



AUDIT COMMITTEE

CHARTER

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GENERAL DEFINITIONS

1. In this Audit Committee and Performance Audit Committee Charter, unless the context indicates otherwise, a word or expression to which a meaning has been given, has the same meaning: –

Accounting Officer	:	means the Municipal Manager, referred to in section 60 of the Act
Act 2003	:	means the Municipal Finance Management Act(MFMA) 56 of 2003
Committee	:	means the Audit Committee (AC) Committee established in terms of Section 166 of the Act
Chief Audit Executive (CAE)	:	means the Head of the Internal Audit Unit of the Senqu Municipality
Chief Financial Officer (CFO)	:	means the employee designated in terms of section 80(2)(a) of the Act
Local Municipality	:	means a municipality that shares municipal executive and legislative authority in its area with a district municipality within whose area it falls, and which is described in section 155(1) of the Constitution as a category B municipality
Employee	:	means a person in the employ of the Local Municipality
External Auditors	:	means the Auditor – General South Africa (AGSA)
Internal Audit Function	:	means in-house or outsourced internal auditors

INTRODUCTION AND PURPOSE

2.1 The committee is constituted in terms of s66 of the Act and performs responsibilities assigned to it by s65 of the Act and corporate governance code (King III).

2.2 The committee is a specially appointed subcommittee of council to assist the municipality in the execution of its duties. The committee performs an advisory role to the municipality and is accountable to council to properly consider and evaluate any matter that it has to deal with or is referred to it.

2.3 The purpose of the committee is to assist and advise council in fulfilling its oversight responsibilities for the reporting process(financial and non financial), the system of internal control over reporting, the audit process, performance management and evaluation, council's process for monitoring compliance with laws and regulations and council's code of conduct.

2.4 The charter shall be reviewed annually and updated to ensure relevance and consistency with the MFMA, Municipal Systems Act (No 32 of 2000) and other related regulations, guides and best practice.

2.5 Following approval, the audit committee charter shall be published on the municipal website to promote awareness to all stakeholders.

THE COMMITTEE'S MANDATE

3.1 The broad objectives of the committee are the following:-

- a) The committee is advisory in nature and does not have any executive powers.
- b) The committee will consider matters relating to management and the council in the discharge of its duties to safeguard assets, operate adequate systems and controls, and prepare annual financial statements, and on matters relating to performance management and performance evaluation.
- c) The committee will not perform any management functions or assume any management responsibilities as this could prejudice its objectivity. It will make recommendations to the council in respect of the activities which form part of its terms of reference / responsibilities *(as set out in section 4 below)*.

COMPOSITION

4. The appointment of committee members is set out in section 166(5) of the MFMA 53 of 2003. The committee members are appointed by the council and shall consist of at least three (3) members. No councillor may be a member of the audit committee.

Appointment of Members

4.1 The members of the committee shall, amongst themselves, appoint a chairperson. The chairperson of the committee must be independent and shall not be any person in the employ of the municipality and may not be a political office bearer.

4.2 All members appointed to the committee shall enter into a contract with the municipality setting out the terms and conditions of service.

Qualities of Members

5.1 When appointing the chairperson of the audit committee the following factors must be considered:

- Must have good standing and ability to lead discussions;
- Creates vision and provides direction at meetings;
- Builds municipal capabilities by guiding management based on expert knowledge and skills; Promotes and achieve quality outcomes at meetings;
- Has the ability to speedily and effectively advise council or the board of directors of any impending non-compliance with the legislative framework;
- Has the ability to encourage other members to participate in audit committee meetings; and
- Conducts meetings in a manner that demonstrates a desire to establish effective communication with all stakeholders.

5.2 The following factors must be considered when appointing ordinary members for the committee to ensure that suitable candidates are appointed and that the composition is well balanced:

- Must be able to perform the role as advisor to management;
- Build relations and communicate effectively with management;
- Carefully review information received and obtain clarification from management as and when appropriate;
- Raise relevant questions, evaluate responses and follow up on any matter that is unclear;
- Conduct responsibilities in the context of the municipality's strategic objectives and overall corporate governance of the council;
- Act independently and be proactive in advising the accounting officer regarding issues that require further management attention;

- Encourage openness and transparency;
- Have a professional approach to performing duties, including commitment of time and effort and; each committee member must be independent and appropriately skilled.

Skills and Experience

6.1 Members shall be selected from different areas of expertise to enhance the audit committee's overall knowledge of the municipality and the ability to discharge its obligations and provide appropriate recommendations to the council.

6.2 The appointed members shall collectively possess the following skills and experience:

- Private and public sector experience;
- An understanding of service delivery priorities;
- Good governance and/or financial management experience;
- An understanding of the role of council and councillors;
- An understanding of the operations of the organization;
- Familiarity with risk management practices;
- An understanding of internal controls;
- An understanding of major accounting practices and public sector reporting requirements;
- An understanding of public sector reforms;
- Familiarity with legislation applicable to municipalities;
- An understanding of the roles and responsibilities of internal and external auditors;
- An understanding of the treatment of allegations and investigations; and
- An understanding of the performance management system.

6.3 The National Treasury guidance on the skills and experience of members that would enhance the audit committee representation and its performance to offer objective and quality advice in the local municipality with services will be considered as follows:

- Financial Management
- Legal
- Admin and Governance (i.e. Internal Audit, Risk Management, IT, Human Resources, Planning, etc).

- Performance Management
- Medical practitioner, Engineers (i.e. Civil, Electrical, Environment etc).

6.4 Audit committee members may not serve on more than three local government audit committees simultaneously as this practice can impact negatively on performance of audit committees contributing to their ineffectiveness, except in the case of shared audit committees.

Membership and Independence

7.1 To enhance the audit committee functioning and ensuring that it exercises its responsibilities in an objective manner, the following is required:

- All members should be independent of the municipality
- All members should not be biased but exhibit an independence of mental attitude during deliberations
- All audit committee members should declare private and business interest in every meeting; and
- All members should not carry out any business with the municipality.

Term of Office

8.1 The chairperson shall be appointed for a minimum of three years to ensure that he/she contributes most effectively and provides stability to the audit committee.

8.2 Other audit committee members shall serve at least a minimum of three years with an option to renew for another three years, based on performance.

8.3 The recruitment process of new members shall be concluded at least three months in advance of the expiry of existing members term to prevent a loss of knowledge and skills in the committee.

8.4 The head of internal audit and the accounting officer must maintain records of audit committee members contracts and ensure recruitment is undertaken as mentioned above.

8.5 Members of the audit committee shall not be contracted continuously for a period exceeding six years. After serving consecutively for six years, a cooling off period of two years shall be provided for, before appointing the same member to the same audit committee.

8.6 Members may not terminate their contracts until they have shared their knowledge with other new members. A committee member should give two (2) months written notice prior to resignation.

8.7 Upon termination, the committee members shall have an exit meeting with the council to discuss the reason for leaving and to provide feedback on their experience on the audit committee as well as any other issues.

8.8 Committee members may be dismissed by the municipal council under certain circumstances (e.g. Where an on-going conflict of interest exists, where a member has not performed to

expectations etc) and the outcome of the dismissal process should be in writing. The municipality's official dismissal processes shall be adhered to by the Accounting Officer and Municipal Council.

8.9 The date of resignation or dismissal shall be minuted by the secretariat of the audit committee.

Induction of Members

9.1 The CAE in consultation with the accounting officer shall facilitate a formal process of induction.

9.2 The induction process should entail sufficient briefings and information on the roles, responsibilities, accountability and management's expectations of the audit committee must be clarified.

9.3 Induction of members may also be facilitated by Provincial Treasury or National Treasury, upon request.

9.4 New members shall be introduced to external auditors and be briefed by the accounting officer, chief financial officer, chairperson of the audit committee and the head of internal audit.

9.5 The following information shall be provided to new members:

- The municipality's governance and operational structures and how the audit committee operates within this structure;
- Copy of the audit committee's charter, including any policies, recent audit committee minutes, audit management letter,, including details of outstanding issues, council resolutions and recommendations presented to the municipal council;
- Copies of the relevant legislation;
- Copies of the latest municipalities' annual report, annual financial statements, integrated development plan, budgets, service delivery and budget implementation plans, in-year reports, code of conduct, performance agreements, risk register and risk management plans;
- Information from management and the internal auditor on the risk profile, status of internal controls and system of delegation; and
- A copy of the internal audit charter and annual operational plans, among others.

Reporting to Council

10.1 The chairperson of the audit committee will report on a quarterly basis, or more frequently if required, to the municipal council on the operations of the internal audit unit and the audit committee.

10.2 The report should include:

- A summary of the work performed by the internal audit and the audit committee against the annual work plan;

- Effectiveness of internal controls and additional measures that must be implemented to address identified risks;
- A summary of key issues dealt with, such as significant internal and external audit findings, recommendations and updated status thereof;
- Progress with any investigations and their outcomes;
- Details of meetings and the number of meetings attended by each member; and
- Other matters requested of the internal audit and audit committee.

10.3 The audit committee shall prepare a report annually which will be incorporated into the municipality's annual report covering:

- Functions performed by the audit committee and meetings attended;
- Resolutions taken by council and implementation status of recommendations made; and
- Other relevant comments that may enhance governance and accountability.

10.4 The chairperson of the audit committee must submit a copy of its report at least annually, or at other intervals, to the Municipal Public Accounts Committee (MPAC), for consideration during the MPAC engagements on the oversight report.

10.5 The chairperson of the audit committee must always be available whenever MPAC needs clarity on the report of the audit committee.

10.6 The roles, responsibilities and outputs of the internal audit and audit committee must assist to inform the work of the MPAC and other oversight structures.

10.7 Signed minutes of the committee must be timeously submitted to the Mayoral Committee for information.

Authority

11.1 The audit committee shall have the authority to perform functions, and to obtain any information and advice, from within or outside the municipality, in order to perform its functions as legislated.

11.2 Appropriate resources will be made available to the audit committee to perform its functions as agreed in this charter.

11.3 The Audit Committee may:

- communicate with the council, municipal manager or the internal and external auditors of the municipality;

- have access to municipal records containing information that is needed to perform its duties or exercise its powers;
- request any relevant person to attend any of its meetings, and, if necessary, to provide information requested by the committee; and
- conduct investigations into the financial affairs of the municipality, as may be requested by the council of the municipality.
- The MPAC, in discharging its responsibilities, may make use of any information provided by the audit committee to avoid duplication of effort.

Remuneration of Members

12.1 The members of the audit committee shall be remunerated for time spent in attendance of audit committee meetings.

12.2 The municipality may utilise the rates provided by the National Treasury, from time to time.

12.3 The accounting officer or his/her delegate if deemed necessary, and in consultation with the municipal council, may determine other remuneration, provided that:

- (i) The terms of reference are properly defined in terms of time and cost; and
- (ii) If applicable, the remuneration is considered taking into account the tariffs as determined by the Institute that regulates the profession that the member belongs to.

12.4 Remuneration will only be applicable to officials employed outside the public service. No remuneration for participating in audit committees will be payable to officials employed at national, provincial and local government, its agencies or other entities regarded as falling within the definition of an organ of state, except for out of pocket expenses which may be reimbursed.

12.5 The above will become effective for new members of audit committees, from the November 2012 (i.e. date of MFMA Circular 65) and current contracts for existing members will run its course.

12.6 The reimbursement of all members for travel expenditure will be determined in accordance with the approved council policy or the rate per kilometre as published and updated by the National Department of Transport.

12.7 The chairperson and members of the audit committee, including members who are employed in the public service, will be required to complete all particulars of their respective travel to and from the venue of the audit committee meetings.

12.8 In the event that a senior official from one municipality is requested to serve as a member of an audit committee of another municipality, such senior official must first obtain written consent from the accounting officer before accepting such nominations. The remuneration discussion above will apply.

Performance Assessments

13.1 The audit committee shall assess its performance and achievements against its charter on an annual basis.

13.2 The assessment would cover the performance of the individual member as part of the overall audit committee with reference to the particular skills the member has brought to the audit committee as a whole.

13.3 The findings of the self-assessment should be presented by the chairperson to the accounting officer and municipal Council.

13.4 Where the self-assessment highlights a need for enhancements to the role, operational processes or membership of the committee, the chair should take action to ensure that such enhancements are implemented.

13.5 The chairperson may consult with the accounting officer and municipal council to obtain appropriate support to ensure all enhancements are implemented when necessary.

13.6 The audit committee may decide whether the use of an external facilitator to provide assistance with, or to supervise the self-assessment process is required.

13.7 In the case where an external facilitator was used, the chairperson and external facilitator should provide feedback to the audit committee members and present the findings of the evaluation to the accounting officer and municipal council.

13.8 Where the audit committee is not performing in accordance with their charter and this has been observed by various stakeholders such as for example, internal audit, external audit or management, this should be brought to the attention of the accounting officer and municipal council.

13.9 If an individual audit committee member is not performing, then the member must be given an opportunity to address such with the municipal council.

13.10 At the last meeting of each year, the committee shall conduct an evaluation of the committee's Terms of Reference, the constitution of the membership for the ensuing year and will make any recommendations to improve the effectiveness of the committee, as may be required.

ROLES AND RESPONSIBILITIES

Internal Audit function

14.1 The committee should ensure that the internal audit function performs its responsibilities effectively and efficiently through:

- Ensuring that the charter, independence and activities of the internal audit function are clearly understood and respond to the objectives of the municipality and the legal framework;

- Regularly review the functional and administrative reporting lines of the internal auditor to ensure that the organizational structure is consistent with the principles of independence and accountability;
- Review and approval of the internal audit charter, annual operational including three (3) year internal audit strategic plan and ensure that these plans are flexible and further review achieved performance against these plans.
- Advise the municipality on resources allocated to give effect to the work outputs of the internal audit function;
- Ensure that there is support for the internal audit unit and external auditors from senior management;
- Confirm with management that internal audit findings are submitted to the audit committee on a quarterly basis;
- Review internal audit reports on the implementation and results of the annual audit plan including special tasks(adhoc assignments) requested by management and the audit committee;
- Confirm actions taken by management in relation to the audit plan;
- Meet with the internal auditors at their request as they deem necessary;
- Review results of the Quality Assurance Improvement Program reviews;
- Consider and review reports relating to difficulties encountered during the course of the audit engagement, including any scope limitation or access to information reported to the accounting officer that remain unresolved;
- Evaluate the performance of internal audit activity in terms of the agreed goals and objectives as captured in the audit plan;
- Ensure that the head of internal audit has reasonable access to the chairperson of the audit committee;
- Concur with any re-assignment, appointment and termination of the services of the CAE.

External Audit

15.1 The audit committee must in relation to external audit:

- Take cognizance of the scope of work undertaken by the external auditor and the extent of co-ordination with the internal audit unit;
- Review reports and monitor management's implementation of audit recommendations and municipal council resolutions in the new financial year;
- Review the report on the financial statements and matters raised therein for reasonability and accuracy;
- Review any interim reports issued in order to take cognizance of the issues raised in determining the follow up work of the internal audit;
- Conduct a review of the extent to which previously reported findings by the external auditor have been addressed by the municipal council;
- Provide advice to the accounting officer on actions taken relating to significant matters raised in external audit reports;
- Liaise with the external auditors on any matter that the audit committee considers appropriate to raise with the external auditor;
- Ensure that the external auditors have reasonable access to the management and chairperson of the audit committee;
- Address any potential restrictions or limitations with the accounting officer and council;
- Address outstanding matters raised by the external auditors and any findings are dealt with conclusively in an expeditious manner.
- Review of the plan, audit fees and scope of external audit with regards to the critical risk areas and the sufficiency of audit coverage and procedures, including coordination with the internal audit function;
- Review and confirm the independence of the external auditors, with specific reference when the work is outsourced by the AGSA, by reviewing the non-audit services provided and the auditor's assertion of their independence in accordance with the relevant Auditing Standards;
- Consider significant disagreements between the external auditors and management;
- Meet with external auditors at their request as they deem necessary; and

Annual Financial Statements

16.1 The accounting officer must prepare Annual Financial Statements (AFS) of the municipality within two months after the end of the financial year to which those statements relate, submit the statements to the Auditor-General for auditing. (This should be linked to the MFMA calendar).

16.2 The audit committee must review AFS two (2) weeks before submission to the Auditor-General.

16.3 According to section 166 (2)(b) of the Act, the committee must review the AFS to provide the council of the municipality with an authoritative and credible view of the financial position of the municipality by:

- Confirming if the municipal audit file is prepared in line with the applicable standards and guidance contained in MFMA Circular 50, or as updated;
- Reviewing the unaudited AFS of the municipality to ensure that the quality, integrity and content is consistent with applicable standards and compliant with the legal framework.
- Evaluating the annual financial statement of the municipality for reasonableness, completeness and accuracy, and provide comment thereon, on a timely basis;
- Considering the Auditor-General's opinion on the quality and appropriateness of the municipality's accounting policies
- Reviewing efficiency and effectiveness of internal controls over AFS preparation and reporting.

16.4 Specifically with regards to Annual Financial Statements, the Audit Committee should review and challenge the following, where necessary:

- Arithmetical accuracy and consistency;
- Consistency of, and any changes to, accounting policies, comparing to prior years;
- Methods used to account for significant or unusual transactions where different approaches are possible.
- Whether the municipality has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account previous audit outcomes;
- The quality of disclosure in the Municipality's financial reports and the context in which statements are made;
- All material information presented with the financial statements, such as the operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management);

- All material issues in prior reports by the AGSA have been appropriately accounted for, resulting in fair presentation;
- Conduct analysis of trends and other financial ratio calculations e.g. year-on-year comparisons and composition of primary group e.g. salaries as a component of operations, whether operations are undertaken on a sustainable basis, operations at surplus or deficit, efficiency and solvency ratios, etc.

Risk Management Activities

17.1 The committee should ensure that there are procedures in place to effectively manage risks brought about by complexity, challenge and change. It should therefore ensure that the council has a risk management policy in place and there are procedures to identify and monitor these risks.

17.2 In order to carry out this responsibility, the committee should be informed of and provide an independent and objective view of the effectiveness of the municipality's risk management by considering the following matters:

- The overall risk management processes in the municipality;
- The typical risks inherent to the functions and activities of the municipality as well as the management and control of such risks;
- Areas where there has been a major change in the risk factors; and
- Details of the action plans of management to control the level of risk.

17.3 The audit committee must also provide feedback to the accounting officer and municipal council on the adequacy and effectiveness of risk management in the municipality.

Control Environment

18.1 The audit committee members need to have a good understanding of the control Environment and in fulfilling this responsibility the committee should:

- Ensure that management follows a sound process to draw conclusions on the adequacy and effectiveness of the system of internal control;
- Establish whether management has relevant policies and procedures in place and that these are adequate, effective and regularly updated;
- Consider measures applied on any required changes to the design or implementation of internal controls;
- Determine whether appropriate processes are followed and complied with on a regular basis

- Assess steps taken by management to encourage ethical and lawful behaviour; financial discipline and accountability for use of public resources.
- Understand the scope of internal and external auditors' review of internal control over financial reporting and obtain reports on significant findings and recommendation, together with management's responses;
- Review the content, quality, adequacy, reliability and accuracy of the financial information (monthly and quarterly reports) provided to council and other users of such information.
- Review any accounting and auditing concerns identified as a result of internal and external audits performed.
- Review the Auditor-General's management letter and management's response and action plans.
- Review significant adjustments resulting from the audit.

Performance Management

19.1 The committee shall review the municipality's performance management system and make recommendations in this regard to the council for its improvement.

19.2 At least twice during a financial year submit an audit report to council in respect of the performance measurements of the municipality.

19.3 In viewing the municipality's performance management system the committee should focus on economy, efficiency, effectiveness and impact in so far as the key performance indicators and targets set by the municipality are concerned.

19.4 The audit committee members should have a good understanding of the performance of the Municipality. These include:

- Review and comment on compliance with statutory requirements and performance management best practices and standards;
- Review and comment on the alignment of the Integrated Development Plan, the Budget, Service Delivery and Budget Implementation Plan and performance agreements;
- Review and comment on relevance of indicators to ensure they are measureable and relate to services performed by the municipality.
- Reviews compliance with in-year reporting requirements;
- Review the quarterly performance reports submitted by internal audit;
- Reviews and comments on municipality's AFS and timely submission to the Auditor-General by 31 August, each year;

- Review and comment on the municipality's annual reports within the stipulated timeframes;

Information Technology (IT) Governance

20.1 The audit committee shall provide advice on IT governance, controls, access and safeguarding of information in the municipality.

20.2 When deemed necessary, specific expertise may be required from within or outside the municipality from time to time, to assist the internal audit unit and audit committee formulate recommendations on systems and controls.

20.3 The committee must advise on the appropriateness of disaster recovery and continuity plans supporting IT risks, regular testing and evaluation of plans, systems and processes.

Compliance Management

21.1 Review the effectiveness of the systems for monitoring compliance with laws and regulations and the results of management's investigation and follow up (including disciplinary actions) of any instance of non-compliance;

21.2 Ensure that the committee's activities comply with all requirements, as determined by any applicable legislation and regulations promulgated there under, as well as any regulatory / supervisory authority and shall review the municipality's compliance with any statutory requirements and regulations, in respect of accounting and financial reporting;

21.3 Request and consider reports and presentations by management on measures implemented to ensure compliance with statutes, internal policies, procedures and controls, including accounting systems and record keeping controls, information systems and technology controls, internal auditing processes, management information systems and reports applied to the day to day management of the municipality's business, and review the internal control structure including financial control, accounting systems and reporting; and

21.4 Consider the impact of new legislation on the affairs of the municipality.

Special Investigations

22.1 Where circumstances necessitate, the committee may undertake special investigations referred to it by the Mayoral Committee and the Accounting Officer.

Meetings

23.1 The audit committee shall meet at least four times in a financial year and must meet annually with the external auditors to ensure that there are no unresolved issues of concern.

23.2 The secretariat responsibilities shall be performed by the internal audit or as otherwise as determined by the accounting officer. This includes providing all administrative support to the audit committee meetings, sending invitations and documentation to members, coordinating and

compiling of audit committee meeting documentation, taking minutes at audit committee meetings, preparing all logistical arrangements relating to audit committee meetings, including arrangement for the prompt payment of claims and fees, etc.

23.3 Notice of each meeting shall be given in writing to all members of the committee, at least fourteen (14) days prior to the date on which such meeting is to be held.

23.4 The audit committee secretariat in the municipality must ensure that the required preparation for the meeting of the audit committee is finalized at least 7 days before the commencement of the meeting. Any person attending the meeting may add items to the agenda up to three (3) days before the agenda is finalised.

23.5 The secretary shall prepare draft minutes of the meeting for review by the chairperson within ten (10) working days of a meeting. The minutes shall be tabled at the next meeting of the committee for adoption.

23.6 The following persons shall have a standing invitation to the audit committee and attend all meetings:

- Municipal Manager;
- Head of Internal Audit of the municipality;
- Chief Financial Officer;
- External Auditor;
- Provincial Treasury;
- National Treasury; and
- Any other person on invitation by the chairperson of the Audit Committee
- Other members of management may be invited to attend committee meetings when there is a functional responsibility to be discussed.

23.7 The CAE, in consultation with the chairperson of the audit committee, must determine the time frames of all meetings. In light of the financial implications, the accounting officer in consultation with the chairperson of the audit committee must agree, if meetings go beyond a one day sitting.

23.8 In light of the financial implications, the accounting officer in consultation with the chairperson of the audit committee must agree, if meetings go beyond a one day sitting

Indemnity of Members

24.1 The members of the committee will use reasonable skill and care in the provision and delivery of the services and the deliverables required.

24.2 All findings and recommendations will be made by the committee in good faith and based on information available at the time. Accordingly, no statement in any report, letter or other document issued or adopted by the committee is to be deemed to be in any circumstances a representation, undertaking, warranty or guarantee and no claim whatsoever will lie against the committee if such statement proves inaccurate.

Confidentiality

25.1 The committee undertakes that it will not, at any time, disclose confidential information to any third party for any reason or purpose whatsoever without the express prior written consent of Senqu municipality.

Quorum

26.1 The quorum for meetings will be any two of the three members of the audit committee referred to in sub-paragraph 4 above.

APPROVAL

27.1 Audit Committee Charter is endorsed by the Chairperson of the Committee and approved by the Council of the Municipality.



Audit Committee Chairperson



Mayor

Date: 10.12.13

Date: 10.12.2013