

EMNAMBITHI/LADYSMITH
MUNICIPALITY

INTERNAL AUDIT CHARTER

TABLE OF CONTENTS

1. INTRODUCTION	3
2. LEGISLATIVE MANDATE	3
3. OBJECTIVE AND MISSION	4
4. SCOPE	
4.1. ASSURANCE ENGAGEMENTS	5
4.2. CONSULTING ENGAGEMENTS	5
5. ACCOUNTABILITY	6
6. INDEPENDENCE	6
7. AUTHORITY	7
8. RESPONSIBILITY	
8.1. RESPONSIBILITY OF THE INTERNAL AUDIT UNIT	8
8.2. RESPONSIBILITY FOR DETECTING AND REPORTING FRAUD	8
8.3. PLANNING	9
8.4. REPORTING RESPONSIBILITY	9
8.5. RESPONSIBILITY OF MANAGEMENT	10
9. RELATIONSHIP WITH EXTERNAL AUDITORS	11
10. QUALITY ASSURANCE	11
11. STANDARDS FOR PROFESSIONAL PRACTICE	12
12. REVIEW PERIOD	12
13. CONCLUSION	12
14. APPROVAL	13

1. INTRODUCTION

The Internal Audit Charter embodies the relationship between the Audit Committee, Management and the Internal Audit Unit of Emnambithi/Ladysmith Municipality.

The purpose of this charter is to set out the nature, role, responsibility, status and authority of the Internal Audit Unit within the Emnambithi/Ladysmith Municipality and to outline the scope of the Internal Audit Work.

This charter establishes the authority and responsibility conferred by Management and the Audit Committee.

2. LEGISLATIVE MANDATE

Section 165 (1) of the Municipal Finance Management Act (MFMA) of 2003 states that each municipality must have an Internal Audit Unit. Section 165 (2) gives guidance on what is expected of the internal audit unit with regard to responsibility, functions and reporting requirements.

MFMA Sec 165: -

- (1) Each municipality and each municipal entity must have an internal audit unit, subject to subsection (3)
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
- (2) 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. OBJECTIVE AND MISSION

The purpose of Internal Auditing is to provide independent, objective assurance and consulting services designed to add value and improve the organisation'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. The Internal Audit Unit intends to function in a manner that ensures that:

- Risks are appropriately identified and managed;
- Interaction with the various governance groups occurs as needed;
- Significant financial, managerial, and operating information is accurate, reliable, and timely;
- Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations;
- Resources are acquired economically, used efficiently, and adequately protected;
- Programs, plans, and objectives are achieved;
- Quality and continuous improvement are fostered in the organization's control process; and
- Significant legislative or regulatory issues impacting the organization are recognized and addressed appropriately.

Opportunities for improving management control, operations, and the organisations image may be identified during audits. The Internal Audit Unit shall communicate identified opportunities and risks to the appropriate levels of management.

4. SCOPE

Internal Auditors shall at all times conduct the work or any other tasks assigned to them in accordance with the International Standards for Professional Practice of Internal Auditing and shall further comply with the Code of Ethics for Internal Auditors, as published by the Institute of Internal Auditors (IIA).

Internal Audit follows an integrated approach, which places emphasis

on the identification of risks, the prioritising thereof and testing of controls over key risk areas. The integrated audit approach combines two types of audit engagements, i.e. assurance and consulting services.

4.1. ASSURANCE ENGAGEMENTS

These refer to the evaluation of the adequacy, effectiveness and efficiency of the organization's risk management, control and governance processes. The purpose of this is to provide reasonable assurance that these processes are functioning as intended and will enable the organization to achieve its goals and objectives, as well as provide recommendations on improving the organization's operations. Business systems, processes, operations, functions and activities within the organisation shall be subjected to internal audit's evaluation. Examples of assurance engagements to provided are as follows:

- Financial;
- Performance;
- Compliance;
- Forensic; and
- System security.

4.2. CONSULTING ENGAGEMENTS

These refer to advisory and related engagements, the nature and scope of which should be agreed upon with the auditee management. The following categories of consulting engagements may be performed:

- Formal consulting engagements: planned and subject to written agreement;
- Informal consulting engagements: routine activities such as participating on standing committees, limited life projects, ad hoc meetings and routine information exchange;
- Special consulting engagements: participation on a merger and acquisition team or system conversion team; and
Emergency consulting engagements: participation on a team assembled to supply temporary help to meet a special request or tight deadline.

The Internal Audit Unit should, however, maintain its objectivity when drawing conclusions and offering advice to management. The following consulting services may be provided:

- Counsel;
- Advice;
- Facilitation; and
- Training.

The comprehensive scope of work of Internal Audit should provide reasonable assurance that the organisation's risk management; control and governance systems are effective and efficient. In areas where, in the opinion of the Chief: Internal Audit, specialised audit skills are lacking within the unit, the services of external service providers may be employed.

5. ACCOUNTABILITY

The Chief: Internal Audit, in the discharge of his/her duties, shall be accountable to the Accounting Officer and the Audit Committee to:

- Provide annually an assessment on the adequacy and effectiveness of the organisation's processes for controlling its activities and managing its risks in the areas set forth under the mission and scope of work;
- Report significant issues related to the processes for controlling the activities of the organisation and its affiliates, including potential improvements to those processes, and provide information concerning such issues through resolution;
- Periodically provide information on the status and results of the annual audit plan and the sufficiency of organisations resources; and
- Coordinate with and provide oversight of other control and monitoring functions (risk management, compliance, security, legal, ethics, environmental, external audit).

6. INDEPENDENCE

The Internal Audit Unit has independent status within Emnambithi/Ladysmith Municipality and will report administratively to the Accounting Officer and functionally to the Audit Committee.

For this purpose the Internal Audit Unit:

- shall be responsible for operational purposes to the Accounting Officer but shall have further access to the Audit Committee;
- shall have no executive or managerial powers, functions, authorities or duties except those relating to the management of the audit function;
- shall not be involved in the day to day operation of Council, nor in the internal operational checking systems of Council except

those relating to the administrative and management of the audit activities.

- shall not be responsible for the designing, installing or maintaining systems, procedures or controls, but will advise on these matters and provide assurance to management that completed systems will contribute to the achievement of the intended corporate objectives. If, however, an officer of the Internal Audit Unit is involved in the detailed development or implementation of a system, then any post implementation review should, as far as possible, be conducted by another officer of the Department or by staff entirely independent of the Department; and
- may have an observer/adviser status on steering committees, formed to co- ordinate financial/information systems design and implementation, at the discretion of the Chief: Internal Audit.

7. AUTHORITY

- 7.1. Internal Audit has neither direct responsibility, nor authority over, any of the activities which it reviews. Therefore the audits and evaluations do not in any way relieve other persons in Council of the responsibilities assigned to them.
- 7.2. Internal Audit shall generally undertake projects in accordance with programs/plans approved by the Accounting Officer but shall also conduct such further unscheduled projects as the Accounting Officer considers desirable. Due consideration should also be given to the views of the Audit Committee and Department Heads in regard to suitable projects. The nature and scope of each project will be left to the professional judgement of the Chief: Internal Audit.
- 7.3. The Chief: Internal Audit and staff of the Internal Audit Unit are authorised to review all areas of Council and to have full, free, and unrestricted access to all Council's activities, records (either manual or electronic), property, and personnel. Council activities include entities over which Council has direct management, sponsorship or financial control.
- 7.4. All employees shall co-operate fully in making available any material or information reasonably requested by internal auditors. Further, all employees are expected to bring to the attention of the Chief: Internal Audit any suspected situation involving improper activity or non-compliance with applicable policies, plans, procedures, laws or regulations, of which they have knowledge.

- 7.5. For approved areas of audit, evaluation and review, where the Internal Audit Department does not possess all the necessary experience/skills, additional internal or external resources may be utilised subject to approval by the Accounting Officer.

8. RESPONSIBILITY

8.1. RESPONSIBILITY OF THE INTERNAL AUDIT UNIT

The Internal Audit Unit must prepare:

- An Annual Internal Audit Plan based on its assessment of key areas of risk for the institution, having regard to its current operations, those proposed in its strategic plan and its risk management strategy;

The Internal Audit Unit will be responsible to:

- Assess the operational procedure and monitoring mechanisms over all transfers made and received, including transfers in terms of the annual Division of Revenue Act;
- Evaluate and assess new or changing services, processes, operations and control processes, (information technology-based or otherwise), coincident with their development, implementation, and / or expansion;
- Assist, facilitate or execute investigations of suspected fraudulent / irregular activities within the organization;
- Issue at least quarterly reports to the Audit Committee summarizing results of audit activities and any other report(s) as circumstances may dictate;
- Maintain a professional audit staff with sufficient knowledge, skills and experience to meet the requirements of this charter; and
- Consider the scope of work of the external auditors (Auditor-General), as appropriate, for the purpose of providing optimal audit coverage at a reasonable cost.

8.1.1. RESPONSIBILITY FOR DETECTING AND REPORTING IRREGULARITIES

- The Internal Audit Unit is not legally or professionally responsible for preventing irregularities (which include fraud, other illegal acts and errors). In order to facilitate the fraud/corruption prevention function, the Chief: Internal Audit should be informed of any special investigation, fraud, theft or other suspected cases of misappropriation.

- The responsibility for prevention of irregularities rests with Council and Management through the implementation and continued operation of an adequate internal control system. Internal Auditors are responsible for examining and evaluating the adequacy and the effectiveness of actions taken by management to fulfil this obligation.
- However, in exercising due professional care, Internal Auditors should be alert to the possibility of irregularities and those conditions and activities where irregularities are most likely to occur. Due care implies reasonable care and competence, not infallibility, nor extraordinary performance. It requires internal auditors to conduct examinations and verifications to a reasonable extent.
- The Chief: Internal Audit has a responsibility to report irregularities to the Accounting Officer and to the Audit Committee.

8.1.2 PLANNING

The Internal Audit Unit shall submit to the Audit Committee for approval, an Internal Audit Plan, setting out the recommended scope of their work. This plan should be based on the results of the annual 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 of resources necessary to fulfill the plan. The plan should indicate the timing and frequency of the audit activities.

The Annual Internal Audit plan should be developed with reference to a longer 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 the organisation as a whole.

8.1.3. REPORTING RESPONSIBILITY

After each audit, Internal Audit shall immediately issue a draft audit report on issues/findings to the Head of Department concerned. Management's comments and action plans should be received within 20 days from issuing the audit report.

A written final audit report will be issued to the Head of the Department within 7 days of receiving management's comments and an Executive Summary of the report will be submitted to the Accounting Officer. Internal Audit reserves the right to report any critical or significant issue

direct to the Accounting Officer or the Chairperson of the Audit Committee before consulting with management.

Internal Audit will report every quarter to the Audit Committee on the:

- Status of the Internal Audit activities;
- Significant findings and management action plans;
- Follow-up on previously reported audit findings;
- Internal Audit budgets and variances;
- Internal Audit resources requirements.

8.1. RESPONSIBILITY OF MANAGEMENT

The Accounting Officer and the Managers are responsible for:

- Proposing the areas of investigation by internal audit
- Ensure that the internal audit function has
 - the support of the Accounting Officer and the Executive Managers and Managers;
 - Direct access and freedom to report to the Accounting Officer and the Audit Committee.
 - Maintaining internal control, including proper accounting records and other management information suitable for running the Department.
 - Reviewing internal audit reports within a period not exceeding three weeks and implementation of recommendations as considered appropriate.

8.2.1 Management's Responsibility for Corrective Action

- The Executive Managers/Managers are responsible for seeing that action on recommendations made or deficient conditions reported by auditors (internal and external) is either planned or taken within thirty (30) working days from receipt of the final audit report. Recommendations are considered outstanding until they are implemented and or hold a status of no further action required. Any recommendations that have not been actioned within the agreed timeframe will be reported to and followed through by the Accounting Officer.
- If the Executive Managers / Managers foresee difficulties implementing the recommendations within the time frame, the manager should advise the Internal Audit Unit regarding the cause of delay and the revised implementation schedule.
- Upon implementation of the recommendations, a written report should be sent by the responsible officer to the relevant Executive Managers/Managers and a copy be sent to Internal Audit Unit.

Nothing set out above shall restrict the freedom of the Internal Audit Unit to conclude their own independent investigation on any matter.

9. RELATIONSHIP WITH EXTERNAL AUDITORS

Internal Audit Unit may advise the Auditor-General about any audit findings. The Department and its officers shall co-operate fully with the Auditor-General and the appointed External Auditor in respect of any internal audits undertaken by the Department. Working papers together with any further explanations are to be made available in order to enhance the effectiveness of the total audit coverage and to minimise duplication. To ensure that the Department is aware of all matters associated with its functional responsibilities, the Department is to be supplied with copies of all relevant correspondence received from External Audit.

10. QUALITY ASSURANCE: AUDIT WORK:

In order to ensure that the quality of internal audit work is consistently maintained at a high standard, the Chief: Internal Audit should establish and maintain a quality assurance program.

This program is to include:

- Developing a comprehensive work reporting arrangement;
- Maintaining a regular review of audit plans, reports and working papers;
- Maintaining effective communication links with the Audit Committee members, Accounting Officer, Managers, External Auditors;
- Arranging and providing ongoing staff training as appropriate; and
- Issue necessary oral and written directions and maintain written policies and procedures to assist and direct staff in the performance of their duties.

11. STANDARDS FOR PROFESSIONAL PRACTICE

Internal Audit shall at all times meet or exceed the *Standards for the Professional Practice of Internal Auditing* and the Code of Ethics, as published by the Institute of Internal Auditors when conducting their work or any other tasks assigned to them.

12. REVIEW PERIOD

The Internal Audit Charter should be reviewed on an annual basis.

13. 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 activities.

