



Internal Audit Charter

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RECORD OF CHANGES & CORRECTIONS

| Heading reference | Number | Details |
|--|--------------------------------------|--|
| 2022/23 | | |
| <p>CONSULTING SERVICES (NON-ASSURANCE SERVICES)</p> | <p>Page 15 Paragraph 9.2.5.2</p> | <p>Original Paragraph</p> <p>Resource only the internal audit professionals that were not part of the consulting engagement team for the affected activity, process, system or programme. Further, team members who participated in the provision of the assurance service would only constitute 1/3 of the assurance engagement delivery team (i.e. 1/3 of engagement delivery team, excluding engagement leadership). A period of 24 months would first lapse before internal audit team members who provided consulting services can be on the assurance engagement delivery team for the affected activity, process, system or programme perform assurance engagements. In this case, a period of 36 months would first lapse prior to performance of an assurance engagement by the team.</p> <p>Updated Paragraphs</p> <p>Internal audit professionals who were part of the team that was involved in the provision of end to end Internal Audit Solutions shall perform assurance under the leadership (i.e. engagement director and engagement manager) that was not part of the consulting engagement team for the affected activity, process, system or programme. Further, team members who participated in the provision of the end to end Internal Audit Solutions should only constitute 1/3 of the assurance engagement delivery team (i.e. 1/3 of engagement delivery team, excluding engagement leadership). A period of 24 months should first lapse before internal audit team members who provided E2E IA Solutions can be included as part of the assurance engagement delivery team for the affected activity, process, system or programme.</p> |
| <p>RELATIONSHIP WITH EXTERNAL AUDITORS</p> | <p>Page 16 11.2.</p> | <p>Original Paragraph</p> <p>11.2 The external auditors have a standing invite to the audit committee meetings.</p> <p>Rephrased Paragraph</p> <p>All CoU internal audit activity reports shall be shared with external auditors. The external auditors shall have a standing invite to audit committee meetings</p> |

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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 City of uMhlathuze's Internal Audit Activity (COU IAA). The main aim of this charter is to set out the purpose, status, authority and responsibilities of the COU IAA, and to outline the scope of its work (Standard 1000 of the Institute of Internal Auditors (IIA), Circular 65 by National Treasury and Internal audit framework by National Treasury).

COU IAA is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

To ensure effectiveness, COU internal audit team serve as an organization's corporate conscience and advisors for governance, risk, and control operational efficiency and effectiveness. They also educate and make recommendations to management and the Council. In fulfilling these responsibilities, internal audit team must demonstrate professionalism, objectivity, knowledge, integrity, and leadership.

The COU IAA 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 enhance and protect the organizational value by providing risk-based and objective assurance, advice, and insight.

3. PROFESSIONALISM

The COU IIA operates in terms of the International Professional Practices Framework (IPPF) of the Global Institute of Internal Auditors' (IIA), specifically the mandatory components of the IPPF including the Core Principles of Internal Auditing, *Definition of Internal Auditing*, *the International Standards for the Professional Practice of Internal Auditing (ISPPIA)*, *the IIA Code of Ethics* and any other relevant laws and regulations applicable to uMhlathuze Municipality.

Furthermore, the COU IAA shall as far as it is practicable and cost-effective, embrace the recommendations contained in the *King IV Report on Corporate Governance for South Africa 2016 (King IV)* and supports the Continued Professional Development (CPD) of its resources.

4. LEGISLATIVE FRAMEWORKS

4.1. Municipal Finance Management Act (MFMA)

- 4.1.1. Section 62 of the Municipal Finance Management Act, Act No. 56 of 2003 (MFMA) determine that the Accounting Officer of the Municipality must take all reasonable steps to ensure that the Municipality has and maintains:
 - 4.1.2. Effective, efficient and transparent systems of financial and risk management and internal control;
 - 4.1.3. An Internal Auditing function operating in accordance with prescribed norms and standards.
 - 4.1.4. Section 165 of the MFMA determine that each municipality must have an Independent internal audit unit that must:
 - 4.1.5. Prepare a three (3) year rolling risk-based audit plan and an internal audit program for each financial year;
 - 4.1.6. Advise the Accounting Officer and report to the audit committee on the implementation of the internal audit plan and matters relating to Internal Audit:
 - 4.1.6.1. Internal control
 - 4.1.6.2. Accounting procedures and practices
 - 4.1.6.3. Risk and risk management
 - 4.1.6.4. Performance management
 - 4.1.6.5. Compliance with MFMA, DORA and any other applicable legislation

4.2. Municipal Systems Act

- 4.2.1. Section 45 of the Municipal Systems Act (Act No.32 of 2000) (“Systems Act”) determine that the results of performance management system must be audited as part of the municipality’s internal audit processes

4.3. National Treasury Circular 65 and Internal Audit Framework

- 4.3.1. 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.
- 4.3.2. Section 165 of the MFMA prescribes the establishment of the internal audit activity. Internal audit is an important component of internal control, risk management and corporate governance and provides the necessary assurance and advisory services to COU.
- 4.3.3. Internal audit activity is one of the most significant management tools that can provide value added services to the municipality or municipal entity. When objectively and adequately resourced, internal audit is in a position to provide management with assurance regarding the effectiveness of the system of internal control, risk management and governance processes.
- 4.3.4. 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
- 4.3.5. The IAA shall exercise due care and diligence in fulfilling its responsibilities.
- 4.3.6. 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 and thereafter King IV was released in 2016).

5. AUTHORITY OF THE INTERNAL AUDIT ACTIVITY

- 5.1 As prescribed by the MFMA section 166, the COU IAA is directly accountable, functionally, to the Audit Committee and reports administratively to the Accounting Officer.
- 5.2 The COU IAA is authorised to:
 - 5.2.1. Carry out a programme of internal audits, as deemed necessary, to meet the scope and responsibilities of the function with a clear distinction between assurance and consulting engagements;
 - 5.2.2. Have full and unrestricted access to all the City of uMhlathuze Municipality's documents, records, assets, properties, plants, computers and personnel information;
 - 5.2.3. Allocate resources, set frequencies, select records or data and apply the techniques required to accomplish audit objectives;
 - 5.2.4. Have discussions with executives, line managers and employees of the Municipality at any reasonable time; and
 - 5.2.5. Require any Official 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.
- 5.3 All employees are required to assist the COU IAA in effectively fulfilling its mandate, roles and responsibilities. The COU IAA also have free and unrestricted access to the Mayor.
- 5.4 Any 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. THE POSITION OF THE COU IAA WITHIN THE ORGANISATION

6.1. Organisational Structure and reporting protocol

- 6.1.1. The organisational structure of COU IAA promotes the independence of the function as a whole and allows internal audit to form its judgments objectively.
- 6.1.2. COU IAA has free and unrestricted access to management, employees, activities, physical locations and to all information considered necessary for the proper execution of internal audit work,
- 6.1.3. COU IAA consists of insourced staff and outsourced service providers. The insourced staff complement consists of the Chief Audit Executive, Chief Internal Auditor: Compliance and Performance and Chief Internal Auditor: Information Systems and Internal Controls;
- 6.1.4. The CAE is ultimately responsible for the work performed by all IAA staff throughout the Municipality. In addition, to add maximum value to the municipality, COU IAA also provides internal audit consulting services. There are various safeguards implemented to ensure that COU IAA maintains its independence during the execution of consulting activities. Consulting activities endeavour to improve management processes, risks and ensure achievement of objectives and goals;
- 6.1.5. In order to promote the effective operation of this organisational structure, COU IAA is supported by an appropriate reporting protocol. This protocol holds that all reports in terms of factual findings and proposed action are agreed with management before they are submitted to higher management levels. The only possible exception is where management fraud is suspected;
- 6.1.6. The CAE is responsible for the overall direction, review and supervision of the audit staff throughout the Municipality. For recruitment into the function, this includes, but is not limited to the establishment of the scope of activities to be carried out, the tools and methodologies to be followed, procedures and standards, required skills, educational levels, experience etc.;
- 6.1.7. The CAE has a standing invitation to attend all management meetings and those of the Council or other Committees made up of a majority of senior executives, but shall not be a member of these committees in order to protect his/her independence.

6.2. Limitation of Scope

- 6.2.1. Any attempted scope limitation by management must be reported, preferably in writing, to the Accounting Officer and to the Audit Committee. The question of whether an action from management in fact constitutes a scope limitation is at the judgment of the CAE;
- 6.2.2. Limitation of scope for COU IAA, in any shape or form, shall not be permitted. Where scope limitation is detected, the CAE shall report it to the Audit Committee. In such instances, the CAE evaluates from time to time whether the circumstances surrounding the scope limitation are still valid and whether the scope limitation needs to be reported again to the Accounting Officer and the Audit Committee for their renewed consideration.

7. INDEPENDENCE AND OBJECTIVITY

- 7.1. The COU IAA will remain professional in their approach and well qualified to be able to add value to the Council's operations;
- 7.2. The COU IAA shall be objective and exercise due professional care in its approach, keeping the best interests of the Council at all times;
- 7.3. Independence is essential to internal auditing. COU IAA is positioned as an independent section to enable it to have a separate identity, with its own budget and staff structures (organogram);
- 7.4. COU IAA administratively function as a separate Unit from all departments; The Internal Audit function needs to be independent of the activities it is auditing/reviewing and has no direct responsibility or authority over the activities it is to audit/review;

- 7.5. The Internal Audit function shall be free from undue influence, which either restricts or modifies the scope or conduct of its work or over-rules or significantly affects its judgment as to the content of any internal audit reports; The CAE must issue reports independently, without third party editing, to all appropriate officials of the municipality, CoGTA, National Treasury and / or the Auditor General;
- 7.6. Reports issued to parties other than those mentioned above are authorised by the Accounting Officer or the Chairperson of the Audit Committee;
- 7.7. Without adversely affecting its objectivity, the internal audit function may make recommendations regarding weaknesses identified;
- 7.8. The Internal Audit function acts as an advisory body and each internal auditor shall portray an objective attitude and shall be in a sufficiently independent position to be able to exercise judgment, and present recommendations with impartiality.
- 7.9. The CAE will confirm to the Audit Committee and thereafter Council, at least annually, the independence of the internal audit unit. Any material threats to independence and incidents of impaired objectivity shall be immediately reported to the Audit Committee and the Accounting Officer.

8. ROLES AND RESPONSIBILITIES

8.1. Internal Audit Responsibilities

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

- 8.1.1. Develop and implement an internal audit methodology and related delivery tools 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;
- 8.1.2. 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;
- 8.1.3. Implement and execute approved strategy and execute the internal audit plan, including any special tasks or projects requested by management and the Audit Committee;
- 8.1.4. Ensure that the audit plan is executed by professional internal audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this charter,
- 8.1.5. Issue periodic and / or quarterly reports to the Audit Committee and management summarizing results and outcomes of the audit activities, status of the annual audit plan, dashboard of emerging trends in relation to governance, risk management and internal controls, resource/scope limitations, results of special assignments and internal audit performance scorecard;
- 8.1.6. Keep the Audit Committee informed of emerging trends and leading practices in internal auditing; and
- 8.1.7. Work with other assurance providers as defined in the municipality's Combined Assurance Framework approved by the Audit Committee.
- 8.1.8. In order to demonstrate that due care has been exercised, the IAA performs its work in a way that is consistent with the Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors;
- 8.1.9. Possess 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.
- 8.1.10. Consistent adherence to the standards and statements issued by the Global Institute of Internal Auditors.

- 8.1.11. 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.
- 8.1.12. The CAE promotes and maintains adequate quality standards in the IAA. He/she establishes methods of evaluating the work of his staff to ensure that the function fulfils its responsibilities and has proper regard to this statement.
- 8.1.13. 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.
- 8.1.14. 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:
 - 8.1.14.1 Are not included in the annual audit plan approved by the Audit Committee;
 - 8.1.14.2 The activities may significantly affect the delivery of the approved internal audit annual plan;
 - 8.1.14.3 CAE shall in consultation with the Audit Committee, consider the impact of independence and objectivity on the IAA before acceptance of the consulting activities;
 - 8.1.14.4 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
 - 8.1.14.5 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.

8.2. Internal Audit Activity Roles

- 8.2.1. The activities performed by the IAA shall be detailed in the annual operational internal audit plan. The activities include, but are not limited to:
 - 8.2.1.1. Considering the scope of work of the external auditors and other assurance providers, for the purpose of providing optimal audit coverage to the municipality;
 - 8.2.1.2. Performing an assessment of the adequacy and effectiveness of the risk management processes; and
 - 8.2.1.3. Analysing and evaluating business processes and associated controls.
- 8.2.2. Promoting the sustenance of an effective internal audit function;
- 8.2.3. 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;
- 8.2.4. Assisting management with the enhancement of the overall governance, risk and internal control environments;
- 8.2.5. 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.
- 8.2.6. The IAA shall have a standing invitation to the EMCO structure participation, albeit at an observer status.
- 8.2.7. Where there are requests by Management and/or the Council for the CAE's involvement in roles and responsibilities that lie beyond internal audit assurance and consulting services, the CAE may accept the request provided sufficient and adequate safeguards are introduced to mitigate, to an acceptable level, any potential impairments to objectivity and COU Internal Audit's independence.

8.3. Internal Audit Role On Fraud and Corruption

8.3.1. The identification and prevention of fraud is a management responsibility, Enterprise Risk Management (ERM) will assist Management in identifying the key fraud risks facing the COU. IAA will review the adequacy and effectiveness of processes designed to prevent or detect then correct such fraud risks. The COU Internal Audit may also assist Management in designing appropriate controls (through consulting engagements) to minimise the effects of fraud risk. As such, the COU Internal Audit will consider fraud risk on all projects undertaken. Whilst it remains the primary responsibility of Management to prevent, detect and manage the risk of fraud and corruption, the IAA shall focus its activities on assisting the Municipality with the prevention and early detection of fraud, corruption and irregularities by doing the following:

- 8.3.1.1. Exercising due professional care in performing its activities;
- 8.3.1.2. Considering all possibilities of material irregularities or non-compliance when conducting its activities;
- 8.3.1.3. Reporting any possible or alleged instances of fraud/corruption to the CAE who shall in turn report to the Audit Committee immediately and alert the Accounting Officer or Risk Manager and make recommendations for Forensic Investigations/Audit;
- 8.3.1.4. Continuously assessing fraud risk in all its activities;
- 8.3.1.5. Having sufficient knowledge of fraud risk to be able to identify indicators that fraud might have been committed; and
- 8.3.1.6. Being responsive to provide guidance and support to management who will be responsible to undertake investigations either internally or to outsource such depending on the complexity of the matters and also where a forensic investigation is deemed necessary.

8.3.2. 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.

8.4. Audit Committee`s responsibilities in relation to Internal Audit

8.4.1. The Audit Committee, in line with internal audit framework prescribed by The National Treasury, has the following responsibilities to the internal audit:

- 8.4.1.1. Act as a forum for communication between management, internal and external audit;
- 8.4.1.2. Review and amend the IA strategic and operational plans; ensure that these plans are based on the organisation`s risk assessment and approve them;
- 8.4.1.3. Advise the AO on the adequacy of IA resources needed to carry out auditing responsibilities, including the completion of the approved IA Plan;
- 8.4.1.4. Oversee coordination of audit programmes conducted by internal and external audit;
- 8.4.1.5. Review all high risk audit reports and provide advice to the AO on significant issues identified in the audit report and action taken on issues raised;

8.5. Management`s responsibilities

- 8.5.1. 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 Council retains full responsibility for ensuring that the City of uMhlathuze designs, implements 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.
- 8.5.2. 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.

8.5.3. Assist in achieving the objectives of COU by evaluating processes through which:

8.5.3.1. objectives and values are established and communicated;

8.5.3.2. the accomplishment of objectives is monitored;

8.5.3.3. accountability is ensured; and

8.5.3.4. corporate values are preserved.

8.5.4. It remains the primary responsibility of management to prevent, detect and manage the risk of fraud and corruption;

8.5.5. Management shall, through effective implementation of the Management Control Policy, create an environment that is conducive for efficient and effective performance of internal audit activities within COU. This shall include:

8.5.5.1. Providing support to the COU Internal Audit team at all times;

8.5.5.2. Responding to COU Internal Audit's requests on time;

8.5.5.3. Engaging positively with the COU Internal Audit team, even in cases where there is a difference of opinion in internal audit outcome;

8.5.5.4. Addressing all findings raised by the COU Internal Audit team within agreed timeframes; and Effecting consequence management to employees and officials who disregard the COU Internal Audit and its work.

8.5.5.5. IAA assists Management to design the Management Control and Risk Acceptance policies. Ownership of these policies rests with Management.

8.5.6. Other management responsibilities include:

8.5.6.1 Establishing the service delivery plan (Integrated Development Plan – IDP) and an entity-wide risk profile;

8.5.6.2 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

8.5.6.3 Providing the IAA with all relevant information for the proper performance of their duties.

9. SCOPE OF THE INTERNAL AUDIT

9.1. Assurance Services

9.1.1 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.

9.1.2 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.

9.1.3 The scope of the IAA will amongst others, include:

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

9.1.3.2 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;

- 9.1.3.3 Assessing the adequacy of controls so as to safeguard assets, including intangible assets;
 - 9.1.3.4 Reviewing established systems of internal control, including the information systems environment, to ascertain whether they are designed and functioning as intended;
 - 9.1.3.5 Reviewing the adequacy and effectiveness of risk management and governance processes;
 - 9.1.3.6 Reviewing and appraising the economy, effectiveness and efficiency with which municipal resources are employed;
 - 9.1.3.7 Reviewing the systems and processes that support the ethics and values of the organisation;
 - 9.1.3.8 Reviewing the effectiveness and efficiency of operations;
 - 9.1.3.9 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;
 - 9.1.3.10 Reviewing processes for managing, monitoring and reporting of the municipality's performance against the approved service delivery strategy; and
 - 9.1.3.11 Monitoring the progress made by management in addressing the shortcomings related to governance, risk management, controls or performance gaps in delivering on their strategy.
- 9.1.4 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:
- 9.1.4.1 Facilitating fraud risk assessments;
 - 9.1.4.2 Assessing the adequacy and effectiveness of management's plans for Fraud risk/detection reviews;
 - 9.1.4.3 Reporting on the results of the fraud risk reviews; and
 - 9.1.4.4 Making recommendations to management on improving the organisation's response to fraud, corruption and other irregularities.

9.2. Consulting Services (Non-Assurance Services)

- 9.2.1 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, and facilitation of risk assessment, fraud awareness activities and training on related subject matters.
- 9.2.2 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.
- 9.2.3 The IAA avoids 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 the internal audit.
- 9.2.4 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.
- 9.2.5 Safeguards for Potential Impairment to Objectivity-the CAE institutes the following safeguards:
 - 9.2.5.1 Level 1 Safeguard

A different team to the one involved in providing this class of consulting solutions shall perform assurance on the affected activities, processes, systems or programmes

9.2.5.2 Level 2 Safeguard

Internal audit professionals who were part of the team that was involved in the provision of end to end Internal Audit Solutions shall perform assurance under the leadership (i.e. engagement director and engagement

manager) that was not part of the consulting engagement team for the affected activity, process, system or programme. Further, team members who participated in the provision of the end to end Internal Audit Solutions should only constitute $\frac{1}{3}$ of the assurance engagement delivery team (i.e. $\frac{1}{3}$ of engagement delivery team, excluding engagement leadership). A period of 24 months should first lapse before internal audit team members who provided E2E IA Solutions can be included as part of the assurance engagement delivery team for the affected activity, process, system or programme.

9.2.5.3 Level 3 Safeguard

All or most internal audit professionals who were part of the team that was involved in the provision of consulting engagement for the affected activity, process, system or programme to perform assurance engagements. In this case, a period of 36 months would first lapse prior to performance of an assurance engagement by the team.

9.3. Other Ad-hoc Services

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

10. COMBINED ASSURANCE FRAMEWORK

- 10.1 In terms of the ISPPIA the IAA co-ordinates 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 is access to each other's assurance plans and programmes, as well as assurance reports.
- 10.2 The CAE develops and submits, for the review and approval of the Audit Committee, an entity-wide combined assurance framework as defined in the King IV Report on Corporate Governance;
- 10.3 The Audit Committee oversees the implementation and embedment of the combined assurance framework, with an entity-wide perspective; and
- 10.4 The IAA plays a secretariat role in the process of facilitating the implementation and embedment of the combined assurance framework.
- 10.5 It is the responsibility of the Audit Committee to assess the output of the COU's combined assurance with objectivity and professional scepticism, and by applying an enquiring mind, form their own opinion on the integrity of information and reports, and the degree to which an effective control environment has been achieved.

11. RELATIONSHIP WITH EXTERNAL AUDITORS

- 11.1 There are ongoing engagements between the external auditors and COU IAA for the purposes of combined assurance. Also, all COU IAA reports are shared with external auditors; and
- 11.2 All CoU internal audit activity reports shall be shared with external auditors. The external auditors shall have a standing invite to audit committee meetings

12. STAKEHOLDER MANAGEMENT

- 12.1 The IAA seeks 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 shall not compromise or be seen to compromise the internal auditors' independence and objectivity.
- 12.2 The CAE prepares a comprehensive Stakeholder Management Plan (SMP) wherein, all key stakeholders within the Internal Audit value chain are identified and a customised action plan is developed and implemented 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.

13. QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

- 13.1 The IAA maintains a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit activity. The programme includes 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.
- 13.2 The CAE communicates 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.
- 13.3 Periodic internal and external reviews will be conducted in accordance with Standard 1300 of the SPPIA.
- 13.4 Ongoing quality assurance will be achieved through the supervision and reviewing of audit files and reports.
- 13.5 Where opportunities for improvement are identified, improvement programmes will be developed and implemented.
- 13.6 The following Quality Control measures shall be conducted to accomplish adherence to the Quality Assurance philosophy, a quality control measure:

Quality Assurance and Improvement Programme Checklist - DMS 1429940

14. ANNUAL ASSESSMENT OF INTERNAL AUDIT EFFECTIVENESS

- 14.1 The Audit Committee annually assesses the effectiveness of the internal audit function. Against predetermined performance criteria including but not limited to:
 - 14.1.1 Achievement of the annual internal audit plan;
 - 14.1.2 Compliance with the IIA's professional standards of quality;
 - 14.1.3 Achievement of reporting protocols from management to the Audit Committee;
 - 14.1.4 Timeliness of reporting of findings and activities;
 - 14.1.5 Management's acceptance of audit findings;
 - 14.1.6 Quality and relevance of the annual assessment reports;
 - 14.1.7 Level of cooperation and interaction with other assurance providers within the combined assurance approach;
 - 14.1.8 Maintenance of adequate staffing/sourcing levels to achieve the objectives of the internal audit function;and
- 14.1.9 Meeting the budget allocated to internal audit.

*The assessment checklist developed for appraisal of internal audit activity is available on- **DMS1424888**.*

14.2 Internal Assessments

- 14.2.1 The CAE must ensure that internal assessments, accompanied with external validation are performed.
- 14.2.2 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.
- 14.2.3 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.

14.3 External Assessments

- 14.3.1 The IAA is subjected to an external assessment at least once every five years, the results of which are communicated to the Audit Committee and other relevant governance structures within the Municipality.
- 14.3.2 An external assessment must be conducted by a qualified independent reviewer or review team from outside the organisation.
- 14.3.3 The scope of the external assessment will, amongst others, cover matters as prescribed by the standards promulgated by the Global IIA from time to time.
- 14.3.4 The CAE and Accounting Officer develops and implement an improvement action plan in response to remedying the non-conformances identified by the independent quality reviewer.
- 14.3.5 The improvement plan must be tracked and monitored by the Audit Committee on a continuous basis.

15. ANNUAL REVIEW, UPDATE AND APPROVAL OF THE INTERNAL AUDIT CHARTER

- 15.1 This Internal Audit Charter will be reviewed on an annual basis and updated if required.
- 15.2 The Internal Audit Charter is approved by both Audit Committee and Council through a resolution of Council.
- 15.3 Should the Audit Committee deem it fit to review and update this Charter at any time, the CAE shall facilitate such actions.