



CITY OF
uMHLATHUZE
VISION INTO ACTION

uMHLATHUZE MUNICIPALITY

Internal Audit Charter

Revised Edition 2015/2016

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1 Introduction

This charter outlines the mandate of Internal Audit and serves as the statement of purpose, authority and responsibility of uMhlathuze Municipality Internal Audit Activity (IAA).

The IAA of the municipality is established and regulated by section 165 of the Municipal Finance Management Act No. 56 of 2003 (as amended) (MFMA) read together with the MFMA Circular no. 65 of 2012 issued by the National Treasury and by the Municipal Systems Act, No. 32 of 2000 (MSA) which provides for the establishment of the IAA so as to regulate the function and to provide for matters incidental thereto.

Furthermore, Section 62 of the MFMA requires amongst others, that the accounting officer of a municipality must take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of internal audit operating in accordance with any prescribed norms and standards.

2 Mission statement

To provide independent objective assurance and consulting insights on the effectiveness, economy and efficiency of uMhlathuze Municipality's governance, risk and controls in order to create and drive innovation, responsiveness and sustainability of the service delivery value chain.

3 Professionalism

The IAA of the municipality will operate in terms of the Institute of Internal Auditors' (IIA) mandatory frameworks including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards) and any other relevant laws and regulations applicable to uMhlathuze Municipality.

The IAA shall exercise due care in fulfilling its responsibilities.

Furthermore, the IAA shall as far as it is practicable and cost-effective, embrace the recommendations contained in the King Reports on Corporate Governance for South Africa 2009 (King III).

4 Purpose, objective and authority

Section 62(1)(c)(ii) of MFMA states:

“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 that the municipality has and will maintain effective, efficient and transparent systems of internal audit operating in accordance with any prescribed norms and standards”

4.1 The definition of Internal Auditing as per the Global IIA states that the fundamental purpose, nature, and scope of internal auditing is:

4.1.1 “An independent and 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 evaluating and improving the effectiveness of risk management, control, and governance processes”

- 4.2 In fulfilling its mandate as per the above definition, the IAA will conduct an assessment and an evaluation of the adequacy and effectiveness of governance, risk management and internal control processes for the municipality.

5 Authority of the Internal Audit Activity

- 5.1 As prescribed by the MFMA section 166, the IAA is directly accountable, functionally, to the Audit Committee and reports administratively to the Accounting Officer.
- 5.2 The CAE reports functionally to the Chairperson of the Audit Committee and reports administratively to the city manager.
- 5.3 The IAA is authorised to:
- 5.3.1 Carry out a programme of internal audits, as deemed necessary, to meet the scope and responsibilities of the function;
 - 5.3.2 Have full and unrestricted access to all the City of uMhlathuze Municipality's documents, records, assets, properties, plants, computers and personnel information?;
 - 5.3.3 Allocate resources, set frequencies, select records or data and apply the techniques required to accomplish audit objectives;
 - 5.3.4 Have discussions with executives, line managers and employees of the entity at any reasonable time; and
 - 5.3.5 Require any officer of the municipality to supply such information and explanations as may be needed from time to time to fulfil the responsibilities allocated to the function.
- 5.4 All employees are required to assist the IAA in effectively fulfilling its mandate, roles and responsibilities. The IAA will also have free and unrestricted access to the Executive Mayoral Council.
- 5.5 Specifically defined, sensitive and highly confidential matters (identified by the Audit Committee, Executive Management or the CAE) will be handled directly by the CAE under the guidance of the Audit Committee Chairperson.

6 Roles and Responsibilities

6.1 Internal Audit Responsibilities

The IAA will conduct audits in accordance with the Code of Ethics and Standards of the Professional Practice of Internal Auditing as prescribed by the IIA. The IAA has the responsibility to:

- 6.1.1 Develop and implement an internal audit methodology and related delivery tool or practice aligned with the IIA standards and submit it/them for review and approval by the Audit Committee. The methodology and related delivery tools or practices shall be subject to regular review and enhancements to cater for any changes within the IAA and related services;
- 6.1.2 Develop a strategic three year rolling internal audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by

- management, and submit that plan to the Audit Committee for review and approval;
- 6.1.3 Implement the approved strategy and execute the internal audit plan, including any special tasks or projects requested by management and the Audit Committee;
- 6.1.4 Ensure that the audit plan is executed by professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this charter;
- 6.1.5 Issue periodic and or quarterly reports to the Audit Committee and management summarizing results and outcomes of the audit activities;
- 6.1.6 Keep the Audit Committee informed of emerging trends and leading practices in internal auditing; and
- 6.1.7 Work with other assurance providers as defined in the municipality's Combined Assurance Framework approved by the Audit Committee.
- 6.1.8 In order to demonstrate that due care has been exercised, the IAA should be able to show that its work has been performed in a way which is consistent with the Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors;
- 6.1.9 Possessing a thorough knowledge of the objectives of the Council and the internal control system. The IAA must also be aware of the relevant laws and the requirements of relevant professional and regulatory bodies.
- 6.1.10 Through adherence to standards and statements issued by the Institute of Internal Auditors.
- 6.1.11 Being impartial in discharging all its responsibilities; bias, prejudice or undue influence must not be allowed to limit or override objectivity. At all times, the integrity and conduct of each internal auditor must be above reproach. He/she must not place himself in a compromising position.
- 6.1.12 The CAE should promote and maintain adequate quality standards in the IAA. He/she should establish methods of evaluating the work of his staff to ensure that the function fulfils its responsibilities and has proper regard to this statement.
- 6.1.13 Key roles and responsibilities of the CAE will include directly supervising and managing the activities of the IAA. These include, amongst others, engagement planning, resource management, implementation of IAA operating policies and procedures, methodologies, review of work, coordination of assurance activities and the implementation of quality control measures.
- 6.1.14 CAE shall solicit the Audit Committee's approval for any consulting activities that arise from special management request only to the extent that these activities:
- 6.1.14.1 Are not included in the annual audit plan approved by the Audit Committee; and
- 6.1.14.2 The activities may significantly affect the delivery of the approved internal audit annual plan;
- 6.1.15 CAE Shall in consultation with the Audit Committee, consider the impact of independence and objectivity on the IAA before acceptance of the consulting activities;
- 6.1.16 CAE Shall consider whether the internal auditors have the requisite skills, knowledge, time and competencies to perform the proposed internal audit projects including any approved consulting activities; and

6.1.17 CAE Shall obtain the necessary assistance of personnel in the various departments, sections and units of the municipality where they perform internal audit reviews, as well as other specialised services from within or outside the organisation.

6.2 Internal Audit Roles

6.2.1 The activities performed by the IAA shall be detailed in the annual operational internal audit plan. The activities include, but are not limited to:

6.2.1.1 Considering the scope of work of the external auditors and other assurance providers, for the purpose of providing optimal audit coverage to the municipality;

6.2.1.2 Performing an assessment of the adequacy and effectiveness of the risk management processes; and

6.2.1.3 Analysing and evaluating business processes and associated controls.

6.2.2 Promoting the sustenance of an effective internal audit function;

6.2.3 Participating in all committees which are established so as to enhance the overall effectiveness of governance, risk and controls within the municipality under the guidance of the Audit Committee;

6.2.4 Assisting management with the enhancement of the overall governance, risk and internal control environments;

6.2.5 The IAA will, at all times, apply strict measures to ensure the confidentiality and safeguarding of all municipal records and information that is in the possession of the IAA. The IAA will follow approved internal processes and legislative prescripts whenever it is required to release any information that is in its possession and accepts being held accountable for any violation(s), committed by any member(s) of the IAA, regarding the dissemination of confidential information.

6.3 Internal Audit Role on fraud and corruption

- 6.3.1 Whilst it remains the primary responsibility of management to prevent, detect and manage the risk of fraud and corruption, the IAA shall be responsible for the following:
 - 6.3.1.1 Exercising due professional care in performing its activities;
 - 6.3.1.2 Considering all possibilities of material irregularities or non-compliance when conducting its activities;
 - 6.3.1.3 Reporting to the CAE who shall in turn report to the Audit Committee immediately and to the Accounting Officer and investigate in terms of the procedures outlined in the Fraud Prevention Policy, when observing wrongdoing;
 - 6.3.1.4 Being aware of the kind of fraud that could be perpetrated in the organisation, in addition to understanding control systems;
 - 6.3.1.5 Being responsible for examining and evaluating the adequacy and effectiveness of actions taken by management to fulfil the obligation of deterring fraud;
 - 6.3.1.6 Having sufficient knowledge of fraud risk to be able to identify indicators that fraud might have been committed; and
 - 6.3.1.7 Being responsible for investigations;
- 6.3.2 The identification and prevention of fraud is a management responsibility. The IAA will assist management to identify the key fraud risks facing the organisation and assist management in designing appropriate controls to minimise the effects of fraud risks.
- 6.3.3 Establishing the proper tone and communicating the municipality's position of zero-tolerance towards fraud is crucial to enhancing its fraud risk management strategy. The IAA is required to assist management in achieving this objective, by providing the mechanisms to assist in the prevention and detection of irregularities so as to minimise the negative effects of fraud, corruption and other economic crimes.

7 Management's responsibilities

- 7.1 Although the role of the IAA is to evaluate the adequacy and effectiveness of the municipality's governance, risk management and internal controls, management, and, ultimately, the Board of Directors retains full responsibility for ensuring that the City of uMhlathuze design, implement and maintains an appropriate framework of governance, risk management and Internal controls so as to achieve optimum service delivery levels in line with the municipality's mandate.
- 7.2 Management has the responsibility of taking the necessary corrective action in a timely manner and addressing weaknesses and/or inefficiencies in the governance, risk management and internal control environment, which have been identified and reported by various assurance providers such as the internal and external auditors, risk management and compliance functions.
- 7.3 It remains the primary responsibility of management to prevent, detect and manage the risk of fraud and corruption;
- 7.4 Other management responsibilities include:
 - 7.4.1 Establishing the service delivery plan (Integrated Development Plan – IDP) and an entity-wide risk profile;
 - 7.4.2 Informing both the Audit committee and the Chief Audit Executive (CAE) of any significant control breakdowns, thefts, frauds, defalcations, unauthorised transactions, and accounting breakdowns; and
 - 7.4.3 Providing the IAA with all relevant information for the proper performance of their duties.

8 Scope of the Internal Audit

8.1 Assurance services

- 8.1.1 The specific scope of the work of the IAA shall be documented and included in a rolling three year strategic internal audit plan and the annual operational internal audit plan. Both the three year rolling plan and the annual operational plan shall be aligned to the MFMA requirements and be subject to the Audit Committee's review and approval on an annual basis.
- 8.1.2 The scope of IAA shall encompass the examination and evaluation of the adequacy and effectiveness of the municipality's governance, risk management and internal control processes together with the entity's performance management and monitoring processes in carrying out assigned responsibilities.
- 8.1.3 The scope of the IAA will amongst others, include:
- Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such;
 - Reviewing the systems established to ensure compliance with those policies, procedures, laws, regulations and any other directives that could have a significant impact on operations and reports, and determining whether the organization is in compliance;
 - Assessing the adequacy of controls so as to safeguard assets, including intangible assets;
 - Reviewing established systems of internal control, including the information systems environment, to ascertain whether they are designed and functioning as intended;
 - Reviewing the adequacy and effectiveness of risk management and governance processes;
 - Reviewing and appraising the economy, effectiveness and efficiency with which municipal resources are employed;
 - Reviewing the systems and processes that support the ethics and values of the organisation;
 - Reviewing the effectiveness and efficiency of operations;
 - Reviewing operations so as to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being executed as planned;
 - Reviewing processes for managing, monitoring and reporting of the municipality's performance against the approved service delivery strategy; and
 - Monitoring the progress made by management in addressing the shortcomings related to governance, risk management, controls or performance gaps in delivering on their strategy.
- 8.1.4 The IAA shall also focus its activities on assisting the organisation with the prevention and early detection of fraud, corruption and irregularities by conducting key activities such as:
- 8.1.4.1 Facilitating regular fraud risk assessments;
 - 8.1.4.2 Assessing the adequacy and effectiveness of management's plans for fraud risk/detection reviews;
 - 8.1.4.3 Reporting on the results of the fraud risk reviews; and
 - 8.1.4.4 Making recommendations to management on improving the organisation's response to fraud, corruption and other irregularities.

8.2 Consulting services (non-assurance services)

- 8.2.1 Consulting services are advisory and related client service activities. The nature and scope of these services is agreed upon with the client and are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel in systems enhancements, advice, facilitation of risk assessment, Fraud awareness activities and training on related subject matters.
- 8.2.2 The IAA can provide consulting services to businesses, provided that they do so in line with the IIA standards and do not assume any management responsibility for the processes or functions they are consulting in.
- 8.2.3 The IAA should avoid any situation that may appear to be construed to impair their independence. The IAA must avoid developing and implementing procedures, preparing records, or engaging in activities that would normally be reviewed by internal audit.
- 8.2.4 Furthermore, an internal audit consulting activity does not in any way relieve or take away management's responsibility on the entity's governance, risk and control systems as articulated by the MFMA.

8.3 Other Ad-hoc Services

- 8.3.1 The IAA is authorised to carry out any ad hoc reviews, appraisals, inspections and or examinations requested by management or the Audit Committee subject to minimum protocols being approved by the Audit Committee from time to time.

9 Combined Assurance Framework

- 9.1 In terms of the ISPPIA the IAA should co-ordinate its activities with those of the internal and external providers of assurance and consulting services. This is done to ensure the appropriate coverage of risk areas and to minimise a duplication of efforts. There should be access to each other's assurance plans and programmes, as well as assurance reports.
- 9.2 The CAE shall develop and submit, for the review and approval of the Audit Committee, an entity-wide combined assurance framework as defined in the King III Report on Corporate Governance;
- 9.3 The Audit Committee shall oversee the implementation and embedment of the combined assurance framework, with an entity-wide perspective; and
- 9.4 The IAA shall play a secretariat role in the process of facilitating the implementation and embedment of the combined assurance framework.

10 Stakeholder Management

- 10.1 The IAA should seek to foster constructive working relationships and a mutual understanding with management, the Audit Committee and other assurance providers reflected on the Combined Assurance Model. This relationship should not compromise or be seen to compromise the internal auditors' independence and objectivity.
- 10.2 The CAE should prepare a comprehensive stakeholder management plan wherein, all key stakeholders within the Internal Audit value chain are identified and a customised action plan is developed and implemented so as to secure an appropriate relationship.

Consultation can lead to the identification of areas of concern or of other interest to management and other key stakeholders.

11 Quality Assurance and Improvement Programme

- 11.1 The IAA shall maintain a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit activity. The programme will include an evaluation of the IAA's conformance with the definition of Internal Auditing and the Standards and an evaluation of whether the internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.
- 11.2 The CAE will communicate to senior management and the Executive Council on the IAA's QAIP, including results of ongoing internal assessments and external assessments conducted at least every five years.
- 11.3 Periodic internal and external reviews will be conducted in accordance with Standard 1300 of the SPPIA.
- 11.4 Ongoing quality assurance will be achieved through the supervision and reviewing of audit files and reports.
- 11.5 Where opportunities for improvement are identified, improvement programmes will be developed and implemented.
- 11.6 The following Quality Control measures shall be conducted to accomplish adherence to the Quality Assurance philosophy:

Quality Assurance and Improvement Programme Checklist - DMS 133212

11.7 Internal Assessments

- 11.7.1 The CAE must ensure that internal assessments, accompanied with external validation are performed.
- 11.7.2 The internal assessment shall be conducted on an engagement risk basis and at frequencies considered appropriate by the CAE subject to the Audit Committees approval of the audit plan whilst involvement of an external validator shall be completed every three years.
- 11.7.3 The internal assessments shall be conducted in a manner that will, amongst others, cover matters as prescribed by the standards promulgated by the IIA from time to time.

11.8 External Assessments

- 11.8.1 The IAA shall be subjected to an external assessment at least once every five years, the results of which should be communicated to the Audit Committee and other relevant governance structures within the municipality.
- 11.8.2 An external assessment must be conducted by a qualified independent reviewer or review team from outside the organisation.
- 11.8.3 The scope of the external assessment will, amongst others, cover matters as prescribed by the standards promulgated by the IIA from time to time.
- 11.8.4 The CAE and AO shall develop and implement an improvement action plan in response to remedying the non-conformances identified by the independent quality reviewer.
- 11.8.5 The improvement plan shall be tracked and monitored by the Audit committee on a continuous basis.

12 Annual Assessment of IA Effectiveness

The Audit Committee should annually assess the effectiveness of the internal audit function. Against predetermined performance criteria including but not limited to:

- 12.1 Achievement of the annual internal audit plan;
- 12.2 Compliance with the IIA's professional standards of quality;
- 12.3 Achievement of reporting protocols from management to the Audit Committee;
- 12.4 Timeliness of reporting of findings and activities;
- 12.5 Management's acceptance of audit findings;
- 12.6 Quality and relevance of the annual assessment reports;
- 12.7 Level of cooperation and interaction with other assurance providers within the combined assurance approach;
- 12.8 Maintenance of adequate staffing/sourcing levels to achieve the objectives of the internal audit function; and
- 12.9 Meeting the budget allocated to internal audit.

Assessment checklist- DMS 1115586

13 Annual review and update

- 13.1 This Internal Audit Charter shall be subject to annual review and update where necessary on the same meeting that the Audit Committee reviews and approves the annual internal audit plan.
- 13.2 Should the Audit Committee deem it fit to review and update this charter at any time, the CAE shall facilitate such actions

14 APPROVED BY THE AUDIT COMMITTEE

Compiled by:

Chief Audit Executive

City of uMhlathuze Municipality

Date

Recommended by

City Manager

City of uMhlathuze Municipality

Date

Approved by:

Chairperson

City of uMhlathuze Municipality Audit Committee

Date