



Province of the  
**EASTERN CAPE**  
DEPARTMENT OF RURAL DEVELOPMENT AND  
AGRARIAN REFORM

# **AUDIT COMMITTEE CHARTER**

## **2016/17**

## **Audit Committee Charter 2016/17**

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## **Audit Committee Charter 2016/17**

### **1. INTRODUCTION**

The Audit Committee (AC) was established in terms of the Public Finance Management Act (PFMA S76) and Treasury Regulations (TR 3.1) to assist the Accounting Officer in fulfilling its oversight responsibility in terms of these statutes. The duties of the committee are broadly defined in Section 77 of the PFMA and Treasury Regulations. In the revision of this charter, the King III on Corporate Governance was considered.

The appointment, functioning and composition of the Audit Committee is in terms of section 76(4)(d) and 77 of the PFMA read in conjunction with chapter 3 of the Treasury Regulations (TR) issued in terms of the PFMA. All the members of the Audit committee shall be appointed by the Accounting Officer in consultation with the Member of the Executive Committee responsible for the Department.

The Audit Committee has also adopted the principles of the King III report on Corporate Governance for South Africa with regard to its objectives, role, function and responsibility, whose purpose is to promote the highest standards of corporate governance in South Africa. The report goes beyond the regulatory and the financial aspects of corporate governance in advocating an integrated approach to good governance, but the interest of a wide range of stakeholders and fundamental principles of good financial, social, ethical and environmental practice.

The Audit committee or its members should not perform any management functions nor assume any managerial responsibilities.

The Audit Committee forms a forum for discussing business risk and control issues for developing relevant recommendations for consideration by the Accounting Officer. It is therefore constituted in terms of the requirements of sound corporate governance practices that the Committee operate within that framework and should not perform any management functions or assume any management responsibilities. The Audit Committee will make recommendations to the Accounting Officer for approval or final decision to implement.

### **2. OBJECTIVE**

The Audit Committee must, as required by the Treasury Regulations, review the following:

- i. The effectiveness of the internal control systems;
- ii. The effectiveness of the internal audit function;
- iii. The risk areas of the Institution's operations, which is to be covered in the scope of Internal and External Audits;

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- iv. The adequacy, reliability and accuracy of the financial information provided to management and other users of such information; The adequacy, reliability and accuracy of the performance information and predetermined objectives as provided to and by management and other users of such information;
- v. Any accounting and auditing concerns identified as a result of Internal and External audits;
- vi. The Institution's compliance with legal and regulatory provisions; and
- vii. The activities of the internal audit function including approving of the methodologies adopted, its annual work programme, coordination with the External Auditors, the reports of significant investigations and the responses of management to specific recommendations.

### **3. APPOINTMENT OF MEMBERS, COMPOSITION AND TERMINATION**

- i. The Chairperson and Audit Committee members shall be appointed by the Accounting Officer, in consultation with the relevant Executive Authority (MEC) and shall perform their duties for a period of three (3) years from the date of appointment,
- ii. Audit Committee must be constituted so as to ensure their independence and their membership must be disclosed in the annual report of the institution {PFMA 77 (a) and Treasury Regulations 3.1.5),
- iii. The Chairperson may not be an employee of the department {PFMA 77 (a) and King III),
- iv. To assist in succession planning and thus ensure continuity of Audit Committee activities, members may at the discretion of the Accounting Officer in consultation with the MEC be appointed for a second term of office which will run for a period of three years. No further extensions or renewals will be made thereafter,
- v. Membership of the Audit Committee terminates on the following instances:
  - *After the expiry of the three (3) year period.*
  - *On the written resignation of a member of the Audit Committee.*
  - *After non-attendance of three consecutive meetings without valid reasons.*
- vi. *The executive authority must concur with any premature termination of a person serving on the Audit Committee (Treasury Regulations 3.1.7), and must inform the member by way of a written notice.*

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### **4. AUTHORITY**

- i. The Audit Committee is granted authority to perform each of the specific duties specified in this Charter and to investigate any activity of the Department (TR 3.1.11),
- ii. The Audit Committee shall have the authority to seek any information it requires from any officer or employee of the DRDAR and such officers or employees shall be compelled to respond to such enquiries,
- iii. The Audit Committee shall have unrestricted access to all employees of the DRDAR, internal and external auditors, the professional consultants, books of account, records, and to any other sources or relevant information that may be required for the purpose of its duties and responsibilities,
- iv. The Audit Committee is empowered to seek and retain such independent professional advice to assist them in fulfilling their responsibilities, as it considers necessary, but will notify and receive the Accounting Officer's approval of such actions,
- v. The Audit Committee shall act as an oversight capacity to the Accounting Officer on internal control, risk management and corporate governance.

### **5. MEETINGS**

#### **5.1 ATTENDANCE OF MEETINGS**

- i. The Audit Committee shall meet at least four times per annum. The meetings should be arranged to ensure maximum attendance, consideration of audit processes including the operation and governance processes of the DRDAR,
- ii. It should meet with internal and external auditors at least once a year without management being present (King III),
- iii. The Audit Committee may call any additional meetings as deemed necessary, if requested by the internal or external auditors, management and/or any Audit Committee member in consultation with the chairperson,

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- iv. The Chairperson of the Audit Committee shall excuse from any meeting or part thereof, any member or attendee who could, in his or her opinion, have any potential conflict of interest. The Chairperson as well as members shall declare conflict of interest in all meetings,
- v. The Chairperson of the Audit Committee may, as deemed appropriate by the relevant parties, meet with the Accounting Officer before/after each meeting of the Audit Committee,
- vi. The Chairperson of the Audit Committee should participate and agree on the agenda of the Audit Committee (King III).

### **5.2 AUDIT COMMITTEE SECRETARIAT**

- i. The Accounting Officer shall appoint the secretariat to support the Audit Committee,
- ii. Members shall be notified of meeting well in advance to allow them sufficient time to prepare and any documentation that will be discussed at the meeting should be distributed to the members in good time,
- iii. Draft minutes of the proceedings and resolutions of all meetings of the Audit Committee, including recording the names of those present and in attendance. The minutes should be forwarded to the Audit Committee Chairperson for review and subsequently to all members of the Audit Committee,
- iv. Provide detailed documentation and minutes regarding any discussion of the criteria set forth in the Audit Committee responsibilities. In the event of a concern of accounting irregularities, fraud, or a significant violation of senior management established, careful attention must be given to the level of detail in regards to the completeness and accuracy of the minutes.

### **5.3 QUORUM**

A quorum for any meeting will be 50% plus 1 – if the Chairperson is not available, the chair must be delegated to a member for that particular meeting and the delegated member shall be remunerated at the Chairperson's rate.

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### **6. REMUNERATION**

- i. Audit Committee members not employed in the public service shall be remunerated for their services. The Audit Committee members shall be remunerated in terms of Provincial Treasury's Framework for the appointment and remunerations of the Audit Committee members.
- ii. Travelling and other disbursements expenses for the Chairperson and Audit Committee members shall be re-imbursed in line with Treasury Regulations transport policy and valid rates at the time.

### **7. DUTIES AND RESPONSIBILITIES**

#### **7.1 Financial control, Accounting system, Risk management, Fraud prevention and reporting.**

- i. Evaluate the high/ major risk areas as identified by management to which the Department is exposed and verify that the related control system is adequate and functioning effectively;
- ii. Ensure that attention is given by the Accounting Officer to the pertinent issues raised in the audit reports, in response to PFMA requirements, and that queries are satisfactorily resolved;
- iii. Advise the Accounting Officer of the Department of any issues requiring his/her urgent attention and assess the policies and procedures introduced by the Accounting Officer to ensure that the accounting system and related controls are adequate and functioning effectively;
- iv. Announce the Department's results or other financial information to be made public, prior to submission;
- v. Promote a Combined Assurance Model, which will include co-ordination and co-operation between the AGSA and Internal Audit to minimise duplication of effort and promote reliance where possible;
- vi. Ensure the adequacy and implementation of the combined assurance model, the facilitation of which has been delegated to the Internal Audit Function;
- vii. Review with the Accounting Officer the safeguarding of assets and information system's environment and effectiveness of operations;

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- viii. May communicate any concerns it deems necessary to the Executive Authority, relevant Treasury and / or the Office of the Auditor General;
- ix. Must report and make recommendations to the Accounting Officer. The Accounting Officer will retain the responsibility for implementing such recommendations; and
- x. Must assess and report on the status of the systems of risk management, anti- fraud and corruption as well as governance.
- xi. Consider the annual financial statements, interim reports, and accompanying reports submitted to the Legislature, the preliminary announcement of results and any other.

### **7.2 Office of the Auditor General (AGSA)**

- i. The Audit Committee's responsibilities relating to the External Audit Function:
- ii. Consider and evaluate the report of the Office of the Auditor General on Annual Financial Statements and obtain assurance that adequate accounting records are being maintained;
- iii. Consider the scope of the External Auditors in order to co-ordinate efforts with Internal Audit to prevent duplication of areas audited.
- iv. Consider any accounting treatments, significant unusual transactions, or accounting judgments, which could be contentious;
- v. Ensure that the timing and nature of reports from the external audit are in accordance and comply with the requirements of the PFMA;
  - a. Review the AGSA' independence and objectivity and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements;
  - b. If the Audit Committee becomes aware of non-audit services being rendered by a firm contracted by the AGSA, it shall be reported to the Accounting Officer and the AGSA;
  - c. Communicate with the AGSA and the Department before the audit commences and, during the audit, the nature and scope of the audit (including the Accounting Principles, policies and practices adopted in the preparation of Annual Financial Statements, planned levels of materiality, resourcing and the terms of the AGSA's Engagement Letter and Strategic Plan). In particular, the Audit Committee should:
    - Ensure at the start of each annual audit cycle that appropriate plans are in place for the audit;



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- Consider whether AGSA's overall work plan, including planned levels of materiality, and proposed resources to execute the Audit Plan appear consistent with the scope of the audit engagement, with regards also to the seniority, expertise and experience of the audit team;
  - Review the allocation of hours per team member and fees of AGSA in relation to audit risks and recommend the acceptance thereof to the Accounting Officer.
- vi. Review with AGSA, the findings of their work. In the course of its review, the Audit Committee should:
- Discuss with the AGSA major issues that arose during the course of the audit and have subsequently been resolved and those issues that have been left unresolved;
  - Review key accounting and audit judgements; and
  - Review levels of errors identified during the audit, obtaining explanations from management and, where necessary AGSA, as to why certain errors might remain unadjusted.

### **7.3 Internal Audit**

The Audit Committee's responsibilities relating to the Internal Audit Function:

- i. Review and consider the quarterly and annual written activity reports of the Chief Audit Executive and whether it complies with its mandate as approved by the Committee;
- ii. Monitor and review the effectiveness of the Internal Audit Function including compliance with the International Standards for the Professional Practice of Internal Auditing (ISPPF).
- iii. Review and approve the Audit Committee and Internal Audit Charters;
- iv. Obtain annually from the Chief Audit Executive confirmation regarding the independence, objectivity and competency of the Internal Audit Function;
- v. Review and approve Rolling 3 -Year Strategic and Annual risk-based Internal Audit Plans and changes that may occur, ensuring that material risk areas are included;
- vi. Make recommendations on the adequate and appropriate resourcing of Internal Audit within the Department;

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- vii. Review and discuss with the Chief Audit Executive the scope of work of Internal Audit, the issues identified as a result of its work and management's responses to their findings and recommendations;
- viii. Assess the adequacy of performance of the internal audit function;
- ix. Form part of the recruitment, performance management and dismissal process of the Chief Audit Executive in line with the prescriptions of the Public Service Act. In practice a representative from the various Audit Committees will form part of the process;
- x. Recommend and approve in principle the outsourcing of Internal Audit services for specialized audits to service providers if and when necessary;
- xi. Review the Quality Assurance and Improvement Programme and the results of the Annual Self-Assessment and the 5-year External Assessment;
- xii. The Chief Audit Executive must discuss the form of the External Assessments, as well as the qualifications and independence of the External Assessor or Assessment Team, including any potential conflict of interest, with the Audit Committee;
- xiii. Ensure that no restrictions or limitations are placed on the Internal Audit function in the performance of its functions;
- xiv. On a regular basis, meet separately with the Chief Audit Executive to discuss any matters that the Committee or Chief Audit Executive believes should be discussed privately;
- xv. Concur regarding the appointment, removal and/ or re-assignment of the Chief Audit Executive;
- xvi. Review any significant disagreements between Internal Audit and the Accounting Officer and/ or management; and
- xvii. Review and evaluate the co-ordination efforts between Internal Audit and the AGSA to avoid duplication of work.

### **7.4 Responsibilities relating to Internal Control**

- i. Review the adequacy and effectiveness of the internal control systems;
- ii. Consider disclosing implications of material internal control deficiencies identified in External Audit reports, Internal Audit reports or during the execution of the Committee's oversight functions, and the manner in which management is dealing with it; and

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- iii. Review of the Departments' processes for compliance with the applicable laws and regulations.

### **7.5 Responsibilities relating to the Pre-determined Objectives**

- i. Review on a quarterly basis the Department's progress towards achievement of its Annual Strategic objectives as well as the quality of the Quarterly Performance Reports and report to the Accounting Officer instances of non-achievement or slow progress.
- ii. Review the Annual Report prior to submission for external audit.
- iii. Review the Annual Performance Plan before the commencement of the financial year.

### **7.6 Responsibilities relating to Ethics and Forensic Investigations**

- i. Review arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters, with a view to ensuring that arrangements are in place for the appropriate and independent investigation of such matters and for appropriate follow-up action;
- ii. Review any situations that arise relating to violations of ethical conduct, potential conflict of interest or questionable situations of a material nature that it becomes aware of and make suitable recommendations to the Accounting Officer;
- iii. Evaluate the Departments' exposure to fraud;
- iv. Periodically receive reports on the prevention, detection and investigation of fraudulent activities or misconduct within the Department and the related management responses; and
- v. Direct investigations into any matters as deemed necessary within its scope with regards to any investigation, the Audit Committee shall have the authority to utilise the Internal Audit staff in order to recommend the employment of outside counsel/ consultants at the Department's expense.

### **7.7 Risk Management**

- i. Monitor changes in the internal and external environment and the emergence of new risks,
- ii. Review and assess the reports issued by the Risk Management Committee and Internal Audit,
- iii. Evaluate the use of the risk profile in the Internal Audit risk based plan.

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### **7.8 Compliance with Laws and Regulations {TR 3.1.10(f)}**

- i. Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow up (including disciplinary action) of any instances of non-compliance,
- ii. Review and make recommendations on significant cases amongst official's conflict of interest, misconduct, fraud and the resolutions thereof,
- iii. Review reports on all fraud and irregularities and ensure that adequate/ appropriate action has been taken to prevent recurrence thereof,
- iv. Review with the Department's counsel any legal matter that could have a significant impact on the Department,
- v. Perform any other activity consistent with the Charter, as the Audit Committee or Accounting Officer deems necessary.

### **8. REPORTING RESPONSIBILITIES AND PROCEDURE**

The Audit Committee shall, in the Annual Report of the Department, comment on:

- i. The effectiveness of internal control;
- ii. The quality of in year management and monthly/quarterly reports submitted in terms of the Act and the Division of Revenue Act; and
- iii. Its evaluation of the Annual Financial Statements.
- iv. The Chairperson (or, in his/her absence, an alternate independent member nominated by the chairperson) of the Audit Committee shall attend Cabinet and SCOPA meetings when required to answer questions concerning matters falling within the scope of the Audit Committee.
- v. The Audit Committee must report on its activities to the Accounting Officer at least twice (2) per annum and provide recommendations to the Accounting Officer and/or the relevant Executive Authority on any potential conflict of interest or questionable situations of a material nature that are brought to the attention of the Audit Committee.
- vi. The Audit Committee must evaluate its own performance and report the results thereof to the Accounting Officer at least annually. Performance issues relating to individual members should be dealt with by the respective chairperson.

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- vii. The Audit Committee shall meet with the Standing Committee on Public Accounts (SCOPA) at least once per annum to report on any matters of significance that have come to the Audit Committee's attention during the execution of their duties.

### **9. ESCALATION PROCEDURE**

<b>Event</b>	<b>Prescript</b>	<b>First Point of Escalation</b>	<b>Second Point of Escalation</b>	<b>Third Point of Escalation</b>	<b>Reporting</b>
<b>Event 1: Unassured Risks</b>	NTR 3.2.9 & 3.2.10	Accounting Officer	Executive Authority	n/a	Disclose in Annual Report under AC Report
<b>Event 2: Inadequate Addressing of IA Recommendations</b>	NTR 3.1.15	Accounting Officer	Executive Authority	Provincial Treasury (PT) & report to AGSA	Disclose in Annual Report under AC Report
<b>Event 3: Detecting Financial Misconduct</b>	NTR 4.1.1 & 4.1.2	Accounting Officer	Executive Authority	Provincial Treasury & report to AGSA	
<b>Event 4: Detecting a Financial Misconduct, Fraud and Corruption – Implicating Accounting Officer</b>	NTR 4.1.3 & 4.1.4	Executive Authority	Provincial Treasury	n/a	n/a
<b>Event 5: Detecting Fraud and Corruption – Implicating Political Office Bearer</b>	Sec 18(2)(g)*	Provincial Treasury	Director General & Premier	n/a	n/a

### **10. SELF ASSESSMENT**

The Audit Committee should conduct self-assessment or self-evaluation annually.

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**11. DISCLOSURE**

Should any member of the Audit Committee have any possible conflict of interest in general with regards to DRDAR and its service providers, or on the items to be discussed, he/she must disclose to the Audit Committee. Such member shall recuse themselves from the discussion.

**12. REVIEW**

The Audit Committee Charter must be reviewed at least once per annum.

**13. APPROVAL**

**Prepared by:**

  
\_\_\_\_\_  
Ms M Gomba  
Acting CAE

31/03/2016  
Date

**Endorsed by:**

  
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Mr LL Ngada  
Superintendent General

4/04/2016  
Date

**Approved by:**

  
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Ms GE Diutwileng  
Chairperson: Audit Committee

04/04/2016  
Date