

**16/10 AUDIT AND PERFORMANCE AUDIT COMMITTEE REPORTS FOR THE  
YEAR ENDED 30 JUNE 2011 AND FINANCIAL YEAR 2011-2012.**

**DATE : 19 SEPTEMBER 2012**

**AGENDA : COUNCIL MEETING: 04/10/2012**

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**REPORT : CHAIRPERSON OF THE AUDIT & PERFORMANCE AUDIT  
COMMITTEE**

**PURPOSE**

The purpose of the item is to provide the Council with the independent assurance and advice on the activities which were evaluated by the committee when performing their duties in terms of the approved charter that was aligned in terms of subsection 2(a) of section 166 of the Municipal Financial Management Act; Municipal Planning and Performance Regulation No 796 of 2001 and Municipal Performance Regulation, 2006.

**BACKGROUND**

In terms of the point 8 under audit and performance audit charter of the Approved Audit Policy, the reports of the Audit and Performance Audit Committee must be presented to the Executive Committee and Council for approval.

The reports of the Audit and Performance Audit Committee are submitted to comply with the audit policy and subsection 2(a) of section 166 of the Municipal Financial Management Act, 2003 (Act No 56 of 2003) ; Municipal Planning and Performance Regulation No 796 of 2001 and Municipal Performance Regulation, 2006.

**DISCUSSION**

The reports of the Audit and Performance Audit Committee contains what transpired in the meeting of the 27 June 2011; 21 October 2011; 20 March 2012, 15 June 2012 and 06 July 2012. The reports of the Internal Audit Unit are addendum on the reports of the Committee as the unit report functionally to the committee.

**STAKEHOLDERS CONSULTED**

Management.

**LEGAL IMPLICATION**

Compliance.

**STAFF IMPLICATION**

Internal Audit Unit.

**FINANCIAL IMPLICATION**

Remuneration per seating's                      5 Meetings

Chairperson of the Audit Committee -	R 25 207.86
Members of the Audit Committee -	<u>R 52 578.10</u>
<b>Total</b>	<b><u>R 25 207.83</u></b>

## **RISKS**

If the Council does not approve the report and only noting it, the resolution would have a significant impact on the opinion of the audit report 2011/2012.

## **ANNEXURES**

Attached as Annexures, please find the reports of the Audit and Performance Committee; Internal Audit Reports; Audit policy 2012/2013 and the letter of resignation from member of the committee.

## **RECOMMENDATION**

It is recommended that:

1. Council approves the Audit and Performance Committee reports covering the following periods:-
  - (i) Year Ended 30 June 2011;
  - (ii) Quarterly report ending March 2012;
  - (iii) Quarterly report ending June 2012;
2. Council approves the audit policy for the period of 2012/2013;
3. Council accepts the resignation of Mr K T Makhale; and
4. Council approves not to fill the vacancy brought by the resignation of Mr K T Makhale as the term of office of the current committee member ends in March 2013 as the current composition quorate.

## **(FOR RESOLUTION)**

### **Minutes: Council Meeting: 04/10/2012**

Mr Moses Tshake, Audit and Performance Audit Committee Chairperson was given the opportunity to present the reports to Council.

He then presented on each recommendation contained in the report clarifying the situation at the time and highlighting the difficulties experienced.

He highlighted to Council that the Audit Committee is not an implementing tool but merely serves as an advisory body to Council and as such where its recommendations were not considered the Council should just indicate alternative action to be taken to rectify what ever situation indicated.

He also reported to Council that progress on the issues raised has been made.

After lengthy discussion and various clarity seeking questions Cllr Maduna proposed that the matter be resolved as follows and was seconded by Cllr Fuso.

### **RESOLVED:**

1. That Council approves the Audit and Performance Committee reports covering the following periods:-

- (i) Report Year Ended 30 June 2011;
  - (ii) Quarterly report ending March 2012;
  - (iii) Quarterly report ending June 2012;
2. That Council approves the audit policy for the period of 2012/2013;
  3. That Council accepts the resignation of Mr K T Makhale; and
  4. That Council approves not to fill the vacancy brought by the resignation of Mr K T Makhale as the term of office of the current committee member ends in March 2013 as the current composition quorate.
  5. That an Action Plan be regularly brought to Council updated as to how findings are addressed.
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**AUDIT POLICY**

**SETSOTO LOCAL MUNICIPALITY**

**2012/2013**



**AUDIT POLICY**

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## SECTION A: AUDIT POLICY OVERVIEW

### 1. Introduction

It is the policy of the Municipality to establish and support Internal Audit as an independent appraisal function to provide assurance and consulting services to the Municipality as a service to management and the Audit and Performance Committee.

In terms of the Municipal Finance Management Act (Act No. 56 of 2003) the Municipality has to establish a system of internal audit under the control and direction of an Audit and Performance Committee complying with and operating in accordance with regulations and instructions prescribed in sections 166.

In drafting this policy the latest thinking and recommendations of all the institutions involved in corporate governance, the audit process and international best practises has been taken into account. Reference has been made to the following in formulating the audit policy:

1. The Municipal Finance Management Act No 56 of 2003.
2. The Treasury Regulations in terms of the Public Finance Management Act.
3. The King III Report on Corporate Governance for South Africa 2009.
4. The Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.
5. Municipal Planning and Performance Management Regulation No. 796 of 2001.
6. Municipal Performance Management Regulation, 2006.
7. Municipal System Act 32 of 2000.

This audit policy spells out the Committee's modus operandi and spells out the rules that govern its relationship with management, the Internal Audit Unit and the external auditors.

### 2. Definitions

**Internal Audit Unit** refers to the Unit of the Municipality.

**Head of Internal Audit** refers to the manager responsible for the Internal Audit Unit of the Municipality.

**The Council** refers to the Executive Council of the Municipality.

**The Committee** refers to the Audit and Performance Committee of the Municipality.

**Municipality** refer to the Administrative part of the Council.

### 3. Professional Performance

The contents of this policy are not to be interpreted as precluding or restricting any of the functionaries from acting according to the best practices or benchmarks recommended by their relevant professional bodies.





## SECTION B AUDIT AND PERFORMANCE COMMITTEE CHARTER

### 1. Purpose of the Audit and Performance Committee

The primary purpose of the Audit and Performance Committee is to assist the Council in fulfilling its oversight responsibility by reviewing;

- The financial reports and other information provided by the Municipality to any government body or the public( MFMA, Section 166(2)(b);
- The system of internal control (financial, operational and compliance) that management has established(MFMA, Section 166 (2)(a)(i)-(ix); and
- The Municipality's auditing, accounting and financial reporting processes generally (MFMA, Section 166 (2)(a)(i-iii)&(iv).
- Continuous auditing of the performance measure of the municipality and an evaluation of the performance reports submitted by Internal Audit Unit in terms of section 14(1)(c)(i)&(ii) of the Municipal Planning and Performance Management Regulation No. 796 of 2001

### 2. Objectives of the Audit and Performance Committee

The Audit and Performance Committee should encourage continuous improvement of, and should foster adherence to, the Municipality's accounting policies, procedures and practices at all levels. The Audit and Performance Committee's primary objectives are to:

- Serve as an independent and objective party to monitor and strengthen the objectivity and credibility of the Municipality's financial reporting process and internal control system (MFMA, Section 166 (2)(a)(i),(ii);(vi-vii) & (ix).
- Review and appraise the audit efforts of the external auditors and the Municipality's internal audit Unit (MFMA, Section 166 (3)(b)(i)&(ii).
- Provide an open avenue of communication among the external auditors, the internal audit Unit and senior management (MFMA, Section 166 (3)(b)(i)&(ii).
- Facilitate the imposition of discipline and control, thus reducing the opportunity of fraud (MFMA, Section 166 (2)(vi).

The Audit and Performance Committee will primarily fulfil these responsibilities by carrying out the activities enumerated in Section 6 of the Charter.

### 3. Authority

The Council supports and endorses the Audit and Performance Committee which operates independently of management and is free of any organisational influence and impairment.

The Audit and Performance Committee has full, free and unrestricted access to all information, including records, property and personnel of the Municipality, and must be provided with adequate resources in order to fulfil its oversight responsibilities(MFMA, Section 166 (3)(a). The Audit and Performance Committee shall have direct and unobstructed lines of communication to the Accounting Officer, the External and Internal



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auditors and the Council (MFMA, Section 166 (2)(a) and (3)(a). The Audit and Performance Committee has the right to initiate investigations regarding any matter it may deem necessary and for this purpose it may take such independent professional advice as it considers appropriate(MFMA, Section 166 (2)(d).

#### **4. Membership**

##### **4.1 Composition**

The Audit and Performance Committee must be constituted so as to ensure its independence.

The Audit and Performance Committee members are appointed by the Council in consultation with the Accounting Officer and it shall consist of not less than 3 (three) members of whom the majority may not be in the employ of Municipality(MFMA, Section 166 (4)(a), one of whom shall be the Chairperson(MFMA, Section 166 (5). The Chairperson of the Audit and Performance Committee may not be a political office bearer.

The members of the Committee shall be professionals of appropriate competency and standing and shall not be members of the management team of the Municipality.

Should a vacancy occur in the Audit and Performance Committee, the Accounting Officer shall consult the Council within a reasonable time to obtain the directive about filling the vacant post.

The Chairperson must have the ability to preside over meetings and to direct the discussion constructively. The need for independence applies particularly to the Chairperson and his/ her personal qualities are of great importance. Therefore, the Chairperson should be from another Department/private sector(MFMA, Section 166 (5) in order to bring a wide range of experience to the decision-making process.

If the Chairperson is absent from a specific meeting, the members present shall elect a Chairperson from the members present to act as Chairperson of that meeting.

The Accounting Officer, Chief Financial Officer and the Chief Audit Executive as well as a representative of the Provincial Treasury and Department of Cooperative Governance and Traditional Affairs have standing invitations to the Audit and Performance Committee meetings. Directors attend at the invitation of the Audit and Performance Committee as and when necessary.

Representatives of the Office of the Auditor-General may attend the meetings of the Audit and Performance Committee as observers and not as members thereof.

##### **4.2 Duration of Membership**

Members of the Audit and Performance Committee shall be appointed for a three-year term of office.



#### **4.3 Remuneration**

Members of the Audit and Performance Committee shall be remunerated in terms of remuneration of non official members for commissions and committees of inquiry and Audit and Performance Committee from National treasury guideline. Preparatory fees for the meetings that will take place should be calculated as 2/3 of their sitting allowance, excluding the special meetings.

#### **4.4 Capacity building**

Members of the Audit and Performance Committee shall be entitled to attend trainings, workshops and seminar that will enhance their performance.

#### **4.5 Code of Conduct**

Members of the Audit and Performance Committee shall abide and observe the municipal code of conduct schedule I and II of the Municipal Systems Act 2000 (Act 32 of 2000).

#### **4.6 Termination**

The Council has to concur with the premature termination of the services of a person serving on the Audit and Performance Committee.

### **5. Meetings**

#### **5.1 Frequency**

There shall be at least four Audit and Performance Committee meetings per year (MFMA, Section 166 (4)(b)). One of its meetings will be held immediately prior to the submission of the annual financial statements and annual performance report to the Council (MFMA, Section 166 (2)(a)(iv)). Another meeting shall be held to execute their duties as outline in section 166 (2)(a)-(e) which exclude subsection (2)(a)(v) &(viii) of the MFMA. Meetings should generally correspond with major phases of the financial reporting and external audit cycles.

The Chairperson of the Audit and Performance Committee shall convene a special meeting of the Committee if he considers it necessary. This will include consideration of requests for an urgent meeting of the Committee by the Accounting Officer or Internal or External auditors or any other person having a serious matter to be considered by the Committee.

As part of its job is to foster open communication the Committee should meet at least annually with management, the Head of the Internal Audit Unit and the External Auditors in separate sessions to discuss matters that the Committee or each of these groups believe should be discussed privately.



## **5.2 Responsibility for the agenda and the issue of minutes**

The Chairperson of the Audit and Performance Committee shall ensure that an agenda is prepared for each Audit and Performance Committee meeting.

A secretariat will reside in the Internal Audit Unit. In addition, the secretariat is responsible for arranging the meetings and the gathering and distribution of the agenda papers. Complete agenda papers must be distributed to the members of the Committee and other persons invited to the meeting at least 7 days prior to the date of the meeting.

The minutes of the Committee meetings shall be circulated to all members of the Committee and other relevant persons as directed by the Committee within fourteen (14) days of such meeting.

Copies of the minutes of meetings shall be distributed to all members of the Executive Committee and Council for consideration and discussion at the next meeting of the Executive Committee and Council as elaborate in paragraph 8.0.

## **5.3 Meeting procedures**

Notice in writing shall be given to all members of the Audit and Performance Committee and other interested persons, of each meeting to be held, at least 14 days prior to the date of such meeting.

All committee members are expected to attend each meeting in person. The quorum for a meeting shall be a two-thirds majority of the members of the Audit and Performance Committee. If a quorum is not present at a meeting, the meeting may proceed with the understanding that it is subject to ratification at the next Audit and Performance Committee meeting, which shall require a proper quorum.

## **5.4 Attendance**

The following persons are required to attend meetings of the Audit and Performance Committee as per invitation

- The external auditor principally responsible for the audit; and
- Any other persons whose contribution may be beneficial.

These persons will not have any voting rights.



## **6. Responsibilities and Duties Of the Audit and Performance Committee**

The Audit and Performance Committee must assume the following fundamental responsibilities:

### **6.1 Evaluation and approval of the Audit Policy**

The Audit and Performance Committee shall periodically review the Audit Policy in order to ensure that the total audit function is co-ordinated and executed logically and effectively in line with developments within the Internal Audit profession.

### **6.2 Evaluation of management procedures with regard to internal control, risk management and corporate governance**

The Audit and Performance Committee is responsible for the evaluation of the policies and procedures implemented by management in order to ensure that the accounting and information systems and related controls and security are adequate and effective. Particular emphasis should be given to the adequacy of internal controls designed to mitigate exposure to significant risks.

The Audit and Performance Committee shall submit a report on the effectiveness of the internal controls of the Municipality for inclusion in the annual financial statements of the Municipality.

### **6.3 Evaluation of management procedures with regard to financial reporting**

The Audit and Performance Committee must review arrangements established by management for compliance with regulatory and financial reporting requirements.

### **6.4 Evaluation and review of strategic plan and strategic management**

The Audit and Performance Committee must evaluate and review the municipality's strategic plan and strategic management process.

### **6.5 Evaluation of the combined Audit Plan**

The objective of this evaluation is to ensure that all the high-risk areas have been considered and that there are no deficiencies or unnecessary duplications in the planned audit coverage by the external and internal auditors.

In order to facilitate this evaluation the auditors should prepare a schedule of perceived risk areas in the Municipality. This schedule will assist the Audit and Performance Committee in determining whether the planned audit coverage with regard to the high-risk areas is adequate and whether sufficient resources are available to perform the audits.



## 6.6 Evaluation of the Internal Audit Unit

The objective of this evaluation is to ensure that the Internal Audit Unit is operating effectively. The evaluation should *inter alia* -

- Concur with the appointment or removal of the Head of Internal Audit;
- Review the activities, organisational structure and qualifications of the Internal Audit Unit;
- Ensure that the internal auditors effectively perform their responsibilities and duties;
- Review internal audit plans and budgets;
- Review the results of the audit work performed;
- Review any quality assurance performed on the Internal Audit Unit;
- Ensure that the Internal Audit Unit complies with relevant rules and regulations;
- Ensure that the Internal Audit Unit maintains its independence;
- Review the internal audit reports to management and management's response
- Evaluate the quality of the internal audit reports; and
- Review the audit approach used, the quality of reports issued during the year, quality of personnel, co-operation with external auditors and management satisfaction.

## 6.7 Evaluation of the external audit

The objective of this evaluation is to ensure that the Municipality receives the highest value from the external audit. In carrying out this evaluation, the Audit and Performance Committee should consider *inter alia* the audit approach used by the external auditors, quality of management letters issued, the level of the audit fee, quality of personnel, co-operation with the Internal Audit Unit, timely and satisfactory completion of the audit and management satisfaction.

The Audit and Performance Committee shall review the scope of the external audit by -

- Ensuring that it is not restricted in any way;
- Evaluating the adequacy of audit procedures to be carried out in testing controls and checking accounting records;
- Considering the acceptability of the materiality levels to be applied in deciding on the extent of audit procedures and the level of errors to be reported;
- Agreeing the dates by when reports are to be submitted and when annual financial statements and other applicable requirements are to be finalised; and
- Identifying steps to be taken in order to avoid problems encountered in the previous year, thereby reducing unnecessary audit work.



**The Audit and Performance Committee shall also -**

- Consider the effectiveness of the Municipality's internal control identified during the external audit and the Accounting Officer's follow-up thereof;
- Review the plan of the external audit and ensure that it addresses the critical risk areas of the Municipality in an effective manner;
- Consider significant disagreements between the external auditors and the Accounting Officer, if any; and
- Consider changes in the scope or approach of the external audit from that outlined in the initial audit plan in response to changed conditions or problems encountered, without in any way affecting the independence of the external auditors, taking into consideration the contents of paragraph 1 of Section C of this document.

**6.8 Consideration of problems arising out of the external audit**

The Audit and Performance Committee should consider the problems arising out of the external audit and whether or not additional actions are necessary to facilitate the finalisation of the audit and to enhance the credibility and objectivity of the annual financial statements and relevant reports. This may be achieved by the evaluation, discussion and follow-up of the external auditors' statutory report and management letters.

**6.9 Review of the annual financial statements before their submission to the Council for approval**

The Audit and Performance Committee's primary duty is the review of the annual financial statements and other relevant reports with management and the external auditors. This review should be sufficiently detailed to enable the Audit and Performance Committee to report to the Council that the Audit and Performance Committee is satisfied that the financial statements fairly present the financial position of the Municipality and that all appropriate disclosures have been made (MFMA, section 166(2)(a)(iv)). This review of the audit results and the quality and content of financial information should include -

- 6.9.1 The fairness of presentation of the assets and liabilities (including contingent liabilities) and the calculation and adequacy of specific and general provisions against assets of the Municipality;
- 6.9.2 The fairness of presentation of the income statement;
- 6.9.3 Compliance with law and accounting standards, including consideration of the impact of any changes in accounting standards or exposure drafts, statutory or any other regulatory authorities' requirements;
- 6.9.4 Significant accounting, auditing or disclosure problems highlighted by the auditors or management;
- 6.9.5 Adjustments proposed by the external auditors;
- 6.9.6 Changes in accounting policies during the year and disclosure of the effects thereof;



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- 6.9.7 Major fluctuations in accounting figures or ratios;
- 6.9.8 The manner in which unusual circumstances are reflected in the financial statements;
- 6.9.9 The manner in which unusual, significant commitments or contingent liabilities are reflected;
- 6.9.10 Material differences between the annual report and management financial statements as submitted to the Council;
- 6.9.11 Significant differences in format or disclosure from the previous year;
- 6.9.12 Possible qualification of the audit report;
- 6.9.13 The accounting policies and any problems encountered in the implementation thereof;
- 6.9.14 Significant judgmental decisions taken during the finalisation of the annual financial statements; and
- 6.9.15 Major variances from preliminary results reported to the Council;
- 6.9.16 Reviewing the adequacy of the doubtful debts and any stock provisions;
- 6.9.17 Being kept informed of all outstanding litigation, contingencies and claims and how these matters are reflected in the Municipality's financial statements;
- 6.9.18 Reviewing the extent, nature and disclosure of extraordinary or exceptional items.

**6.10 Review and evaluation of management actions on reports issued by the Internal Audit Unit and other professionals and management letters issued by the external auditors.**

The Audit and Performance Committee should ensure that management has timeously addressed and rectified significant matters brought to its attention by the external auditors, the Internal Audit Unit and any other professionals reporting on frauds, breakdowns in procedures and other matters requiring management action.

**6.11 Assessing the risk of financial reporting**

Because the likelihood and magnitude of the potential risk will change as rapidly as the business climate changes, assessing the risk of fraudulent financial reporting is challenging. The Audit and Performance Committee must ensure that the Office of the Auditor-General have considered this risk with reference to:

- 6.10.1 The business environment;
- 6.10.2 Management's reputation, integrity and experience;
- 6.10.3 The relationship of management with the Office of the Auditor-General.

**6.12 Evaluation of the total audit cost of the company**

The Audit and Performance Committee should evaluate the costs of both the external and internal audit functions in terms of the value which they add to the Company.





### 6.13 Review of the external audit fees

The Audit and Performance Committee should consider and recommend the external audit fee to the Council.

### 6.14 Monitoring of ethical conduct

The Audit and Performance Committee should monitor the ethical conduct of the Municipality, the Accounting Officer and senior officials.

### 6.15 Ad hoc responsibilities

The Audit and Performance Committee shall examine financial and other matters that may be referred to it by the Council from time to time and take any appropriate action required.

### 6.16 Facilitate and promote communication

The Audit and Performance Committee should facilitate and promote communication between the Council, management and the internal and external auditors regarding the matters referred to above or any other related matters.

In its overseeing role, the Committee should focus on:

- 6.16.1 The changing business environments;
- 6.16.2 Changing financial reporting requirements;
- 6.16.3 The findings from the annual audit and interim work, including comments on controls; and
- 6.16.4 The proposed audit scopes, and approaches with respect to complex, high risks, and judgmental areas.

The Committee should meet at least twice per year with the Internal Audit and once a year with the Office of the Auditor-General to discuss these matters. At least one of these meetings may include an "executive session" to ensure free and open communication. In its review process and discussions with the auditors, the Committee should ensure that the following matters are addressed:

- 6.16.5 Auditors to report whether the scope of the audit was restricted by management;
- 6.16.6 Problems and reservations arising from the interim and final audits, and any material points raised in audit reports issued since previous meetings and management's response thereto;
- 6.16.7 Review of the Municipality's statement on internal control;
- 6.16.8 Report back from auditors on major weaknesses in internal control, as well as steps taken to rectify problem areas;
- 6.16.9 Assessment of the effectiveness of the Internal Audit Function. This would involve ensuring that the Internal Audit Function is adequately resourced and has appropriate standing within the Municipality;



#### **6.17 Fraud related matter**

The Audit and Performance Committee should monitor the implementation of the fraud prevention plan and shall abide to observe the Prevention and Combating of Corruption Activities Act, no 12 of 2004.

Where fraud has been detected, the Committee shall advise Council on the steps to be taken. Should any report received by the Audit and Performance Committee implicate the Council or members of the Council in fraud, corruption or gross negligence, the Chairperson of the Audit and Performance Committee must promptly report this to the relevant executive authority, the relevant departments or the Auditor General.

#### **6.18 Evaluation of the performance management**

The Audit and Performance Committee must review the municipality's performance management system and make recommendations in this regard to the council. The Committee must also review the quarterly reports submitted to it in terms of Section 14 (I)(c)(ii); Municipal Planning and Performance Management Regulation No. 796 of 2001

### **7. Responsibility of the Audit and Performance Committee With Regards to the Evaluation of the Risk Management Process Followed In The Municipality**

The Audit and Performance Committee shall assist the Council in evaluating the adequacy and efficacy of the risk management process followed in the Municipality. The Audit and Performance Committee is therefore responsible for monitoring the management initiatives in this regard but is not responsible for the development and implementation of the risk management process.

### **8. Responsibility Of the Audit and Performance Committee With Regard To Reporting To The Full Council**

The Audit and Performance Committee shall keep the Council informed regarding all significant matters arising out of paragraphs 6.0 and 7.0 above. Minutes will be made available to members of the Council at the Council meeting following an Audit and Performance Committee meeting. The Chairperson of the Audit and Performance Committee will make a brief presentation of the findings and recommendations of the Audit and Performance Committee to the Council.

Although the Audit and Performance Committee reports and makes recommendations to the Council, the Council retains responsibility for implementing such recommendations.



**Annual Report**

The Audit and Performance Committee shall prepare and submit to the Council on an annual basis, prior to the approval of the annual financial statements, a report in summary form dealing with the activities of the Audit and Performance Committee during the year as well as any recommendations and decisions made by it.

**9. Evaluation Of The Effectiveness Of The Audit and Performance Committee**

It is the responsibility of the full Council to evaluate the effectiveness of the Audit and Performance Committee and to make any recommendations to improve such effectiveness, if necessary.

**10. General**

The Committee members are obliged to disclose any interests they have within the organisation or outside the organisation that might interfere with the performance of their duties.

Any Municipal related information that comes to light during their performance of duties must be kept confidential. This information can only be disclosed to the Accounting Officer / Council or any statutory board on request. The Audit and Performance Committee shall review and effect changes to the Audit Policy when necessary.

Approval is hereby granted for the implementation of the enclosed Audit and Performance Committee Charter regarding the total audit and Performance Committee function within the Municipality.

**AUDIT AND PERFORMANCE COMMITTEE CHARTER APPROVAL**

  
\_\_\_\_\_  
RECOMMEND FOR APPROVAL

6/07/2022  
\_\_\_\_\_  
DATE

\_\_\_\_\_  
SPEAKER : APPROVAL

\_\_\_\_\_  
DATE



## SECTION C EXTERNAL AUDIT CHARTER

### 1. Objective of this Charter

The objective of this charter is not to be descriptive as to how the external auditors should carry out their work but is aimed at ensuring the effective conduct of the external audit. It is the policy of the Municipality that no restrictions be placed on external auditors in the execution of their duties. The nature and extent of the audit strategy and procedures remains the choice of the external auditors but nevertheless should be developed by taking into account the requirements of legislation applicable to the Municipality.

### 2. Objective of An External Audit

The objective of an external audit is an independent examination of the financial records of the Municipality by its external auditors in order to express an opinion regarding the reasonableness of the financial statements as a presentation of the results of operations for the year and the financial position as at the year-end date. This objective can further be analysed as follows:

- To ensure the integrity of the financial statements.
- To make a contribution to the development of the systems of internal control by pointing out important weaknesses in such systems.
- To make a contribution to the broader business issues facing the Municipality and, in particular, its risk management process.
- To work proactively with management without compromising the auditors' professional integrity and objectivity.
- To evaluate the Municipality's compliance with the requirements of relevant legislation and to make applicable recommendations, if necessary.

### 3. Audit Budgets

It is the policy of the Municipality that the quality of the audit should not be impacted in order to obtain a short-term benefit of reduced audit costs. The damage that ineffective external audits can cause the Municipality in the long term is far more than the cost of the annual external audit of the Municipality. The Municipality considers that quality is more important than the hour and rate budget and emphasis will therefore be placed on the value that the Municipality receives from the external audit process.



Budgets for normal audit work and special (consultation) work should be prepared separately. The audit budget for normal audit work should indicate the allocation of the audit hours and fee by major area of activity of the Municipality. The external auditors are required to present a budget at an appropriate meeting of the Audit and Performance Committee. Prior to the submission of the audit budget to the Audit and Performance Committee, it should be discussed with and appraised by the Chief Financial Officer. A summary schedule of budgeted and actual audit fees and variances should be prepared for the relevant meeting where the final audit fee shall be approved by the Audit and Performance Committee.

#### **4. Regular Involvement**

It is the policy of the Municipality that the external auditors should have regular contact with senior management throughout the year, particularly where the activities of the Municipality are increasing or changing.

The liaison between the Internal Audit Unit and external auditors will assist in keeping the external auditors up to date as to new developments in the Municipality and also in determining the extent of their involvement required during the year.

#### **5. Management Letters**

The external auditors' management letter should differentiate between significant matters for consideration by the Audit and Performance Committee and other matters for consideration by management. The report should also include comments on important judgmental areas, which could affect the financial statements and any problems arising in these areas. The report should highlight any deviations from the Municipality's accounting policies as well as recommendations for future improvements in such policies. The report should include comments regarding the adequacy of the risk management process in the Municipality.

All management letters must be discussed with management and the comments of management must form part of the management letter. The management letter should be addressed to the head of Unit responsible for the section being audited and copies should be distributed to the Accounting Officer, the Chief Financial Officer, Director Corporate Services, Director Economic and Community, Director Technical Services and the Head of Internal Audit. A summary of significant matters included in the various management letters should be prepared and should be tabled at the next Audit and Performance Committee meeting.




### 6. Completion Of Financial Statements

Audited annual financial statements should preferably be completed by the date stipulated by section 126(3)(b) of the Municipal Finance Management Act. All problems arising during the external audit, excluding those which can only be resolved at Audit and Performance Committee level, should be resolved by that date. If there is a possibility of a qualified audit opinion, the matter must be brought to the attention of the Accounting Officer, the Chief Financial Officer and the Chairperson of the Audit and Performance Committee as soon as possible.

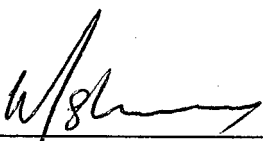
A year-end audit timetable should be prepared in conjunction with relevant financial management. This timetable should set out in detail the deadlines for the completion of the relevant documents by financial management and for the completion of the audit thereof by the external auditors.

Approval is hereby granted for the implementation of the enclosed External Audit Charter regarding the total audit and Audit function within the Municipality.

### EXTERNAL AUDIT CHARTER APPROVAL

  
\_\_\_\_\_  
ACCOUNTING OFFICER

06/07/2012  
\_\_\_\_\_  
DATE

  
\_\_\_\_\_  
CHAIRPERSON: AUDIT AND  
PERFORMANCE COMMITTEE

06/07/2012  
\_\_\_\_\_  
DATE

\_\_\_\_\_  
SPEAKER: COUNCIL

\_\_\_\_\_  
DATE



## SECTION D INTERNAL AUDIT CHARTER

### 1. Introduction

The internal audit charter is drawn up in order to define the organisational status, objectives, authority and responsibility of the Internal Audit Unit within the Municipality in order to adequately perform its duties as required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

### 2. Internal Audit Objective

The primary objective of Internal Audit is to provide independent, objective assurance and consulting services in terms of an integrated audit approach and to provide advice and information to management and the Audit and Performance Committee in a cost-effective manner. Internal Audit will help the organisation accomplish its objectives by providing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and the governance process. It is an extension of management's and the Audit and Performance Committee's control process to ensure the implementation of policy.

Internal audits should be conducted so as to promote and to independently examine and evaluate the adequacy and effectiveness of the internal control system to ensure -

- That the actions of managers, officers, and employees are in compliance with the municipality's policies, standards, plans, and procedures and all relevant laws and regulations;
- The safeguarding and control of the resources of the Municipality;
- The economical use of resources of the company and the effective performance of the functions of the Municipality;
- That data and information published either internally or externally are accurate, reliable and timely;
- That the Municipality's plans, programs, goals, and objectives are achieved; and
- That quality business processes and continuous improvement are fostered in the municipality's control process.

The purpose of the review for adequacy of the system of internal control is to ascertain whether the system established provides reasonable assurance that the municipality's objectives and goals will be met efficiently and economically.

The purpose of the review for effectiveness of the system of internal control is to ascertain whether the system is functioning as intended.

The second objective of the Internal Audit is to add value to the Municipality through providing assurance and consulting services on the improvement of the adequacy and effectiveness of the internal controls.



### **3. Scope of work of internal audit**

The Scope of work of the internal audit Unit is to determine whether the municipality's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- 3.1 Risks are appropriately identified and managed;
- 3.2 Interaction with the various governance groups within the municipality occurs as appropriate;
- 3.3 Significant financial, managerial, and operating information is accurate, reliable and timely;
- 3.4 Employees actions are in compliance with policies, standard, procedures and applicable laws and regulations;
- 3.5 Resources are acquired economically, used efficiently, and adequately protected;
- 3.6 Programmes, plans and objectives are achieved;
- 3.7 Quality and continuous improvement are fostered in the municipality's control process;
- 3.8 Significant legislative or regulatory issues impacting the municipality are recognised and addressed appropriately;
- 3.9 To identify and evaluate significant exposures to risk and contribute to the improvement of risk management, control and governance systems.
- 3.10 Review the established systems to ensure compliance with those policies, procedures, laws and regulations that could have a significant impact on operations and reports and determine whether the Municipality is in compliance.
- 3.11 Review operations and programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned.
- 3.12 To promote an economic, efficient and effective administration by reviewing the prudent utilisation of resources and cost effective implementation of goals, objectives and programmes.
- 3.13 Review the means of safeguarding assets and as appropriate and verify the existence of such assets; and
- 3.14 Evaluate the reliability and integrity of financial and operational information.





#### 4. Authority of Internal Audit

The Council, the Audit and Performance Committee supports and endorses the Internal Audit Unit, which operates independently of management and is free of any organisational impairment.

The Internal Audit Unit is authorised to:

- 4.1 have full, free and unrestricted access to all information, including records, property and personnel of the Municipality, and must be provided with adequate resources in order to fulfil its responsibilities;
- 4.2 have full and free access to the Audit and Performance Committee;
- 4.3 allocate resources, select subjects, determine scope of work, and apply the techniques required to accomplish audit objectives; and
- 4.4 obtain the necessary assistance of personnel in units of the organisation where they perform audits, as well as other specialised services from within or outside the municipality;
- 4.5 to prepare a broad risk-based coverage plan;
- 4.6 to provide consulting services to the Municipality, but does not have the authority or responsibility over activities reviewed, therefore Internal Audit will not be held responsible for systems of internal control. Designing, connecting, installing and operating systems of internal control are non-audit functions. Internal Audit can, however, provide advice on the designing and implementation of internal controls. Management is responsible for the design and the implementation of internal controls;
- 4.7 No person shall obstruct or interfere with the work of Internal Auditors. All employees of the Municipality and contracted outside service providers shall give their full co-operation to the Internal Auditors.
- 4.8 have full, free and unrestricted access to the Accounting Officer, the Chairperson of the Audit and Performance Committee and Office of the Auditor-General;

The Internal Audit Unit is not authorised to –

- perform any operational duties for the Municipality;
- Initiate or approve accounting transactions other than transactions relating to the Internal Audit Unit; or
- direct the activities of any Municipality employee not employed by the Internal Audit Unit except to the extent that such employees have been appropriately assigned to assist the Unit.



## 5. Role of Internal Audit

The role of Internal Audit is summarised as follows:

Internal Audit should monitor the risk management process of the Municipality and make such recommendations as considered necessary to management and the Audit and Performance Committee.

- Internal Audit should adopt a risk based, integrated audit approach which should support the risk management approach of the Municipality.
- Internal Audit should create the necessary culture and image in order to attract suitably qualified personnel. Staff should be further developed and trained and properly remunerated in order that an internal audit service of the highest level can be achieved.
- The staff of Internal Audit should have a professional image and a thorough knowledge of the municipal business.
- Internal Audit should have unrestricted access to the Audit and Performance Committee, the Accounting Officer and any information which it deems necessary to carry out its duties properly.
- There should be no restriction on the scope of the audit work carried out by Internal Audit unless the Audit and Performance Committee has agreed to this.
- Internal Audit should co-operate closely with the external auditors of the Municipality but should guard against becoming an extension of the external audit function.

## 6. Accountability

The Head of Internal Audit, in the discharge of his /her duties, shall be accountable to Accounting Officer and the Audit and Performance Committee to:

provide annually an assessment on the adequacy and effectiveness of the municipality's processes for controlling its activities and managing its risks set forth under the mission and scope of work;

report significant issues related to the processes for controlling the activities of the municipality including improvements to those processes, and provide information concerning such issues through active and constructive resolution;

periodically provide information on the status and results of the monitoring functions (risk management, compliance, security, legal, ethics, environmental, external audit).

## 7. Independence

To provide for the independence to the internal auditing Unit, its personnel shall report to the Head of Internal Audit, who shall report administratively to the Accounting Officer and periodically, functionally and statutorily to the Audit and Performance Committee in a manner outlined under Accountability above.



## 8. Responsibility

The Internal audit Unit has responsibility to:

- 8.1 establish policies and procedures to guide the internal auditing activity and direct its administrative functions;
- 8.2 develop a flexible three-year rolling internal audit plan using an appropriate risk based methodology, including any risks or control concerns identified by management, and submit that plan to the Audit and Performance Committee for review and approval as well as periodic updates;
- 8.3 execute a flexible one- year Internal Audit Coverage Plan approved by the Audit and Performance Committee. The plan should include any special tasks or projects as per the Audit and Performance Committee and management's requests;
- 8.4 evaluate and assess significant changes in the services, policies, processes, operations and control processes coincident with their development, implementation and/or expansion within the Municipality and advise accordingly;
- 8.5 issue quarterly reports to the Audit and Performance Committee and the Accounting Officer summarising results of audit activities;
- 8.6 assist in the investigation of significant suspected fraudulent activities within the Municipality and report the results to the Audit and Performance Committee and the Accounting Officer;
- 8.7 maintain a professional audit staff with sufficient knowledge, skills and professional certification to perform their audit responsibilities.

## 9. Mandate and Reporting Lines

The Internal Audit Unit obtains its mandate from the Audit and Performance Committee of the Municipality and is responsible for the total internal audit function of the Municipality. The Audit and Performance Committee has accepted this mandate in terms of section 166 of the MFMA.

The Internal Audit Unit reports administratively to the Accounting Officer. However, it reports functionally to the Audit and Performance Committee.

The Head of Internal Audit will report quarterly to the Audit and Performance Committee on:

- identified significant audit findings and recommendations;
- any significant deviations from the approved audit plan, staffing plans and financial budgets as well as reasons therefore;



- appropriate management action taken to address deficiency findings;
- whether audit activities have been directed towards the highest exposure to risk and towards increasing economy, efficiency and effectiveness of operations;
- whether internal and external audit efforts are co-ordinated to avoid duplications;
- any unwarranted restriction on the staffing and authority of the Head of Internal audit or on access by Internal Auditors to the Municipality's activities, records and personnel.

## **10. The Audit Approach of Internal Audit**

Internal auditors shall at all times conduct the audit work or any other task assigned to them in accordance with the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors.

The Internal Audit Unit follows an integrated audit approach, which places emphasis on the identification of risks, the prioritisation thereof and the testing of controls over key risk areas. The integrated audit approach combines the following different types of audits in a logical way and these are therefore not seen as separate functions:

- The traditional audit for adequacy and effectiveness on the systems of internal control.
- The operational audit on the efficiency and effectiveness of activities.
- The management audit on the effectiveness of management processes.

Although each internal audit undertaken will differ from other audits due to the specialised nature of the activities being audited, the following general phases should normally be observed:

- Communication with senior management in the section being audited.
- A preliminary investigation phase, which focuses on the objectives of the audit and the preparation of formal planning documents as well as discussions with the external auditors.
- The identification and prioritising of activities for further investigation.
- The execution of the various audit tests.
- The evaluation and documentation of the audit findings.
- The preparation of a report to be distributed to the head of Unit responsible for the section being audited.
- A follow-up audit to ensure that corrective action has been taken, where necessary.

In areas where specialist audit skills are lacking within the Unit, the services of appropriate external parties may be employed within the bounds of the Delegation of Authority.



The Internal Audit Unit adopts a risk based methodology for use in planning audit coverage. This is clearly linked to a long term (3-5 years) and annual audit coverage plan. The focus and audit approach should be driven by exposures to potential loss or impact, not by business risk remaining after taking into account controls (which limit the likelihood of the risk materialising), as this can only be determined after an evaluation of the controlling processes has been performed.

### **10.1 Assurance engagements**

These refer to the evaluation of the adequacy, effectiveness and efficiency of the Municipality's risk management, control and governance processes. The purpose of this is to provide reasonable assurance that these processes are functioning as intended and will enable the Municipality to achieve its goals and objectives, as well as to provide recommendations on improving the Municipality's operations. All business systems, processes, operations, functions and activities within the Municipality should be subjected to Internal Audit's evaluation. The following types of assurance engagements should be provided:

- Financial
- Performance
- Compliance
- Operational
- Forensic and
- Information Systems.

### **10.2 Consulting engagements**

These refer to advisory and related engagements, the nature and scope of which should be agreed upon with the auditee management. The following categories of consulting engagements may be performed.

- Formal consulting engagements – planned and subject to written agreement.
- Informal consulting engagements – routine activities such as participating on standing committees, limited life projects, ad hoc meetings and routine information exchange.
- Special consulting engagements – participation on a merger and acquisition team or system conversion team.
- Emergency consulting engagements – participation on a team assembled to supply temporary help to meet a special request or tight deadline.

Internal Auditors should, however, maintain their objectivity when drawing conclusions and offering advice to management.

The following consulting services may be provided:



- Counsel / Advice
- Facilitation
- Process design and
- Training

The comprehensive scope of work of Internal Audit should provide reasonable assurance that the Municipality's risk management, control and governance systems are effective and efficient.

In areas where, in the opinion of the Manager Internal Audit, specialised audit skills are lacking within the Unit, the services of outside Consultants may be employed.

## **11. Quality Control of Internal Audit**

Quality control within Internal Audit should include at least the following:

- The appropriate Internal Audit Manager should review all reports prior to the release thereof.
- Audit files should be reviewed prior to finalisation of the audit report.
- The quality of the Internal Audit personnel should be monitored on a regular basis.
- A structured training policy should be followed in order to develop the technical, cognitive and management abilities of the personnel of the Unit.
- The audit approach being used should be regularly evaluated and benchmarked against best practice in order to ensure that it complies with the highest standards.
- As far as possible, all personnel in the Internal Audit Unit should be active members of the Institute of Internal Auditors.
- An independent and appropriately qualified party should conduct a quality assurance review of the activities of the Internal Audit Unit at least every three years. Their detailed findings must be submitted to the Accounting Officer as well as to the Audit and Performance Committee. The assessment of the Internal Audit should include the evaluation of :
  - Compliance with the IIA Standards and Code of Ethics;
  - Adequacy of the Internal Audit Charter, policies and procedures;
  - Contribution to the Municipality's risk management, governance and control processes;
  - Compliance with applicable laws, regulations and government standards;
  - Whether Internal Audit adds value and improves the Municipality's operations.



## **12. Distribution of Internal Audit Reports**

- 12.1** A draft internal audit report must be given to the manager of the section being audited within 4 days after the completion of the audit. This level of operational management will have 5 days to prepare their comments on the findings and recommendations contained in the report, which will be discussed at a meeting arranged for this purpose. Thereafter, if considered necessary, the report will be issued as a second draft report to the relevant head of department. This level of management will have 5 days to submit their comments on the findings and recommendations contained in the report for inclusion in the detailed final report.

Where a critical aspect is identified during an audit, this matter should be discussed immediately with the relevant member of operational management and followed up in writing. If considered necessary, the matter should be brought to the attention of the Accounting Officer or the Chairperson of the Audit and Performance Committee.

### **12.2 Distribution of reports**

Detailed final reports should be distributed to the members of operational management who are responsible for the section being audited via the head of Unit and head of department responsible for that section.

Regular meetings should be held with the Accounting Officer, the Chief Financial Officer, Director Economic and Community, Director Corporate Services and Director Technical Services where feedback on audit reports and findings can be discussed.

Summary reports should be prepared and distributed to the Audit and Performance Committee at every quarter. After the Audit and Performance Committee has peruse and given directive on the reports. The reports shall be distributed to all members of the Executive Committee and Council for consideration and discussion at the next meeting of the Executive Committee and Council as elaborate in paragraph 8.0.

### **12.3 Responsibility for corrective action and handling of differences of opinion with management**

The responsibility for corrective action lies with the relevant operational management. Where Internal Audit is of the opinion that operational management are not taking appropriate action with regard to previous recommendations, the matter should be escalated with the relevant reporting lines and eventually to the Audit and Performance Committee if necessary.

## **13. Requests for Special Projects**

All requests for the involvement of Internal Audit in the execution of special projects must be submitted in writing to the Head of Internal Audit. Where a dispute arises as to whether or not Internal Audit should delay other planned work in order to carry out a



special project, the counsel of the Accounting Officer and the Chairperson of the Audit and Performance Committee should be sought.

**14. Co-Operation with External Auditors and Other Professionals**

Internal Audit is encouraged to have regular contact with the external auditors and any other external resources who from time to time conduct traditional internal auditing activities (including forensic reviews) in order to maximise the benefit that the Municipality receives from the total audit process. During these meetings emphasis must be placed on audit planning, possible deficiencies or duplication in the audit work and critical risk areas.

**15. Quality Review**


An independent external Quality Assurance Review will be performed on the Internal Audit Activity at least once every five years in line with the International Standards for the Professional Practice of Internal Auditing from the Institute of Internal Auditors.

**16. Code of Conduct**

Internal Audit personnel shall abide and observe the municipal code of conduct schedule II of the Municipal Systems Act 2000 (No 32 of 2000) and should also observe code of conduct of Institute of Internal Audit.

Approval is hereby granted for the implementation of the enclosed Internal Audit Charter regarding the total audit function within the Municipality.

**INTERNAL AUDIT CHARTER APPROVAL**

  
\_\_\_\_\_  
**CHAIRPERSON: AUDIT AND  
PERFORMANCE COMMITTEE**

06/07/2012  
DATE





## SECTION E RESPONSIBILITIES FOR INTERNAL CONTROL

This section sets the responsibilities for establishing, maintaining, examining and evaluating the controlling process in the municipality.

### 1. Management's responsibilities for internal control

Management is charged with the responsibility for establishing a network of appropriate processes that control the operations of the municipality in a manner which provides the Council with reasonable assurance that the following objectives of control are being achieved (MFMA, section 62):

- The municipality's resources are adequately protected.
- Resources are acquired economically and employed profitably.
- Data and information published either internally or externally is accurate, reliable and timely.
- The actions of directors/managers, officers, and employees are in compliance with the municipality's policies, standards, plans, and procedures and all relevant laws and regulations.
- The municipality's plans, programs, goals, and objectives are achieved.
- Quality business processes and continuous improvement are fostered.

Controlling is a function of management and is an integral part of the overall process of managing operations. As such, it is the responsibility of managers at all levels(MFMA, section 78) of the municipality to -

- identify and evaluate the exposures to loss or failure, which relate to their specific and established policies, plans, and operating standards, procedures, systems and other disciplines to be used to minimise, mitigate, and/or limit the risks associated with the exposures identified;
- design and establish practical controlling processes that require and encourage directors/managers, officers, and employees to carry out their duties and responsibilities in a manner that achieves the six control objectives listed above;
- maintain the effectiveness of the activities they have established; and ensure that quality and continuous improvement are emphasised.



**2. Internal audit's responsibilities for internal control**

The Internal Audit Unit is charged with the responsibility for ascertaining that the ongoing processes for controlling operations throughout the municipality are adequately designed and are functioning effectively, as designed. The Unit is also responsible for reporting to management and the Audit and Performance Committee of the Council on the adequacy and effectiveness of the municipality's control processes, together with ideas, counsel, and recommendations to improve them[MFMA, section 165(2)(ii)].


**3. Audit and Performance Committee's responsibilities for internal control**

The Audit and Performance Committee is responsible for monitoring, overseeing, and evaluating the duties and responsibilities of management, the Internal Audit Unit and the external auditors as those duties and responsibilities relate to the municipality's processes for controlling its operations. The Audit and Performance Committee is also responsible for determining that all major issues reported by the Internal Audit Unit, the external auditor, and other outside advisors have been satisfactorily resolved. Finally, the Audit and Performance Committee is responsible for reporting to the full Council on all important matters pertaining to the municipality's controlling processes.

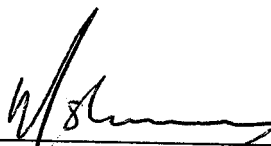
**INTERNAL CONTROL APPROVAL**

Approval is hereby granted for the implementation of the enclosed Internal Control regarding the total audit function within the Municipality.

The Accounting Officer and the Chairperson of the Audit and Performance Committee have reviewed this Audit Policy.

  
\_\_\_\_\_  
ACCOUNTING OFFICER

06/07/12  
\_\_\_\_\_  
DATE

  
\_\_\_\_\_  
CHAIRPERSON: AUDIT AND  
PERFORMANCE COMMITTEE

06/07/12  
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