

# QUALITY MANAGEMENT SYSTEM

<p><b>TR-007A-CCT</b>  <b>Terms of Reference</b>  <b>for the</b>  <b>Audit Committee of Council</b></p>
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Purpose of Document: <b>These terms of reference set out the Audit Committee's objectives, authority, responsibilities, composition and tenure, reporting and administrative arrangements.</b>	Commencement date	<b>14 June 2018</b>
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# TR-007A-CCT

## AUDIT COMMITTEE OF COUNCIL TōR

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### 1. LEGISLATIVE FRAMEWORK AND BEST PRACTICE REGULATIONS

Key principles contained in the following legislation and best practices were applied to develop the terms of reference:

- a) The South African Constitution Act No. 108 of 1996;
- b) Continuing Education and Training Colleges Act No. 16 of 2006, as amended;
- c) Public Finance Management Act, 1999 (Act No 1 of 1999, as amended by Act 29 of 1999)(PFMA);
- d) National Treasury Regulations of March 2005;
- e) Draft Treasury Regulations ( White Paper) published 30 November 2012;
- f) King III Code of Governance Principles of 2009; and
- g) National Treasury Public Sector Risk Framework, April 2010.

1.1 In terms of section 25(1) of the Act, the council of a public college must, in the manner determined by the Minister, implement internal audit systems which are not inferior to the standards contained in the Public Finance Management Act, 1999 (Act No. 1 of 1999).

- 1.2 In terms of the PFMA, Treasury regulations are published to give direction to State Departments, Constitutional and Public Institutions and these are adopted as best practice for the College.
- 1.3 In terms of section 3.1.8 of the National Treasury Regulations, March 2005, the Audit Committee must operate in terms of a written term of reference that must deal adequately with its membership, authority and responsibilities.
- 1.4 The Audit Committee plays a critical role in making recommendations to the College Council and other relevant authorities with regard to:
  - a) Financial reporting to management and other users of such information;
  - b) Risk management;
  - c) Internal audit;
  - d) Combined assurance;
  - e) Internal control;
  - f) Special and forensic investigations;
  - g) IT Governance;
  - h) Legal and regulatory compliance; and
  - i) External audit.

## 2. PURPOSE

These terms of reference set out the Audit Committee's objectives, authority, responsibilities, composition and tenure, reporting and administrative arrangements.

## 3. SCOPE

These Terms of Reference are issued under the authority of the Council of the College and are applicable to the Audit Committee members.

## 4. DEFINITIONS, ACRONYMS AND ABBREVIATIONS

For the purpose of this document, unless the context indicates otherwise, the following definitions, acronyms and abbreviations are set out for the terms indicated:

- 4.1 **"Accounting Officer"** – is the Principal of the College of Cape Town
- 4.2 **"Act"** – is the Continuing Education and Training Colleges Act No.16 of 2006, as amended.
- 4.3 **"College"** – is the College of Cape Town.
- 4.4 **"Council"** – is the governing body of the College of Cape Town as defined by the Act
- 4.5 **"Days"** - shall be construed as calendar days unless qualified by the word "business", in which instance a "business day" will be any day other than a Saturday, Sunday or public holiday as gazetted by the government of the Republic of South Africa from time to time.
- 4.6 **"Department"**; **"DHET"** – is the Department of Higher Education and Training.

- 4.7 **“External Auditor”** – is a person registered as an auditor in terms of the Independent Regulatory Board of Auditors and appointed as such to render services to the College.
- 4.8 **“Minister”** – is the Minister of the Department of Higher Education and Training.
- 4.9 **“TVET ”** – is Technical and Vocational Educational and Training.

## 5. AUTHORITY

- 5.1 The Audit Committee acts in accordance with its contractual duties and is hereby authorised/ delegated to perform the functions as described in these terms of reference.
- 5.2 In carrying out its mandate, the Committee is authorised to have access to all records and persons, for information needed to properly perform its duties and execute its powers.
- 5.3 The Committee must safeguard all information supplied to it and must treat all matters as confidential.
- 5.4 Although all matters must be treated as confidential, the Committee may communicate any concerns it deems necessary to the designated Accounting Officer, Council, External Auditors and/or the Auditor-General and relevant Treasury officials.
- 5.5 The Council authorises the Committee, within the scope of its responsibilities, to have full access to information required to execute its mandate. Should it be deemed necessary, the Committee will recommend to Council the need to obtain outside independent professional advice and to secure the attendance at meetings of outsiders with relevant experience and expertise. Acquisition of outside services must be made subject to approved procurement policies.
- 5.6 The Committee has a decision making authority in regard to its contractual duties and is accountable in this respect to the Council. On all responsibilities delegated to it outside of its contractual duties, the Committee makes recommendations for approval by Council.
- 5.7 The Committee *per se* will not perform any management functions or assume any management responsibilities.
- 5.8 The Committee will have direct access to the executive committees of the College, the external auditors and the internal auditor.
- 5.9 The Committee shall inform Council of any matters that provide sufficient concern to warrant an investigation. The Council will debate on the matter and pass a resolution as to how to proceed. Section 46 of CET Act must be applied should further investigation be required.

## 6. COMPOSITION

In accordance with section 12(1) of the Act, the Council shall appoint an Audit Committee.

- 6.1 The Committee must be constituted so as to ensure its independence from the management role in the College and its membership must be disclosed in the annual report of the College.

- 6.2 At least 50 per cent of the members of the Audit and Risk Committee of Council must be external persons who are members of the Council. The Committee shall comprise of at least three members, of whom at least one must not be a member of Council.
- 6.3 The chairperson of the Committee must be an external member of the Council and elected by Council.
- 6.4 Members will be appointed for a term that is in line with the Council term of office. However with regards to paragraph 6.3 above, the member who is not a member of Council shall be appointed for a period of 3 years.
- 6.5 The chairperson of the Committee must be knowledgeable of the requirements and status of the position and have the requisite business, financial and leadership skills and must not be a political office bearer.
- 6.6 Members must understand the purpose and responsibility of serving on the Committee.
- 6.7 The majority of the members of the Committee should be financially literate and have an understanding of and access to the relevant financial reporting standards, and an understanding of the audit process, the environment in which the College operates and knowledge of risks and controls. They should also keep themselves informed of relevant changes to legal, accounting, disclosure, reporting and risk management standards.
- 6.8 The attendance of members at Committee meetings is critical. Council may consider termination of services of a member if absent for 3 consecutive meetings without the leave of Council.
- 6.9 The Council must approve the premature termination of any Committee member and enquire thoroughly into the circumstances of any voluntary resignation.
- 6.10 New members will receive, in the form of induction, relevant information and briefings on their appointment to assist them to meet their Committee responsibilities.
- 6.11 The following persons have standing invitations to attend Committee meetings:
- a) Accounting Officer;
  - b) Quality Manager;
  - c) Business Executive from the Office of the Auditor-General in the Province;
  - d) External Auditor;
  - e) Deputy Principal: Finance;
  - f) Representative from the office of the Provincial Treasury Risk and Internal Audit department; and
  - g) Internal Auditor.
- 6.12 The Committee may also invite other personnel from the College, as it deems necessary for the execution of its duties.

## 7. SECRETARY OF THE AUDIT COMMITTEE

- 7.1 The secretariat of the Committee will be the Principal.

## 8. MEETINGS AND PROCEDURES

- 8.1 There shall be at least four ordinary meetings per annum. They should be scheduled to precede scheduled ordinary meetings of Council by such a period that reports from the Audit Committee meetings may be included in the information packs prepared for ordinary Council meetings.
- 8.2 Special meetings of the Audit Committee may be convened as and when required. Any member of the Committee may call for a special meeting. The special meetings should be kept to a minimum number and necessity should be determined in advance. The need for special meetings shall be discussed by the chairperson of the Committee with the Accounting Officer (for administrative purposes) and Chairperson of the Council prior to convening such a meeting.
- 8.3 The Internal and External Auditors may request a meeting if they consider that one is necessary.
- 8.4 The Committee must meet at least annually with the Internal and External auditors without College management, including the Accounting Officer, being present.
- 8.5 The Committee should establish a plan for the year to ensure that all issues are covered by the agendas of the meetings planned for the year. The plan should ensure coverage of all matters required in these terms of reference.
- 8.6 An Agenda shall be prepared for each meeting, under the direction of the Chairperson, and together with all relevant discussion papers, be circulated by the Council Secretary to each Committee member and relevant attendees, at least seven (7) days prior to a meeting.
- 8.7 Notice of each meeting to be held and a standard agenda shall be delivered in writing to all members of the Committee and other interested parties ten (10) business days prior to the meeting date.
- 8.8 Other relevant documents must be delivered to members and other invited parties at least five business days prior to the meeting.
- 8.9 The draft minutes must be reviewed by the Chair within 10 business days of the meeting and circulated to each Committee member, invitee and observer, as appropriate.
- 8.10 The minutes will be signed by the chairperson at the next meeting. A file will be maintained within the office of the secretary of the Committee, or an appropriate and approved administrative assistant, covering each year's proceedings of the Committee and containing copies of agenda documents, supporting documentation and minutes.
- 8.11 The quorum for meetings shall be the minimum number of members required to be assembled at a meeting to establish legal competence for the transaction of its business. Therefore the number present at the meetings to be convened by the Committee should be half plus one. Individuals in attendance at Committee meetings by invitation may participate in discussions but not form part of the quorum for such meetings.
- 8.12 At each meeting, each Committee member should sign a declaration of interest form, both with respect to items on the agenda and with respect to overall independence. It is recommended that the declaration should be incorporated in the attendance register, the latter being a familiar feature of all meetings.
- 8.13 At each meeting, where a personal interest has been disclosed, then the Committee member should excuse him/herself from that part of the meeting, and the minute taker should record that the member left the meeting temporarily due a personal interest being discussed.
- 8.14 The chairperson may request that certain issues be considered by way of a round robin resolution. This process will be facilitated and managed by the Committee Secretary or an

approved, appropriate administrative assistant. Round-robin resolutions must be signed by all members.

## 9. RESPONSIBILITIES OF THE COMMITTEE

The Audit Committee must, amongst other matters, review the following:

### **9.1 The effectiveness of the internal control systems**

The Audit Committee must acquaint itself with the College's major risk areas including, but not limited to, Financial, Legal and Operational risks within the College and the TVET sector. It should also understand the Internal Control environment and should ensure that management is effectively managing such risks.

The Committee should be informed of the control process and the adequacy of the College's system of Internal Control and risk management processes.

These processes are, inter alia:

- a) The functioning and effectiveness of the internal control systems addressing information technology, finance, human resources, procurement etc.;
- b) The existence of relevant policies and procedures, including the Council's instructions, or their equivalent, and the exercise of delegation of authority, and that these are periodically reviewed and updated;
- c) Confirming that processes (e.g. a quality management system) are in place to assess, at least once a year, whether key policies and procedures are complied with;
- d) Participation in an annual assessment, review and approval of risks facing the College, as recorded in the College's risk register;
- e) Consideration of how management identifies any required changes to the design or implementation of key internal controls in order to meet its statutory and fiduciary obligations.
- f) An assessment to confirm that management has taken steps to embed a culture promoting the proper use of public resources and a commitment to ethical and lawful behaviour;
- g) Reviewing and approving a fraud prevention plan annually (as part of the risk management function).
- h) Reviewing reports of all allegations of financial misconduct, and ensuring that they are tracked and monitored on a monthly basis by way of reports by management to the Committee. Where there is sufficient evidence to warrant concern, these should be escalated to the Council for a decision.
- i) Ensure that management presents a report to the Committee on any changes made to the College's systems of financial and risk management as a result of any investigations into financial misconduct.
- j) Ensuring that the chairperson of the Committee has reported promptly to the Council on instances of any alleged or actual fraud, corruption, negligence or questionable acts of commission or omission, implicating the Accounting Officer, discovered during the execution of its duties with regard to internal audit or the management of risk.
- k) Understanding the scope of internal and external auditors' reviews of internal control over financial reporting and obtaining reports on significant findings and recommendations, together with management's responses.
- l) Reviewing whether the financial internal controls are operating efficiently, effectively and economically.

## **9.2 The effectiveness of the internal audit function**

The Audit Committee should ensure that the Internal Audit function is performed effectively and efficiently by, inter alia:

- a) Providing advice to the Council on the appointment of the Head of Internal Audit (in the case of an in-house internal audit function) or recommend to the Council the appointment of the internal auditor where outsourced or co-sourced.
- b) Considering the effectiveness and efficiency of the internal audit function. This includes monitoring the work of the internal audit function against the annual strategic plan; evaluating the reports and results of the work undertaken and the implementation of any follow up action required. It also includes reviewing the activities of the internal audit function, including its annual work programme, co-ordination with the external auditor, reports of significant investigations and the responses of management to specific recommendations
- c) Reviewing the plans, budgets, activities, staffing and organisational structure of the internal audit function.
- d) Reviewing and approving the rolling three year strategic internal audit plan;
- e) Reviewing and approving the plans indicating the scope of each audit on the plan for the forthcoming financial year.
- f) Reviewing the current internal audit terms of reference that defines the internal auditor's role and audit approach, as well as its modus operandi, and determines the rules that govern the internal audit function, and thereafter making recommendations to Council for improvement, if appropriate.
- g) Annually reviewing the internal audit terms of reference to ensure appropriate authority, access and reporting arrangements are in place.
- h) Reviewing the capacity building and training strategy within the internal audit function.
- i) Ensuring annually, that the internal audit function is subject to an independent quality review, either in accordance with the Institute of Internal Auditors Standards or, when the Committee determines it appropriate, any third party review to ensure that the function remains effective.
- j) Reviewing quality assurance processes and the results of any quality assurance reviews as far as they pertain to the internal audit and risk management functions.
- k) Reviewing the quarterly Internal Audit report presented to the Committee, detailing internal audit's performance against the annual internal audit plan in order to provide for effective monitoring and possible intervention.
- l) Ensuring that a combined assurance model is applied to provide a coordinated approach to all assurance activities, including risk management. In particular the Committee should:
  - i. ensure that the assurances received are appropriate to address all the significant risks facing the College; and
  - ii. monitor and manage healthy relationships between the internal and external assurance providers and the College.
- m) Considering the objectives and scope of any additional work undertaken by the internal audit function to ensure there are no conflicts of interest and that independence is not compromised.
- n) Obtaining annual confirmation of the independence of the internal and external audit service providers.
- o) Ensuring that duplication of effort is avoided, through an effective partnership between internal audit and the external auditor. Provide channels of communication between management, internal audit and external audit.

- p) Reviewing all audit reports and providing advice to the Council on significant issues identified in audit reports and action to be taken on issues raised, including identification and dissemination of good practice.
- q) Ensuring direct access of the Head of Internal Audit to the Committee and the chairperson of Council.
- r) Ensuring that there are no unreasonable restrictions or limitations on the internal audit function.
- s) Reviewing arrangements made by the College to enable employees and external whistle-blowers to report, in confidence, their concerns about possible improprieties in matters of financial and other irregularities, or non-compliance with laws and regulations, that may have a direct or indirect adverse effect on the College's ability to deliver against its core strategy and purpose.
- t) Reviewing compliance with the standards of Internal Auditing of The Institute of Internal Auditors.
- u) Meeting separately with internal audit (without management being present) at least once a year, preferably as a separate meeting before or after a scheduled quarterly meeting.
- v) Considering and recommending adjudication on differences of opinion between management and the internal audit function.

### **9.3 The effectiveness of the external audit function**

The Audit Committee is responsible for recommending the appointment of the external auditor to the Council and to oversee the external audit process. In this regard, the Committee is required to:

- a) Review and recommend to Council the terms of engagement, scope and audit fees for the external audit engagement.
- b) Define a policy for non-audit services, if any, to be provided by the external auditor.
- c) Review, monitor and report on the external auditor's independence and objectivity and consider audit partner rotation, ensuring that this is properly planned.
- d) Review the audit plan and fees of the external auditor and comment on the scope and approach with regard to the critical risk areas and the sufficiency of audit coverage and procedures. Any deviations to the External Audit Budget must be reviewed and recommended to Council for approval.
- e) Review and recommend to Council any deviations on the external audit fee budget.
- f) Review the management report with regard to its findings, including the quality and content of its findings and the responses of management.
- g) Make recommendations regarding follow up work, arising out of reports and queries raised by the external auditor, forming part of the audit action plan.
- h) Review and comment on audit action plan.
- i) Ensure that there is a process for the Committee to be informed of any Reportable Irregularities (as defined in the Auditing Profession Act, 2005) identified and reported by the external auditor.
- j) Meet separately with the external auditor to discuss any matters that the Committee and external auditor believe should be discussed privately.
- k) Discuss any concerns with the external auditor about nature, extent and frequency of management's assessment of the accounting and control systems in place to prevent and detect fraud and / or corruption.
- l) Preside over significant disagreements between the external auditor and management.
- m) Preside over and resolve material accounting and auditing challenges raised with management by the external auditor.

- n) Review the quality and effectiveness of the external audit process.
- o) Confirm whether the audit firm and, where appropriate, the individual auditor responsible for performing the function of external auditor, is appropriately qualified and accredited.
- p) Oversee the functioning of the Audit Steering Committee, when convened to facilitate the year end audit.
- q) Ensure direct access by the external auditor to the Committee and the chairperson of the Council, if necessary.
- r) Ensure that there are no restrictions or limitations placed on the external auditor.

## **9.4 The risk areas of the College's operations**

As identified by the risk management function, to be covered in the scope of internal and external audits:

- a) The Audit Committee oversees, and is an integral component of the risk management process.
- b) The Committee shall obtain an understanding of risk and risk management in general and have an adequate level of comfort regarding, the College's processes for identifying, managing and reporting on risk.
- c) The Committee shall, on a quarterly basis, review and recommend an assessment of the top 10 strategic risks of the College to the Council for approval.
- d) The top 20 operational risks shall be reviewed and tracked by the Committee to ensure that the level of risk at an operational level is acceptable.
- e) The Committee shall review and recommend the following to the Council:
  - i. The enterprise wide risk management framework and methodology, including appropriate and adequate risk management policies
  - ii. The annual risk tolerance limits and risk appetite;
  - iii. The annual assessment and adequacy of the College's insurance cover, including fidelity cover;
  - iv. The adequacy of the risk management function, its effectiveness and coverage in support of the business and financial strategy of the College;
  - v. The risk management disclosures to be included in the annual report;
  - vi. The focus being placed on the following areas and confirmation that they have been appropriately addressed:
    - financial reporting risks, including the risk of fraud;
    - internal financial controls; and
    - IT governance and controls as they relate to financial reporting and the ability of the College to continue its operations in the foreseeable future (going concern).
  - vii. The risk areas of the College's operations to be included in the scope of internal and external audits.
  - viii. The internal and external auditors' evaluation of the enterprise risk management system that is in place the effectiveness of such system.

## **9.5 Financial Information**

The adequacy, reliability and accuracy of the financial information provided to management and other users of such information;

## **9.6 Accounting and Auditing concerns**

Any accounting and auditing concerns identified as a result of internal and external audits; and

## **9.7 Compliance with legal and regulatory provisions:**

The Audit Committee is responsible for ensuring that the College complies with legislation and any directives (circulars) that are issued by the Department. In this regard, the Committee is required to:

- a) Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's analysis and follow-up of any instances of non-compliance (including disciplinary action).
- b) Review the process for communicating the code of conduct to College personnel and for monitoring compliance therewith.
- c) Review compliance with accounting framework namely Generally Recognised Accounting Practice (GRAP).
- d) Obtain regular updates from management (and legal counsel, if deemed necessary) regarding compliance matters.

## **9.8 Fraud Prevention Plans**

Specific plans and actions to identify actual instances of, or opportunities to perpetrate, fraud and / or corruption:

- a) Review the Audit Committee policy.

## **9.9 Financial Management Responsibilities**

Responsibilities relating to financial management including annual financial statements and the annual report:

- a) Review the appropriateness of the accounting policies and the assumptions made by management in preparing the financial statements.
- b) Annually review the expertise, resources and experience of the organisation's finance function, and disclose the results of the review in the annual report.
- c) Consider and satisfy itself as to the suitability, expertise and experience of the Deputy Principal: Finance.
- d) Review the adequacy, reliability and accuracy of the financial information provided to management and other users of such information and review the Annual Financial Statements and recommend their approval to the Council.
- e) Review with management, and the external and internal auditors, any accounting and auditing concerns identified as a result of internal and external audits.
- f) Review the nature and impact of any changes in accounting policies during the year.
- g) Review unusual circumstances or events reflected in the financial statements.
- h) Satisfy itself about the adequacy of key internal controls and that the financial statements are supported by appropriate management sign-off.

- i) Review the processes in place designed to ensure that financial information included in the annual report is consistent with the approved financial statements.
- j) On a quarterly basis, review reports tabled by executive management of any instances of unauthorised, irregular, fruitless and wasteful expenditure. The Committee should be kept abreast of how the instances of unauthorised, irregular, fruitless and wasteful expenditure are being dealt with and managed within the College. The amount of unauthorised, irregular, fruitless and wasteful expenditure must be disclosed as a note to the annual financial statements of the College.

## **9.10 Reporting**

- a) The Committee shall report annually to the Council regarding its activities and challenges, arising from fulfilling any of its responsibilities.
- b) The Committee should prepare a report annually to be included in the Annual Report of the College, which must include the following:
  - i. Describing how the Committee carried out its functions and summarising its role;
  - ii. A statement on whether or not the Committee has adopted its formal terms of reference as approved by Council and, if so, whether the Committee has met its responsibilities for the year in compliance with its terms of reference;
  - iii. Stating whether the Committee is satisfied that the external auditor was independent of the College;
  - iv. Commenting on their evaluation of the financial statements,
  - v. Commenting on the effectiveness of the internal controls of the College;
  - vi. The accounting practices, quality of periodic management reports submitted in terms of relevant legislation;
  - vii. The names and qualifications of all members of the Committee during the period under review, the number of Committee meetings held during the period under review and members' attendance at these meetings;
  - viii. A statement on whether or not the Committee considered and recommended the internal audit terms of reference for approval by Council;
  - ix. A description of the working relationship with the internal audit function;
  - x. Information about any other responsibilities assigned to the Committee by the Council or any other duly authorised body;
  - xi. A statement on whether the Committee complied with its legal, regulatory and other responsibilities; and
  - xii. A statement on whether or not the Committee recommended the annual financial statements and associated annual report to the Council for approval.

## **9.11 Other responsibilities**

- a) Satisfy itself that the College has appropriate mechanisms in place to review and implement, where appropriate, relevant parliamentary committee reports and external reviews of the College and recommendations arising from these reports and reviews.
- b) Review ethical and social responsibility policies and implementation thereof.

## 10. REPORTING AND EVALUATION

- 10.1 The Committee shall report to the Council any other matter it deems of sufficient importance to do so. In addition, at any time an individual Committee member may request a meeting with the Chairman of the Council.
- 10.2 The Committee chairperson, in consultation with the Council, will initiate a review of the performance of the Committee at least once a year. The review will be conducted on a self-assessment basis (unless otherwise determined by the Council) with appropriate input sought from the Accounting Officer, Committee members, senior management, the internal and external auditors, and any other relevant stakeholders, as determined by the Council.
- 10.3 The chairperson, in consultation with the Council, will conduct an assessment of individual Committee members at least once a year.
- 10.4 The chairperson will provide advice to the Council on an external member's performance where an extension of the member's tenure is being considered.

## 11. RESPONSIBILITIES OF THE AUDIT COMMITTEE MEMBERS

- 11.1 Members of the Committee are expected to understand and observe the best practices of the PFMA, Treasury Regulations, CET Act and King III.
- 11.2 Members are also expected to:
  - a) act in the best interests of the College they are serving;
  - b) apply good analytical skills, objectivity and good judgment;
  - c) express opinions constructively and openly, raise issues that relate to the Committee's responsibilities and pursue independent lines of enquiry; and
  - d) contribute the time required to review the documents provided.
- 11.3 Once a year, members of the Committee will provide written declarations of any potential or actual conflicts of interest they may have in relation to their responsibilities to the chairperson for submission to the Council.
- 11.4 Members should consider past employment, consultancy arrangements and related party issues in making these declarations and the chairperson should be satisfied that there are sufficient processes in place to manage any real or perceived conflict.
- 11.5 At the beginning of each Committee meeting, members are required to declare any potential or actual conflicts of interest that may apply to specific matters on the meeting agenda. Where required by the chairperson, the member will be excused from the meeting or from the Committee's consideration of the relevant agenda item.