



**CHARTER AND TERMS OF REFERENCE:  
AUDIT AND RISK COMMITTEE**

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## **1. INTRODUCTION**

- 1.1 The Board has a responsibility to appoint the Audit, and Risk committee (Committee) in terms of Section 166 of the MFMA for Amathole Economic Development Agency (SOC) Limited trading as ASPIRE ("ASPIRE"). The Audit and Risk Committee is an independent advisory committee of the Board and is established to assist the Board to oversee the risk and financial affairs of ASPIRE. The Audit and Risk Committee shall at all times be accountable to the Board for its activities.
- 1.2 The Audit and Risk Committee Charter ("the Charter") sets out the specific responsibilities delegated by the Board to the Audit and Risk Committee and details the manner in which the Audit and Risk Committee will operate and is subject to an annual review by the board.
- 1.3 This Charter should be read in conjunction with the Articles of Association of ASPIRE.

## **2. OVERALL OBJECTIVE**

- 2.1 As provided in the MFMA section 166 (2), the role and objectives of the Audit and Risk Committee shall be to-
  - (a) advise the Board, the accounting officer and the management staff of ASPIRE 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 Board of Directors of ASPIRE, with an authoritative and credible view of the financial position of the organization, 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 Board on any issues raised by the Auditor-General in the audit report;
  - d) carry out such investigations into the financial affairs of the organization as the Board of Directors of the entity, may request; and
  - e) Perform such other functions as may be prescribed.

2.2 The Audit and Risk Committee, in carrying out its objectives, will have due regard to the principles of governance and code of best practice as contained in the King Report on Corporate Governance for South Africa 2009 ("King III").

### **3. COMPOSITION**

3.1 Audit and Risk Committee will consist of at least three (3) but not more than five members appointed by board

3.2 Committee shall be appointed for a period of three years as determined by the Board;

3.3 The Chief Executive Officer, CFO and other executive directors and representatives of the external and internal auditors shall attend Audit and Risk Committee meetings but shall not be members thereof;

3.4 The Board shall appoint a Chairperson of the Audit and Risk Committee and determine the period for which he/she shall hold office. Such Chairperson must have the requisite financial and leadership skills and must have no financial interest in ASPIRE or ADM;

3.5 The Audit and Risk Committee will not be a replacement of the board's responsibility or perform any oversight functions but will provide assurance regarding the quality, reliability of both the financial information used by the board as well as the financial statements issued by ASPIRE and provide recommendations to the board resulting from activities carried out by the Audit and Risk Committee.

### **4. TERM OF OFFICE**

Members of the committee shall be appointed for a minimum period of at least three (3) years with an option to renew for another three years based on performance.

### **5. MEETINGS**

5.1 The Audit and Risk Committee shall meet at least four (4) times per financial year.

5.2 Special meetings of the Audit and Risk Committee may be convened with the Committee chairperson's approval. Any member of the Audit and Risk Committee, the Chief Executive Officer, External Auditors and Internal Auditors may request a special meeting if they consider it necessary.

5.3 Reasonable notice (at least 10 days) of meetings and the business to be conducted shall be given to the members of the Audit and Risk Committee, the Chairperson of the Committee, the Chief Executive Officer and Director of Finance of ASPIRE, the Internal Auditors and the External Auditors to make proposals as necessary.

5.4 The agenda of the meeting shall be prepared and distributed at least seven (7) days prior to the meeting date. Any person attending the meeting may add items to the agenda



three (3) days before the agenda is finalised. Such items shall be provided to the Company secretary.

- 5.5 The quorum for meetings to proceed and decisions making shall be 50% plus one of the Audit and Risk committee members.
- 5.6 The Committee shall consider the necessity of meeting separately from time to time with management and the external and internal auditors to discuss any matters that should be discussed privately
- 5.7 The members of the Audit and Risk Committee and any person in attendance shall complete the attendance register and declare their interest in any matter that has been put on the agenda for the meeting of the Committee.
- 5.8 The Chairperson of the Committee shall excuse from any meeting or part thereof any member or attendee who could in the opinion of the Chairperson have any actual or perceived conflict of interest.
- 5.9 If any member is absent from two (2) consecutive scheduled meetings without reasons for such absence his or her appointment to the Audit and Risk Committee may be terminated by the Board on recommendation of the Committee.
- 5.10 Only committee members shall be entitled to vote and each member will count for one vote. In the event of a deadlock, the matter will be referred to the Board for a decision
- 5.11 Decisions of the Audit and Risk Committee will be taken at meetings of the Committee and only in emergency situations will the Committee consider matters on a round robin resolution (Written Resolutions) basis. In such instances Company Secretary will circulate the resolution and supporting documentation electronically to all members and members will be expected to respond as required in terms of the Round Robin (Written Resolution Procedure) Attached hereto.
- 5.12 The Company Secretary or such nominated person by him/her shall be the secretary of the Audit and Risk Committee and shall circulate the minutes of the meetings to all members of the Committee within 10 working days following a meeting of the Committee for comment. Such minutes will be approved at the next meeting of the Committee and copies will be submitted to the board for information purposes.
- 5.13 Formal minutes of meetings must be signed by the Chairperson of the committee to be kept safe by the Company Secretary;
- 5.14 The Company Secretary shall also record the proceeding electronically and such tapes will be kept by him/her in a safe place for future references.

## **6. REPORTING**

- 6.1 All recommendations, directions, decisions and resolutions of the Committee shall be recorded by the Company secretary in the minutes of the meetings.
- 6.2 The deliberations of the Committee will be confidential to the extent legally possible.
- 6.3 The Committee's advice to the Board will be in the form of written and verbal reports containing recommendations on matters addressed by the Committee.
- 6.4 The report will be submitted at the Board meeting following the Committee meeting.
- 6.5 The Board of Directors will have the final authority to accept or reject the recommendations of the Committee.

## **7. FUNCTIONAL RESPONSIBILITIES OF THE COMMITTEE**

### **7.1 The Committee will in respect of the external auditors:**

- 7.1.1 evaluate the independence, effectiveness and performance of the external auditor(s) and consider any non-audit services rendered by such auditors;
- 7.1.2 discuss and review, with the external auditor(s) before the audit commences, the auditor(s), engagement letter, the terms, nature and scope of the audit function, procedure and engagement, the audit fee, and to ensure co-ordination (where more than one audit firm is involved) and maintenance of a professional relationship between them;
- 7.1.3 negotiate procedures, subject to agreement, beyond minimum statutory and professional duties – there are certain minimum non-negotiable procedures required from the external auditors;
- 7.1.4 agree to the timing and nature of reports from the external auditor(s);
- 7.1.5 consider any problems identified in going concern or statement of internal control;
- 7.1.6 make suggestions as to problem areas that the audit can address;
- 7.1.7 consider accounting treatments, significant unusual transactions, or accounting judgments, that could be contentious;
- 7.1.8 identify key matters arising in the current year's management letter and satisfy itself that these are being properly followed up;

7.1.9 consider whether any significant ventures, investments or operations are not subject to external audit;

7.1.10 review overall audit role, to explore objectives, minimize duplication, discuss implications of new auditing standards and ensure that the external audit fee will sustain a proper audit and provide value for money;

7.1.11 agree to the timing and nature of reports from the external auditor(s);

7.1.12 obtain assurance from the external auditor(s) that adequate accounting records are being maintained.

## **7.2 The Committee will in respect of the Internal Auditors' responsibilities:**

7.2.1 monitor and supervise the effective functioning of the internal audit, ensuring that the roles and functions of the external audit with internal audit are sufficiently clarified and coordinated to provide an objective overview of the operational effectiveness of ASPIRE's systems of internal control and reporting. This will included *inter alia*:

7.2.2 consider the appointment in line with the SCM processes of the internal auditors; evaluate the independence and effectiveness of the internal auditors;

## **7.3 The Committee will in respect of the financial statements:**

Review the annual financial statement to provide Board with an authoritative and credible view of the financial position of the Municipal entity, its efficient and effectiveness and its overall level of compliance with the Act; and any other applicable legislation;

## **7.4 The Committee's responsibilities relating to corporate governance relates to the following:**

7.4.1 together with external and internal audit, to review developments in corporate governance and best practice and consider their impact and implications for ASPIRE's processes and structures;

7.4.2 to consider the disclosure about the role of the Committee to include in the annual report;

7.4.3 to annually review and if appropriate, update the Committee's own terms of reference as embodied in this Committee Charter, subject to the approval of the board;

7.4.4 to review ASPIRE's annual statement on its compliance with MFMA, Companies Act, GRAP and the King III Report on Corporate Governance prior to consideration by ADM;

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7.4.5. to evaluate and monitor the regulatory governance requirements and codes of business conduct within ASPIRE; and

7.4.6. to be available at all times to advise the Chairperson of the board and the board on any questions relating to the financial affairs and internal controls of ASPIRE.

**7.5 The Committee's responsibilities relating to risk management are:**

**7.5.1 Assessing:**

7.5.1.1 The procedures in place to identify and effectively manage risks in the Municipal entity;

7.5.1.2 The typical risks inherent to the functions and activities of the Municipal entity as well as the management and control of such risks;

7.5.1.3 Areas where there has been a major change in the risk factors; and

7.5.1.4 The action plans of management to control the level of risk, and advising accordingly.

**7.6 The Committee's responsibilities relating to compliance are to:**

7.6.1 Reviewing the effectiveness of the systems for monitoring compliance with laws and regulations and policies; and advising accordingly;

7.6.2 Ensuring that in executing its duties the committee activities complies with all applicable legislation and regulations as well as any regulatory authority;

7.6.3 Monitoring the Municipal entity compliance with any statutory requirements and regulations, in respect of accounting and financial reporting;

7.6.4 Considering 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 advising accordingly;

7.6.5 Reviewing the internal control structure including financial control, accounting systems and reporting and advising accordingly;

7.6.6 Considering the impact of new legislation on the affairs of the Municipal entity, and advising accordingly;

**7.7 The responsibility of the Committee relating to performance management system;**

7.7.1 the review of performance management by internal audit should include an assessment of the following:

(i) The functionality of ASPIRE's performance management system





(ii) The compliance of the performance management system with the Municipal System Act

## **7.8. Activities of the Committee in general**

7.8.1. In discharging its functions, the Audit and Risk Committee will:

- 7.8.1.1 review a quality of financial information interim and financial statements and other public and regulatory reporting;
- 7.8.1.2 review the annual report and accounts taken as whole to present a balanced and understandable assessment of the position, performance and prospects of ASPIRE;
- 7.8.1.3. review the credibility, independence and objectivity of the external auditors, taking into account their audit and non-audit fees. Where the auditors also supply a substantial volume of non-audit services to ASPIRE, the Committee should keep the nature and extent of such services under review, seeking to balance the maintenance of objectivity within value for money;
- 7.8.1.4. review the procedures for identifying business risks and controlling their impact on the affairs of ASPIRE;
- 7.8.1.5. review ASPIRE's policies for preventing or detecting fraud;
- 7.8.1.6. review significant cases of employee conflicts of interest, misconduct or fraud, or any other unethical activity by employees of ASPIRE; and
- 7.8.1.7 review the controls over significant risks;

## **8. REMUNERATION**

Having regard to the functions performed by the Audit and Risk Committee, members of the Committee shall be remunerated for each attendance and this remuneration shall be determined by the Board in accordance with the rates prescribed in the Board Remuneration Policy and in accordance with the financial viability of ASPIRE; whilst taking also in account the need to achieve quality results

## **9. AUTHORITY OF THE COMMITTEE**

9.1 The Committee is a sub-committee of the Board and derives its authority from the Board via these terms of reference, to which it will report on a regular basis.

9.2 The Committee has authority to investigate any matters within its responsibilities and to obtain such information as it may require from any director, officer or employee of the ASPIRE.

9.3 The Committee should always have due regard to the fact that it does not have independent and final decision making powers, but it makes recommendations to the Board, except for matters where the Board has expressly and in writing, authorised the Committee to take final decisions and implement them.

## 10. CHARTER REVIEW

The Company Secretary shall ensure that this charter is kept to up to date by reviewing it at least on an annual basis.

## 11. VACANCY

In the event of a vacancy occurring amongst the members of the Committee, the Board will make recommendations to the ADM to fill the position for the un-expired portion of the vacating member's term of appointment

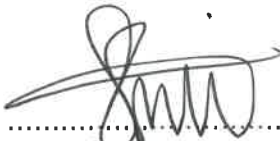
## 12. COMMITMENT

By their signature hereunder, the parties hereby commit themselves to the contents and provisions of Charter



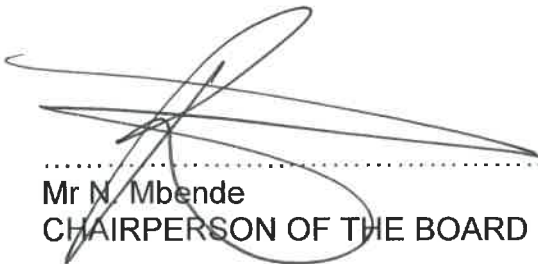
.....  
Ms N. Klaas  
CHIEF EXECUTIVE OFFICER

27/07/2017  
Date



.....  
Ms L. Smith  
AUDIT COMMITTEE CHAIRPERSON

3/8/2017  
Date



.....  
Mr N. Mbende  
CHAIRPERSON OF THE BOARD OF DIRECTORS