



MUNISIPALITEIT DAWID KRUIPER MUNICIPALITY

POLICY 010/2025 RAADSBELEID

SUBJECT/ONDERWERP: INTERNAL AUDIT CHARTER

REFERENCE/VERWYSING: 5.14.1.2.B

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1. DEFINITIONS AS APPLICABLE IN THE CHARTER

“Council”: Shall be the Municipal Council of Dawid Kruiper Municipality

“DKM”: Shall be the Dawid Kruiper Municipality

“CAE”: Chief Audit Executive is hereby referred to as the Senior Manager Internal Audit.

“Accounting officer”: Shall be the Municipal Manager of the Dawid Kruiper Municipality

“Chairperson”: Shall be the person appointed by the Council of Dawid Kruiper Municipality to preside over meetings as outlined in the MFMA, No 56 of 2003

The Committee herein shall be referred to as the Audit Committee

“Senior Management” – Municipal Manager and Directors

“GIAS” - Global Internal Audit Standards as published by the Institute of Internal Auditors

2. Purpose

The purpose of the Internal Audit function is to strengthen Dawid Kruiper’s Municipality ability to create, protect, and sustain value by providing the Council of Dawid Kruiper Municipality and management with independent, risk-based, and objective assurance, advice, insight, and foresight.

The Internal Audit function enhances Dawid Kruiper’s Municipality’s:

- Successful achievement of its objectives.
- Governance, risk management, and control processes.
- Decision-making and oversight.
- Reputation and credibility with its stakeholders.
- Ability to serve the public interest.

Dawid Kruiper’s Municipality’s Internal Audit function is most effective when:

- Internal Auditing is performed by competent professionals in conformance with The IIA’s Global Internal Audit Standards, which are set in the public interest.
- The Internal Audit function is independently positioned with direct accountability to the Accounting Officer and the Audit Committee.
- Internal Auditors are free from undue influence and committed to making objective assessments.

3. Commitment to Adhering to the Global Internal Audit Standards

The Dawid Kruiper’s Municipality Internal Audit function will adhere to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, which are the Global Internal Audit Standards and Topical Requirements.

The Chief Audit Executive will report on a quarterly basis to the Council, Accounting Officer and the Audit Committee regarding the Internal Audit function’s conformance with the Global Internal Audit Standards and Topical Requirements, which will be assessed through a quality assurance and improvement program.

4. **Mandate**

The Dawid Kruiper Municipality's (DKM) Internal Audit Department is governed by the Municipal Finance Management Act, No. 56 of 2003 ("MFMA"), the Municipal Systems Act, No. 32 of 2000 ("MSA"), the Global Internal Audit Standards and Topical Requirements.

Internal Audit is an appraisal function established within the organization in compliance with the requirements of the MFMA and MSA and independently evaluates the activities of the municipality as a service to the Council management.

The Council of DKM supports Internal Audit as an independent appraisal function to evaluate the activities as a service to Council and management.

The objectives of Internal Audit are to assist Council and Senior Management in the effective discharge of their responsibilities by providing an independent evaluation on the achievement of objectives, compliance with legislation as well as adequacy and effectiveness of internal controls.

5. **Authority**

The Dawid Kruiper Municipality's Internal Audit function mandate is found in Municipal Finance Management Act, which determines as follows:

"Section 165 Internal Audit unit. –

- (1) each municipality and each municipal entity must have an internal audit unit, subject to subsection (3).*
- (2) The internal audit unit of a municipality or municipal entity must-*
 - (a) Prepare a risk-based audit plan and an internal audit program for each financial year;*
 - (b) Advise the accounting officer and report to the audit committee on the implementation of the internal audit plan and matters relating to –*
 - (i) internal audit*
 - (ii) internal controls*
 - (iii) accounting procedures and practices*
 - (iv) risk and risk management*
 - (v) performance management*
 - (vi) loss control; and*
 - (vii) compliance with this Act, the annual Division of Revenue Act and any other applicable legislation and*
 - (c) perform such other duties as may be assigned to it by the accounting officer.*
- (3) The internal audit function referred to in subsection (2) may be outsourced if the municipality or municipal entity requires assistance to develop its internal capacity and the council of the municipality or the board of directors of the entity has determined that this is feasible or cost-effective."*

The Internal Audit function's authority is created by its direct reporting relationship to the Audit Committee. Such authority allows for unrestricted access to the Audit Committee.

The Audit Committee of Dawid Kruiper Municipality's authorises the Internal Audit function to:

- Have full and unrestricted access to all functions, data, records, information, physical property, and personnel pertinent to carrying out Internal Audit responsibilities. Internal Auditors are accountable for confidentiality and safeguarding records and information.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques, and issue communications to accomplish the function's objectives.
- Obtain assistance from the necessary personnel of Dawid Kruiper Municipality and other specialised services from within or outside Dawid Kruiper Municipality to complete Internal Audit services.
- Have full, free and unrestricted access to the Audit Committee (AC) and the External Auditors.
- The Chief Audit Executive or his/her representative is required to sit in all the Audit Committee Meetings.
- The Internal Auditor is not authorized to:
 - a) Perform any operational and administrative duties for the Municipality.
 - b) Initiate or approve accounting transactions outside the Internal Audit function.
 - c) Direct the activities of any employee in the Municipality not employed by the Internal Audit function.

6. Independence, Organizational Position, and Reporting Relationships

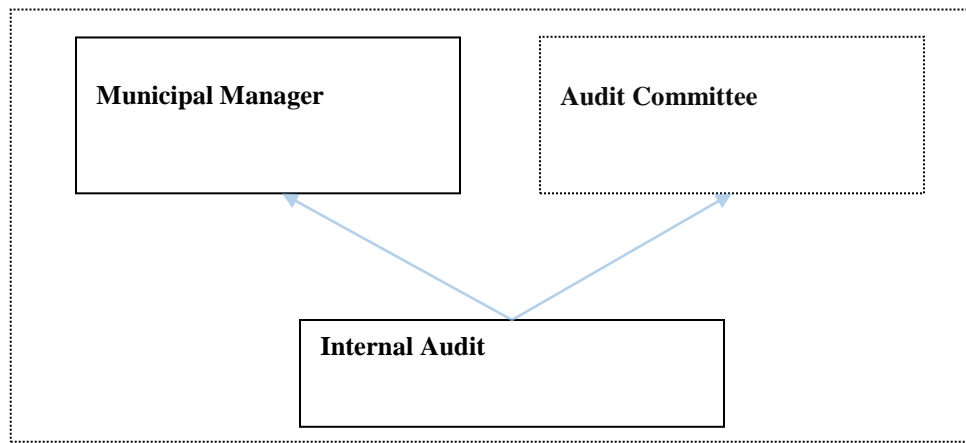
The Chief Audit Executive will be positioned at a level in the organization that enables internal audit services and responsibilities to be performed without interference from management, thereby establishing the independence of the internal audit function. (See "Mandate" section.)

The Chief Audit Executive will report functionally to the Audit Committee and administratively (for example, day-to-day operations) to the Accounting Officer. This positioning provides the organizational authority and status to bring matters directly to senior management and escalate matters to the Audit Committee, when necessary, without interference and supports the Internal Auditors' ability to maintain objectivity.

The Chief Audit Executive will confirm to the Audit Committee, at least annually, the organizational independence of the Internal Audit function. If the governance structure does not support organizational independence, the Chief Audit Executive will document the characteristics of the governance structure limiting independence and any safeguards employed to achieve the principle of independence.

The Chief Audit Executive will disclose to the Audit Committee any interference Internal Auditors encounter related to the scope, performance, or communication of internal audit work and results. The disclosure will include communicating the implications of such interference on the internal audit function's effectiveness and ability to fulfill its mandate.

The following Structure outlines the position of the Internal Audit within the Municipality:



7. **Changes to the Mandate and Charter**

Circumstances may justify a follow-up discussion between the Chief Audit Executive, Audit Committee, and Senior Management on the Internal Audit mandate or other aspects of the Internal Audit Charter. Such circumstances may include but are not limited to:

- A significant change in the Global Internal Audit Standards.
- A significant reorganization within the organization.
- Significant changes in the chief audit executive, [governing body], and/or senior management.
- Significant changes to the organization's strategies, objectives, risk profile, or the environment in which the organization operates.
- New laws or regulations that may affect the nature and/or scope of internal audit services.

8. **Audit Committee Oversight**

To establish, maintain, and ensure that Dawid Kruiper Municipality's Internal Audit function has sufficient authority to fulfill its duties, the Audit Committee will:

- Discuss with the Chief Audit Executive and Senior Management the appropriate authority, role, responsibilities, scope, and services (assurance and/or advisory) of the internal audit function.
- Ensure the Chief Audit Executive has unrestricted access to and communicates and interacts directly with the Audit Committee, including in private meetings without Senior Management present.
- Discuss with the Chief Audit Executive and Senior Management other topics that should be included in the Internal Audit Charter.
- Participate in discussions with the Chief Audit Executive and Senior Management about the "essential conditions," described in the Global Internal Audit Standards, which establish the foundation that enables an effective Internal Audit function.
- Approve the Internal Audit function's charter, which includes the Internal Audit mandate and the scope and types of Internal Audit services.
- Review the Internal Audit Charter annually with the Chief Audit Executive to consider changes affecting the organization, such as the employment of a new Chief Audit Executive or changes in the type, severity, and interdependencies of risks to the organization; and approve The Internal Audit Charter annually.
- Approve the Risk-Based Internal Audit Plan.
- Provide input to the Internal Audit function's human resources administration and budgets.

- Review the Internal Audit function's expenses.
- Provide input to the Accounting Officer on the appointment and removal of the Chief Audit Executive, ensuring adequate competencies and qualifications and conformance with the Global Internal Audit Standards.
- Review and provide input to the Accounting Officer on the Chief Audit Executive's performance.
- Receive communications from the Chief Audit Executive about the Internal Audit function including its performance relative to its plan.
- Ensure a quality assurance and improvement program has been established and review the results annually.
- Make appropriate inquiries of Senior Management and the Chief Audit Executive to determine whether scope or resource limitations are inappropriate.

9. Chief Audit Executive Roles and Responsibilities

9.1 Ethics and Professionalism

The Chief Audit Executive will ensure that Internal Auditors:

- Conform with the Global Internal Audit Standards, including the principles of Ethics and Professionalism: integrity, objectivity, competency, due professional care, and confidentiality.
- Understand, respect, meet, and contribute to the legitimate and ethical expectations of the organization and be able to recognize conduct that is contrary to those expectations.
- Encourage and promote an ethics-based culture in the organization.
- Report organizational behavior that is inconsistent with the organization's ethical expectations, as described in applicable policies and procedures.

9.2 Objectivity

The Chief Audit Executive will ensure that the internal audit function remains free from all conditions that threaten the ability of Internal Auditors to carry out their responsibilities in an unbiased manner, including matters of engagement selection, scope, procedures, frequency, timing, and communication. If the Chief Audit Executive determines that objectivity may be impaired in fact or appearance, the details of the impairment will be disclosed to appropriate parties.

Internal Auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively such that they believe in their work product, do not compromise quality, and do not subordinate their judgment on audit matters to others, either in fact or appearance.

Internal Auditors will have no direct operational responsibility or authority over any of the activities they review. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, or engage in other activities that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing operational duties for DKM or its affiliates.
- Initiating or approving transactions external to the Internal Audit function.
- Directing the activities of any DKM employee that is not employed by the Internal Audit function, except to the extent that such employees have been appropriately assigned to Internal Audit teams or to assist Internal Auditors.

Internal Auditors will:

- Disclose impairments of independence or objectivity, in fact or appearance, to appropriate parties and at least annually, such as the Chief Audit Executive, Audit Committee, management, or others.
- Exhibit professional objectivity in gathering, evaluating, and communicating information.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid conflicts of interest, bias, and undue influence.

9.3 Managing the Internal Audit Function

The Chief Audit Executive has the responsibility to:

- At least annually, develop a risk-based internal audit plan that considers the input of the Audit Committee and senior management. Discuss the plan with the Audit Committee and Senior Management and submit the plan to the Audit Committee for review and approval.
- Communicate the impact of resource limitations on the Internal Audit plan to the Audit Committee and senior management.
- Review and adjust the Internal Audit plan, as necessary, in response to changes in Dawid Kruijer's business, risks, operations, programs, systems, and controls.
- Communicate with the Audit Committee and Senior Management if there are significant interim changes to the Internal Audit Plan and table a Revised Audit Plan for approval.
- Ensure Internal Audit engagements are performed, documented, and communicated in accordance with the Global Internal Audit Standards and laws and/or regulations.
- Follow up on engagement findings and confirm the implementation of recommendations or action plans and communicate the results of internal audit services to the Audit Committee and Senior Management [periodically] and for each engagement as appropriate.
- Ensure the Internal Audit function collectively possesses or obtains the knowledge, skills, and other competencies and qualifications needed to meet the requirements of the Global Internal Audit Standards and fulfill the Internal Audit mandate.
- Identify and consider trends and emerging issues that could impact DKM and communicate to the Audit Committee and senior management as appropriate.
- Consider emerging trends and successful practices in Internal Auditing.
- Establish and ensure adherence to methodologies designed to guide the Internal Audit function.
- Ensure adherence to DKM's relevant policies and procedures unless such policies and procedures conflict with the Internal Audit charter or the Global Internal Audit Standards. Any such conflicts will be resolved or documented and communicated to the Audit Committee and senior management.
- Coordinate activities and consider relying upon the work of other internal and external providers of assurance and advisory services. If the Chief Audit Executive cannot achieve an appropriate level of coordination, the issue must be communicated to senior management and if necessary escalated to the Audit Committee.

9.4 Communication with the Audit Committee and Senior Management

The Chief Audit Executive will report quarterly to the Audit Committee and Senior Management regarding:

- The Internal Audit function's mandate.
- The Internal Audit plan and performance relative to its plan.

- Internal audit budget.
- Significant revisions to the Internal Audit plan and budget.
- Potential impairments to independence, including relevant disclosures as applicable.
- Results from the quality assurance and improvement program, which include the Internal Audit function's conformance with The IIA's Global Internal Audit Standards and action plans to address the Internal Audit function's deficiencies and opportunities for improvement.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other areas of focus for the Audit Committee that could interfere with the achievement of DKM's strategic objectives.
- Results of assurance and advisory services.
- Resource requirements.
- Management's responses to risk that the Internal Audit function determines may be unacceptable or acceptance of a risk that is beyond DKM's risk appetite.

9.5 Quality Assurance and Improvement Program

The Chief Audit Executive will develop, implement, and maintain a quality assurance and improvement program that covers all aspects of the Internal Audit function. The program will include external and internal assessments of the Internal Audit function's conformance with the Global Internal Audit Standards, as well as performance measurement to assess the Internal Audit function's progress toward the achievement of its objectives and promotion of continuous improvement. The program also will assess, if applicable, compliance with laws and/or regulations relevant to Internal Auditing. Also, if applicable, the assessment will include plans to address the Internal Audit function's deficiencies and opportunities for improvement.

Annually, the Chief Audit Executive will communicate with the Audit Committee and Senior Management about the Internal Audit function's quality assurance and improvement program, including the results of internal assessments (ongoing monitoring and periodic self-assessments) and external assessments.

External assessments will be conducted at least once every five years by a qualified, independent assessor or assessment team from outside DKM.

Qualifications must include at least one assessor holding an active Certified Internal Auditor credential.

10. Scope and Types of Internal Audit Services

The scope of Internal Audit services covers the entire breadth of the organization, including all of DKM's activities, assets, and personnel.

The scope of Internal Audit activities also encompasses but is not limited to objective examinations of evidence to provide independent assurance and advisory services to the Audit Committee and management on the adequacy and effectiveness of governance, risk management, and control processes for DKM.

The nature and scope of advisory services may be agreed with the party requesting the service, provided the Internal Audit function does not assume management responsibility. Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during advisory engagements. These opportunities will be communicated to the appropriate level of management.

Internal audit engagements may include evaluating whether:

- Risks relating to the achievement of DKM's strategic objectives are appropriately identified and managed.
- The actions of DKM's, senior management, management, officials and contractors or other relevant parties comply with DKM's policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations and programs are consistent with established goals and objectives.
- Operations and programs are being carried out effectively, efficiently, ethically, and equitably.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact DKM.
- The integrity of information and the means used to identify, measure, analyze, classify, and report such information is reliable.
- Resources and assets are acquired economically, used efficiently and sustainably, and protected adequately.

10.1 Assurance Services

The Internal Audit activity may provide assurance services where it had previously performed consulting services, provided the nature of the consulting did not impair objectivity and provided individual objectivity is managed when assigning resources to the engagement.

10.2 Compliance Audit

- The objective of Compliance Audits will be to evaluate to what extent the by-laws, policies and procedures, statutory requirements, management decisions and council resolutions have been complied with.
- Statutory requirements will include adherence to the MFMA, Systems Act, DORA, Treasury Regulations and other legislation.
- Selection criteria: Compliance Audits will be performed where, all functions and processes linked to the risk areas of DKM, and compliance to statutory requirements; legislation; policies; by-laws and procedures is of fundamental importance to the proper functioning of DKM.

10.3 Performance Auditing

- The objective of Performance Audits / Value-For-Money reviews will be to evaluate economy, efficiency and effectiveness on the utilisation of resources within the Municipality.
- The promotion of economy, efficiency and effectiveness depends on adequate overall management arrangements for planning, budgeting, authorisation, control and evaluation of the use of resources. The Municipal Manager is responsible for the implementation of proper functioning of such overall management arrangements and the responsibility of Performance Audit is to confirm independently that these measures do exist and are effective and report to the management and the Audit Committee (AC) on these issues including the recommended actions to improve on the effectiveness, efficiency and economic utilisation of resources.

10.4 The use of Auditing software

All audits will be performed using auditing software unless a manual process has been agreed with the Audit Committee.

10.5 IT Review

- IT reviews include the evaluation of internal controls within the computer information system environment to ensure the validity, reliability and security of information. Furthermore, it includes the assessment of the efficiency and effectiveness of the computer information system environment.
- IT Reviews will be performed on key IT systems and processes linked to the applicable strategic and business risk areas associated with these systems and to evaluate whether proper IT controls are in place in such a way as to ensure the IT supports the business objectives of the organisation.

10.6 Ad Hoc Audits

- The Accounting Officer or the Audit Committee can request Internal Audit to conduct an investigation/audit on their behalf even though the area under review was not scheduled to be reviewed in the current Internal Audit Plan.
- The Audit Committee will consider and approve all Internal Audit work requested which falls outside of the approved annual Internal Audit Plan by means of the approval of a Revised Audit Plan.
- Many of the Ad-Hoc assignments referred to the Internal Audit may fall within the scope of either a Forensic or a Performance Audit. Should there be a request for an assignment of a special nature; the Internal Audit will consider accessing specialists to provide the Municipality with a quality service.

10.7 Financial Discipline Review

- Financial Discipline Review will be conducted on the key financial processes that have an impact on the financial position and performance of DKM as well as financial related controls in all Business Units.
- Financial Discipline Reviews will focus mainly on the evaluation of the adequacy and effectiveness of financial controls, control over value documentation, ensuring the safeguarding of asset, the completeness, accuracy, and timeous recording of transactions, errors and misstatement of financial information.

10.8 Audit of Predetermined Objectives

Audit of predetermined objectives will be conducted on a quarterly basis; the review will include verifying the alignment of the IDP, Budget, SDBIP and quarterly reports.

10.9 Advisory/Consultancy Services

Definition: Consultancy Services are the advisory and related client service activities, the nature and scope of which are agreed with the client and which are intended to add value and improve the DKM's governance, risk management, and control processes without the internal auditor assuming management responsibility.

The Nature of Consulting Services provided to DKM by the Internal Audit is defined as follows:

- Consulting Services to be provided to DKM are limited to Advisory Functions.
- The scope of consulting services will be agreed upon with Management.
- Internal Auditors will conduct consulting services only in response to written requests by management and approved by the Audit Committee.

11. LIMITATION OF SCOPE

The question of whether an action from management, does in fact constitute a scope limitation, is at the judgment of the CAE. Except in cases of suspected fraud, the Municipal Manager and the Audit Committee may decide to accept a limitation of scope. In such instances, the CAE should evaluate from

time to time whether the circumstances surrounding the scope limitation are still valid and whether the scope limitation needs to be reported to the Accounting Officer and the Audit Committee for a renewed consideration.

12. Relationship with External Auditors

The Internal Auditors will liaise their activities with those of the External Auditors in order to avoid duplication of audit effort.

This will be accomplished by:

- A compulsory meeting between the Internal Audit Unit and the External Auditors to discuss the annual internal and external audit plans;
- Periodic meetings to discuss the audit plan and activities;
- Access to the internal audit documentation by the external auditors;
- Exchange of management letters concerning their respective audit findings and recommendations. The Internal Audit Unit may carry out follow-ups on comments and recommendations contained in the External Audit reports, and vice versa; and
- Sharing information of perceived risk areas.