



**KGATELOPELE LOCAL MUNICIPALITY**

**INTERNAL AUDIT CHARTER**

**2017/2018 FINANCIAL YEAR**

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## 1. INTRODUCTION

The Internal Audit Charter set out the purpose, authority and responsibility of the Internal Audit unit. It covers certain fundamental aspects of the Internal Audit function within the organisation.

The Municipality is required to have an Internal Audit function in terms of section 165 (1) of the Municipal Finance Management Act no 56 of 2003. This requirement is further re-enforced by the recommendations of King IV report on corporate governance.

The Internal Audit Charter is crucial to strengthening the independence and objectivity of the Internal Audit function of the municipality, and is a requirement set out by the institute of Internal Auditors. This Internal Audit charter will be complemented by an Internal Audit methodology which will govern the activities of the Internal Audit Activity.

## 2. PURPOSE

- The Internal Audit Unit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- Such assurance is based on objective information arising from internal audits performed
- Internal audit is a management tool established within the municipality to independently evaluate the activities of the municipality
- It functions include examining and evaluating the adequacy and effectiveness of internal controls, risk management and governance processes.
- The division will furnish the Council and Management with analyses, appraisals and recommendations concerning the activities reviewed.

## 3. ORGANISATIONAL STATUS

- Internal audit is functionally responsible to the chairperson of the Audit, performance and risk committee and for administrative purposes will report to the Municipal Manager.
- These reporting relationships will ensure the unit's independence, promote comprehensive audit coverage and assurance adequate consideration of recommendations made by the auditors.
- The Internal Audit unit shall not have any executive or managerial powers and duties.
- The Internal Audit unit shall have an independent status within the Municipality and will not be involved in the day to day internal checking and implementing of systems within the Municipality.

#### 4. AUTHORITY

The Internal Audit staff is authorized to:

- Have full, free and unrestricted access to all municipal records, physical properties, and personnel relevant to any function under review or audit
- Request the assistance of all Municipal employees in fulfilling Internal Audit's functions.
- Maintain the independence necessary to render objective reports by assuring all audit activities (including audit scope, procedures, frequency, timing and report content) are free from influence by the auditee.
- Have free and unrestricted access to the Municipal Manager and Council as well as the Audit, Performance and Risk Committee.

The Internal Audit staff is not authorized to:

- Perform any operational duties for the Municipal or its affiliates
- Initiate or approve accounting transactions external to Internal Audit.
- Assume direct operational responsibility or authority over any of the activities under review or audit.
- Develop or install systems or procedures, prepare records or engage in any other activity that would normally be audited.

#### 5. INDEPENDENCE

- All internal audit activities shall remain free of influence by any element in the organisation, including matter of audit selection, scope, procedures, frequency, timing or report content to permit maintenance of the required independent and objective mental attitude necessary to render reports.
- Internal auditors shall have no direct operational responsibility or authority over any of the activities they review. They shall not develop nor install systems or procedures, prepare records or engage in any other activity which falls within the scope of their audit activity, which could compromise their objectivity and independence.
- Internal audit will have a right to refer any matter, where its independence may be compromised to the Audit Risk and Performance committee for their review and resolution thereof.

#### 6. RESPONSIBILITIES OF INTERNAL AUDIT

6.1 Responsibilities related to financial management, internal controls, risk management and compliance with laws, regulations and ethics;

The scope of internal audit encompasses an examination and evaluation of the adequacy and effectiveness of the municipalities corporate governance and risk management processes; system of internal control; and the quality of performance in carrying out assigned responsibilities to achieve the stated goals and objectives, which include, but not limited to

- Reviewing the reliability and integrity of financial and operating information and the means used to identify measure, classify and report such information.

- Reviewing the systems established to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports and whether the organisation complies.
- Reviewing the means of safeguarding assets and verifying the existence of such assets as appropriate.
- Reviewing and appraising the economy, efficiency and effectiveness with which resources are deployed.
- Reviewing operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned.
- Reviewing specific operations at the request of the audit and risk committee or management as appropriate.
- Monitoring and evaluating the effectiveness of the organisation's risk management system.
- Reporting on the adequacy of the system of internal control.

#### **6.1.1 Other responsibilities**

The Internal Audit should report to management and the Audit Committee any matter identified during the course of carrying out its duties that it considers significant.

To perform or undertake on behalf of the management and Audit Committee any such other tasks or actions as the Management and Audit Committee may from time to time authorize, ie.ad-hoc assignments.

#### **6.1.2 Responsibility relating to fraud and risk management**

- Internal Audit Standard 1210 states that Internal Auditors must possess the knowledge, skills and other competencies needed to perform their individual responsibilities. The Internal Audit Activity collectively must possess or obtain the knowledge, skills and other competencies needed to perform its responsibilities.
- Also, Internal Audit Standard 1210. A2 states that Internal Auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which is managed by the organisation, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.
- Internal Audit will play an important role in the prevention and detection of fraud within the municipality by the mere presence at the municipality's operations that sometimes act as a deterrent to fraudulent and corrupt activities.
- Internal Audit should assist management to prevent fraud by increasing awareness of threat by evaluating the adequacy and effectiveness of internal controls and, where appropriate, by obtaining agreement from management to take corrective action where deficiencies are found to exist.
- However, internal audit cannot itself prevent fraud from occurring. Control system should be enhanced to prevent fraud and corruption.

#### **Risk Management Responsibilities**

- In terms of the International Standards for the Professional Practice of Internal Audit, determining whether risk management processes are effective is a judgement resulting from the internal auditor's assessment that
  - (a) Institutional objectives support and align with the Institution's mission
  - (b) significant risks are identified and assessed
  - (c) risk responses are appropriate to limit risk to an acceptable level; and
  - (d) relevant risk information is captured and communicated in a timely manner to enable the Accounting officer, management, the risk management committee and other officials to carry out their responsibilities.

The Internal Audit is not allowed to undertake the following roles with regard to risk management

- Setting the risk appetite
- Imposing risk management processes
- Management assurance on risks
- Taking decision on risk response
- Implementing risk response on management behalf

## **6.2 Responsibilities related to Internal Audit function**

The internal Audit Unit should perform the following duties

- In compliance to Section 165 of the MFMA, the Internal Audit Units shall prepare (and regularly update) a rolling three-year strategic internal audit plan, in consultation with management and for approval by the audit committee, based on the key areas of risk for the institution, having regard to its current operations, those proposed in its strategic plan and its risk management strategy.
- Annual, internal audit shall prepare an annual internal plan for the first year of the rolling plan, in consultation with management and for approval by the audit committee. The annual internal audit plan shall also indicate the proposed scope of each audit.
- The Annual risk based plan should state the types of audit projects that are going to be outsourced/ co-sourced by the Internal Audit Unit. The budget provision should also be made for this purpose.
- Review of plans and budget of the Internal Audit function. Ensure that the plan addressed the high-risk areas and the adequate resources are available;
- Review of audit results and action plans of management;
- External Quality Assurance review should be conducted after every five years, the Internal Audit shall implement the recommendations of the External Quality Review.
- The Internal Quality review should be conducted in every three years but it should be preferably being conducted continuously.

## **6.3 Internal Audit Department's responsibility to Council and Management**

The Head of Internal and the Internal Audit Staff have a responsibility to:

- Develop a flexible annual audit plan using appropriate risk based methodology, including any risks or control concerns identified by management, and submit that plan to the Municipal manager for review and approval to the audit committee. Significant changes to the approved plan shall be communicated to the Municipal Manager and Audit Committee.
- Implement the approved annual internal audit plan and any other special tasks or projects requested by the Municipal Manager and Audit Committee, or Municipal management.
- Maintain sufficient knowledge, skills, expertise and professional certifications to meet the requirements of this Charter.
- Apply the care and skill expected of a reasonably prudent and competent internal auditor.
- Safeguard the documents and information given to Internal Audit during a periodic review or audit in the same prudent manner employed by those employees normally accountable for the documents and information.
- Evaluate and assess new or changing services, processes and operations coincident with their development, implementation and or expansion.
- Issue periodic reports to the Municipal Manager, Audit Committee and management summarizing results of audit activities.
- Keep the Municipal manager and Audit Committee informed on emerging trends and successful practices in internal auditing.
- Consider the scope of work of the external auditors and regulators, as appropriate for the purpose of providing optimal audit coverage to the Municipal at a reasonable overall cost.

#### **6.4 Support to the Audit, Performance and Risk committee**

- The internal audit secretariat will provide the APRC with the resources necessary to carry out its roles and responsibilities. In doing so, the secretariat will be cognizant of the independent nature of the committee.
- Secretariat support will include, but not be limited to:
  1. Timely preparation of all notices and agendas of meetings
  2. Distribution of reports and/or related documents that are prepared for the APRC
  3. Timely preparation and distribution of minutes of the meetings

#### **7. RESPONSIBILITIES OF MANAGEMENT**

- Ensuring that a risk assessment is conducted regularly to identify emerging risks to the Council. A risk management strategy must then be drawn up and used by management to direct internal audit effort and priority.
- Proposing the areas of investigation by Internal Audit
- Ensuring the Internal Audit function has-
  - the support of management
  - Direct access and freedom to report to the Municipal Manager and the Audit Committee
  - Free access to the books of accounts, records, stores, property and other sources of relevant information

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-Maintaining internal control, including proper accounting records and other management information suitable for running the municipality-Reviewing internal audit reports and the timely implementation of recommendations as considered appropriate, in the light of Council's resources.

#### **8. ASSURANCE SERVICES**

- Assurance services is an objective examination of evidence for the purpose of providing and independent assessment on governance, risk management and control processes for the organisation.

#### **9. CONSULTING SERVICES**

- Consulting services are advisory and related client service activities, the nature and scope of which are agreed with the client, the intention is to add value and improve the organisation's governance, risk management and control processes without the internal auditor assuming management responsibility. These will include advises, facilitation and training.

#### **10. DISTRIBUTION OF INTERNAL AUDITS REPORTS**

##### **10.1 Timing**

- A draft report must be given to the section being audited within 2 days after the completion of the audit. This level of operational management will have 2 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 the report will be issued as a final report to senior manager responsible for the section being audited.
- Where, a critical aspect is identified during the audit, this matter should be discussed immediately with the relevant member of operational management and follow-up in writing. If considered necessary, the matter should be brought to the attention of the Municipal manager or the Chairperson of the audit committee.

##### **10.2 Distribution of reports**

- Detailed final reports should be distributed to the members of the operational management who are responsible for the section being audited. Copies of all detailed reports should be provided to external auditors as well.
- Regular meetings should be held with the Municipal manager and senior manager where feedback on the audit reports and the findings can be discussed.

##### **10.3 Responsibility for corrective actions and handing of differences of opinion with management**

- Should a significant disagreement arise between internal audit and the relevant operations management regarding a specific finding or recommendation, the Municipal manager should convene a meeting with the parties in order to resolve the matter.



#### **11. REQUESTS FOR SPECIAL ASSIGNMENTS**

All requests for the assistance of Internal Audit i.e 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 special projects, advise should be sought from the Chairperson of the audit committee.

#### **12. RELATIONSHIP WITH OTHER ASSURANCE PROVIDERS**

- Internal Audit coordinates with External Auditors to ensure that the roles of Internal and External audit are mutually reinforcing, leading to adequate overall audit coverage of the municipalities operations and avoiding duplication of work.
- Internal Audit and the External auditors may meet from time to time to share information relating to any significant matters that come to the attention of Internal and External audit and which may affect the work of either or both.
- Internal audit may also provide inputs regarding the nature, timing and extent of certain external audit procedures.

#### **13. PROFESSIONAL CONDUCT OF INTERNAL AUDIT DEPARTMENT**

- All Internal Audit staff are to ensure that their behavior at all times accords with the Municipality ethics policy and the Code of Ethics of the Institute of Internal Auditors of South Africa.
- All Internal audit staff must conduct themselves and their work in an objective manner, with an independent state of mind and always act in the best interest of the Municipality
- Internal audit staff must ensure that they do not engage in any activity which would be in conflict with either the interest of the Municipality or the Internal Audit section's objectives.
- Internal audit staff are required to be members of the Institute of Internal Auditors in South Africa and the Municipality will support reasonable official duties they may incur with such institution provided such activities do not hinder the effectiveness of the Internal Audit Unit
- Internal Audit Staff must ensure that they stay abreast of all new development methods and techniques of both internal auditing and operational areas of their responsibility. The Municipality must also play a key role in supporting continuing professional development of the individuals and the department as a whole.
- Internal Auditors should enhance their skills by continual engaging themselves to academic development and training.

#### **14. STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING**


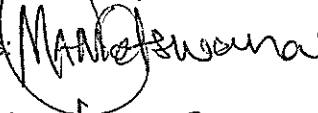

- The Internal Auditing staff shall comply with the International Standards for the Professional Practice of Internal Auditing. These standards delineate basic principles of the practice of internal auditing. It provides a framework for performing internal audit activities established a basis for measuring internal audit performance and fosters improved organisational operations. In addition, the internal audit activity will adhere to the policies and procedures for Kgatelopele Local Municipality and the internal audit activity methodology.

**15. PERIODIC ASSESSMENT**

- The Head of Internal Audit should periodically assess whether the purpose, authority and responsibility as defined in this charter, continue to be adequate to enable the internal audit activity to accomplish its objectives. The results of this periodic assessment should be communicated to senior management and the audit committee.

**16. APPROVAL OF INTERNAL AUDIT CHARTER**

The Charter establishes authority and responsibility conferred by management to the Internal Audit function. This charter will be reviewed at least annually by the Audit Committee and approved by the Council.

Compiled by: Senior Internal Auditor	Recommended by: Municipal Manager	Approved by: Chairperson of the Audit Committee
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