



# **INTERNAL AUDIT CHARTER**

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## 1. INTRODUCTION

The charter provides guidance to the Internal Audit Activity (IIA) of the municipality regarding key functions it needs to consider as part of its operations. The IIA should also have regard to the statements and standards issued by the Institute of Internal Auditors (IIA) and also to any requirements regarding internal audit set out in the relevant statutes or regulations.

## 2. DEFINITION OF INTERNAL AUDITING

Internal Auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of the municipality / entity. It assists the organisation in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the municipality's **operational**, risk management, control, and governance processes.

## 3. PURPOSE OF THE INTERNAL AUDIT ACTIVITY

The purpose of the Internal Audit Activity is to assist the Accounting Officer and Senior Management in achieving their objectives and to discharge their responsibilities by providing an independent, objective assurance and consulting services designed to add value and improve the municipality / entity's operations. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Section 165 (1) of the Municipal Finance Management Act, Act 56 of 2003, (MFMA) mandates each municipality and each municipal entity to have an internal audit unit. Section 165(2) of the MFMA requires internal audit to:

- (a) prepare a risk-based audit plan and an internal audit program for each financial year
- (b) advise the accounting officer and report to the audit committee on the implementation of the internal audit plan and matters relating to:
  - i. internal audit;
  - ii. internal controls;
  - iii. accounting procedures and practices;
  - iv. risk and risk management;
  - v. performance management;
  - vi. loss control; and
  - vii. compliance with the MFMA, the annual Division of Revenue Act and any other applicable legislation;and
- (c) Perform such other duties as may be assigned to it by the Accounting Officer.

The nature of assurance services includes financial; performance; compliance; systems security and due diligence engagements whereas the nature of consulting services includes counsel, advisory and forensic services. In rendering such services internal audit will not assume management responsibility.

## 4. PROFESSIONAL STANDARDS

The Internal Auditing Staff shall govern themselves by adherence to The Institute of Internal Auditors' "Code of Ethics." The Institute's "*International Standards for the Professional Practice of Internal Auditing*" (*Standards*) shall constitute the operating procedures for the department. The Institute of Internal Auditors' "Practice Advisories" shall be adhered to as applicable. In addition, Internal Auditing shall adhere to the organisation's policies and procedures and the Internal Audit Activity's Standard Operating Procedures Manual. The Standard Operating Procedures Manual shall include attribute, performance, and implementation standards to guide the Department.

## 5. ANNUAL REVIEW

The Manager: Risk & Internal Audit should periodically review and assess whether the purpose, authority, and responsibility, as defined in this charter, continue to be adequate to enable the internal auditing activity to accomplish its objectives. The result of this annual review should be communicated to the Accounting Officer and the Audit Committee during the first quarter of the financial year.

## 6. FUNCTIONS

Internal audit is an appraisal function established within the Municipality to independently examine and evaluate the activities of the Municipality as a service to the Council in particular and to Management in general. It is a control function which functions by examining and evaluating the adequacy and effectiveness of internal controls. To this end, the section will furnish the Executive Committee and Management with analyses, appraisals and recommendations concerning the activities reviewed. Internal audit is functionally responsible to the Chairperson of the Audit Committee and for administrative purposes will report to the Accounting Officer via the Manager: Internal Audit.

Internal audit shall have an independent status within the organisation and will not be involved in the day-to-day internal checking of systems within the organisation. Also, internal audit shall not be involved in the implementation of internal control systems but may be consulted on the adequacy of controls when they are first implemented. Internal audit shall have no executive or managerial powers and duties in the municipality or its entity.

## 7. RESPONSIBILITIES OF MANAGEMENT

Management is responsible for devising and implementing the systems of internal control. This includes policies and procedures, the maintenance of proper accounting records and the maintenance of other management information systems that are suitable for running the organisation.

Management is also responsible for:

- reviewing internal audit reports,
- responding to internal audit recommendations within a period not exceeding 7 days, and
- implementing internal audit recommendations as considered appropriate.
- 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 and further propose the areas of investigation by Internal Audit.
- Management must ensure that the Internal Audit function has direct access and freedom to report to the Accounting Officer and the Audit Committee.

## **8. RESPONSIBILITIES OF INTERNAL AUDIT**

Internal audit is entrusted with the responsibility to appraise the policies, procedures and management controls of the Municipality, to ensure that the activities are properly managed and to promote effective controls at reasonable cost. In discharging its responsibilities, internal audit shall:

- 8.1 review systems and operations to assess the extent to which Municipal objectives are achieved, and the adequacy of controls over activities leading to such achievement;
- 8.2 evaluate the relevance, reliability and integrity of management and financial information;
- 8.3 appraise utilisation of resources with regards to economy, efficiency and effectiveness;
- 8.4 assess the means of safeguarding assets and verify their existence;
- 8.5 ascertain the extent of compliance with established policies, procedures, and instructions;
- 8.6 recommend improvements in procedures and systems to prevent waste, extravagance, and fraud;
- 8.7 advise on appropriate systems of controls and other accounting and operational matters in a consulting capacity;
- 8.8 draw attention to any failure to take remedial action;
- 8.9 carry out any ad hoc appraisals, inspections, investigations, examinations, or reviews requested by the Audit Committee or by the Accounting Officer; and

- 8.10 To maintain a professional internal audit staff with sufficient skills, knowledge, experience and qualifications.

## 9. EXTERNAL RELATIONSHIPS

The internal audit function shall have an independent status within the Municipality and shall interact with and complement other departments to promote the growth of the Municipality. In particular, Internal Audit shall:

- co-ordinate all review, evaluation and/or investigation activities within the Municipality / entity;
- liaise with the external auditors and ensure that the audit programs are complementary in order to minimise duplication of effort, and
- comply with Standards, Codes of Conduct and Ethics that are promulgated from time to time by the relevant professional bodies.

## 10. AUTHORITY

Internal Audit has unrestricted access to records, personnel, and physical properties relevant to the performance of their engagements. Internal audit is authorised to:

- 10.1 decide on the nature, scope, and timing of audits subject to the approval of the Audit Committee;
- 10.2 enter all premises of the Municipality / entity and have access to and inspect all documents and records;
- 10.3 require any officer of the Municipality to supply such information and explanations as may be needed; and
- 10.4 have discussions with Heads of Departments and employees of the Municipality/entity at any reasonable time.

The Manager: Risk & Internal Audit

- 10.5 has the right to attend all Audit Committee meetings and any Management, Budget & Finance Portfolio Committee, Municipal Public Accounts Committee (MPAC), EXCO / Board and Council meeting and to be heard on any matter he/she deems necessary.
- 10.6 he/she will receive minutes of Corporate Management, Finance and Budget portfolio committee, Municipal Public Accounts Committee (MPAC), EXCO/Board and Council meetings and should where necessary, attend such meetings for effective information purposes.
- 10.7 shall have full access to the Chairperson of the Audit Committee and Mayor on any matter(s) he/she deems necessary and the has a right, when exercising such authority, not to be unfairly or unduly prejudiced in the work place in consequence or in relation to such action.
- 10.8 on request may assist the Municipal Public Accounts Committee (MPAC) with any investigation on consultation with the Chairperson of the Audit Committee

## **11. MANAGEMENT OF THE INTERNAL AUDIT FUNCTION**

Subject to the overall guidelines and policies of the Municipality and of the Audit Committee, Internal audit shall be solely responsible for the planning, implementation, and reporting of the audits. Internal Audit will report functionally to the Audit Committee and administratively to the Accounting Officer and will remain independent of all line and functional management. For this purpose, internal audit shall:

- 11.1 prepare a strategic plan to set the direction and approach of audits in the long run;
- 11.2 prepare a detailed annual audit plan and an annual budget in consultation with the Accounting Officer for submission to the Audit Committee for approval;
- 11.3 assess and recruit the necessary personnel at remuneration rates adopted by the Municipality / Entity for appropriate levels of staff;
- 11.4 carry out all activities to conduct the audits in an effective, professional and timely manner;
- 11.5 report to the auditee as soon as practical on completion of each audit and
- 11.6 report quarterly to the Audit Committee on the performance of the internal audit team on a project-by-project basis.

## **12. OUTSOURCED INTERNAL AUDIT ACTIVITIES**

As and when the need arises internal audit activities may be outsourced. In those instances of limited capacity, resources and expertise, the Manager: Risk & Internal Audit must ensure that adequate budget provisions have been set aside for outsourcing activities. The Manager: Risk & Internal Audit shall inform the Audit Committee of his/her reasons for outsourcing internal audit activities and the reasons thereof. All outsourced activities are to be under the supervision of the Manager: Risk & Internal Audit in conjunction with senior staff of the service provider. All working papers prepared by the service provider will be provided to the Manager: Internal Audit.

## **13. APPOINTMENT, REMOVAL AND ASSESSMENT OF THE MANAGER: RISK & INTERNAL AUDIT**

Subject to the recruitment and termination policies and procedures of the Ugu District Municipality:

- The Manager: Risk & Internal Audit will be appointed by the written authority of the Accounting Officer in consultation with the Audit Committee.
- The Manager: Risk & Internal Audit will be removed by the written authority of the Accounting Officer in consultation with the audit committee.

The Audit Committee will annually assess the performance of the Manager: Risk & Internal Audit by evaluating the performance of the internal audit activity and assessing the adequacy of the performance of the internal audit function, and the adequacy of available internal audit resources; and evaluate the independence and effectiveness of the internal auditors.

#### **14. STAFF AND TRAINING**

The internal audit should be appropriately staffed in terms of numbers, grades, qualifications, and experience, having regard to its responsibilities and objectives. The effectiveness of the internal audit unit depends substantially on the quality, training, and experience of its staff. Staff should be appointed with the appropriate background, personal qualities, and potential. Steps should be taken to provide the necessary experience, training and continuing professional education.

The manager risk and internal audit should participate in the recruitment and selection of his/her staff.

The manager risk and internal audit has a responsibility to ensure that the internal audit staff receives the necessary training for the performance of the full range of duties, considering the following;

- internal audit objectives and priorities;
- the type of internal audit work;
- previous training, experience and qualifications, and

The internal auditor should maintain technical competence through professional development which includes;

- private reading and study
- participation in professional activities such as attending meetings, courses and conferences
- membership of the institute of internal auditors.

#### **15. PLANNING AND REPORTING**

Internal Audit will submit to the Audit Committee for approval, an Operational Internal Audit plan, setting out the recommended scope of their work. This plan should be based on the results of the risk assessment process and should allocate Internal Audit resources to the areas where the greatest risks are present. In addition, it should identify the costs and resources necessary to fulfil the plan. The plan should indicate the timing and frequency of the audit activities.

The annual Operational Internal Audit Plan should be developed with reference to a long term strategic outlook for Internal Audit work, prepared in conjunction with management and supported by them, and should have regard to the business plans and strategic outlook of Council as a whole.

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.

- 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. 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.

- Internal Audit will also submit a quarterly report to the Audit Committee on the:
  - Status of the Internal Audit Activities;
  - Significant findings and management action plans;
  - Follow-up on previously reported internal audit findings;
  - Any instances of fraud or non-compliance with legislation identified during the performance of the Internal Audit Activities;
- Performance of Internal Audit against the annual Internal Audit plan to allow effective monitoring and possible intervention.

## **16. RECORDING**

Internal audit work should be recorded at all times. Internal Audit function should specify the required standard audit documentation and working papers and should ensure those standards are maintained.

Internal audit working papers should be sufficiently completed and detailed to enable an experienced internal auditor with no previous connection with the assignment to subsequently ascertain from them what work was performed to support the conclusions reached.

Working papers must be prepared as the audit assignment proceeds so that the critical details are not omitted and problems not overlooked. These should then be reviewed by internal audit management.

Internal Audit function should obtain sufficient, relevant and reliable evidence on which to base reasonable conclusions and recommendations.

## **17. PROFESSIONAL CONDUCT**

- 17.1 All Internal Audit staff are to ensure that their behaviour at all times accords with the Municipality / Entity's Ethics Policy and the Ethics Policy of the Institute of Internal Auditors of South Africa.
- 17.2 All Internal Audit Staff must conduct themselves and their work in an objective manner, with an independent state of mind and always in the best interests of the Municipality / Entity.
- 17.3 Internal Audit Staff must ensure that they do not engage in any activity which would be in conflict with either the interests of the Municipality / Entity or the Internal Audit section's objectives. Where there is a doubt the

matter must be referred to the Manager: Internal Audit and in the case of the Manager: Risk & Internal Audit to the Accounting Officer.

- 17.4 Internal Audit Staff are required to be members of the Institute of Internal Auditors (South Africa) and the municipality / entity will support reasonable official duties they may incur with such Institution provided such activities do not hinder the effectiveness of the Internal Audit function.
- 17.5 Internal Audit Staff must ensure that they stay abreast of all new development, methods, and techniques of both Internal Auditing and in the operational areas of their responsibility. The municipality / entity will provide all reasonable support in this regard.

**SIGNED :**

\_\_\_\_\_  
**Mr. A. Gonzalves**

**CHAIRPERSON OF THE AUDIT COMMITTEE**

**DATE:** \_\_\_\_\_

\_\_\_\_\_  
**Mr. V. Mazibuko**

**ACCOUNTING OFFICER**

**DATE:** \_\_\_\_\_