plan and Charter
- Activities
 - ✓ Approve Charter
 - ✓ Approve Plan
 - ✓ Consider resources
 - ✓ Appointment, removal of CAE



NB: Refer to detail activities and responsibilities in the Tool Pack

RISK MANAGEMENT



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- **Oversight and Review:**
 - ✓ management has in place a **current and comprehensive enterprise risk management framework** designed to ensure that the identification and management of the Municipality's/Municipal Entity's business and financial risks, including fraud
 - ✓ Impact on Control Environment
 - ✓ **Business Continuity Planning**
 - ✓ **Fraud** control arrangements
- **Key Documents (available from NT):**
 - ✓ Framework
 - ✓ Policy
 - ✓ Strategy
 - ✓ Implementation Plan
 - ✓ Appetite and Tolerance Statements



FINANCIAL STATEMENTS

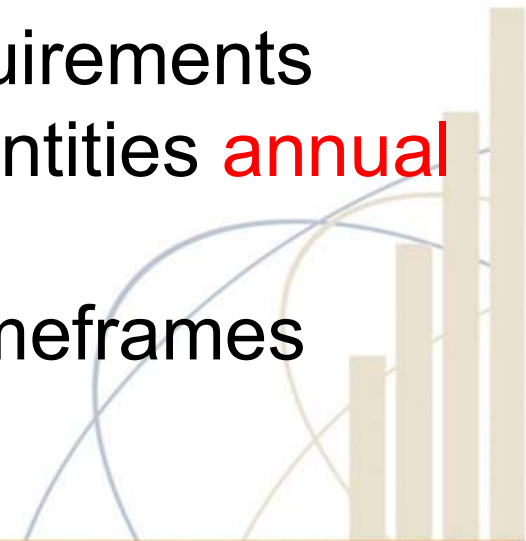


- Section 122 of the MFMA requires that every Municipality and Municipal Entity must for each financial year prepare financial statements
- Audit Committee:
 - ✓ Reviewing **systems, policies and processes**
 - ✓ Requesting **management** to complete financial statements and performance reports
 - ✓ Proactively reviewing the **combined assurance** processes
 - ✓ Critically **evaluating management action plans** to address external audit and internal audit findings
 - ✓ **Critically reviewing** the annual financial statements
 - ✓ Proactively engaging with the **AGSA**
 - ✓ Continuously **reporting** to the oversight bodies

Oversight and Review



- compliance with statutory **requirements** and performance management **best practices**
- **alignment** of the Integrated Development Plan, the Budget, Service Delivery and Budget Implementation Plan and performance agreements
- relevance of **indicators**
- compliance with in-year **reporting** requirements
- Municipality's/Municipal Entity's and entities **annual financial statements**
- **annual reports** within the stipulated timeframes
- **performance management system**



EFFECTIVE GOVERNANCE



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Corporate Governance includes all the **structures, systems, processes, procedures and controls** within an organization, at both oversight and monitoring level, and within the management structures of the organization



Audit Committee provides **reasonable assurance**:

- employees comply with relevant laws and regulations
- municipal employees are conducting its affairs ethically
- Municipality/Municipal Entity is maintaining an effective and efficient system of internal control

COMPLIANCE REQUIREMENTS



- Review the **effectiveness** of the system for monitoring the Municipality's/Municipal Entity's compliance
- Provide advice to the Council/Board and Municipal Manager/Chief Executive Officer regarding the issue of the Municipality's/Municipal Entity's **annual Compliance Report**



EXTERNAL AUDIT



- This is a symbiotic relationship, where on one hand, input is obtained from the Audit Committee and on the other, the Audit Committee is evaluated by the auditors
- **Public Sector Audit Committee Forum (PSACF) guidance**
 - ✓ Audit engagement planning
 - ✓ Audit execution
 - ✓ Communication of the outcomes



AUDITOR - GENERAL
SOUTH AFRICA

COMBINED ASSURANCE



“The planned approach to assess the extent and adequacy of assurance coverage on key organizational risks and reporting thereon to Senior Management, Audit Committee and the Governing Body.”

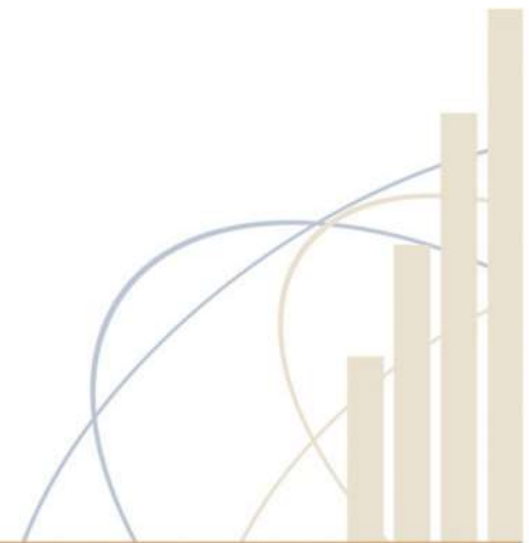
Audit Committee is responsible to provide the **oversight for combined assurance** and will provide the Municipal Manager/Chief Executive Officer with a **written assessment** on the state of internal controls and risk management



MANAGING AUDIT COMMITTEE RESPONSIBILITIES



- Having an up-to-date **charter**; (refer to template)
- Having a **work plan** indicating; (refer to template)
- Conducting an **assurance mapping** exercise; (refer to example)
- Establishing **sub-committees**;
- Setting a forward **meeting schedule**

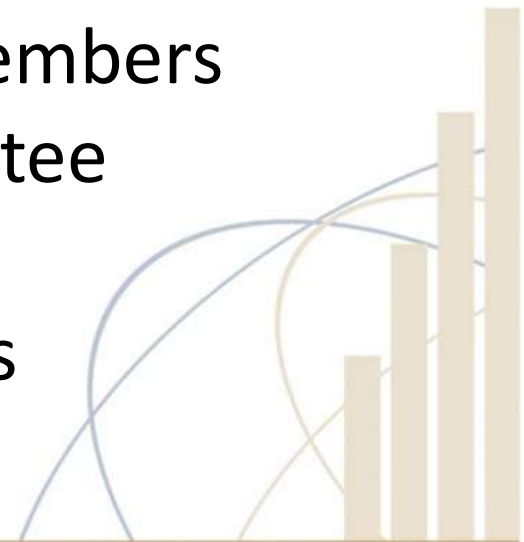


Membership of the Audit Committee



- The Audit Committee **Chair**
- **Personal Qualities** of Audit Committee Members
- **Knowledge and Expertise** of Audit Committee Members
- **Independence** of Audit Committee Members
- Ongoing **Support** to Audit Committee Members
- **Induction** of New Audit Committee Members
- **Continuing Education** of Audit Committee Members
- **Rotation** of Audit Committee Members

Membership
and Conduct



An audit committee must—

- consist of at **least three persons** with appropriate **experience**, of whom the **majority** may not be in the employ of the municipality or municipal entity, as the case may be; and
- The members of an audit committee must be appointed by the council of the municipality or, in the case of a municipal entity, by the council of the parent municipality. One of the members who is not in the employ of the municipality or municipal entity, must be appointed as the chairperson of the committee. No councillor may be a member of an audit committee.

THE AUDIT COMMITTEE CHAIRPERSON



- Council to appoint
- Overall **responsibility** for effective functioning of the Audit Committee
- **Term** of Office
- **Preparation** for Audit Committee Meetings
- **Conduct** during Audit Committee Meetings



KNOWLEDGE AND EXPERTISE OF AUDIT COMMITTEE MEMBERS

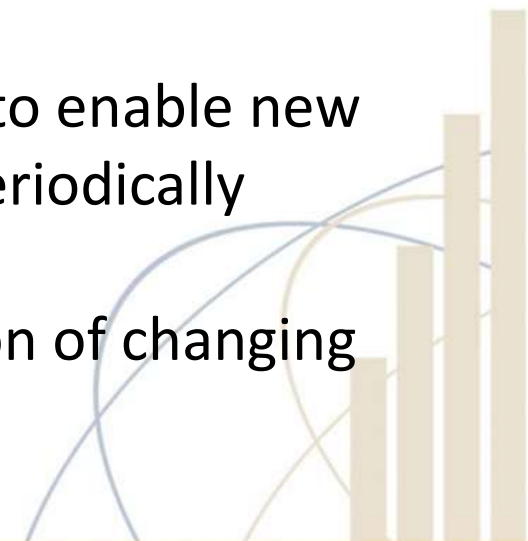


- **Main activities** of the Municipality/Municipal Entity;
- **Risk identification**, evaluation, and management;
- **Project** and program management;
- **Information** management and **security**;
- Operations of government and the **public sector** including information technology systems and controls;
- **Roles** of internal and external audit;
- Application of **accounting, auditing and assurance standards**;
- **Legislative** and other policy requirements of the Municipality/Municipal Entity;
- **Public sector reporting** requirements, including financial and performance reporting; and
- **Internal control, compliance activities and fraud control.**

INDEPENDENCE OF AUDIT COMMITTEE MEMBERS



- The distinguishing feature of an Audit Committee is its independence.
- **Measures to strengthen** the committee's actual and/or perceived independence include:
 - ✓ appointment of an external **Chairperson**
 - ✓ appointment of more than one **external member**
 - ✓ appointment of committee members who exhibit an **independence of mind** in their deliberations and do not act as a representative
 - ✓ **rotation** policy for Audit Committee members to enable new knowledge and experience to be introduced periodically
 - ✓ **no management** responsibilities
 - ✓ **policies** in place to facilitate timely identification of changing relationships



- Adequate **secretariat** service
- **Funding** for expert advice
- **Reports** from other Municipal management committee meetings
- Senior line **managers to attend** Audit Committee meetings to discuss the business strategy, operations, and key risks
- Assistance in arranging **visits** to Municipal locations
- Appropriate **meeting facilities** and equipment

- Outline of the Municipality's/Municipal Entity's **governance framework**
- Committee's **charter**
- Municipality's/Municipal Entity's **enabling legislation**
- Municipality's/Municipal Entity's **annual report**
- Briefing on the Municipality's/Municipal Entity's **risk management framework, control, compliance, audit and external accountability arrangements**
- **Internal audit charter**



CONTINUING EDUCATION OF AUDIT COMMITTEE MEMBER

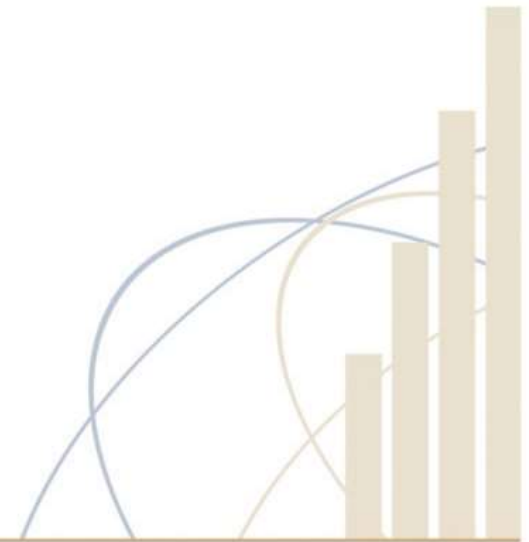


Members of Audit Committees should be encouraged to continuously **update their knowledge** through:

- attendance at relevant seminars or courses;
- considering written material/guidance;
- attending or obtaining copies of presentations by the Chief Financial Officer, Chief Information Officer, Head of Internal Audit, and other senior managers; and
- discussions and presentations from internal and external audit.



- **Balance** stability with change in the membership
- Adopt a **phased approach** to the rotation of members to preserve an appropriate level of knowledge and expertise of committee members

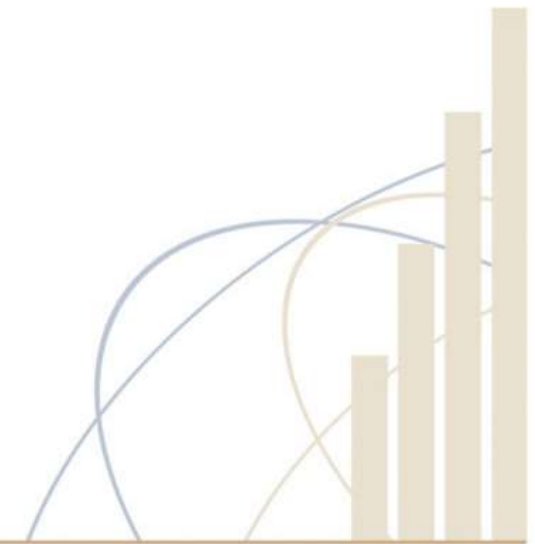


Audit Committee Relationships with Key Stakeholders



- Governing Body/Council
- Accounting Officer
- Senior Management
- Other Committees
- Internal Auditors
- External Auditors

**Membership and
Conduct**

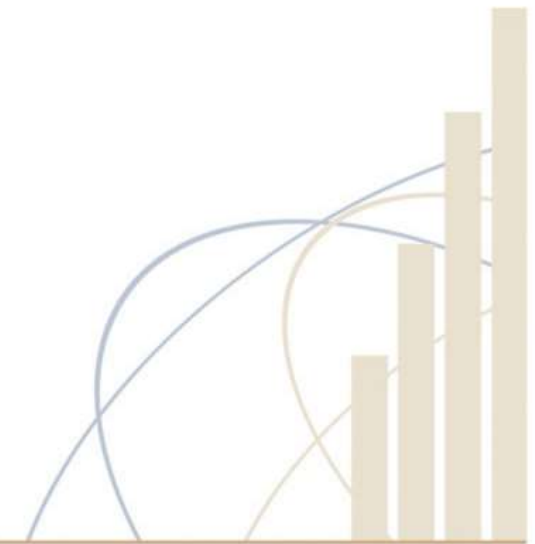


Governing Body/Council



Key issues to be escalated by the Audit Committee to the Council/Board:

- Risk and Control
 - ✓ Key risks and effectiveness of controls
- Assurance
 - ✓ Significant findings
- Finance
 - ✓ View on financial position
 - ✓ Capacity of finance function
- Compliance
 - ✓ Non-compliance
- Performance Management
 - ✓ Findings and recommendations
- General



Accounting Officer



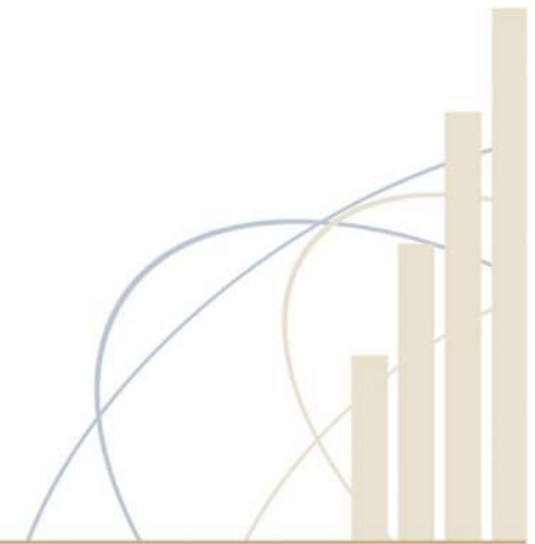
- Municipal Manager/Chief Executive Officer has a key role in supporting the effectiveness of the Audit Committee, and establishing active support amongst senior management is vital to the success of effective Audit Committees
- Audit committee Chairperson should develop a sound working relationship with the Municipal Manager/Chief Executive Officer that builds the respect and confidence that allow for effective communication
- Formal Advice to the Municipal Manager/Chief Executive Officer on:
 - ✓ internal audit plans;
 - ✓ professional standards to be used by internal audit;
 - ✓ any matter of concern, significant opportunities for improvement or good practices
 - ✓ the preparation and review of financial statements; and
 - ✓ any advice the committee has about the Municipal Manager's/Chief Executive Officer's obligations under the MFMA.

Senior Management



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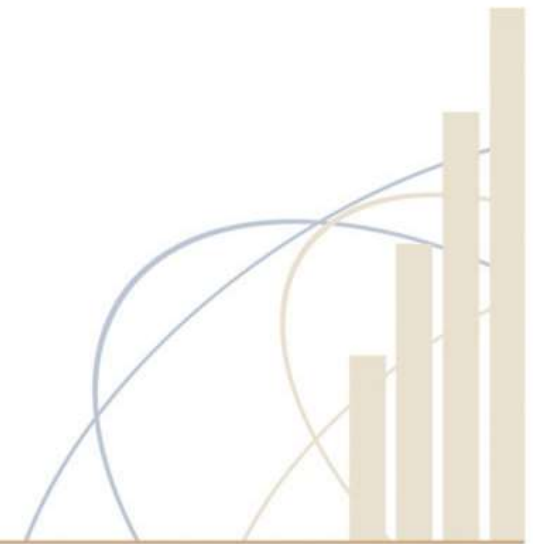
- Audit Committee must be independent from management
- Committee demonstrates a positive culture of continuous improvement, rather than a punitive culture
- Providing executive managers with a brief summary of the issues dealt with at each meeting
- Important that senior managers have a good understanding of the Audit Committee's responsibilities
- Relationship with:
 - ✓ Chief Operations Officer
 - ✓ Chief Financial Officer
 - ✓ Chief Information Officer
 - ✓ Head of Internal Audit



Other Committees



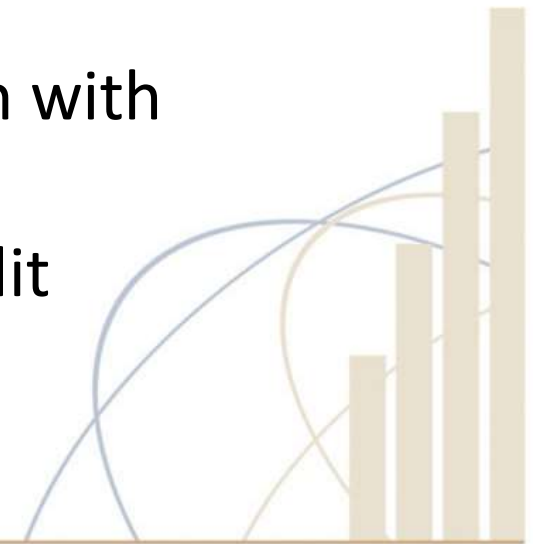
- Important to enable the committee to effectively meet its responsibilities
- Timely and free flow of information between the committees
- Committees such as:
 - ✓ Risk Management Committee
 - ✓ IT Steering Committee



INTERNAL AUDITORS



- Relationship between the Audit Committee and internal auditors is central to enabling the committee to meet its responsibilities
- Strategic and Annual Internal Audit Work Plans
 - ✓ Internal audit resourcing
 - ✓ Internal audit reports
 - ✓ Audit Committee members-only session with internal audit
 - ✓ Review the performance of internal audit



EXTERNAL AUDITORS



- External auditors should have a standing invitation to all Audit Committee meetings
- Topics for discussion:
 - ✓ External audit coverage
 - ✓ Audit Committee members-only session with external audit
 - ✓ Response to issues raised by the Auditor General



Conduct of the Audit Committee



- Role of the Chair of the Audit Committee
- Role of the Secretariat
- Audit Committee Planning
- Audit Committee Meetings
- Managing Conflicts of Interest
- Access to Staff and Information
- Contractual Arrangements and Remuneration
- Assessment of Audit Committee Performance

**Membership and
Conduct**

The role of the Chairperson



- Pivotal role in the effective functioning of any committee
- Responsibilities:
 - ✓ Assist committee members to maintain a good understanding of the Municipality's/Municipal Entity's objectives, business needs, risks and priorities
 - ✓ Settle the agenda for each meeting with the committee secretariat
 - ✓ Lead discussion and encourage the participation of other members
 - ✓ Seek the input of observers or other experts
 - ✓ Summarize discussion outcomes and actions
 - ✓ Report formally and informally to the Municipal Manager/Chief Executive Officer
 - ✓ Attend formal and informal meetings with senior management,
 - ✓ Arrange for a periodic review of the effectiveness of the Audit Committee against its charter



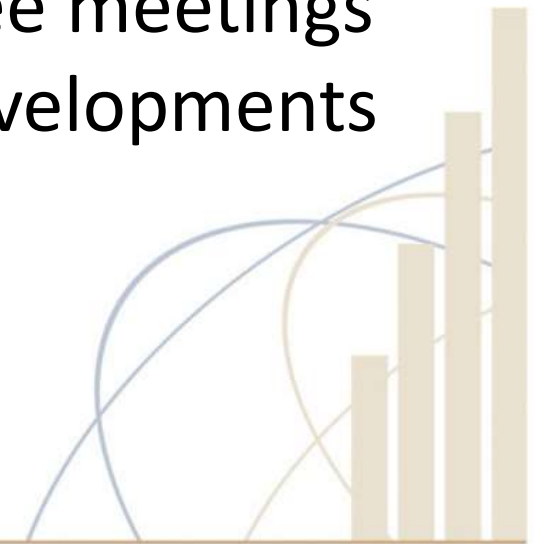
Committee secretariat



Important that the Audit Committee is appropriately supported by effective secretariat arrangements to ensure the following:

- all committee papers are of an appropriate standard and are available to committee members
- minutes are maintained of committee meetings
- members are kept abreast of key developments in the Municipality/Municipal Entity

Detail activities as per the Tool Pack

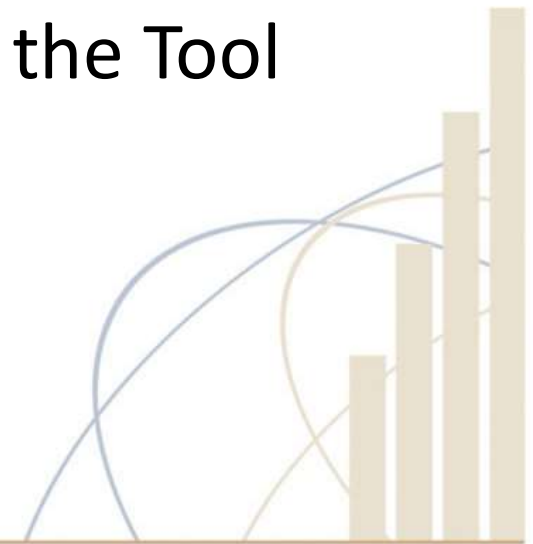


Audit Committee planning



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- Preparation of a forward meeting schedule that includes the dates, location, and agenda items for each meeting, and covers all the committee's responsibilities as outlined in the committee's charter
- Refer to Audit Committee Work Plan in the Tool Pack

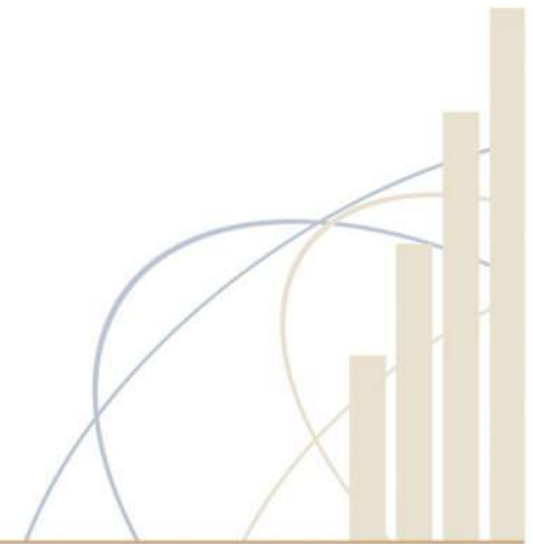


Audit Committee meetings



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- Number and timing of meetings
- Attendance at meetings
- Quorum
- Meeting agenda
- Minutes of Audit Committee meetings



Managing conflicts of interest



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Protocols could include the following:

- Annual declaration by every member of potential, perceived or real conflicts of interest they may have in relation to their role
- at the beginning of each Audit Committee meeting, members should raise any conflict of interest issues and, where required, the member should be excused from the meeting for the relevant agenda item(s)



Access to staff and information



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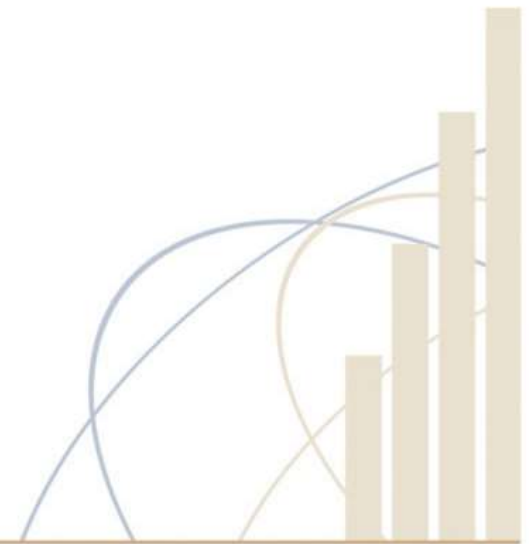
- Audit Committee Charter should provide the committee and individual members, where agreed by the Chairperson, with the authority to access Municipality / Municipal Entity staff and information held by the Municipality / Municipal Entity that is relevant to the committee's responsibilities
- The Audit Committee charter would also be expected to authorize the committee to seek independent professional advice, as and when required to fulfil its responsibilities

Audit Committee arrangements in small Municipalities



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There may be merit in these entities exploring ways of entering into contractual or other cooperative arrangements with other Municipalities within their portfolio to meet, in a cost-effective way, their legislative obligation to establish an Audit Committee



Contractual arrangements and remuneration



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Contractual Arrangements

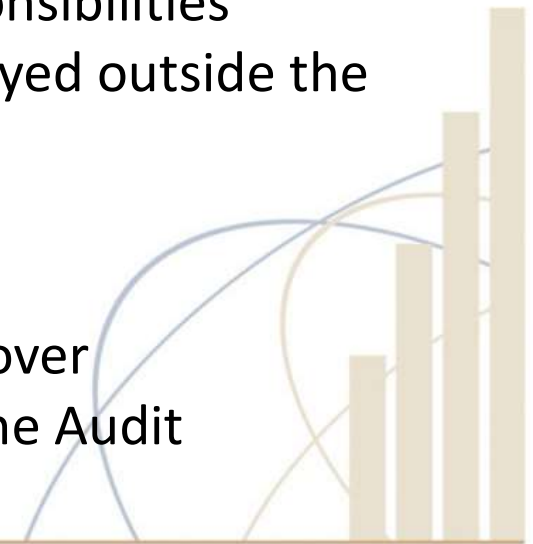
- External members should ensure that the contractual arrangements established clearly outline their role and the terms and conditions of their appointment

Remuneration

- Members of the Audit Committee shall be remunerated for time spent in attendance of Audit Committee meetings
- External committee members should be remunerated at a level that reflects the time it takes to effectively meet their responsibilities
- Remuneration will only be applicable to officials employed outside the public service

Insurance arrangements

- External members' professional indemnity insurance cover
- Advice given is in a person's capacity as a member of the Audit Committee, rather than as an individual

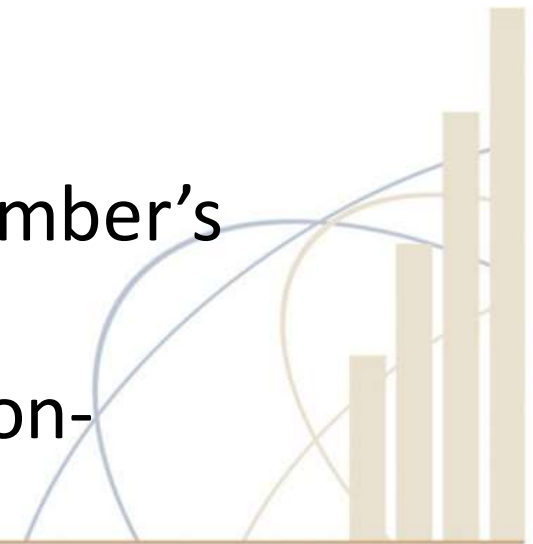


AUDIT COMMITTEE PERFORMANCE



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- An assessment of the committee as a whole and may extend to an assessment of the performance of individual members
- Involve input from:
 - ✓ Municipal Manager/Chief Executive Officer
 - ✓ individual committee members
 - ✓ key stakeholders
 - ✓ other committees
- Assessment of an Audit Committee member's performance
- Acting on Audit Committee Member Non-performance



PART 4 - TOOLS, GUIDELINES AND TEMPLATES



2024

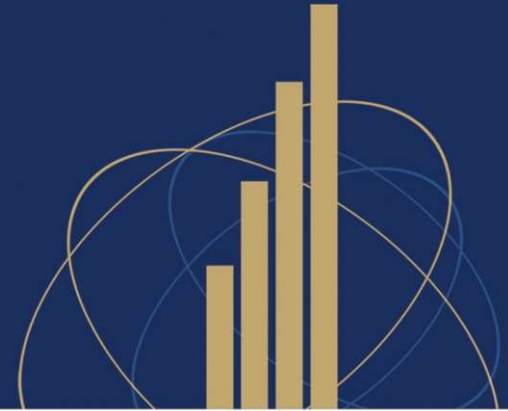
Tools, Guidelines and Templates

- Legal Status / Compliance Universe
- Checklists and Templates

DOCUMENT NAME	DOCUMENT NUMBER
Audit Committee Terms of Reference/Charter - MFMA	PSAUC1
Audit Committee Work Plan	PSAUC2
Audit Committee Induction Pack	PSAUC3
Audit Committee Self-Assessment Template	PSAUC4
Audit Committee Competency Framework	PSAUC5
Audit Committee Guide / Manual	PSAUC6
Internal Audit Effectiveness Assessment	PSAUC7
Audit Committee Assessment of the Finance Function	PSAUC8



Q & A



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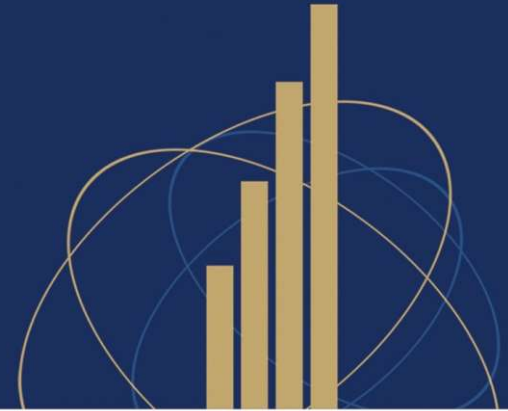


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Thank You!



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