

# ! Kheis

Munisipaliteit  
Municipality

2015-2016

INTERNAL AUDIT

CHARTER

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## **1. PREAMBLE**

1.1. The internal audit charter sets out the terms of reference for the Internal Audit Unit - !Kheis Municipality. The Internal Audit Charter further sets out the purpose, authority and responsibility of the internal audit unit. It is a document that embodies the spirit of a binding contract between the Audit Committee, Senior Management, and the Internal Audit function. It covers certain fundamental aspects of the internal audit function within the Municipality.

1.2. An Internal Audit Unit has been established within !Kheis Municipality. A new Internal Audit Clerk, Risk Management Clerk and Internal Audit intern was appointed, with the intention to be fully flagged within the next two years.

1.3. A dedicated team within the Audit unit has been assembled to perform internal audit function and therefor provide assurance on the effectiveness of internal control, risk management and corporate governance, as well as perform periodic consulting services, too !Kheis Municipality.

1.4. The Municipality fully supports the broader strategy of Government to improve risk management control and governance processes. The Policy is also in line with key transformation priorities of Batho Pele, which are, Among other things:

- Economic, efficient and effective use of resources;
- Maintenance of a high standard of professional service ethos and
- Transparency and accountability

## **2. MISSION STATEMENT**

The mission of the Internal Audit Unit within !Kheis Municipality is to be an independent, objective assurance and consulting activity designed to add value and improve the operations of Municipality.

It aids the Municipality to accomplish its objectives by bringing a systematic and disciplined approach in evaluating and improving the effectiveness of risk management, control and governance processes.

## **3. VISION STATEMENT**

The Internal Audit Unit within !Kheis Municipality will strive to become a sound and sustainable management of the fiscal and financial affairs of the Municipality by ensuring norms and standards are complied with.

The Internal Audit Unit will pursue to create a culture of transparency, accountability and appropriate lines of responsibility in the fiscal and financial affairs of !Kheis Municipality.

#### **4. LEGISLATIVE FRAMEWORK WITH INTERNAL AUDIT**

The establishment of the Internal Audit Unit within Ikheis Municipality is prescript by the following:

##### **MUNICIPAL FINANCE MANAGEMENT ACT**

**Section "165.** (1) Each municipality and each municipality entity must have an internal unit, subject to subsection (3)

- (2) The internal audit unit of a municipality or municipal entity must
- (a) prepare a risk-based audit plan an internal audit program for each financial year
  - (b) advise the accounting officer and report to the audit committee on the implementation of the internal audit plan and matters relating to the-
    - (i) internal audit;
    - (ii) internal controls;
    - (iii) accounting procedures and practices;
    - (iv) risk and risk management;
    - (v) performance management;
    - (vi) loss control; and
    - (vii) compliance with this act, the annual 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 municipal entity require assistance to develop its internal capacity and the council of the municipality or the board of directors of the entity has determined that this is feasible or cost-effective.

#### **5. OBJECTIVITY**

Objectivity is essential to auditing. Thus, the Internal Audit Unit should not normally develop or install accounting procedures or controls, prepare records or engage in activities that its personnel would normally review and appraise and that could reasonably be construed compromises its independence. Objectivity need to be adversely affected by the determination and the recommendation of standards and techniques of control to be applied in developing systems and procedures under its review or by lending its technical assistance to management in systematic analyses. of operations or activities. Internal Audit is being conducted with a view to independently examining and evaluating the adequacy and effectiveness of the internal control systems to ensure it's done accordingly.

## **6. INDEPENDENCE**

In order to ensure adequate independence and objectivity in all of its activities, Internal Audit reports administratively to the Municipal Manager and functionally to the Audit Committee or Council.

### **6.1. Administratively to the Municipal Manager involves:**

- Approval of leave and other administrative matters for the Chief Audit Executive.
- Attending to all operational issues reported, along with line functions.
- Attending to human resources and financial budgets of the Internal Audit Unit in accordance with the recommendations of the Audit Committee.
- Attending to all related administrative issues affecting the Internal Audit Unit

### **6.2. Functionally to the Audit Committee Involves:**

- Approve all decisions regarding the appointment or removal of the Chief Audit Executive, in accordance with the relevant Human Resources Policies and Procedures of !Kheis Municipality.
- Approve the overall charter of the Internal Audit Unit.
- Approve the Internal Audit risk assessment and related audit plans.
- Receive communication from the Chief Audit Executive on the results of the Internal Audit activities or other matters that he/she determines necessary, including private meetings with the Chief Audit Executive without management's presence.
- Make appropriate inquiries of management and the Chief Audit Executive to determine whether there is scope or budgetary limitations that impede the ability of the Internal Audit Unit to execute its responsibilities.

The Chief Audit Executive may meet privately, as the need arises, with the Audit Committee without management present, to reinforce the independence and nature of this reporting relationship

The Chief Audit Executive should have, at all times open and direct access to the Chairperson of the Audit Committee and its members, or the Mayor of Council or the full Council where appropriate.

This reporting relationship enhances the status and independence of the Internal auditing function and its ability to contribute to corporate success. The oversight role of the Audit Committee also ensures a broad range of audit coverage and adequate consideration of its findings and recommendations.

## **7. AUTHORITY AND RESPONSIBILITY**

### **Authority**

1. Through this Charter, the Council authorizes the Internal Audit Unit to:
  - have unrestricted access to all the Municipality's activities, records, personnel and property including intellectual and electronic properties required in the performance of audit assignments
  - have full and free access to the Audit Committee
  - allocate resources, set frequencies, select subject, determine scope of work, and apply the techniques required to accomplish audit objectives, subject to the overall approval and/or guidance of the Audit Committee
  - obtain the necessary assistance of personnel in units of the municipality where they perform audits, as well as other specialized services from within or outside the Municipality
2. The Chief Audit Executive and staff of Internal Audit Unit are not authorized to:
  - perform any operational duties for municipality or its affiliates
  - initiate or approve accounting transactions external to the Internal Audit Unit
  - direct the activities of any of the municipality's employees not employed by the Internal Audit Unit, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors
3. The Council also prohibits all staff of the Municipality from providing the internal auditors with any form of misleading statements or false representation.
4. The services performed by the internal auditors are staff and advisory functions only, and in no way relieve line department personnel of operating responsibilities assigned to them.
5. The Internal Audit Unit is responsible for conducting the internal audit activity in such a way that it encompasses the evaluation of risk management, control and governance systems and they should contribute to the improvement thereof.

### **7.1 RESPONSIBILITIES OF AUDITEE MANAGEMENT**

The Auditee's management responsibilities include, but are not limited to:

- continuous utilization of Internal Audit services to assist in the effective discharge of their duties
- active participation in the development of audit scope for every assignment
- provision of all pertinent documents in whatever format required for audit examination

- Utmost cooperation with, and assistance to, the internal auditors during internal audit engagement which include, but not limited to provision of suitable work area, clerical assistance, availability for meetings, documentation etc.
- responding timely to audit findings and recommendations
- timely implementation of agreed audit recommendations

## **7.2 RESPONSIBILITIES OF INTERNAL AUDIT MANAGEMENT**

- The Internal Audit activity needs to be professional in their approach and well qualified to enable it to add value to the council's operations.
- The Internal Audit activity needs to be independent from the activities it is auditing and should assert no direct responsibility or authority over the activities reviewed.
- The Chief Audit Executive may issue reports in his own name, without third party editing, to all appropriate officials, Audit Committee, standing committees of the municipality as well as the Auditor General.
- The Internal Audit activity should be objective and exercise due professional care in its approach, keeping the best interests of the council in mind at all times.
- Without adversely affecting its objective, the Internal Audit activity may make recommendations or set out its expectations regarding weaknesses identified.
- The Internal Audit activity should act as an advisory body and avoid trying to develop, install and maintain systems and controls or engage in other activities that could be construed as compromising its independence and integrity.
- The staff of the Internal Auditing Unit should maintain a high standard of skills, by attending trainings and workshops.

## **8. SCOPE AND ROLE OF INTERNAL AUDIT**

The unrestricted scope of Internal Auditing, as issued by the Institute of Internal Auditors encompasses providing assurance and consulting services on the Municipalities total internal control, governance and risk management landscape.

Assurance entails reviewing and reporting on the:

- adequacy effectiveness and economy of the systems of financial, operational and managerial control, including the reliability, accuracy and timeliness of management information, adequacy, effectiveness and

economy of the systems around procurement, utilisation, protection and disposal of resources;

- extent of compliance with, relevance of, and financial effect of, established internal policies, standards, plans and procedures and the extent of compliance with external laws and regulations;
- extent of which assets, revenue, income and interest of the municipality are accounted for and safeguarded against fraud, corruption, losses of all kinds wastage, inefficient administration and other causes;
- alignment of processes and systems with the Municipalities strategic objectives and goals;
- effectiveness of the risk management strategy of the Municipalities;
- effectiveness of the Municipalities fraud response plans and;
- operational procedures and monitoring mechanisms over all transfers made and received, including transfers in terms of the annual Division of Revenue Act

Opportunities for improving management control, service delivery, and the municipality's image may be identified during and communicated to the appropriate level of management.

The Audit Committee will carry out amongst others the following responsibilities:

### **8.1 Financial Auditing**

- Review the procurement systems and contracts (compliance, irregularities, audit concerns, etc) to provide audit assurance;
- Reviewing the municipality's formal procurement policies to ensure that it has taken account black economic empowerment;
- Examination and evaluation of the municipality wide income systems and relating business units;
- Providing assurance that the municipality compliance with appropriate legislation relevant to Human Resources and payroll administration to insure completeness, accuracy and disclosure;
- Identify key risk areas within the municipality's expenditure in terms of completeness, validity, accuracy, authorization, disclosure and to address areas of deficiency;
- Reviewing the reliability and integrity of financial and operating information and the means used to identify measure, classify and the report such information.

### **8.2 Information System Auditing**

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



- Examination and evaluation of information system projects in terms of defined objectives and given terms of reference;
- Ensure the technical reviews of business information systems i.e. networks, database, CAATs, etc.

### **8.3 Forensic Auditing**

- Assist in the investigation of significant suspected fraudulent activities within the municipality, and notify management and the audit committee of the results;
- Review the effectiveness of development and implementation of adequate/appropriate preventative strategies to combat fraud, economic crime, corruption, mal-administration, etc.
- Investigating and reporting of alleged/reported fraudulent activities. For maximum of R100 000 to relevant authorities, with remedial action. Alleged/reported fraud for an amount above R100 000 should be outsourced. Municipality's current procurement policy to be used in that case

### **8.4 Risk Assessment**

- Facilitate/review assessment of organizational risk; and
- Combat/limit loss within the municipality recommending appropriate preventative and detective measures.

### **8.5. Environment Auditing**

- Compliance to legislation and municipal bylaws;

### **8.6. Performance Auditing**

- Review the municipality's measurements goals and results;
- Facilitation of self-assessment reviews of controls, with affected business units;
- Examination and evaluation of the municipality's business systems;
- Review of the municipality's Performance Management Systems;
- Submission of quarterly reports on the Performance Management System of the Municipality to the Audit Committee;
- Review of the monitoring system to ensure that the municipality is achieving the performance targets set.

## **8.7. Quality Assurance and Governance Auditing**

### **8.7.1 Governance**

- Ensure that the Internal Audit function operates in terms of directives of the municipality, policies, procedures, IIA standards and related professional associations;
- Coordination of the Audit Committee and related committee activities;
- Compliance reviewing of statutory, common law and other requirements that cover the ethical behaviour of Managers and officers of the municipality;
- Review communication, awareness and compliance of the Municipality's Code of Conduct;
- Monitoring and reporting of irregularities regarding Councillors and Officials, i.e. declaration of the nature and extent of their interests in contracts, gift received, etc;
- Informing the necessary authorities (e.g. audit committee) of the advancement made by Municipality on ethical standards;
- Identification on reporting of ethical conduct violations.

## **8.8 Internal Audit Reports**

### **8.8.1 Format**

The internal audit report should at least address the following:

- Introduction
- Scope of the work
- Findings
- Recommendations
- Management response
- Internal Auditor Response

### **8.8.2 Timing**

An informal query report must be given to the line manager of the unit being audited with 7 days after completion of the audit field work. Management will have 5 days to prepare their comments on the findings and recommendations contained in the report and provide same to the responsible internal auditor. An audit report which includes managements' responses and auditors' response will be issued to Management within 3 days after managements' response have been received. At the end of the audit year an overall report which contains all findings and recommendations during the year will be prepare for attention audit committee and accounting officer.

Where, a critical aspect is identified during the audit, this matter should be discussed immediately with the relevant member of operational management and follow-up in writing. If considered necessary, the matter should be brought to the attention of the Municipal Manager or the Chairman of the Audit Committee.

### 8.8.3 DISTRIBUTION OF REPORTS

Detailed final reports should be distributed to the Municipal Manager and be available for inspection by the external auditors.

Regular meetings (quarterly) should be held with the Municipal Manager and senior manager where feedback on audit reports and findings can be discussed.

A summary of the audits done, most significant or material findings and the comments to these should be submitted to the Audit Committee in their quarterly meetings. The full audit report should be available for insight by any member of the Audit Committee.

### 9. RESPONSIBILITY FOR CORRECTIVE ACTIONS AND HANDLING OF DIFFERENCES OF OPINION WITH MANAGEMENT

Should a significant disagreement arise between Internal Audit and the relevant operational management regarding a specific finding or recommendation, the Municipal Manager should convene a meeting of the interested parties in order to resolve the matter.

The responsibility for corrective action lies with the relevant operational management. Where internal auditors are of the opinion that operational management is not taking appropriate action with regards to previous recommendations, these should be reported to the audit committee without delay. The Audit Committee should consider the most appropriate steps or actions to be instituted in this regard.

### 10. AUDIT COMMITTEE

The Audit Committee of !Kheis Municipality has been established by the Council. The trust of the Committee will be to help the Council and the Management in the discharge of their duty of financial reporting and corporate governance.

A full content of the constitution binding the Audit Committee is contained in a separate document.

### 11. MANAGEMENT OF INTERNAL AUDIT FUNCTION

The Chief Audit Executive is responsible for properly managing the unit so that:

- Internal Audit as a consulting function assists management in its task of achieving institutional strategic goals.
- Resources of the unit of internal audit are efficiently and effectively employed.
- Audit work conforms to the **Standards for the Professional practice of Internal Auditing**, published by the institute of Internal Auditors.

- Auditors **comply** with the institute of internal Auditors “**Code of Ethics**” and the “**Statement of Responsibilities**”
- The unit compile with **COSO control framework** as the risk management framework.
- The corporate governance principles as envisaged in the **King Report on Corporate Governance in South Africa** are also complied with.

The Chief Audit Executive will establish plans to carry out responsibilities of the unit. The planning process involves performing and/or establishing:

- Goals, objectives and mission statements.
- Risk Assessments in consultation with management.
- Annual audit work schedules.
- Staffing plans and financial budgets
- Activity reports.

The Chief Audit Executive will also:

- Provide written policies and procedures to guide the audit staff.
- Established a program for selecting and developing the human resources of the Internal Audit Unit.
- Co-ordinate internal and external audit efforts as required by **Standard 2050**. This is to ensure proper audit coverage and minimize duplication of efforts. This co-ordination of efforts involves:
  - Periodic meetings to discuss matters of mutual interest.
  - Exchange of audit reports and management letters
  - Common understanding of audit techniques methods and terminology.
- Established and maintain a quality assurance program to evaluate the operations of the internal audit unit.
- Provide staff assistance to the audit committee of council.

## **12. GENERAL**

The Internal Audit Unit of the municipality has been assigned the following responsibilities:

- Develop a flexible three-year strategic audit plan and flexible annual audit plan using an appropriate risk-based methodology, including any risk or control concerns identified by management, and submit that plan to the audit committee for review and approval as well as periodic updates;
- Implement the annual audit plan, as approval, including as any appropriate special tasks or projects requested by management and the audit committee;

- Maintain a professional audit staff with sufficient knowledge, skills, experience and professional certifications to meet the requirements of this charter;
- Reviewing the systems established to ensure compliance with those policies, plans, procedures, laws regulations and contracts that could have significant impact on operations and reports and determining whether the municipality is in compliance;
- Reviewing the means of the safeguarding of assets and, as appropriate, verifying the existence of such assets;
- Appraising the economy, efficiency and effectiveness 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;
- Observing risk areas to reduce or eliminate losses that could occur in the future;
- Advising and assisting management in rectifying material weaknesses in the system of internal control on consultancy basis so as to avoid re-occurrence;
- Keep the audit committee informed of emerging trends and successful practices in internal auditing;
- Reporting to the office of the Municipal Manager and senior management on its findings and
- Following-up on findings and recommendations of previous audits that have not received the appropriate action.
- In areas where, specialist audit skills are lacking within the internal audit unit, the services of the external auditors or other outside consultants may be employed within the bounds of the delegation of authorities.

### **13. ADDENDUMS**

The following addendums are to be read in conjunction with this Charter:

“A” Standards and Statement for the professional practice of internal auditing as prescribed by the institute of Internal Auditors (IIA)

“B” IIA Code of Ethics.

- "C" IIA Statement of responsibilities.
- "D" The Municipal Finance Management Act
- "E" The King III report on corporate governance
- "F" COSO ERM framework, published 15 July 2003

**14. ANNUAL REVIEW**

This charter will be reviewed on an annual basis and submitted to the Audit and Risk Committee for approval.

**15. APPROVAL**

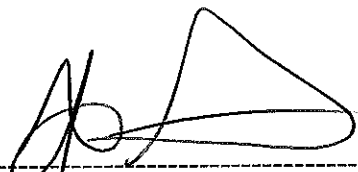


RECOMMENDED BY:

  
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 Internal Auditor

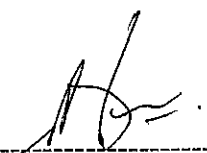
30 May 2016  
 Date:

SUPPORTED BY:

  
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 Municipal Manager

30 May 2016  
 Date:

APPROVED BY:

  
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 Approved by Municipal Council  
 of the Municipal Council)

30 May 2016  
 Date: