

MPUMALANGA PROVINCIAL GOVERNMENT

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Department of Finance

Litiko LeteTimali	UmNyango weZeemali	Departement van Finansies	Kgoro ya Matlotlo
Enquiries	:	Ms J Bezuïdenhout	
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PROVINCIAL TREASURY CIRCULAR 17 OF 2010

TO:

THE ACCOUNTING OFFICER: VOTE 1: OFFICE OF THE PREMIER (MR JM RABODILA)
THE ACCOUNTING OFFICER: VOTE 2: PROVINCIAL LEGISLATURE (MR RM MOROPA)
THE ACCOUNTING OFFICER: VOTE 3: FINANCE (MR M MAZIBUKO)

THE ACCOUNTING OFFICER: VOTE 4: COOPERATIVE GOVERNANCE AND TRADITIONAL AFFAIRS
(MR D MAHLOBO)
THE CONVENER: OPERATION CLEAN AUDIT PROVINCIAL COMMITTEE (MR B STRAUSS)

THE MUNICIPAL MANAGER: NKANGALA DISTRICT MUNICIPALITY (MR C MAKOLA)
THE MUNICIPAL MANAGER: EMALAHLENI LOCAL MUNICIPALITY (MR A) ANGELBREGHT)
THE MUNICIPAL MANAGER: STEVE TSHWETE LOCAL MUNICIPALITY (MR FJ FOUCHE)
THE MUNICIPAL MANAGER: EMAKHAZENI LOCAL MUNICIPALITY (MR O NKOSI)
THE MUNICIPAL MANAGER: DR JS MOROKA LOCAL MUNICIPALITY (MS M MATHIBELA)
THE MUNICIPAL MANAGER: VICTOR KHANYE LOCAL MUNICIPALITY (MR S WEBER)
THE MUNICIPAL MANAGER: GERT SIBANDE DISTRICT MUNICIPALITY (MR MA NGCOBO)
THE MUNICIPAL MANAGER: ALBERT LUTHULI LOCAL MUNICIPALITY (MR VN MPILA)
THE MUNICIPAL MANAGER: MSUKALIGWA LOCAL MUNICIPALITY (MR DV NGCOBO)
THE MUNICIPAL MANAGER: DIPALESENG LOCAL MUNICIPALITY (MR PB MALEBYE)
THE MUNICIPAL MANAGER: GOVAN MBEKI LOCAL MUNICIPALITY (DR LH MATHUNYANE)
THE MUNICIPAL MANAGER: EHLANZENI DISTRICT MUNICIPALITY (MR H MBATHA)
THE MUNICIPAL MANAGER: MBOMBELA LOCAL MUNICIPALITY (MS N MTHEMBU)
THE MUNICIPAL MANAGER: BUSHBUCKRIDGE LOCAL MUNICIPALITY (MR C LISA)
THE MUNICIPAL MANAGER: NKOMAZI LOCAL MUNICIPALITY (MR MR MKHATSHWA)
THE MUNICIPAL MANAGER: UMJINDI LOCAL MUNICIPALITY (MS SF MNISI)
THE ACTING MUNICIPAL MANAGER: PIXLEY KA SEME LOCAL MUNICIPALITY (MR K. MPUNGOSE)
THE ADMINISTRATOR: THABA CHWEU LOCAL MUNICIPALITY MR T. MOKALE)
THE ADMINISTRATOR: THEMBSILE HANI LOCAL MUNICIPALITY (MR T. TAALE)
THE ADMINISTRATOR: MKHONDO LOCAL MUNICIPALITY (MR K. MPUNGOSE)
THE ADMINISTRATOR: LEKWA LOCAL MUNICIPALITY (MR J. SINDANE)

PROVINCIAL AUDIT COMMITTEE FORUM

In terms of Section 166 of the Municipal Finance Management Act, No. 56 of 2003 (MFMA) each municipality must have an Audit Committee.

The Audit Committee is a critical component in ensuring the integrity of integrated reporting and financial controls, the proper identification and management of financial risks as well as ensuring the integrity of the reporting practices.

In terms of Chapter 2, section 5(4)(a)(i) of the MFMA, the Provincial Treasury must monitor compliance with this Act by municipalities and municipal entities.

At present there are existing bodies and structures in Provincial and Local Government level, separately providing guidance and leadership to Internal Audit. Albeit these Internal Audit functions exist, there remains a distinct lack of cohesion as well as absence of a common framework. In certain cases, Internal Audit is functioning efficiently and effectively and failing in others. This occurs on a broad level as well as specific level e.g. specific departments or municipalities fare well with regards to the functioning of their Audit Committees but not so well on the Internal Audit unit level or vice versa.

The inclusion of internal audit and audit committees in the Public Finance Management Act and the Municipal Finance Management Act is indicative of the importance attached to the role of these elements in improving financial governance and thereby improving service delivery.

The Auditor-General's reports continue to reveal ineffectiveness in the internal control environments (internal audit, risk management and audit committees), poor performance or absence of systems, especially financial management systems. This reality negatively impacts on the government's ability to deliver services, good governance and accountability.

The Provincial Internal Audit Unit in the Department of Finance was established in November 2007 to provide support to Provincial Departments, Municipalities and Public Entities with Internal Audit issues whereby it supports and monitors the capacity of Internal Audit units and Audit Committees. The evaluations performed on the effectiveness of Audit Committees indicated that some of these Committees need to be empowered and supported in order to be more beneficial to the entities that appointed them.

In order to address the challenges currently faced by the Audit Committees in the Province and the fact that the Department has a monitoring and capacity building role as provided by legislation, it was proposed that a Provincial Audit Committee Forum be established.

The purpose of the Provincial Audit Committee Forum is to:

- a. Improve frameworks and functioning of Audit Committees in the Province
- b. Strengthen systems of information and internal control to improve Corporate Governance in the Province

The attached draft Terms of Reference document sets out the membership, agenda items and other administrative arrangements regarding the proposed Provincial Audit Committee Forum for municipalities. Please note that a separate Forum will be established for provincial departments.

It is recommended that all Accounting Officers note the attached Terms of Reference for a Provincial Audit Committee Forum and supports the establishment of such a Forum in the Province.

It will be appreciated if the attached form could be completed and returned to the following official on or before 30 June 2010:

Ms J Bezuidenhout

General Manager: Financial Governance

Department of Finance


No. 7 Government Boulevard, Building 4, Upper Ground, Nelspruit

e-mail: bezuidenhout@mpg.gov.za

Fax: (013) 766-9243

Thank you for your co-operation in this regard.

Regards



MR. M. MAZIBUKO
HEAD OF DEPARTMENT
DATE: 02/07/2010

PROVINCIAL AUDIT COMMITTEE FORUM

EVALUATION FORM

MUNICIPALITY: _____

1.	I support the establishment of a Provincial Audit Committee Forum for municipalities	Yes / No
2.	If 1 above is "No", please provide reasons as well as alternative proposals _____ _____ _____ _____ _____ _____ _____ _____ _____ _____ _____ _____ _____ _____ _____	
3.	I noted the Terms of Reference and agree to the content	Yes / No
4.	If 3 above is "No", please provide proposed amendments to the document _____ _____ _____ _____ _____ _____ _____ _____ _____ _____ _____ _____ _____ _____ _____	

Completed by:

Name: _____ **Signature:** _____ **Date:** _____

MPUMALANGA PROVINCIAL GOVERNMENT



PROVINCIAL AUDIT COMMITTEE FORUM MUNICIPALITIES DRAFT TERMS OF REFERENCE

1. BACKGROUND

The audit committee is an extension of senior management that performs an oversight function but it remains responsible to the accounting officer. The role of the audit committee is to consider the Internal Audit plans and activities of an organisation and management's plans and processes regarding good governance. The audit committee takes a special interest in all communications that affect how an entity is audited and should therefore also take note of the external audit plans and activities. It provides one of the channels for communication between customers, management and the internal and external auditors. The audit committee positively influences the entity status of the Internal Audit function and fosters an independent climate for its operation.

New challenges are contributing to the expansion of the role of audit committees. These challenges include:

- Globalization of markets;
- Increasing use of technology, including networks, the internet and electronic data interchange;
- Increasing complexity of transactions, accounting standards and regulatory requirements;
- Economic difficulties and failure of businesses questioning the credibility of the reporting processes;
- Greater public concern about corporate ethics; and
- Calls for oversight in risk management processes.

In terms of King III, an independent audit committee fulfils a vital role in corporate governance. The audit committee is a critical component in ensuring the integrity of integrated reporting and financial controls, the proper identification and management of financial risks and the integrity of the reporting practices.

PROVINCIAL AUDIT COMMITTEE FORUM
MUNICIPALITIES
DRAFT TERMS OF REFERENCE

2. PURPOSE

The purpose of the Provincial Audit Committee Forum is to:

- a. Empower Audit Committees in the Province
- b. Exchange information to strengthen Corporate Governance in the Province

3. MEMBERS

Chairperson:

Chairperson of the following Audit Committee:

- Department of Finance (Provincial Treasury)

Members:

Chairpersons of the following Audit Committees:

- Gert Sibande District (shared)
- Albert Luthuli Local Municipality
- Pixley Ka Seme Local Municipality
- Dipaliseng Local Municipality
- Nkangala District Municipality (shared)
- Ehlanzeni District Municipality
- Mbombela Local Municipality
- Thaba Chweu Local Municipality
- Umjindi Local Municipality
- Bushbuckridge Local Municipality
- Nkomazi Local Municipality

4. STANDING INVITATIONS

The representatives from the Department of Finance (Provincial Treasury) have standing invitations to the Committee meetings.

5. FREQUENCY OF MEETINGS

Committee meetings will take place every quarter after submission of quarterly reports by municipalities. Apologies must be submitted in writing to the Chairperson seven (7) working days before a meeting.

PROVINCIAL AUDIT COMMITTEE FORUM
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6. POWERS AND AUTHORITIES

The Committee is mandated to make recommendations to the MEC for Finance on issues identified during the Forum meetings.

7. TERMS OF REFERENCE

The Committee will:

- a. Create a provincial platform for Audit Committees of municipalities and interactions for knowledge sharing
- b. Provide quarterly feedback to the MEC for Finance on the programme activities and progress
- c. Take decisions on improvement of Corporate Governance issues to be implemented by Audit Committees

8. MATTERS FOR DISCUSSION

The members should report and discuss the following matters during Committee meetings:

- a. Procedures followed by Audit Committees to interact with Executing Authorities and Councillors
- b. Significant exposures identified in the organisation that may impact on the achievement of major objectives and goals and measures put in place to manage these exposures, including regular reporting from the Internal Audit Units
- c. Processes followed to substantially advance communication between the Audit Committee Chairpersons and the Internal Audit Units and management
- d. Recommendations by Audit Committee Chairpersons on the enhancement of skills and capacity of Internal Audit Units
- e. Recommendations by Audit Committee Chairpersons on the improvement of internal control measures and corporate governance
- f. Procedures followed by Audit Committees to determine if performance information is verified and Internal Audit Units add value by performing performance audits (addressing economy, effectiveness and efficiency)
- g. The process followed by Audit Committees to monitor how management has addressed and adhered to the internal and external audit findings.

Members should provide substantial evidence on the above matters when reports are provided to the Committee.

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9. QUORUM FOR DECISION-MAKING

A Quorum for decision-making will consist of 50% members plus one member present during a meeting.

10. CHAIRPERSON

The Chairperson of the Audit Committee for the Provincial Treasury will also serve as Chairperson of the Provincial Audit Committee Forum. In the absence of the Chairperson, the members will nominate a Chairperson for that specific meeting.

11. ADMINISTRATIVE ARRANGEMENTS

The Provincial Treasury will be responsible for the administrative arrangements for Committee meetings and other activities and also provide for secretariat services.

12. ADOPTION BY THE COMMITTEE MEMBERS

NAME	SIGNATURE

PROVINCIAL AUDIT COMMITTEE FORUM
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NAME	SIGNATURE