



GEORGE MUNICIPALITY

INTERNAL AUDIT CHARTER 2024/2025

GEORGE MUNICIPALITY – INTERNAL AUDIT CHARTER

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GEORGE MUNICIPALITY – INTERNAL AUDIT CHARTER

1. INTRODUCTION

- 1.1. In conformity with the commitment of the Council to be fully accountable to all stakeholders of the George Municipality (“the Municipality”) and in accordance with the requirements of Section 165 (1) of the Municipal Finance Management Act, no 56 of 2003 (MFMA) and the guidance articulated by National Treasury’s Circular 65 (Internal Audit and Audit Committee), an Internal Audit function has been established.
- 1.2. The Municipality (collectively the Council, Executive Mayor, Municipal Manager(as Accounting Officer), Chief Financial Officer and senior management) is ultimately responsible for overseeing the establishment of effective systems of internal control in order to provide reasonable assurance that the Municipality’s financial and non-financial objectives are achieved. Executing this responsibility includes the establishment of an Internal Audit function in accordance with this document.

2. PURPOSE AND MISSION

- 2.1. The purpose of the internal audit function is to strengthen George Municipality’s ability to create, protect, and sustain value by providing the board and management with independent, risk-based, and objective assurance, advice, insight, and foresight.
- 2.2. The internal audit function enhances George Municipality’s:
 - 2.2.1. Successful achievement of its objectives.
 - 2.2.2. Governance, risk management, and control processes.
 - 2.2.3. Decision-making and oversight.
 - 2.2.4. Reputation and credibility with its stakeholders.
 - 2.2.5. Ability to serve the public interest.
- 2.3. George Municipality’s internal audit function is most effective when:
 - 2.3.1. Internal auditing is performed by competent professionals in conformance with the The IIA’s Global Internal Audit Standards, which are set in the public interest.
 - 2.3.2. The internal audit function is independently positioned with direct accountability to the Audit Committee.
 - 2.3.3. Internal auditors are free from undue influence and committed to making objective assessments.

3. COMMITMENT TO ADHERING TO THE GLOBAL INTERNAL AUDIT STANDARDS

- 3.1. The George Municipality’s 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.
- 3.2. The chief audit executive will report periodically to the Audit Committee and senior management regarding the internal audit function’s conformance with the

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Standards, which will be assessed through a quality assurance and improvement program.

4. AUTHORITY

4.1. The Chief Audit Executive will report functionally to the Audit Committee and administratively (i.e., day-to-day operations) to the Municipal Manager.

4.2. To establish, maintain, and assure that the Municipality's Internal Audit activity has sufficient authority to fulfil its duties, the Audit Committee will:

4.2.1. 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.

4.2.2. 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.

4.2.3. Discuss with the chief audit executive and senior management other topics that should be included in the internal audit charter.

4.2.4. 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.

4.2.5. Approve the internal audit function's charter, which includes the internal audit mandate and the scope and types of internal audit services.

4.2.6. Review the internal audit charter periodically 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.

4.2.7. Approve the risk-based internal audit plan.

4.2.8. Approve the internal audit function's human resources administration and budgets, subject to Council's final approval.

4.2.9. Collaborate with senior management to determine the qualifications and competencies the organization expects in a chief audit executive, as described in the Global Internal Audit Standards.

4.2.10. Concur with the appointment and removal of the chief audit executive.

4.2.11. Review the chief audit executive's performance.

4.2.12. Receive communications from the chief audit executive about the internal audit function including its performance relative to its plan.

4.2.13. Ensure a quality assurance and improvement program has been established.

4.2.14. Review of the results of the quality assurance and improvement program annually.

4.2.15. Make appropriate inquiries of management and the chief audit executive to determine whether scope or resource limitations are inappropriate.

4.3. The Chief Audit Executive will have unrestricted access to, and communicate and interact directly with, the Audit Committee, including in private meetings without

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management present.

- 4.4. The Audit Committee authorises the Internal Audit activity to:
- 4.4.1. Have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.
 - 4.4.2. Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
 - 4.4.3. Obtain assistance from the necessary personnel of the Municipality, as well as other specialised services from within or outside the Municipality, in order to complete the engagement.
 - 4.4.4. Receive requests from the municipal manager for ad hoc-assignments and special investigations. These requests should be communicated to the AC. The AC will not unduly refuse these requests and may augment the IA plan and ratify the amendment(s) to the IA plan at the following AC meeting.

5. CHIEF AUDIT EXECUTIVE ROLES AND RESPONSIBILITIES

5.1. Ethics and Professionalism

The chief audit executive will ensure that internal auditors:

- 5.1.1. Conform with the Global Internal Audit Standards, including the principles of Ethics and Professionalism: integrity, objectivity, competency, due professional care, and confidentiality.
- 5.1.2. 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.
- 5.1.3. Encourage and promote an ethics-based culture in the organization.
- 5.1.4. Report organizational behavior that is inconsistent with the organization's ethical expectations, as described in applicable policies and procedures.

5.2. Objectivity

The Chief Audit Executive will ensure that the Internal Audit activity remains free from all conditions that threaten the ability of Internal Auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content.

- 5.2.1. If the Chief Audit Executive determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.
- 5.2.2. Internal Auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are

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made, and that they do not subordinate their judgment on audit matters to others.

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

5.2.3.1. Assessing specific operations for which they had responsibility within the previous year.

5.2.3.2. Performing any operational duties for the Municipality or its affiliates.

5.2.3.3. Initiating or approving transactions external to the Internal Audit activity.

5.2.3.4. Directing the activities of any municipal employee not employed in the Internal Audit unit, except to the extent that such employee has been appropriately assigned to auditing teams or to otherwise assist Internal Auditors.

- 5.3. Where the Chief Audit Executive has or is expected to have roles and/or responsibilities that fall outside of Internal Auditing, safeguards will be established to limit impairments to independence or objectivity.

- 5.4. Internal Auditors will:

5.4.1. Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.

5.4.2. Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.

5.4.3. Make balanced assessments of all available and relevant facts and circumstances.

5.4.4. Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

- 5.5. The Chief Audit Executive will disclose to the Audit Committee any interference and related implications in determining the scope of Internal Auditing, performing work, and/or communicating results.

6. SCOPE OF INTERNAL AUDIT ACTIVITIES

- 6.1. The scope of Internal Audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Audit Committee, management, and outside parties (with the consent of the Municipal Manager) on the adequacy and effectiveness of governance, risk management, and control processes for the Municipality.
- 6.2. Internal Audit assessments include evaluating whether:
 - 6.2.1. Risks relating to the achievement of the Municipality's strategic objectives are appropriately identified and managed.
 - 6.2.2. The actions of the Municipality's officers, directors, employees, and contractors are in compliance with the Municipality's policies, procedures, and applicable laws, regulations, and governance standards.
 - 6.2.3. The results of operations or programs are consistent with established goals and objectives.
 - 6.2.4. Operations or programs are being carried out effectively and efficiently.
 - 6.2.5. Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the Municipality.
 - 6.2.6. Information and the means used to identify, measure, analyse, classify, and report such information are reliable and have integrity.
 - 6.2.7. Resources and assets are acquired economically, used efficiently, and protected adequately.
- 6.3. The Chief Audit Executive will report periodically to senior management and the Audit Committee regarding:
 - 6.3.1. The internal audit function's mandate.
 - 6.3.2. The internal audit plan and performance relative to its plan.
 - 6.3.3. Internal audit budget.
 - 6.3.4. Significant revisions to the internal audit plan and budget.
 - 6.3.5. Potential impairments to independence, including relevant disclosures as applicable.
 - 6.3.6. 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.
 - 6.3.7. Significant risk exposures and control issues, including fraud risks, governance issues, and other areas of focus for the board.
 - 6.3.8. Results of assurance and advisory services.
 - 6.3.9. Resource requirements.
 - 6.3.10. Management's responses to risk that the internal audit function determines

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may be unacceptable or acceptance of a risk that is beyond [name of organization]'s risk appetite.

6.3.11.

- 6.4. Any response to risk by management that may be unacceptable to the Municipality.
- 6.5. The Chief Audit Executive also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and advisory service providers as needed. The Internal Audit activity may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided the Internal Audit activity does not assume management responsibility.
- 6.6. Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

7. NATURE OF INTERNAL AUDIT ENGAGEMENTS

- 7.1. Internal Audit follows an integrated approach, which places emphasis on the identification of risks, the prioritising thereof and testing of controls over key risk areas.
- 7.2. The integrated audit approach combines two types of audit engagements, i.e. assurance and advisory services.

7.3. **ASSURANCE ENGAGEMENTS**

- 7.3.1. These refer to the evaluation of the adequacy, effectiveness and efficiency of the organisation's risk management, internal control and governance processes.
- 7.3.2. The purpose of this is to provide reasonable assurance that these processes are functioning as intended and will enable the organisation to achieve its goals and objectives, as well as provide recommendations on improving the organisation's operations.
- 7.3.3. Business systems, processes, operations, functions and activities within the organisation shall be subjected to Internal Audit's evaluation.
- 7.3.4. Examples of assurance engagements to be provided are as follows:
- Financial;
 - Performance;
 - Compliance;
 - Operations; and
 - System security.

7.4. AADVISORY ENGAGEMENTS

- 7.4.1. These refer to advisory and related engagements, the nature and scope of which should be agreed upon with the auditee management.
- 7.4.2. The following categories of advisory engagements may be performed:
- 7.4.2.1. Formal advisory engagements: planned and subject to written agreement;
 - 7.4.2.2. Informal advisory engagements: routine activities such as participating on standing committees, limited life projects, ad hoc meetings and routine information exchange;
 - 7.4.2.3. Special advisory engagements: participation on a merger and acquisition team or system conversion team;
 - 7.4.2.4. Assist in the investigation of significant suspected fraudulent activities within the organisation and notify management and the Audit Committee of the results.
 - 7.4.2.5. Emergency advisory engagements: participation on a team assembled to supply temporary help to meet a special request or tight deadline; and
 - 7.4.2.6. Consult with management to, inter alia, obtain an understanding and appreciation of their concerns such that, where possible, provision could be made for these in the planning, execution and reporting of audits, advisory engagements and fraud investigations;
- 7.4.3. The Internal Auditor should, however, maintain his/her objectivity when drawing conclusions and offering advice to management. The following advisory services may be provided:
- Counsel;
 - Advice;
 - Forensic investigations;
 - Facilitation; and
 - Training.
- 7.4.4. The comprehensive scope of work of Internal Audit should provide reasonable assurance that the organisation's risk management; control and governance systems are effective and efficient. In areas where, in the opinion of the Chief Audit Executive, specialised audit skills are lacking within the unit, the services of external service providers may be employed.

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8. LIMITATION OF SCOPE

- 8.1. Any attempted scope limitation by management must be reported, preferably in writing, the Municipal Manager and to the Audit Committee.
- 8.2. The question of whether an action from management in fact constitutes a scope limitation is at the judgment of the Chief Audit Executive.
- 8.3. 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 Chief Audit Executive 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 again to the Municipal Manager and the Audit Committee for their renewed consideration.

9. RESPONSIBILITY

- 9.1. The Chief Audit Executive has the responsibility to:
 - 9.1.1. Prepare a risk based strategic Internal Audit Plan to set the direction and approach of audits in the long run (MFMA S165(2)(a).
 - 9.1.2. Submit, at least annually, to senior management and the Audit Committee a detailed risk-based annual Internal Audit Plan and an annual budget for review and approval.
 - 9.1.3. Communicate to senior management and the Audit Committee the impact of resource limitations on the Internal Audit Plan.
 - 9.1.4. Review and adjust the Internal Audit Plan, as necessary, in response to changes in the Municipality's business, risks, operations, programs, systems, and controls.
 - 9.1.5. Communicate to senior management and the Audit Committee any significant interim changes to the Internal Audit Plan.
 - 9.1.6. The Chief Audit Executive will confirm to the Audit Committee, at least annually, the organisational independence of the Internal Audit activity.
 - 9.1.7. In terms of MFMA S165(2)(b) advise the Accounting Officer and report to the Audit Committee on the implementation of the Internal Audit risk- based plan and matters relating to:
 - 9.1.7.1. Internal Audit;
 - 9.1.7.2. Internal Controls;
 - 9.1.7.3. Accounting Procedures and practices;
 - 9.1.7.4. Risk and Risk Management;
 - 9.1.7.5. Performance Management;

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- 9.1.7.6. Loss control;
- 9.1.7.7. Compliance with the MFMA, the annual Division of Revenue Act and any other applicable legislation.
- 9.1.8. In terms of the Municipal System Act, 2000, and the Municipal Planning and Performance Management Regulations, 2001:
 - 9.1.8.1. Develop processes to audit the functionality, legal compliance and reliability of the Municipality's performance management system.
 - 9.1.8.2. Assess the functionality and legal compliance of the performance management system.
 - 9.1.8.3. Assess the reliability of the key performance indicators for the purpose of performance measurement.
 - 9.1.8.4. Audit actual performance measures on a continuous basis.
 - 9.1.8.5. Report quarterly to the Accounting Officer, and to the Audit Committee on work performed and related audit findings.
- 9.1.9. Ensure each engagement of the Internal Audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.
- 9.1.10. Follow up on engagement findings and corrective actions, and report periodically to senior management and the Audit Committee any corrective actions not effectively implemented.
- 9.1.11. Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- 9.1.12. Ensure the Internal Audit activity collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the Internal Audit Charter.
- 9.1.13. Ensure trends and emerging issues that could impact the Municipality are considered and communicated to senior management and the Audit Committee as appropriate.
- 9.1.14. Ensure emerging trends and successful practices in Internal Auditing are considered.
- 9.1.15. Establish and ensure adherence to policies and procedures designed to guide the Internal Audit activity.

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- 9.1.16. Ensure adherence to the Municipality's relevant policies and procedures, unless such policies and procedures conflict with the Internal Audit charter. Any such conflicts will be resolved or otherwise communicated to senior management and the Audit Committee.
- 9.1.17. Carry out any ad hoc appraisals, inspections, investigations, examinations or reviews requested by the Municipal Manager or by the Audit Committee (MFMA S165(2)(c)).
- 9.1.18. Consult the Audit Committee on ad hoc projects requested by municipal management and reports its findings to management as well as the Audit Committee.
- 9.1.19. Ensure conformance of the Internal Audit activity with the relevant Standards, with the following qualifications:
 - 9.1.19.1. If the Internal Audit activity is prohibited by law or regulation from conformance with certain parts of the Standards, the Chief Audit Executive will ensure appropriate disclosures and will ensure conformance with all other parts of the Standards.
 - 9.1.19.2. If the Standards are used in conjunction with requirements issued by other authoritative bodies, the Chief Audit Executive will ensure that the Internal Audit activity conforms with the Standards, even if the Internal Audit activity also conforms with the more restrictive requirements of other authoritative bodies.
- 9.1.20. Liaise with other external review agencies and co-ordinate all review, evaluation and/or investigation activities within the unit.

10. RESPONSIBILITIES OF MANAGEMENT

- 10.1. The Audit Committee is responsible for approval of the scope of Internal Audit work, and for recommending the action to be taken on the outcome of findings from their work.
- 10.2. Management, in conjunction with the Municipal Manager, is responsible for:
 - 10.2.1. Ensuring that a risk assessment is conducted regularly to identify emerging risks of the Council. A risk management strategy must then be drawn up and used by management to direct Internal Audit effort and priority;
 - 10.2.2. Recommend the areas of investigation by Internal Audit;
 - 10.2.3. Ensure that the Internal Audit function has –

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- 10.2.3.1. The support of executive management;
- 10.2.3.2. Direct access and freedom to report to the Municipal Manager and the Audit Committee;
- 10.2.3.3. Free access to the books of account, records, cash, stores, property and other sources of relevant information. Only in exceptional circumstances and with the approval of the Municipal Manager, will Internal Audit be permitted to remove any auditing matter from the premises of the Municipality.
- 10.2.4. Maintaining internal control, including proper accounting records and other management information suitable for running the Municipality;
- 10.2.5. Reviewing Internal Audit reports and the timely implementation of recommendations as considered appropriate, in the light of Council's resources.

11. RELATIONSHIP WITH OTHER ASSURANCE PROVIDERS

- 11.1. Internal Audit co-ordinates its work with that of the other assurance providers.
- 11.2. The external auditors must be consulted in determining the activities of internal and external audit in order to minimise duplication of audit effort. This may involve:
 - 11.2.1. periodic meetings to discuss the planned activities;
 - 11.2.2. the exchange of audit work papers including systems documentation;
 - 11.2.3. the exchange of management letters;
 - 11.2.4. Internal Audit carrying out certain audit work;
 - 11.2.5. evaluating the quality of the services rendered to the Municipality by the external auditors; and
 - 11.2.6. other aspects of the relationship between the Municipality and the external auditors.
- 11.3. Internal Audit must assess the adequacy of the combined assurance approach adopted by the Municipality. This assessment includes the adequacy of risks covered by the different assurance providers and the reliability of the assurance provided.

12. REPORTING

- 12.1. Internal Audit will carry out the work as agreed, report the outcome and findings immediately to management, and will make recommendations on the action to be taken.
- 12.2. A written report of the above findings and recommendations will be prepared and issued by Internal Audit to Management at the conclusion of each audit and distributed as considered appropriate.
- 12.3. The details, unless otherwise requested by Management, will be distributed to relevant line management, who will already have been made fully aware of the detail and whose co-operation in preparing the report will have been sought.
- 12.4. Internal Audit will also submit a quarterly report to the Audit Committee on the:
 - 12.4.1. Status of the Internal Audit Activities;
 - 12.4.2. Significant findings and management action plans;
 - 12.4.3. Follow-up on previously reported Internal Audit findings;
 - 12.4.4. Any instances of fraud or non-compliance with legislation identified during the performance of the Internal Audit Activities;
 - 12.4.5. Performance of Internal Audit against the annual Internal Audit plan to allow effective monitoring and possible intervention.
 - 12.4.6. Report promptly the results of all audits, advisory engagements and special investigations performed under its direction, including recommendations for improvements.
- 12.5. Internal Audit shall have the right to report any critical or significant issue direct to the Municipal Manager or/and the Chairperson of the Audit Committee before advisory with management.
- 12.6. Internal Audit will report to the Audit Committee quarterly on the implementation status of the Council-approved Audit Committee's recommendations. IA will appraise the fraud and risk management committee of any significant risks identified in special and forensic investigations.

13. ASSESSMENT OF EFFECTIVENESS OF THE INTERNAL AUDIT FUNCTION

- 13.1. The Audit Committee should annually assess the effectiveness of the Internal Audit function against the following criteria:
 - 13.1.1. Achievement of the annual Internal Audit Plan;
 - 13.1.2. Compliance with IIA's professional standards inclusive of quality assurance assessments on the level of compliance achieved;

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- 13.1.3. Achievement of reporting protocols through management to the Audit Committee;
- 13.1.4. Timeliness of reporting of findings and activities;
- 13.1.5. Responsiveness to changing business/operational environment;
- 13.1.6. Management's acceptance of the Internal Audit findings;
- 13.1.7. Quality and relevance of the annual assessment reports;
- 13.1.8. Level of cooperation and interaction with other assurance providers within the agreed combined assurance approach;
- 13.1.9. Maintenance of adequate staffing/sourcing levels to achieve the required to meet the requirements of this charter;
- 13.1.10. Meeting the budget allocated to Internal Audit; and
- 13.1.11. Follow up of audit findings reported requiring action in order to rectify where necessary.

14. QUALITY ASSURANCE AND IMPROVEMENT PROGRAM

- 14.1. 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.
- 14.2. Annually, the chief audit executive will communicate with the board 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 the municipality; qualifications must include at least one assessor holding an active Certified Internal Auditor® credential.

15. REVIEW AND APPROVAL OF CHARTER

- 15.1. This charter establishes the authority and responsibility conferred by municipal management to the Internal Audit Function.
- 15.2. The charter will be reviewed at least on an annual basis and will be approved by the Audit Committee.

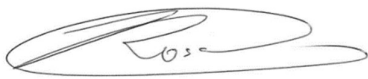
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16. VERSION

APPROVED / REVISED	DATE
Revised and Amendments approved by AC	20 May 2022
Revised and Amendments approved by AC	26 June 2023
Revised and Amendments approved by AC	21 June 2024

17. APPROVAL

Reviewed by:

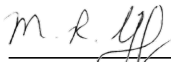


Mr JP Rossouw
Chief Audit Executive

21 June 2024

Date

Accepted by:



Dr M Gratz
Municipal Manager

24/06/2024

Date

As approved by Audit Committee:



Mr E Le Roux
Audit Committee Chair

17/07/2024

Date