**CHAPTER 6**

**MUNICIPAL FINANCIAL MANAGEMENT**

**6.8 AUDIT COMMITTEE ASSESSMENT TOOL**

**6.8.1 PURPOSE**

The tool assesses the functionality of the audit committee. This is aimed at improving the efficiency and effectiveness of audit committees and allowing for effective monitoring thereof.

**6.8.2 LEGISLATIVE MANDATE**

Section 166 of the MFMA states

**166.** (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 the 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;

*(b)* review the annual financial statements to provide the council of the municipality or, in the case of a municipal entity, the council of the parent municipality and the board of directors of the entity, with an authoritative and credible view of the financial position of the municipality or municipal entity, its efficiency and effectiveness and its overall level of compliance with this Act, the annual Division of Revenue Act and any other applicable legislation;

*(c)* respond to the council on any issues raised by the Auditor-General in the audit report;

*(d)* carry out such investigations into the financial affairs of the municipality or municipal entity as the council of the municipality, or in the case of a municipal entity, the council of the parent municipality or the board of directors of the entity, may request; and

*(e)* perform such other functions as may be prescribed.

(3) In performing its functions, an audit committee—

*(a)* has access to the financial records and other relevant information of the municipality or municipal entity; and

*(b)* must liaise with—

(i) the internal audit unit of the municipality; and

(ii) the person designated by the Auditor-General to audit the financial statements of the municipality or municipal entity.

(4) An audit committee must—

*(a)* 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

*(b)* meet as often as is required to perform its functions, but at least four times a year.

(5) 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.

(6) A single audit committee may be established for—

*(a)* a district municipality and the local municipalities within that district

municipality; and

*(b)* a municipality and municipal entities under its sole control.

**6.8.3 APPLICATION**

| **No.** | **Principal components of effective Audit Committee** | **Legislative****MFMA** | **Period** | **Is practice followed Yes/No/ N/A** | **Comments** |
| --- | --- | --- | --- | --- | --- |
| **1.** | **STATUTORY OBLIGATIONS- FUNCTIONALITY** **OF** **THE AUDIT COMMITTEE** |
| 1.1 | Does the Municipality have an Audit Committee?Provide details of Chair and other members (include their expertise) | S166(1) |  |  | Name & Surname of AC Chairperson and AC members with contact numbers and e-mail addresses. State their professional expertise and capacityIndicate AC working in the organ of the state (department, municipalities and public entity) |
| 1.2 | Is the Audit Committee independent and objective in performing its duties?  | S166(2) | On-going |  | Does the committee provide effective oversight at meetings and do they question information  |
| 1.3 | Does the Audit Committee have dedicated secretariat support | NT Circular 65 | On-going |  | Has the support been outsourced or is the IA unit performing this function |
| 1.4 | Does the Audit Committee members declare interests with the Municipality | NT Circular 65 | Quarterly  |  | How are interests declared? Is a declaration form signed at every meeting or has it been signed once off. |
| 1.5 | Has the Audit Committee developed a charter that is reviewed and updated annually | NT Circular 65 | Annually |  | Include date of review |
| 1.6 | The Audit Committee:Holds sufficient number of meetings, scheduled at appropriate points to address its responsibilities on a timely basis (at least four meetings per year) | S161(4)(b) | Quarterly  |  | Provide dates of the meetings during the year |
| 1.7 | Meet with management and the internal auditors to review the financial statements and the results of the audit prior to presentation to the Council. | NT Circular 65 | Quarterly | Yes | Provide date of review of AFS and the report of the audit committee of the review of the AFS |
| 1.8 | Review reports of investigations and management responses. | S166(2)(d) | On-going | Yes | Does the AC interrogate these reports |
| 1.9 | Reviews the risk management registers including the disaster recovery plans for the year and provide advice of focus areas. | S166(2)(a)(ii) | Quarterly  | Yes | Does the AC interrogate these reports |
| 1.10 | Monitor progress on the audit action plan and provide advice where necessary. | S166(2)(c) | Annually | Yes | Does the AC interrogate these reports |
| **2.** | **EFFECTIVENESS AND LEVEL OF ASSURANCE** |
| **AUDIT COMMITTEE** |
| 2.1 | The Audit CommitteeClearly understands and agrees with management on which elements of internal control – financial reporting, operational effectiveness and efficiency, and compliance with laws and regulations – it oversees on behalf of Council. | N/A | Quarterly  | Yes | Are the committee members knowledgeable and experienced in their contribution at meetings |
| 2.2 | Sees that management addresses, on a timely basis, significant control exposures, relying on internal and external auditors as required to assess adequacy of corrective actions taken. | N/A | Quarterly  | Yes | Does the member recommend significant corrective control measures  |
| 2.3 | Reviews and recommend internal audit’s charter to determine internal audit’s objectivity. | N/A | Annually | Yes |  |
| 2.4 | Reviews internal audit plans, ensuring appropriate internal audit coverage of key control systems, and proper degree of coordination of work with external auditors. | N/A | Annually | Yes | Is there adequate review of the internal audit plans to ensure that all compliance audits conducted taking into account the IA capacity at the municipality  |
| **3.** | **ASSURANCE PRINCIPLES AND EFFECTIVENESS RESPONSES** |
| **MANAGEMENT** |
| 3.1 | The Audit Committee:Maintains a constructive relationship with management and MPAC with open lines of communication and ongoing dialogue. | N/A | Quarterly  | Yes | Does the members have good relationship with management  |
| 3.2 | Meetings are effective, with advance buy-in on the agenda, and the right amount of quality advance material distributed in a timely manner, which members review before meetings. | N/A | Quarterly  | Yes | Are the agenda packs distributed 7 -10 days before the meeting. Are there frequent changes to the agenda at meetings |
| 3.3 | The Audit Committee:Does the Audit Committee report to Council on quarterly/ half yearly (as recommended by AG) basis to fulfill its duties as an oversight body and advisory to Council?  | N/A | Half yearly | Yes | Provide a recent AC report submitted to Council (required by AG bi annually or quarterly. |
| 4 | The Internal Audit |  |  |  |  |
| 4.1 | Does Municipality have an in-house or outsourced internal audit? |  |  |  | If outsourced, provide name of consultant , duration of contract, term and cost |
| 4.2 | Does the Municipality have sufficient resources in the Internal Audit Unit? Are all posts filled as per organogram? Does the municipality have a Head/ Manager internal audit? | Yes |  |  | Provide the Details of the Head IA/ Manager IA. Elaborate on the IA capacity and if it is adequate |
| 4.3 | Has the Internal Audit conducted a review on the draft Interim /Annual Financial Statements  | Yes | Half yearly/ Annually |  | Provide a date on the review of draft AFS and report. |
| 4.4 | Does the IA conduct attest work on the audit action plan to verify and confirm the validity, accuracy and completeness on remedial action taken to resolve the audit finding?  | N/A | Quarterly |  | Provide an updated audit action plan with IA comments/ recommendations. |