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EDUCATION LABOUR
RELATIONS COUNCIL



**Audit Committee Charter
2019-20**



 <p>elrc EDUCATION LABOUR RELATIONS COUNCIL</p>	<p>EDUCATION LABOUR RELATIONS COUNCIL</p>	<p>Doc No. AC/01-2019/20</p>
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TABLE OF CONTENTS

	Page
Purpose	4
Constitution	4
Authority	4-5
Terms of reference	5-10
Membership	10
Operations	11
Communication and reporting	12
Education	12
Remuneration	12
Maintenance of Charter	12

Draft

1. PURPOSE

- 1.1 The Audit Committee (the "Committee") of the ELRC assists the Council in fulfilling its responsibility for oversight of the quality and integrity of the accounting, auditing, and reporting practices of the ELRC, and such other duties as directed by the Council from time to time. The Council's responsibility is to oversee the accounting and financial reporting processes of the ELRC and the audit of its financial statements.
- 1.2 The Committee's role includes a particular focus on the qualitative aspects of financial reporting to stakeholders, the ELRC's processes to manage risk, and for compliance with significant applicable legal, ethical, and regulatory requirements and monitoring of the reporting on the performance of the ELRC in order to assist in the achievement of its set objectives.
- 1.3 The Committee is responsible for the approval of the appointment, compensation, and oversight of the appointed independent public accounting firm engaged to prepare or issue an audit report on the financial statements of the ELRC, as well as the appointment, compensation and oversight of the internal audit function.

2. CONSTITUTION

- 2.1. The Audit Committee of ELRC is constituted in terms of the ELRC Constitution, Annexure A of Collective Agreement Number 1 of 2006, as well as by a decision of Council.

3. AUTHORITY

In order for the Committee to give effect to its terms of reference, the authority of the Committee has been set out in the superseding paragraphs:

- 3.1. The Committee will have the resources and authority necessary to discharge its duties and responsibilities, including the authority to retain outside counsel or other experts or consultants, as it deems appropriate.
- 3.2. The Committee will be provided with appropriate funding by the Council for the payment of compensation to any outside counsel and other advisors as it deems appropriate, as well as for any administrative expenses incurred by the Committee that are necessary in the carrying out of its duties. A separate budget for these activities will be prepared on an annual basis and will be tabled at a Council meeting.
- 3.3. Any communications between the Committee and legal counsel in the course of obtaining legal advice will be considered privileged communications, and the Committee will take all necessary steps to preserve the privileged nature of those communications.
- 3.4. The Committee may investigate or appoint an Investigator to investigate any matters within its written terms of reference and will be afforded the necessary resources by the ELRC, as well as the co-operation of all its employees. The employees of the Council shall be required to co-operate with any request made by the Committee in the course of its duties.
- 3.5. The Committee will be afforded unlimited access to records and information concerning the ELRC. Any information made available to the Committee will be safeguarded within the ambit of the law.

- 3.6. The Committee may liaise with the external and/or internal auditors without any executive management of the ELRC in attendance.
- 3.7. The Committee shall submit written reports, quarterly and annually, on its activities and recommendations to the Executive Committee or Council as the case may be.

4. TERMS OF REFERENCE

The terms of reference contained in this Charter should be reviewed on an annual basis so as to ensure its relevance. The Committee should, in the annual report of the ELRC, disclose whether or not the formal terms of reference have been adopted and adhered to by the Committee. Specific terms of reference are detailed under the headings listed below.

Financial statements and audit matters

The Audit Committee should perform the following functions with regards to financial and audit matters:

- 4.1. Review and discuss with management and the independent auditor, the annual audited financial statements, and audit reports, including such matters required to be reviewed under applicable legal or regulatory requirements, and any communications required under Generally Accepted Auditing Standards.
- 4.2. Review and comment on the audited financial statements and the audit report, prior to submission and approval to Council, and consider whether they are complete, consistent with information known to Committee members and reflect appropriate accounting principles.
- 4.3. Discuss with management and the independent auditor, as appropriate:
 - 4.3.1. any audit problems or difficulties and management's response thereto, and
 - 4.3.2. the ELRC's risk assessment and risk management policies, including any financial risk exposure and steps taken to mitigate such risks.
- 4.4. Review the ELRC's financial reporting and accounting standards and principles, significant changes in those standards or principles. In addition, the Committee will decide on the appropriateness of their application, as well as any key accounting decisions taken.
- 4.5. Review the annual report for accuracy and consistency with financial information before it is released for publication.
- 4.6. Review quarterly and annual reports for accuracy and consistency with financial information, progress made towards the achievement of the set objectives before they are submitted to the Executive Committee or Council as the case may be. These reports will be discussed at audit committee meetings.

Internal control and risk management

The Audit Committee should perform the following functions with regards to internal control and risk related issues:

- 4.7. Review and provide oversight on the establishment, implementation, maintenance, and effectiveness of risk assessment, risk management, and risk reporting practices. The

findings of this risk assessment may prompt the Committee to give these areas attention either via the internal or external audit functions.

- 4.8. Review and provide oversight on the organization's internal control framework. Keep informed on all significant matters arising from work performed by any governance, risk, and control assurance providers.
- 4.9. The Committee should consider the effectiveness of the ELRC's system of internal control and risk management with the primary objective of ensuring:
 - a. Effectiveness and efficiency of operations, including the information systems environment,
 - b. Reliability of quarterly and annual financial reporting,
 - c. Proper measures for the safeguarding of assets, and
 - d. Compliance with policies, plans, procedures, resolutions, regulations and laws.
- 4.10. The Committee should report to the Council on the extent to which the management has implemented an effective ongoing process to identify risk, measure its potential impact, and proactive management.
- 4.11. Review on at least an annual basis, the Materiality Framework and Fraud Prevention Plan of the ELRC.
- 4.12. Oversee the management of the financial and other risks that affect the integrity of external reports issued by the Council.

Performance management

General:

- 4.13. The audit committee should review the auditing concerns in respect of performance management identified by internal and external audit, ensure adequate corrective actions are taken to address the findings identified and follow up on implementation of the said corrective actions.
- 4.14. The audit committee needs to review and comment on whether an appropriate process is in place to review compliance with legislation, guidelines and best practices relating to performance management.
- 4.15. The audit committee must review and comment on the entity's performance management system and make recommendations for improvement.

Planning:

- 4.16. The audit committee must review and comment on alignment between planning documents and budget.
- 4.17. The audit committee must consider any changes to the planning documents and budgets during the year for reasonableness and the impact thereof on the alignment between the various strategic documents.
- 4.18. The audit committee needs to advise the accounting authority with regards to the setting of KPIs and targets.

Setting key performance indicators and targets:

4.19. In reviewing the APP, the audit committee must focus on economy, efficiency, effectiveness of KPIs and performance targets.

Monitor performance:

4.20. The audit committee must review compliance with in-year reporting requirements.

4.21. The audit committee must ensure that the entity has established mechanisms to monitor its performance and the performance information generated by the system.

4.22. The audit committee needs to ensure that internal audit audits the results of performance measurements, compliance with the relevant legislation, consistency between planning documents and reports, and reliability of performance information.

4.23. The audit committee must review the quarterly reports on performance management submitted by internal audit.

4.24. The audit committee must review and comment on alignment between planning documents and in-year reports.

Measure and review performance:

4.25. The audit committee must ensure that the entity has established mechanisms to measure and review its performance against its objectives as well as the KPIs and targets set in the planning documents.

Report:

4.26. The audit committee must review and comment on annual financial statements and the annual performance report and ensure timely submission to the External Auditor.

4.27. The audit committee must review and comment on the annual reports within the stipulated time frames.

4.28. The audit committee must comment on in-year management reports in the annual report.

Combined assurance

4.29. Audit Committee's responsibility is to monitor the appropriateness and effectiveness of the organisation's combined assurance policies and efforts. The combined assurance model that is used by the organisation should ensure that the significant risks that are identified are adequately addressed.

Information Communication Technology Governance

Guidance to the Council in respect of Information Communication Technology (ICT) Governance to ensure it addresses:

4.30. Strategic alignment with the business and collaborative solutions, including the focus on sustainability and the implementation of 'ELRC's ICT' principles;

4.31. Value delivery: concentrating on optimising expenditure and proving the value of ICT.

- 4.32. Risk management: addressing the safeguarding of ICT assets, disaster recovery and continuity of operations; and
- 4.33. Resource management: optimising knowledge and ICT infrastructure.

Internal audit

The Audit Committee should perform the following functions with regards to internal audit matters:

- 4.34. Review with management and the Internal Auditor, the Internal Audit Charter, and activities to be conducted, and approve:
 - a. A rolling three-year strategic internal audit plan based on assessment of key areas of risk, taking into account the current and proposed operations (as detailed in the strategic plan) and risk management strategy.
 - b. An annual internal audit plan.
 - c. The scope of each audit indicated in the one-year plan.
 - d. Proposed reports to be issued to the Audit Committee detailing its performance against the plan, to allow effective monitoring and intervention when necessary.
- 4.35. Review the Internal Auditor's compliance with its mandate as approved by the Audit Committee.
- 4.36. Review and confirm the independence of the Internal Auditor and ensure that there are no unjustified restrictions or limitations placed on them. The Internal Auditor will be required to confirm their independence on at least an annual basis.
- 4.37. Review the effectiveness of the Internal Audit function, including compliance with the Institute of Internal Auditors Standards and assess the adequacy of the performance of the Internal Audit function.
- 4.38. Review the co-operation and co-ordination between the Internal and External Audit functions and co-ordinating the formal internal audit work plan with the external auditors to avoid duplication of efforts, while ensuring that sufficient coverage is obtained.
- 4.39. Review regular reports on implementation status of approved management action plans resulting from prior internal audit recommendations.
- 4.40. Review significant differences of opinion between management and the findings of the internal auditors.
- 4.41. At least once a year, meet separately with the Internal Auditor, without management being present, to facilitate an exchange of views and concerns that may not be appropriate for discussion in an open forum.

External audit

The Audit Committee should perform the following functions with regards to external audit matters:

- 4.42. The Committee shall have the sole authority to approve all audit engagement fees and terms. The Committee must pre-approve any non-audit service to be provided to the Council by the external auditor.

- 4.43. Discuss and review, with the external auditors 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, in the event of more than one audit firm being appointed, to ensure co-ordination and maintenance of a professional relationship.
- 4.44. Identify key matters arising in the current year's management letter and monitor/oversee the implementation of the management action plan.
- 4.45. Review the overall audit role, to explore objectives, minimise duplication, discuss implications of new auditing standards and ensure that the external audit fee will sustain proper audit and provide value for money.
- 4.46. Obtain assurance from the auditors that adequate accounting records are being maintained.
- 4.47. At least once a year, meet separately with the external auditors to discuss any matters that the Committee or auditors believe should be discussed confidentially.

Compliance and ethics

The Audit Committee should perform the following functions with regards to matters of compliance:

- 4.48. Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of non-compliance.
- 4.49. Review the findings of any examinations by regulatory agencies and any internal or external auditor observations.
- 4.50. Obtain regular updates from management and legal counsel regarding compliance matters.
- 4.51. Monitor the ethical conduct of the Council, its members, and its senior management, against a Code of Conduct and give recommendations to Council on any potential conflict of interest or questionable situations of a material nature.
- 4.52. Report irregularities which come to their/its attention.

General disclosure

There should be a disclosure on:

- 4.53. A statement as to whether the audit committee is satisfied that the external auditor is independent of the Council. The statement should specifically address:
 - a. 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;
 - b. The tenure of the external audit firm, in the event of the firm having been involved in a merger or acquisition, including the tenure of the predecessor firm;
 - c. The rotation of the designated external audit partner; and

- d. Significant changes in the management of the organisation during the external audit firm's tenure which may mitigate the attendant risk of familiarity between the external auditor and management.
- 4.54. Significant matter that the audit committee has considered in relation to the annual financial statements, and how these were addressed by the committee.
- 4.55. 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.
- 4.56. The audit committee's views on the effectiveness of the Internal Auditor and the arrangements for internal audit.
- 4.57. The audit committee's views on the effectiveness of the design and implementation of internal financial controls, and on the nature and extent of any significant weaknesses in the design, implementation or execution of internal financial controls that resulted in material financial loss, fraud, corruption or error.
- 4.58. The audit committee's views on the effectiveness of the Chief Financial Officer and the finance function.
- 4.59. The arrangements in place for combines assurance and the committee's view on its effectiveness.

5. MEMBERSHIP

- 5.1. The Audit Committee of the Council of the Education Labour Relations Council shall consist of five members. Members of the Committee shall be appointed and removed by the Council at its discretion, after due consideration. The appointment will be made at the Annual General Meeting of the Council and shall be a non-renewable three-year term.
- 5.2. Members of the Audit Committee shall be made up of five persons and must comprise of at least three who are independent of the parties to the Council. The chairperson shall be appointed by the Council from the independent members. The members of the Council may not be members of the Audit Committee. All members of the Audit Committee shall have sufficient experience in financial, audit risk management, legal, general management and performance management matters, so as to adequately enable them to discharge their responsibilities.
- 5.3. Audit Committee members should, upon assumption of duty, complete a Declaration of Interest form.
- 5.4. The Internal Auditors, as well as the external auditor, shall attend each meeting in an advisory capacity. The Chairperson may invite any other person to attend the meetings of the Committee.
- 5.5. In the event of the Chairperson of the Committee being absent from a meeting, the members of the Audit Committee will decide who will preside over the meeting. The member appointed as acting chairperson shall be remunerated at the rate of the chairperson.

- 5.6. Should a vacancy occur in the Audit Committee, the Chairperson shall immediately notify the General Secretary of the ELRC. The Council shall fill this vacancy at the earliest opportunity.
- 5.7. For purposes of governing the administrative arrangements of the Committee, the Secretariat of the General Secretary will be at the full disposal of the Committee.

6. OPERATIONS

The meetings of the Audit Committee will be conducted as follows:

- 6.1. Meetings of the Audit Committee will be held as frequently as the Committee considers appropriate but will normally meet no less than four times a year. Due consideration will be given to the dates on which the interim and final reports of the external and internal auditors become available, and to the meeting dates of other Committees of Council (for example Executive Committee and Finance Sub-Committee, so as to allow in-depth discussion).
- 6.2. The General Secretary, the External Auditor or the Internal Auditor may request the Chairperson to call a special meeting of the Committee. The written request must be endorsed by at least a majority of the members of the Committee.
- 6.3. Three members present throughout the meeting, of which two must be independent, form a quorum for decisions.
- 6.4. The Committee must ensure that full minutes are kept of its meetings and a proper record of its decisions. The minutes of all meetings of the Audit Committee, or summaries thereof, shall be submitted to the Executive Committee (EXCO) at the following EXCO meeting, the agenda for each such EXCO meeting shall provide an opportunity for the EXCO Chairperson to report on any matters of importance as well as on the Audit Committee's findings and recommended actions.
- 6.5. Decisions are taken by majority of votes, with the Chairperson having a casting vote.
- 6.6. Due to the fact that the Committee has a direct impact on their functioning, the following people should attend the Audit Committee meetings:
 - The General Secretary (Standing Invitation)
 - The Chief Financial Officer (Standing Invitation)
 - The Internal Auditor (Standing Invitation)
 - A representative of the Office of the External Auditor (Standing Invitation)
- 6.7. Any person may be requested to attend a meeting of the Audit committee when the need arises. Officials must give the Audit Committee their full co-operation.
- 6.8. When a member is absent for three consecutive meetings without cause, the member shall cease to be a member of the committee.
- 6.9. Members' attendance to meetings will be a minimum of 80%.
- 6.10. Members will submit written comments on all reports and circulate them to other Committee Members at least twenty-four (24) hours before the meeting.
- 6.11. The Chairperson will meet with the Internal Auditor and the General Secretary respectively at least thirty (30) minutes before the meeting.

7. COMMUNICATION AND REPORTING

The reporting requirements of the Committee are detailed as follows:

- 7.1. The Chairperson of the Committee shall account to the Council for its activities and make recommendations to the Council concerning the adoption of the annual financial statements and any other matters arising from the above responsibilities.
- 7.2. Provide an open line of communication between both the internal and external auditors and the Council.
- 7.3. Provide Council at each Annual General Meeting with a review of the Committee's work of the year, including an assessment of its performance and compliance with its terms of reference.
- 7.4. The Committee should in the annual report of the ELRC state whether or not they have adopted and discharged their responsibilities in terms of their written terms of reference.
- 7.5. Should the auditors make any report to the Committee whereby one of the employees or members of Council are implicated in fraud, corruption or gross negligence, the Chairperson of the Committee must report this to the Executive Committee.
- 7.6. The Committee has a duty to report any other matters of concern to the Executive Committee.

8. EDUCATION

- 8.1. The Council is responsible for providing the Committee with educational resources related to accounting principles and procedures, current accounting topics pertinent to the ELRC, and any other material requested by the Committee. The Council will assist the Committee in maintaining financial literacy.

9. REMUNERATION

- 9.1. The independent members of the Committee will be remunerated for attendance of meetings at such rates decided upon, from time to time, by the Council, and currently prescribed by the Treasury Regulations.
- 9.2. The Council will reimburse the non-executive members for any out of pocket expenses that they may incur. The procedure for claiming remuneration and re-imbursement of expenses will be done in accordance with the policies prescribed by the Council.

10. MAINTENANCE OF CHARTER

- 10.1. The reviewing and amending of the Audit Committee Charter is the responsibility of the Audit Committee in conjunction with the Internal Audit function.