



INTERNAL AUDIT CHARTER

June 2018

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2018 Review

REVISION HISTORY

Version no.	Revised by	Adopted by Council
1	Internal Audit Performance, Risk and Audit Committee	Approved by Council on 9 December 2015, resolution 8.1.14
2	Internal Audit Performance, Risk and Audit Committee	Approved by Council on 27 September 2017, resolution 8.1.4
3	Internal Audit Performance, Risk and Audit Committee	

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1. PURPOSE AND MISSION

The purpose of this charter is to set out the nature, role, responsibility, status and authority of the Internal Audit Unit and to outline the scope of their work

The purpose of Witzenberg Municipality's Internal Audit Unit is to provide independent, objective assurance and consulting services designed to add value and improve Witzenberg Municipality's operations.

The mission of internal audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. The Internal Audit Unit helps Witzenberg Municipality accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

2. LEGAL MANDATE

(1) Section 62 of the Municipal Finance Management Act of 2003 (MFMA) states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure—

- (c) that the municipality has and maintains effective, efficient and transparent systems—
 - (i) of financial and risk management and internal control; and
 - (ii) of Internal Audit operating in accordance with any prescribed norms and standards;

Section 165(1) of the MFMA states that:

- (1) Each municipality and each municipal entity must have an Internal Audit Unit, subject to subsection (3)
- (2) The Internal Audit Unit of a municipality or municipal entity must-
 - (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 implication of the internal audit plan and matters relating to-
 - (i) internal control;
 - (ii) Internal Audit;
 - (iii) accounting procedures and practices;
 - (iv) risk and risk management;
 - (v) performance management;
 - (vi) loss control;
 - (vii) compliance with this Act, the 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'
- (3) The Internal Audit function referred to in subsection(2) may be outsourced if the municipality or the municipal Entity requires assistance to develop its internal capacity and the council of the municipality or the board of directors of the municipal entity has determined that it is feasible or cost effective.

3. STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING

The Internal Audit Unit will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing. The Head of Internal Audit will report periodically to senior management and the Performance, Risk and Audit Committee regarding the Internal Audit Unit's conformance to the Code of Ethics and the Standards.

4. AUTHORITY

The Head of Internal Audit will report functionally to the Performance, Risk and Audit Committee and administratively (i.e., day-to-day operations) to the Municipal Manager. To establish, maintain, and assure that Witzenberg Municipality's Internal Audit Unit has sufficient authority to fulfil its duties.

The Head of Internal Audit will have unrestricted access to, and communicate and interact directly with, the Performance, Risk and Audit Committee, including in private meetings without management present.

Internal Audit Unit 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 of the Witzenberg Municipal Administration.

- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
- In consultation with the Municipal Manager obtain assistance from the necessary personnel of Witzenberg Municipality, as well as other specialized services from within or outside Witzenberg Municipality, in order to complete the engagement.

5. INDEPENDENCE AND OBJECTIVITY

The Head of Internal Audit will ensure that the Internal Audit Unit 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. If the Head of Internal Audit determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

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

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:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing any operational duties for Witzenberg Municipality.
- Initiating or approving transactions external to the Internal Audit Unit.
- Directing the activities of any Witzenberg Municipality employee not employed by the Internal Audit Unit, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist Internal Auditors.

Where the Head of Internal Audit 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.

Internal Auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

The Head of Internal Audit will confirm to the Performance, Risk and Audit Committee, at least annually, the organizational independence of the Internal Audit Unit.

The Head of Internal Audit will disclose to the Performance, Risk and 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

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 Performance, Risk and Audit Committee, management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for Witzenberg Municipality. Internal Audit assessments include evaluating whether:

- Risks relating to the achievement of Witzenberg Municipality's strategic objectives are appropriately identified and managed.
- The actions of Witzenberg Municipality's officers, directors, employees, and contractors are in compliance with Witzenberg Municipality's policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations or programs are consistent with established goals and objectives.

- Operations or programs are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact Witzenberg Municipality.
- Information and the means used to identify, measure, analyse, classify, and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently, and protected adequately.

The Head of Internal Audit will report periodically to senior management and the Performance, Risk and Audit Committee regarding:

- The Internal Audit Unit's purpose, authority, and responsibility.
- The Internal Audit Unit's plan and performance relative to its plan.
- The Internal Audit Unit's conformance with The IIA's Code of Ethics and Standards, and action plans to address any significant conformance issues.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Performance, Risk and Audit Committee.
- Results of audit engagements or other activities.
- Resource requirements.
- Any response to risk by management that may be unacceptable to Witzenberg Municipality.

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.

The Head of Internal Audit also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed.

7. CONSULTING ACTIVITIES

The internal audit activity may conduct consulting services which focuses on assisting management in problem solving activities, achieving the municipality's objectives, and add value to line and senior management.

Internal audit will obtain an understanding of the nature of the engagement to clearly articulate the terms of reference. Agreed upon procedures will be documented in the engagement letter and agreed upon with the client.

The types of consulting work will include the following:

- Formal consulting engagements – those that are planned and subject to written agreement;
- Informal consulting engagements – routine activities such as participation on standing committees, limited-life audit projects, ad-hoc meetings and routine information exchange;
- Special consulting engagements – participation on dedicated teams such as system conversion team; and

- Emergency consulting engagements – participation on a team established for recovery or maintenance of operations after a disaster or other extraordinary event, or a team assembled to supply temporary help to meet a special request or unusual deadline.

Objectives, scope and limitations of the consulting assignment will be confirmed in writing in an engagement letter. The responsibilities of both management and internal audit will be defined and documented in the engagement letter that will be signed by both parties.

Report to management may either be oral by conducting a meeting session with line management or written updates can be provided to management. As agreed upon in the engagement letter, internal audit should report results of the consulting activity.

The Head of Internal Audit may request PRAC approval for consulting activities that significantly affect the approved internal audit's annual operational plan.

The Internal Audit Unit may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided the Internal Audit Unit does not assume management responsibility.

8. RESPONSIBILITY

The Head of Internal Audit has the responsibility to:

- Submit, at least annually, to senior management and the Performance, Risk and Audit Committee a risk-based Internal Audit plan for review and approval.
- Communicate to senior management and the Performance, Risk and Audit Committee the impact of resource limitations on the Internal Audit plan.
- Review and adjust the Internal Audit plan, as necessary, in response to changes in
- Witzenberg Municipality's business, risks, operations, programs, systems, and controls.
- Communicate to senior management and the Performance, Risk and Audit Committee any significant interim changes to the Internal Audit plan.
- 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.
- Follow up on engagement findings and corrective actions, and report periodically to senior management and the Performance, Risk and Audit Committee any corrective actions not effectively implemented.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensure the Internal Audit Unit collectively possesses or obtains the

- knowledge, skills, and other competencies needed to meet the requirements of the Internal Audit charter.
- Ensure trends and emerging issues that could impact Witzenberg Municipality are considered and communicated to senior management and the Performance, Risk and Audit Committee as appropriate.
- Ensure emerging trends and successful practices in Internal Auditing are considered.
- Establish and ensure adherence to policies and procedures designed to guide the Internal Audit Unit.
- Ensure adherence to Witzenberg 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 Performance, Risk and Audit Committee.
- Ensure conformance of the Internal Audit Unit with the Standards with the following qualifications:
 - If the Internal Audit Unit is prohibited by law or regulation from conformance with certain parts of the Standards, the Head of Internal Audit will ensure appropriate disclosures and will ensure conformance with all other parts of the Standards.
 - If the Standards are used in conjunction with requirements issued by other authoritative bodies, the Head of Internal Audit will ensure that the Internal Audit Unit conforms with the Standards, even if the Internal Audit Unit also conforms with the more restrictive requirements of other authoritative bodies.

9. QUALITY ASSURANCE AND IMPROVEMENT PROGRAM

The Internal Audit Unit will maintain a quality assurance and improvement program that covers all aspects of the Internal Audit Unit. The program will include an evaluation of the Internal Audit Unit's conformance with the Standards and an evaluation of whether Internal Auditors apply The IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the Internal Audit Unit and identify opportunities for improvement.

The Head of Internal Audit will communicate to senior management and the Performance, Risk and Audit Committee on the Internal Audit Unit's quality assurance and improvement program, including results of internal assessments (both on-going and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside Witzenberg Municipality.

10. ANNUAL REVIEW

This charter is valid for each financial year and to be reviewed annually for council approval.