



INTERNAL AUDIT CHARTER

June 2015

(WEF 1 July 2014 to 30 June 2015)

Approved by Council on 9 December 2015, resolution 8.1.14

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1. PURPOSE

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 Witzenberg Municipality. It assists the Witzenberg Municipality in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's risk management, control, and governance processes.

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

2. ROLE OF INTERNAL AUDIT

The role of the Internal Audit Department is to assist the Municipal Manager and the Directors to meet their objectives and to discharge their responsibilities by providing an independent appraisal of the adequacy and effectiveness of the controls set up by management to help run the respective Directorates.

3. LEGAL MANDATE

Section 165 (1) of the Municipal Finance Management Act (MFMA) of 2003 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.

4. PROFESSIONALISM

The Internal Auditing Department will govern itself by adherence to The Institute of Internal Auditors mandatory guidance including the Definition of Internal Auditing, Code of Ethics and the International Standards for the Professional Practice of Internal Auditing (Standards). The Institute of Internal Auditors' Practice Advisories, Practice guide and Position papers will also be adhered to as applicable to guide operations.

5. AUTHORITY

Authority is granted for full, free, and unrestricted access to any and all of Witzenberg Municipality records, physical properties, and personnel relevant pertinent to carrying out any engagement. All employees are requested to assist Internal Auditing Activity in fulfilling their staff function. Internal Auditing shall also have free and unrestricted access to the Chairman of PRAC and Municipal Manager.

6. RESPONSIBILITIES OF MANAGEMENT

Management is responsible for:

- proposing additional areas of investigation by internal audit
- ensuring the internal audit function has:
 - the support of top management;
 - direct access and freedom to report to top management, including the Performance Risk and Audit Committee (PRAC), council and other appropriate governing authorities.
- maintaining internal control, including proper accounting records and other management information suitable for running the Directorate.
- reviewing internal audit reports within a period not exceeding two weeks and implementation of recommendations as considered appropriate.

Internal Audit will not undertake non-internal audit duties except with the express permission of the Municipal Manager.

7. RELATIONSHIP WITH THE EXTERNAL AUDITORS

The Internal Audit Department will co-ordinate their work with the External Auditors. The external auditors will be notified of the activities of internal audit in order to minimise duplication of audit effort. This will be accomplished by:

- regular meetings between the Internal Audit Department and External Audit to discuss the annual internal and external audit plans;
- access by the external auditors to the internal audit documentation;
- exchange of management letters;
- access to systems documentation.

8. STATUS OF INTERNAL AUDIT IN THE ORGANISATION

The Internal Audit Department will remain independent of all line and functional management and will report functionally to PRAC and administratively to the Municipal Manager.

9. INDEPENDENCE AND OBJECTIVITY

The internal audit activity shall remain free of influence by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of an independent and objective mental attitude necessary in rendering reports.

The internal audit activity shall have no direct operational responsibility or authority over any of the activities audited. Accordingly, they shall not develop nor install systems or procedures, prepare records, or engage in any other activity which may impair internal auditor's judgement.

The internal audit activity shall not initiate or approve accounting transactions external to the scope; and avoid conflict of interest.

The internal audit department will confirm to PRAC, at least annually, the organisational independence of the internal audit activity

10. RESPONSIBILITY AND SCOPE OF INTERNAL AUDIT WORK

The scope of Internal Audit encompasses the examination and evaluation of the adequacy and effectiveness of the organization's governance, risk management process, system of internal control structure, and the

quality of performance in carrying out assigned responsibilities to achieve the organization's stated goals and objectives. It includes:

- 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 organization is in compliance.
- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Reviewing the effectiveness and efficiency with which resources are employed.
- Reviewing operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
- Reviewing specific operations at the request of PRAC or management, as appropriate.
- Monitoring and evaluating the effectiveness of the organization's risk management processes.
- Monitor and evaluate governance processes

In situations in which the internal audit is outsourced, oversight and responsibility for the internal audit activity cannot be outsourced and must be maintained by management. The chief audit executive will manage the outsourced function

10.1 Compliance and regularity Audit

Compliance Auditing is performed after the internal controls have been evaluated and is defined as a test of controls. The overall objective of this is to express an opinion - i.e. satisfactory, needs improvement, or unsatisfactory on the achievement of the control objectives of each significant system.

- auditing of financial transactions which includes the evaluation of compliance with applicable laws, regulations, policies and instructions.
- audit of the policy and propriety of administrative decisions taken within the Directorate; and
- reporting of any other matter arising from or relating to the audit that the auditor considers should be disclosed.

Internal Audit is aimed at promoting efficient, economical and effective management processes and evaluating the soundness, adequacy and effectiveness of internal controls by:

- appraising the effective conduct of Directorate operations;
- reviewing the reliability and integrity of financial, operating and management information;
- ascertaining the extent to which assets and departmental interests are being properly controlled and safeguarded from losses of any kind;

- appraising the economy and efficiency with which financial, human and other resources are employed and
- monitoring the accomplishment of established objectives and goals for programmes.

10.2 Performance Auditing

The promotion of economy, efficiency and effectiveness depends on adequate overall management arrangements for planning, budgeting, authorisation, control and evaluation of the use of resources. Directors are responsible for the implementation and functioning of overall management arrangements. The responsibility of a performance audit is to confirm independently that these measures do exist and are effective and to report to the management and the PRAC on these issues. In the course of an investigation into overall management arrangements in a Directorate the following will receive attention:

- systems planning, budgeting, authorisation, control and evaluation in respect of revenue, expenditure and the allocation of resources;
- the effect of decisions beyond the control of the Directorate which have had an adverse influence on the Directorate;
- measures ensuring the proper management of all the resources of the Directorate;
- measures developed to derive benefit from economies of scale of expertise, especially in the provision of goods and services;
- specific steps aimed at improving the economy, efficiency and effectiveness of the activities of the Directorate;
- proper assignment of responsibilities, powers and accountability;
- measures to monitor results against predetermined objectives, to ensure that unacceptable performance is corrected timeously;
- whether policy objectives were set and policy decisions taken with the necessary authority;
- the extent to which policy objectives were set and decisions taken on the basis of adequate, appropriate and reliable financial and other information and whether the critical underlying assumptions have been disclosed;
- if satisfactory arrangements for the consideration of alternative possibilities were made;
- whether established policy goals and objectives as well as decisions on the implementation of policy are clearly defined and in line with the priorities of the Council, and whether they were taken with proper authority at the appropriate level;
- whether conflict exists between the various policy goals or objectives, or between the methods chosen to implement them;

10.3 Computer Reviews

A review of the Information Technology (IT) control to obtain an understanding of the control environment to support the audit risk assessment and to ensure that proper IT controls are in place.

Apart from the review referred to above it can also review specific computer and applications controls, control over changes in the computer systems, the methodology of systems development, internal controls and procedures, backup and recovery procedures, disaster recovery plan and the physical control of the computer facilities.

Segregation of duties other than those enforced by manual procedures, like programmed procedures and passwords may be audited. Risk rating of all systems and functional areas as seen by management may be reviewed, and the management of these risks should be reported on.

10.4 Fraud Limitation

The identification and prevention of fraud is clearly a management responsibility. Internal audit is well qualified to assist management to identify the main fraud risks facing the Directorates and could assist management in designing appropriate controls to minimise the risks.

11. STRATEGIC INTERNAL AUDIT PLAN

The Internal Audit Department will in consultation with management present an annual risk based internal audit plan to the PRAC. The plan shall set out the recommended scope of their work in the period.

The annual plan will be developed with reference to a long term strategic outlook for internal audit work, prepared in conjunction with management and PRAC, and should have regard to the IDP and strategic outlook of the municipality as a whole.

12. 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.

All working papers prepared during the execution of the consulting engagement should be kept as evidence of conducting the procedures.

Internal audit should communicate issues and preliminary results of the consulting engagement with line management during the conduct of the assignment.

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 chief audit executive may request PRAC approval for consulting activities that significantly affect the approved internal audit's annual operational plan.

The chief audit executive should consider the impact of independence and objectivity, if the internal audit activity has the requisite skills, knowledge, time and competencies and the risk associated with the proposed consulting before acceptance of the consulting activities.

13. ANNUAL REVIEW

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

14. QUALITY ASSURANCE AND IMPROVEMENT PLAN

Evaluation will be based on the IIA standards. Internal assessments must include on-going monitoring of the performance of the internal audit activity and periodic reviews performed through self-assessment or the other persons within the organisation with sufficient knowledge of internal audit practices.

External assessments must be conducted at least every five years by a qualified independent reviewer.

15. CONCLUSION

It is management's responsibility to maintain the internal control system and to ensure that resources are properly applied in the manner and to the activities intended. This includes responsibility for the prevention and detection of fraud and other illegal acts.