

11 December 2013

Mr. C du Plessis
Hantam Municipality
Private Bag X14
Calvinia
8190

Dear Sir

**ENGAGEMENT LETTER:
PROVISION OF INTERNAL AUDIT SERVICES FOR A PERIOD OF TWO YEARS**

1. Purpose

We are pleased to have been appointed as internal auditors to **Hantam Municipality** for a period of two years.

This letter outlines the following:

- the terms and objectives of the engagement;
- the scope of the services we will provide; and
- respective responsibilities of internal audit and the accounting authority.

We are pleased to confirm our acceptance and our understanding of the engagement by means of this letter.


2. Scope of the engagement

As the service provider we undertake to provide a proactive Internal Audit function, to be independent, to understand the importance of corporate governance systems, risk management, soft controls, performance auditing, audit of performance information, and forensic auditing, and to make use of leading practice internal audit methodologies and techniques and function at an executive level.

The scope of the internal audit service shall consist of, but not be limited to the following:

- Facilitate the risk assessment process aligned to each unit strategic objectives;
- Prepare/review risk register for both the operational and strategic risks;
- Prepare the risk-based operational and strategic Internal audit plan;
- Prepare/review the Internal Audit Charter;
- Prepare/review Audit Committee Charter;
- Document/review process documentation(system descriptions) for all cycles;

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- Execute approved Internal Audit programmes including IT reviews;
- Perform follow-up Internal Audit on reported matters;
- Perform follow-up audit on auditor General recommendations;
- Perform any ah-hoc assignments as per the directive of management or Audit Committee;
- Report and make value-adding recommendations to management and Audit and Risk Committee;

3. Responsibilities of management

Management and the Audit Committee of Hantam Municipality are responsible for establishing the following:

- Our mandate; and
- Our authority and duties whilst rendering our internal service.

It is the responsibility of management and the audit committee to authorize the scope of our internal audit services and for deciding the action to be taken on the outcome of the findings arising from these services.

Management and the Audit Committee are responsible for ensuring that we have:

- The support of management and the Audit Committee;
- Direct access and freedom to report to senior management; and
- Access to information and the people necessary for the performance of our internal audit service.

Management is responsible for the establishment and maintenance of:

- An internal control structure, including proper accounting records and other management information suitable for running the municipality;
- Policies and prescribed procedures for the governance of operations and for the detection and prevention of errors and irregularities including fraud and illegal facts; and
- A system for the safeguarding of the assets of Hantam Municipality.

4. Staff

Our staff members undergo periodic training and this, together with the taking of annual leave, may lead to staff turnover and lack of continuity. We will use our best endeavours to avoid any disruption to an engagement's progress.



5. Reporting format

Unless otherwise agreed, the product of our work will be written reports, presentations or equivalent feedback to the Municipal Manager, Audit Committee and relevant management that will outline the audit procedures performed, the findings resulting from the performance of those procedures, and recommendations for improvements in systems, processes and procedures.

We will regularly communicate the results of our internal audit work to the Audit Committee, outlining the status of audit coverage achieved against the internal audit plan, critical and significant findings as well as agreed management solutions, value added through the provision of our internal audit services, and if applicable, any identified areas of risk and / or concern falling outside the scope of our work.

6. Reporting to management

We shall report to management, normally in writing, any significant weaknesses in, or our observations on, the internal control structure and other areas that comes to our attention during the course of our normal work and which, in our view, require their attention.

No such report may be provided to a third party without our prior written consent. Such consent will be granted only on the basis that such reports are not prepared with the interests of anyone other than the organisation in mind and that we accept no duty or responsibility to any other party.

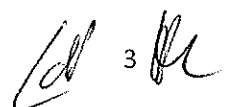
7. Information

To enable us to perform the services, you will use your best endeavours to supply promptly all information and assistance, and all access to documentation in your possession, custody, or under your control, and to personnel under your control, where required by us. Where such information and/or documentation are not in your possession or custody, or under your control, you will use your best endeavours to supply us with the information, assistance and/or access to all the documentation.

We may rely on any instructions or requests made or notices given or information supplied, whether orally or in writing, by any person whom we know to be or reasonably believe to be authorised by you to communicate with us for such purposes ("an authorised person").

We may receive information from you or from other sources in the course of delivering the services and:

- a) we will consider the consistency and quality of information received by us;
- b) we will not seek to establish the reliability of information received from you or any other information source. Accordingly, we assume no responsibility and make no

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- representations with respect to the accuracy, reliability or completeness of any information provided to us; and
- c) we will not be liable for any loss or damage suffered by you arising from fraud, misrepresentation, withholding of information material to the services, or other default relating to such material information, whether on your part or that of the other information sources.

8. Meetings

To provide an opportunity for you and management to discuss the matters raised in our various reports, we expect to attend the management meetings prior to the commencement of our audit.

You may also schedule meetings with internal audit to discuss any matters that are pertinent to the audit.

9. Third party rights

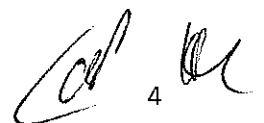
The service contract will not create or give rise to, nor will it be intended to create or give rise to, any third party rights.

Our internal audit opinion is intended for the benefit of those to whom it is addressed. The audit will not be planned or conducted in contemplation of reliance by any third party or with respect to any specific transaction. Therefore, items of possible interest to a third party will not be specifically addressed and matters may exist that would be assessed differently by a third party, possibly in connection with a specific transaction.

Any contractual arrangements between you and a third party which seek to impose such requirements upon us will not, as a matter of law, be binding on us. Hantam Municipality agrees that it will not seek us to commit to providing reports to third parties unless we have consented to do so in advance. We may decline to provide reports to third parties, save for those reports required by law or regulations. We will stipulate the terms upon which those reports will be provided should we agree to provide such reports in a capacity other than being your internal auditors. Hantam Municipality will assist us in agreeing the terms upon which we will report to third parties. Any such possible requirements must be discussed with us at the earliest opportunity.

Where we agree to provide reports to third parties, it remains Hantam Municipality's responsibility to provide us with copies of the relevant contract documents and with any further information or explanations we may require, enabling us to prepare our report.

If we have to accept responsibility to the third party, we will require their acceptance of limitation of liability as a condition of providing a report to them and reserve the right to charge additional fees.


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You will indemnify SizweNtsalubaGobodo Advisory Services (Pty) Ltd ("SNG") contracting party and any SNG persons and hold them harmless against any loss, damage, expense or liability incurred by the parties and/or persons as a result of, arising from, or in connection with a combination of the following two circumstances:

- a) Any breach by you of your obligations under the service contract; and
- b) Any claim made by a third party or any other beneficiaries which results from or arises from or is connected with any such breach.

10. Electronic communications

We may choose to communicate with you by electronic mail or internet where an authorised person wishes us to do so, on the basis that in consenting to this method of communication, you accept the inherent risks of such communications (including the security risks of interception of or unauthorised access to such communications, the risks of corruption of such communications, the risk of errors or loss of information and the risks of viruses or other harmful devices) and that you will perform virus checks. We will use commercially reasonable procedures to check for the most commonly known viruses before sending information electronically.


We recognise that systems and procedures cannot be a guarantee that transmissions will be unaffected by such hazards.

We confirm that we each accept the risks of and authorise electronic communications between us. We each agree to use commercially reasonable procedures to check for the then most commonly known viruses before sending information electronically and to safeguard the security and confidentiality of the information transmitted, but we cannot guarantee that the transmission will be free of infection nor its security and confidentiality.

We shall each be responsible for protecting our own systems and interests in relation to electronic communications and Hantam Municipality and SNG (in each case including our respective partners/directors, employees or agents) shall have no liability to each other on any basis, whether in contract, delict (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or in connection with the electronic communication of information between us and our reliance on such information.

The exclusion of liability in the previous clause shall not apply to the extent that any liability arises out of acts, omissions or misrepresentations which are in any case criminal, dishonest or fraudulent on the part of our respective partners/directors, employees, or agents.

If our communication relates to a matter of significance on which you wish to rely and you are concerned about the possible effects of electronic transmission, you should request a hard copy of such transmission from us. If you wish us to password protect all or certain documents transmitted, you may request us to do so.



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11. Fees

We will render invoices in respect of the services comprising fees, disbursements and VAT thereon (where appropriate).

Our fees are based on the time spent on your affairs by our partners/directors and staff, and on the levels of skill and responsibility involved, the nature and complexity of the services and the resources required to complete the engagement. Additional fees may result from material changes in the services or from difficulties in obtaining information, which could not reasonably have been foreseen.

Our invoices will be rendered at appropriate intervals during the course of the engagement or relevant assignment.

Disbursements in respect of travelling expenses, photocopies, stationery, revenue stamps, postage, e-mails, and telephone calls will be recoverable at our predetermined rates if and where applicable.

Our fee estimate is based on the assumption that the information we require is made available to us in accordance with the agreed timetables, and that key executives and personnel are available during the course of our work. If delay or any other problems beyond our control occurs, this may result in additional fees for which invoices will be raised on the above basis. Any ad-hoc assignments will be agreed upon with management and appropriately costed.

In return for the delivery of the services by us, you will be required to pay our fees, without any right of set-off within 30 days, on presentation of our invoice.

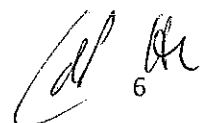
Our fee for this project will amount to R792 893 (2014: R383 040, 2015: R409 853) VAT Inclusive.

14. Additional services

We would be pleased to discuss with you other specialised services that we can provide, and the opportunities that might exist for us to help you enhance your business' performance. We would normally propose issuing a separate engagement letter for any additional services.

15. Quality of service

We will seek to ensure that our service is satisfactory at all times and delivered with reasonable skill and care. If at any time you would like to discuss with us how the service can be improved, or if you are dissatisfied with the service you are receiving please contact Victor Sekese on (011) 231 0600.



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16. Ownership and access to workpapers

The working papers and files for this engagement created by us during the course of the audit, including electronic documents and files, are the sole property of SNG and will be made accessible to you upon request.

We have set quality control policies for the retention of documentation, after which time we will commence the process of destroying the contents of our engagement files. To the extent we accumulate any of your original records during the engagement; those documents will be returned to you promptly upon completion of the engagement.

We will retain ownership of the copyright and all other intellectual property rights in the product of the services, whether oral or tangible, including written advice, methodologies, software, systems know how and working papers. For the purposes of delivering services to you or other clients, we will be entitled to use or develop knowledge, experience and skills of general application gained through performing the services. You agree to keep confidential any methodologies and technology used by us to carry out our services. If you wish to distribute copies of any of these materials, this will require our prior written permission.

We have the right to use your name as a reference in proposals or other similar submissions to other prospective clients, unless you specifically withhold permission for such disclosure.

17. Future years

We propose that the engagement letter will be in place until replaced. If circumstances change, we will issue a new engagement letter. Until such time, this letter will be in force even where there is a change in management.

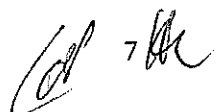
Please confirm your agreement with the terms contained in this letter by countersigning and returning to us the enclosed copy. If there is anything that you do not agree with or wish to amend, please contact us.

This engagement letter is contractual in nature and includes all of the relevant terms that will govern the engagement for which it has been prepared. The terms of this letter supercede any prior oral or written representations or commitments by or between the parties.

Any material changes or additions to the terms set forth in this letter will only become effective if evidenced by a written amendment to this letter, signed by all of the parties.

18. Confidentiality and independence

We will discuss client confidential matters and documents only with members of our staff directly concerned with this engagement. We are bound by our policies and professional



standards not to disclose to any persons who are not members of the firm, any information relating to a client's business acquired in the course of our duties. This limitation will not apply if we are required to disclose such information in compliance with any order of court, subpoena or other judicially enforceable directive. Furthermore, the firm and its employees maintain complete independence of interest and mental attitude in relationships with clients.

However, in terms of certain statutes we are obliged to report client confidential matters to certain regulatory bodies. These obligations would override the professional ethics rules of confidentiality, which we observe. Examples include:

- a) Financial Intelligence Centre Act (FICA).

19. Standard terms and conditions

The general conditions as set out in the terms of business attached hereto, apply to all work undertaken by SNG for you pursuant to this engagement letter.



All references in or to this letter include the standard terms and conditions and any other appendices hereto together with any other documents or other terms applicable to the services to which specific contractual reference is made in this engagement letter, all of which together form and are referred to as the "agreement" or the "engagement letter". Once the terms of the engagement set out in this letter have been agreed, they will remain effective until this letter is replaced and/or renewed by amendment or otherwise, in which case we will obtain your agreement thereon.

20. Limitation of Liability

The maximum liability of SNG, their partners, directors, employees and agents for all claims arising out of services provided in connection with this engagement shall be limited to the total fees charged for all services provided in connection with this engagement. This maximum liability shall be an aggregate liability for all claims from whatsoever source and howsoever arising, whether in contract, delict or otherwise.

SNG will not be liable to Hantam Municipality any cessionary or third party claiming through or on behalf of Hantam Municipality or any punitive damages whatsoever or for any consequential or other loss or damages beyond the maximum liability specified. This engagement is governed by South African law and any claims will be subject to the exclusive jurisdiction of the Courts of South Africa.

Any claims, however arising, must be commenced formally by service of summons or appropriate process by following necessary steps to initiate arbitration proceedings within three years after the party bringing the claim becomes aware (or ought reasonably to have become aware) of the facts which give rise to the claim and, in any event regardless of the

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knowledge of the Claimant, by no later than three years after the date of any alleged breach of contract, delictual act or other act or omission giving rise to a cause of action. This expressly overrides any statutory provision that would otherwise apply.

21. Working for other clients

We will not be prevented or restricted by virtue of our relationship with you, including anything in this engagement letter, from providing services to other clients.

Our standard internal procedures are designed to ensure that confidential information communicated to us during the course of this assignment will be maintained confidentially.

22. Reliance on draft reports or oral comments

To keep you informed of our progress and to facilitate discussion during the engagement, we may provide comments, reports or letters in oral or draft form. As these represent work in progress and not our final opinions or conclusions, we do not assume a duty of care to you (or anyone else) in respect of their content. The final results of our work and our definitive conclusions will be set out in our final written reports or letters and nowhere else. Any oral comments or explanations we may give in relation to our final written reports and letters are not intended to be a substitute for a proper reading of our reports and letters and are not intended to have any greater significance than explanations of matters contained in the final written reports or letters.

23. Applicable law

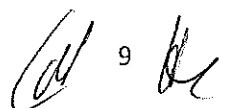
The contract formed by this engagement letter when accepted by you shall be governed by, and construed in accordance with, South African law. The Courts of South Africa shall have exclusive jurisdiction in relation to any claim, dispute or difference concerning the engagement letter and any matter arising from it.

Each party irrevocably waives any claim that the action has been brought in an inconvenient forum or to claim that such Courts do not have jurisdiction.

24. Agreement of terms

This engagement letter is signed for and on behalf of each undertaking referred to below, including their directors and members personally. Such signature constitutes:

- a) authority for any organisation to utilise our services on behalf of each other or on behalf of its directors or members on the terms and conditions set out above;
- b) consent to arbitration by an independent practicing certified internal auditor

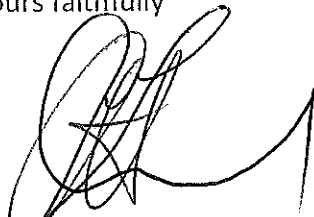
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nominated by the President of The Institute of Internal Auditors South Africa, acting as an expert and whose decision will be final and binding, should we in our absolute discretion wish to refer to arbitration a dispute arising from this engagement letter, in terms of the Arbitration Act, No 42 of 1965, as amended;

- c) consent to the jurisdiction of the Magistrates' Court, should we in our absolute discretion resolve not to refer a dispute to arbitration; and
- d) a renunciation of the benefits of:
- error calculi (error of calculation);
 - division and revision of accounts;
 - debate of accounts; and
 - binds each signatory, jointly and severally, as surety and co-principal debtor with each company and/or close corporation and/or entity or juristic person, to and in favour of ourselves in respect of all amounts due according to this engagement letter. If a signatory does not accept being bound as surety as aforementioned, the signatory agrees to providing security for the applicable fees, in a form to be mutually agreed upon between us.

Yours faithfully




Herman Leach
Director



Acceptance

I acknowledge that the contents of this Contract accord with our arrangements with **SizweNtsalubaGobodo Advisory Services (Pty) Ltd** and that I am authorised to sign this contract on behalf of the **Hantam Municipality**.

Signature:



Name of signatory:

CHARLE DU PLESSIS

Position:

MUNICIPAL MANAGER

Date:

08/01/2014