

**2023-2024 FINANCIAL YEAR**

**FINAL  
AUDIT COMMITTEE CHARTER**



**WINNIE MADIKIZELA-MANDELA  
LOCAL MUNICIPALITY**



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## 1. INTRODUCTION AND PURPOSE

a) The Audit Committee is established in terms of Section 166(1) of the Municipal Finance Management Act No. 56 of 2003, hereinafter referred to as the "MFMA". It also fulfills the functions of a performance management Audit Committee constituted in terms of Regulation 14(2) of the Local Government: Municipal Planning and Performance Management Regulations, 2001.

b) The purpose of this Charter is to set out the objectives, roles and responsibilities, composition, structure and membership requirements, relationships with other stakeholders, authority for the Audit Committee to conduct enquiries and access the Municipality's records and personnel, outlines procedures for meetings, addresses the confidentiality and independence of Audit Committee members, and provides for ethical conduct and reporting.

c) To assist Audit Committee in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control over financial reporting, the audit process, performance audit, the municipality's compliance with laws and regulations and the code of conduct.

d) The Charter shall be reviewed annually and updated (where needed) to ensure relevance and consistency with the MFMA, Municipal Systems Act No. 32 of 2000 and other relevant regulations, guides and best practice.

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

## 2. CONSTITUTION [MFMA Section 166(1)]

a) The Winnie Madikizela-Mandela Local Municipality (the Municipality) has established an Audit Committee as an independent advisory body in terms of Section 166 (1) of the MFMA.

b) The membership, resources, responsibilities and authorities (composition, functions and operation) of the combined Audit Committee (hereinafter referred to as "the Committee") to perform its role effectively, are stipulated in these terms of reference, which may be amended by Council annually. The Committee is constituted in terms of the requirements of sound corporate governance practices and operates within that framework.

c) The Committee should not perform any management functions or assume any control issues for developing relevant recommendations for consideration by the Council. The Committee should mainly make recommendations to the Council for its approval or final decision.

- c) In terms of best practice, the number and/or size of the committees can be increased to address the requirements, peculiarities, and needs of the municipality which will also be guided by the approved charter.
- b) No councillor may be a member of the audit committee.
- a) The appointment of audit committee members is set out in section 166(5) of the MFMA. The audit committee members are appointed by the council and shall consist of at least three (3) members with appropriate experience and skills.

**4. COMPOSITION**

- c) Appropriate resources will be made available to the audit committee to perform its functions as agreed in this charter.
- b) 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.

- Resolve any disagreements between management and the auditor regarding financial reporting.
- Seek any information it requires from employees-all of whom are directed to cooperate with the committee's requests or external parties.
- Meet with the municipal officials, external auditors, or outside counsel as necessary.

a) The audit committee has authority to conduct or authorise investigations into any matters within its scope or responsibility. It is empowered to:

**3.2 AUDIT COMMITTEE'S AUTHORITY**

- The audit 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.
- The audit committee relating to performance management and performance evaluation, systems and controls, and prepare annual financial statements, and on council in the discharge of its duties to safeguard assets, operate adequate powers.
- The audit committee will consider matters relating to management and the powers.
- The audit committee is advisory in nature and does not have any executive powers.

a) The broad objectives of the audit committee are the following: -

**3.1 AUDIT COMMITTEE'S MANDATE**

**3. THE AUDIT COMMITTEE'S MANDATE AND AUTHORITY**





**5. APPOINTMENT OF MEMBERS**

a) The council appoints the chairperson of the committee. 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.

b) The deputy chairperson shall be appointed by the council with affirmation from the executive to carry out duties of the chairperson in his/her absence.

c) The Accounting Officer in consultation with Executive Committee recommends the appointment of the chairperson of the audit committee to the council after the following factors has been considered:

- Has 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.

d) The following factors must be considered when appointing ordinary members for the audit 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;
- 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;
- Have a professional approach to performing duties, including commitment of time and effort and; each audit committee member must be independent and appropriately skilled

e) The Committee member should be both independent and financially literate.

f) Members should be selected from different areas of expertise to enhance the audit committee's overall knowledge of the municipality or entity and the ability to discharge its obligations and provide appropriate recommendations to the council. The skills set should include:

- Financial Management;
- Legal;



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

**6. TERM OF OFFICE**

a) The Council shall appoint the independent members and the member shall remain in office for a minimum period of three years, and will subsequently be at the discretion of Council for extension. [MFA: S166 (5)].

b) 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.

c) The Council shall have the power at any time to remove any members from the Committee and to fill any vacancies created by such removal.

d) 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 audit committee.

**7. INDUCTION OF MEMBERS**

a) A formal process of induction must be facilitated by the Manager: Internal Audit in consultation with the accounting officer.

b) During the induction of members, the roles and responsibilities of the audit committee must be clarified.

c) The induction process should entail sufficient briefings and information on their roles, responsibilities, accountability and management's expectations.

d) Induction of members can also be facilitated by Provincial Treasury or National Treasury, upon request.

e) New members should meet and be briefed by the accounting officer, chief financial officer, Chairperson of the audit committee and the manager internal audit. New members should also be introduced to the external auditors.

f) The information to be provided to new members should include:

- 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 minutes, audit management letter, audit opinion, including details of outstanding issues, council resolutions and recommendations presented to the municipal council;
- Copies of the relevant legislation;
- Copies of the latest municipality's 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 work plans, among others.

## 8. REPORTING AND ACCOUNTABILITY

a) 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.

b) 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;
- The audit committee's views on the effectiveness of the Manager: Internal Audit and the arrangements for internal audit;
- The audit committee's views on the effectiveness of the CFO and the finance function;
- The arrangements in place for combined assurance and the committee's views on its effectiveness;
- Details of meetings and the number of meetings attended by each member; and
- Other matters requested of the internal audit and audit committee.

c) 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 the Audit Committee and implementation status of recommendations made;
- A statement as to whether the audit committee is satisfied that the external auditor is independent of the municipality whereas the statement should specifically address the policy and controls that address the provision of non-audit services by the external auditor, and the nature and extent of such services rendered during the financial year.
- The audit committee's views on the quality of the external audit, with reference to audit quality indicators such as those that may be included in inspection reports issued by external audit regulators;
- Other relevant comments that may enhance governance and accountability.

d) The Chairperson of the Committee shall:

- Account to the Executive Committee for its activities, issues and related recommendations;



- Make recommendations to the Accounting Officer concerning the adoption of the annual financial statements and any other matters arising from the above responsibilities;
- Report annually to the Council and to the stakeholders of the Municipality, describing the Committee's composition, responsibilities and how they were discharged, and any other information prescribed;
- The Chairperson, or in his or her absence, a designated member of the Committee shall respond to the Council on any issues raised by the Office of the Auditor General in the audit report. **[MFMA - S166 (2) (c)]**;
- Provide an open avenue of communication between internal audit, the Auditor-General, and the executive committee; and
- Review any other reports the municipality issues that relate to the Committee's responsibilities.

**9. REMUNERATION AND REIMBURSEMENT**

- a) Having regard to the functions performed by the members of the Committee, and pursuant to the powers of the Council, external members of the Committee shall be paid such remuneration in respect of their appointment as shall be fixed by the Council annually with due regard to the municipality's financial ability and the necessity to achieve quality results at all times.

- b) Council shall determine the remuneration of the Committee in line with the guidelines issued by National Treasury. Should the accounting officer deem it necessary, he or she can, in consultation with the municipal council, determine other remuneration, provided that the charter properly define time and cost.

- c) Reimbursement for any reasonable expenditure incurred by Audit Committee members shall be considered by the Municipality at the conclusion of every meeting. Such reimbursement shall also be at the entire discretion of the Council, and in compliance with any statutory regulations and Council-approved rates/ tariffs governing such payment for expenditure incurred, and shall be paid against documentary proof thereof.

- d) 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.

**10. MEETINGS**

- a) Meetings of the Committee shall be held as frequently as the Committee considers appropriate but not less than four times a year. **[MFMA - S166 (4) (b)]**;

- b) All members should attend all meetings.

- c) Two (2) weeks' notice of the meetings and the business to be conducted shall be given to members of the Committee, Office of the Auditor General and to the





municipality's senior managers and the internal audit unit to make proposals as necessary.

d) The quorum for decisions of the Committee shall be 50+1% members of the Committee present throughout the meeting of the Committee.

e) In the event of the duly authorised representative of Office of the Auditor General not being present at meetings, copies of the agenda and minutes of each meeting shall be forwarded to the Office of the Auditor General for their information and records.

f) The chairperson, in his or her discretion, may invite Councillors or Officials to attend and be heard at meetings of the Committee. No such attendee shall have a vote at meetings of the Committee.

g) Members who have failed to attend at least 3 meetings in a financial year would be relieved from the committee by council. The Municipal Manager is responsible for submission of minutes of the Audit Committee to the Executive Committee and Council for information.

h) The audit committee should meet with internal auditors and Auditor-General at least once a year without management being present.

i) The Municipal Manager as well as the Internal Audit Unit shall attend meetings of the Committee in an advisory capacity only. The Chief Financial Officer and Senior Managers appointed in terms of section 56 of the Local Government: Municipal Systems Act (Act 32 of 2000) may attend Audit Committee meetings at the discretion of the Municipal Manager or at the specific invitation of the Chairperson of the Audit Committee.

j) The Internal Audit Unit shall provide the Secretariat function for the Committee.

## 11. PROCEEDINGS

a) Unless varied by these terms of reference, meetings and proceedings of the Committee will be governed by the Municipality's code regulating the meetings and proceedings of the Council and sub-committees of the Council.

b) Minutes of meetings shall be taken by the Secretariat and shall be reviewed and approved by the members of the committee.

## 12. PERFORMANCE ASSESSMENTS

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

b) 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.



- c) The findings of the self-assessment should be presented by the chairperson to the accounting officer and municipal Council.
- d) Where the self-assessment highlights a need for enhancements to the role, operational processes or membership of the audit committee, the chair should take action to ensure that such enhancements are implemented.
- e) The chairperson may consult with the accounting officer and municipal council to obtain appropriate support to ensure all enhancements are implemented when necessary.
- f) 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.
- g) 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.
- h) 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.
- i) If an individual audit committee member is not performing, then the member must be given an opportunity to address such with the municipal council.
- j) At the last meeting of each year, the audit committee shall conduct an evaluation of the audit committee's Terms of Reference, the constitution of the membership for the ensuing and will make any recommendations to improve the effectiveness of the audit committee, as may be required.

### 13. RESPONSIBILITIES OF THE AUDIT COMMITTEE

#### 13.1 Performance Measurement

- a) It has been agreed that the Committee shall also serve as a Performance Audit Committee and consider matters relating to performance management at least twice per annum in order to discharge the responsibilities prescribed in terms of Regulation 14 (4) of the Local Government: Municipal Planning and Performance Management Regulations, 2001.

#### These responsibilities include:

- Review of the quarterly reports submitted by internal audit on performance measurement;
- Review the performance management system ensuring functionality thereof; Compliance with the Act and make recommendations to Council;
- Focus on economy, effectiveness, efficiency, reliability and impact applicable to the Municipality's own key performance indicators;



- Reporting on the outcomes of its review and focus areas to the Council, at least twice per annum;
- Communicating directly with Council, Municipal Manager or Internal and Auditor-General;
- Access any 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
- Investigate any matter it deems necessary for the performance of its duties and the exercise of its powers.

**13.2 Statutory Responsibilities in Terms of Section 166 (2) Of The MFMA**

a) The Committee must advise the municipal council, the political office-bearers, the Accounting officer and the management staff of the municipality, on matters relating to:

- internal financial control and internal audits;
- risk management;
- accounting policies;
- the adequacy, reliability and accuracy of financial reporting and information performance management;
- effective governance;
- compliance with the MFMA, the annual Division of Revenue Act and any other applicable legislation;
- performance evaluation; and any other issues referred to it by the municipality or municipal entity;
- Review the annual financial statements to provide the Council of the municipality with an authoritative and credible view of the financial position of the municipality, its efficiency and effectiveness and its overall level of compliance with the MFMA, the annual Division of Revenue Act and any other applicable legislation;
- Respond to the Council on any issues raised by the Auditor-General in the audit report; and
- Carry out such investigations into the financial affairs of the municipality as the Council of the municipality may request.

**13.3 Auditor General**

a) The Committee shall attend to the following matters in conjunction with duly authorised representatives from the Office of the Auditor General:

- Discuss and review, with the Auditor-General before the audit commences, the nature and scope of the audit function and procedures;
- Negotiate procedures, subject to agreement, beyond minimum statutory and professional duties - there are certain minimum procedures required from the Auditor-General which are not negotiable;
- Agree to the timing and nature of reports from the Auditor-General (s);
- Consider any problems identified in going concern;
- Make suggestions as to problem areas which the audit can address;



- Consider any accounting treatments, significant unusual transactions, or accounting judgments, which could be contentious;
- Identify key matters arising in the current year's management letter and satisfy itself that they are being properly followed up;
- Consider whether any significant ventures, investments or operations are subject to Auditor-General;
- Review overall audit role, to explore objectives, minimise duplication, discuss implications of new auditing standards and ensure that Auditor-General fee will sustain a proper audit and provide value for money;
- Obtain assurance from the Auditor-General that adequate accounting record are being maintained; and
- Meet at least annually with the Auditor-General to ensure that there are no unresolved issues of concern.

**13.4 Annual Financial Statements**

a) The Committee shall review the annual financial statements and accompanying reports to stakeholders, and any other announcements regarding the Municipality's results or other financial information to be made public, prior to submission to and approval by the Council, focusing particularly on:

- The implementation of new systems;
- Fiscal and litigation matters involving uncertainty;
- Major judgmental areas;
- Significant adjustments resulting from the audit;
- The basis on which the Municipality has been determined to be a going concern;
- Capital adequacy;
- Internal control;
- Review the completeness of annual financial statements and their consistency with information known to committee members;
- Compliance with accounting standards and with legal requirements;
- The efficacy of major adjustments processed at year end;
- Compliance with the financial conditions of loan covenants;
- Reviewing special documents as and when prepared;
- Results of the audit, including any difficulties encountered; and
- Other sections of the annual report and related regulatory filings before release and consider the accuracy and completeness of the information.

**13.5 Business Risk, Internal Control and Internal Audit**

a) An important role of the Committee shall be to oversee and advise on the effective function of the internal audit. This shall include:

- Evaluating the performance of internal audit including services provided by external service providers through Internal Audit;
- Reviewing the internal audit function's compliance with its mandate as approved by the Committee;



- Reviewing the effectiveness of the company's systems of internal control, including internal financial control and business risk management and to maintain effective internal control systems;
- Reviewing and approving the internal audit charter, internal audit plan and internal audit's conclusions with regard to internal control;
- Reviewing the adequacy of corrective action taken in response to significant internal audit findings;
- Reviewing significant matters reported by the internal audit function;
- Reviewing the objectives and the operations of the internal audit function; and Assessing the adequacy of performance of the internal audit function, and the adequacy of available internal audit resources;
- Reviewing significant differences of opinion between management and the internal audit function;
- Evaluating the independence and effectiveness of the internal auditors including compliance with the Institute of Internal Auditors' Statements for the Professional practice of Internal Auditing; and
- Evaluating controls over the overall operational and financial reporting environment
- Evaluating whether or not the Municipality's assets are safeguarded against unauthorised use or disposal;
- On a regular basis, meet separately with the Internal Audit Manager to discuss any matters that the committee or internal audit believes should be discussed privately.

**13.6 Ethics**

- a) There are a number of statutory, common law and other requirements, which cover the ethical behaviour of Councillors, Municipal Managers and Council Officials. In addition, the Local Government: Municipal Systems Act, 2000 prescribes:
- A code of conduct for Councillors; and
  - A code of conduct for Municipal Staff Members.
- b) Through the reports of internal audit review the effectiveness of mechanisms for:
- Monitoring the ethical conduct of Councillors and Municipal staff members;
  - Ensuring compliance with the requirements of the Local Government: Municipal Systems Act, 2000;
  - Ensuring compliance with the laws and regulations of any other applicable statute and of controlling bodies;
  - Identification and reporting of any material violations of ethical conduct; and
  - Identification and reporting of environmental and social issues;
- c) The Committee will also make recommendations regarding any potential conflicts of interest or questionable situations of a material nature, which are brought to its attention.

- The procedures for identifying business risks and controlling their impact on the Municipality;
- The Municipality's policies for preventing or detecting fraud;
- The Municipality's policies for ensuring that it complies with relevant regulatory and legal requirements;
- The operational effectiveness of the policies and procedures;
- Consider whether the objectives, organisation, staffing plans, financial budgets, audit plans and standing of the internal audit function provides adequate support to enable the committee to meet its objectives;
- Review the results of work performed by the internal audit function in relation to financial reporting, corporate governance, internal control, and any significant investigations and management response;
- Advice regarding the existence or otherwise of significant transactions not directly related to the Municipality's normal business as the Committee might

**14.2 Review of Internal Control and Internal Audit**

- Review the quality of financial information, financial statements and other public regulatory reporting;
- Review the annual report and accounts taken as a whole to ensure they present balanced and understandable assessment of the position, performance and prospects of the Municipality;
- Review the Auditor-General's proposed audit report;
- Discuss problems and reservations arising from the audit, and any matters the auditors may wish to discuss;
- Review the Auditor-General's management letter and management response; and
- Review the credibility, independence and objectivity of the Auditor-General, considering their audit and non-audit fees. Where the Auditor-General also supply substantial volume of non-audit services to the Municipality, the Committee should keep the nature and extent of such services under review, seeking to balance the maintenance of objectivity and value for money.

**14.1 Review of Annual Financial Statements**

a) In discharging its responsibilities, the Committee shall perform the following;

**14. ACTIVITIES OF THE AUDIT COMMITTEE**

- Review the effectiveness of the system for monitoring compliance with laws and regulations and results of the management's investigation and follow-up (including disciplinary action) of any instances of non-compliance;
  - Review the findings of any examinations by regulatory agencies, and any audit observations;
  - Review the process for communicating the code of conduct to company personnel, and for monitoring compliance therewith; and
  - Obtain regular updates from management and the Municipality's legal counsel regarding compliance matters.
- a) The Committee shall:
- 13.7 Compliance**



- e) The relationship between the Auditor-General and the municipality should be monitored by the audit committee.
- d) The Terms of References will be reviewed on an annual basis, subject to the approval of the Council.
- c) The Council will ensure that the Committee shall have access to professional advice both inside and outside of the Municipality in order for it to perform its duties.
- b) The Audit Committee for the municipality also assumes the functions of the risk committee as per functions stated above.
- a) The Committee in carrying out its tasks under these terms of reference may obtain outside or other independent professional advice, as it considers necessary to carry out its duties.

**16. GENERAL**

- May meet privately with the Auditor-General or internal auditors, if so requested, without any Councillor or Official of the Municipality in attendance.
- May consult with and seek any information it requires from any Councillors or officials and all Councillors and officials shall be required to co-operate with any reasonable request made by the Committee in the course of its duties;
- is authorised to investigate any activity within its terms of reference;
- The person designated by the Auditor-General to audit the financial statements of the municipality or municipal entity.
- The internal audit unit of the municipality; and
- Must liaise with [MFMA S166 3(b)] ;
- S166 3(a)];
- Has unrestricted access, through the Office of the Municipal Manager, to the financial records and other relevant information of the municipality. [MFMA -
- b) The Committee in carrying out its tasks under these terms of reference:
  - a) The audit committee shall have the authority to perform functions, and to obtain any information and advice, from within or outside the municipality or entity, in order to perform its functions as legislated. Appropriate resources will be made available to the audit committee to perform its functions as agreed in its charter.

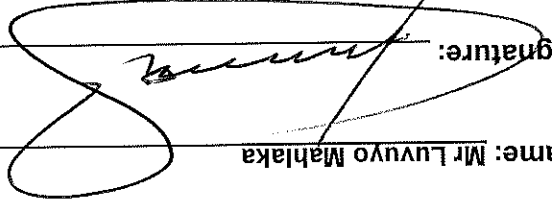
**15. AUTHORITY OF THE COMMITTEE AND RESOURCES ALLOCATED TO THE COMMITTEE BY COUNCIL OR MANAGEMENT**

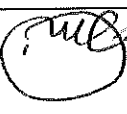
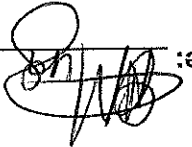
- b) The Committee in carrying out its duties under these terms of reference will have due regard to the principles of governance and code of best practise as contained in the Report on the Corporate Governance for South Africa.
- deem appropriate;





17. APPROVAL OF THE TERMS OF REFERENCE

Accepted by Municipal Manager	
Name: <u>Mr Luvuyo Mahlaka</u> Signature:  Date: <u>11 09 /2023</u>	

Approved by Speaker of the Council	
Name: <u>Mr Zithobile Mhlwazi</u> Signature:  Date: <u>11 09 /2023</u>	Name: <u>Ms NE Mungwane CA (SA)</u> Signature:  Date: <u>11 09 /2023</u>
Adopted and signed by Audit Committee Chairperson	