

ULUNDI LOCAL MUNICIPALITY.

INTERNAL AUDIT CHARTER
JUNE 2016

“ The City of Heritage ”



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1. Introduction

This charter provides guidance to the Internal Audit Unit of the ULundi Local Municipality regarding the key functions it needs to consider as part of its operations.

The Internal Audit Unit should have regard to the International Standards for the Professional Practice of Internal Audit and also to any requirements regarding internal audit set out in relevant statutes or regulations. Furthermore, the Internal Audit Unit should also have regard to the recommendations contained in the King Report on Corporate Governance for South Africa 2009 (King III).

2. Legislation Governing Internal Audit

The Internal Audit Function is governed in terms of section 165 of the Municipal Finance Management Act No. 56 of 2003 (as amended) (MFMA) and by the Municipal Systems Act, No. 32 of 2000 (MSA) which provides for the establishment of the Internal Audit Unit so as to regulate the function and to provide for matters incidental thereto.

3. Accountability of the Internal Audit Unit

The Internal Audit Unit is directly accountable functionally to the Audit Committee, as formed in terms of section 166 of the MFMA and administratively to the Accounting Officer.

4. Objectives and Scope of the Internal Audit Unit

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

5. Internal Responsibility with regard to Fraud and Corruption

As contemplated by section 165 of the MFMA, Act 56 of 2003 and also section 6 sub-section 2 (c), sections 40, 45 and 55 of Municipal Systems Act, Act No. 32 of 2000.

- Internal Audit Unit shall exercise due professional care in performing its activities.
- Internal Audit Unit shall consider all possibilities of material irregularities or non-compliance when conducting its activities.
- When an internal auditor or Municipal official suspects wrongdoing he or she shall report to the Manager: Internal Audit 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.
- In addition to understanding control systems, internal auditors should be aware of the kinds of fraud that could be perpetrated in the organisation.
- Deterrence of fraud is the responsibility of management; however, Internal Audit Unit is responsible for examination and evaluating the adequacy and effectiveness of actions taken by management to fulfil this obligation.

- Internal auditors should have sufficient knowledge of fraud risk to be able to identify indicators that fraud might have been committed.
- Internal Audit Unit is responsible for investigations.

6. Responsibility to the Accounting Officer.

Internal Audit Unit is responsible to the Accounting Officer to ensure that they give assurance as to the effectiveness and efficiency of the controls employed in Ulundi Municipality.

7. Powers and Duties of the Internal Audit Unit

The roles and responsibilities of the Internal Audit unit is set out in Section 165 of the Municipal Finance Management Act, Act No. 56 of 2003 as follows:-

The Internal Audit Unit must -

- (a) Prepare on an annual basis a risk-based audit plan and an internal audit programme 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:
 - (i) Internal audit
 - (ii) Internal controls
 - (iii) Accounting procedures and practices
 - (iv) Performance management
 - (v) Risk and risk management
 - (vi) Loss control
 - (vii) Compliance with MFMA, Division of Revenue Act (DORA) and any other applicable legislation.
 - (viii) Safeguarding of assets.
 - (ix) Appraisal of the economy and efficiency with which resources are employed.
- (c) Perform other such duties as may be assigned to it by the accounting officer.

In addition to the above requirements, the Internal Audit Unit will, subject to Audit Committee approval, undertake:

- (d) Follow-up on recommendations contained in the Internal and External Management and Audit reports to ensure that these are adequately implemented and effective corrective measures have been taken;
- (e) Report to the Audit Committee the results of all audits, investigations or other projects undertaken by the unit, and the status of its completed work assessed against the approved annual audit plan;
- (f) Review this Internal Audit Charter, which is to be approved by the Audit Committee annually;
- (g) The internal audit function may be outsourced if Ulundi Municipality requires assistance to develop its capacity and the Council has determined that this is

feasible and cost-effective;

- (h) The Internal Audit Unit shall have access to all Municipal records and any information in the custody and control of any person employed by the Council, which is necessary for the effective performance of its duties, which are to:
- (a) examine and evaluate the business processes and related control systems of Ulundi Municipality and assist management in assessing risks;
 - (b) investigate any matter -
 - (i) it deems necessary;
 - (ii) Referred to it in writing by the Council, the Accounting Officer, Senior Managers, members of Ulundi Local Municipality's EXCO, Council, community and staff, in terms of the procedures outlined in the Fraud Prevention Policy.
- (i) The Internal Audit Unit does not have any authority or responsibility for implementation of activities of Ulundi Municipality that it audits i.e.
- The unit will not perform any line function tasks;
 - The unit will not initiate or approve accounting transactions external to the internal auditing directorate;
 - The unit will not direct the activities of any department employee 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;
 - The unit will not directly participate in the design, development and implementation of new financial or other systems or policy within Ulundi Municipality other than in advisory and consulting capacity;

The Internal Audit Unit will, however, review the new systems or policy and comment or advice on the adequacy of the control measures and the efficiency of the said systems and policy before they are implemented to enhance pro-activeness.

- (j) Undertake quarterly audits of the Performance Management System in terms of sub regulation (1) (c) (ii) of the Municipal Planning and Performance Management Regulations (2001);
- (k) Assist the Accounting Officer respond to the Council on any issues raised by the Auditor-General in the audit report;

- (l) Risk Management - Internal audit is responsible for providing assurance to management and the audit committee on the adequacy and effectiveness of the risk management process. Risk management is a key responsibility of the accounting officer and management
- (m) Provide written assessments of the effectiveness of internal financial controls and internal controls and risk management to the Audit Committee and the Council.
- (n) Consulting Activities

Consulting services should focus on assisting management in problem solving activities, achieving Ulundi Municipality's objectives, and add value to line and senior management.

Consulting services should only be conducted after approval has been obtained from the Audit Committee and internal audit will be responsible for providing advice only.

Types of Consulting Engagements

Internal audit should obtain an understanding of the nature of the engagement to clearly articulate the terms of reference. Agreed upon procedures should be documented in the Audit Planning Memorandum (APM) and agreed upon with the department head concerned.

The types of consulting work include the following:

Formal consulting engagements – those that are planned and subject to written agreement (APM);

Informal consulting engagements – routine activities such as participation on standing committees, limited-life audit projects, ad-hoc meetings and routine information exchange;

Special consulting engagements – participation on dedicated teams such as system conversion team; and

Emergency consulting engagements – participation on a team established for recovery or maintenance of operations after a disaster or other extraordinary event, or a team assembled to supply temporary help to meet a special request or unusual deadline.

Objectives, scope and limitations of the consulting assignment should be confirmed in writing in an Audit Planning Memorandum (APM). The responsibilities of both management and internal audit should be defined and documented in the APM that should be signed by both parties.

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

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

Reports to management may either be oral by conducting a meeting session with line management or written updates can be provided to management. As agreed upon in the APM, internal audit should report results of the consulting activity.

Acceptance of Consulting Activities

The following guidelines are provided for assisting the internal audit activity in accepting consulting activities:

- Some consulting activities are specifically identified in the approved internal audit annual plan;
- Other consulting activities are initiated by managers communicating through the Accounting Officer.

The Internal Audit Unit should:

- request the audit committee's approval for consulting activities that significantly affect the approved internal audit's annual operational plan;
- consider the impact of independence and objectivity on the internal audit activity before acceptance of the consulting activities;
- consider whether the internal auditors have the requisite skills, knowledge, time and competencies to perform the proposed consulting activities; and
- consider the risks associated with the proposed consulting activities.

8. Fundamental Principles Governing the Internal Audit Unit

The Internal Audit Unit is guided by the principles as laid down in the following paragraphs. These principles are designed to ensure that the unit demonstrates a high degree of independence, objectivity, professionalism and skills as reasonably expected from a body of this stature.

The essentials for effective internal auditing are:

8.1 Independence:

The Internal Audit Unit has the independence in terms of organizational status and personal objectivity which permits the proper performance of its duties.

Independence is achieved through the organizational status of the Internal Audit Unit and the objectivity of internal auditors.

The Internal Audit Unit should determine its priorities in terms of Ulundi Municipality's strategic and operational risk profile, in consultation with management. Accordingly the Internal Audit Unit has direct access to, and freedom to report to all senior management including the audit committee and the Council.

Each internal auditor has an objective attitude of mind and should be in a sufficiently independent position to be able to exercise judgment, express opinions and present recommendations with impartiality:

- The Internal Audit Unit, notwithstanding its employment by the Council, should be free from any conflict of interest arising either from professional or personal relationships or other interests in the Council or activity which it subjects to audit.

- The Internal Audit Unit should be free from undue influences which either restrict or modify the scope or conduct of its work or over-rule or significantly affect judgment as to the content of the internal audit report.
- The Internal Audit Unit should not allow its objectivity to be impaired when auditing an activity for which it has authority or responsibility.
- The Internal Audit Unit should be consulted about significant proposed changes in the internal control system and the implementation of new systems and should make recommendations on the standards of control to be applied. This need not prejudice the Internal Audit Unit's objectivity in subsequently reviewing those systems.

Where any of the situations referred to above arise, this must be clearly declared by the Internal Audit Unit so that consideration can be given to the need for alternative arrangements for the audit assignment.

8.2 Staff and Training:

The Internal Audit Unit should be appropriately staffed in terms of numbers, grades, qualifications and experience, having regard to its responsibilities and objectives.

The effectiveness of the Internal Audit Unit depends substantially on the quality, training and experience of its staff. Staff should be appointed with the appropriate background, personal qualities and potential. Steps should be taken to provide the necessary experience, training and continuing professional education.

The Manager: Internal Audit Unit should participate in the recruitment and selection of his/her staff.

Any staff transferred into the internal audit function from other departments should not review any aspects of their previous department's work until a reasonable interval of time has passed.

The Manager: Internal Audit Unit has a responsibility to ensure that the internal audit staff receives the necessary training for the performance of the full range of duties, considering the following:

- internal audit objectives and priorities;
- the type of internal audit work;
- previous training, experience and qualifications; and

The internal auditor should keep abreast of current developments, improvements, new techniques and practices in auditing field.

The internal auditor should maintain technical competence through professional development which includes:

- private reading and study
- participation in professional activities such as attending meetings, courses and conferences
- membership of the Institute of Internal Auditors

The Manager: Internal Audit Unit should co-ordinate, and keep under review, the training requirements of internal auditors. He/she will be responsible for preparing

training profiles which identify the training requirements for different grades of internal auditors, and should maintain personal training records for each individual.

8.3 Relationships:

The Internal Audit Unit should seek to foster constructive working relationships and mutual understanding with management, the Audit Committee and the External auditors. This relationship should not compromise or be seen to be compromising the internal auditor's independence and objectivity.

8.3.1 Relationship with Management

The Manager: Internal Audit Unit should prepare the risk based internal audit plan in consultation with senior management. The internal auditor should arrange the timing of internal assignments in consultation with the head of the Internal Audit Unit and management, except on those rare occasions where an unannounced visit is a necessary part of the audit approach. Consultation can lead to the identification of areas of concern or of other interest to management.

Matters which may arise in the course of the audit are confidential and discussion is restricted to management directly responsible for the area being audited unless they give express agreement to broaden the discussion.

Discussion with management is necessary when preparing the audit report. This should be an essential feature of the good relationship between the auditor and management.

8.3.2 Relationship with the Audit Committee

The Internal Audit Unit should report and liaise with the Audit Committee on a regular basis on matters affecting and pertinent to the Internal Audit Unit. Direction and guidance should be sought from the Audit Committee on a regular basis.

Internal and external audit recommendations and action plans not implemented by management should be tabled at the Audit Committee meetings for direction and resolution.

The Audit Committee should annually assess the effectiveness of the internal audit function against criteria including:

- i. Achievement of the annual internal audit plan;
- ii. Compliance with the IIA professional standards of quality;
- iii. Achievement of reporting protocols to the Audit Committee;
- iv. Timeliness of reporting of findings and activities;
- v. Management's acceptance of audit findings;
- vi. Quality and relevance of the annual assessment reports;
- vii. Level of cooperation and interaction with other assurance providers within the combined assurance approach;
- viii. Maintenance of adequate staffing/sourcing levels to achieve the objectives of the internal audit function; and
- ix. Meeting the budget allocated to internal audit.

The internal audit unit is accountable to the audit committee as follows:

- Maintain open and effective communication with the audit committee;
- Develop a flexible annual audit plan using a risk based methodology, addressing any weaknesses in risks or controls identified;
- Submit the audit plan to the audit committee for review and approval;
- Report on the implementation and results of the annual audit plan including special tasks requested by management and the audit committee;
- Assist in drafting the agenda and documentation, and facilitate the distribution thereof to the audit committee in advance of meetings;
- Meet periodically with the chairperson of the audit committee to discuss whether the material and information furnished meets the requirements of the audit committee;
- Obtain advice from the audit committee whether the frequency and time allocated to the committee is sufficient to attend effectively to all matters;
- Cooperate with the audit committee as they conduct annual reviews of the performance of the internal audit function;
- Submit the internal audit charter to the audit committee for review and approval on an annual basis and as necessary.

8.3.3 Relationship with External Audit

The aim should be to achieve mutual recognition and respect, leading to joint improvement in performance and the avoidance of unnecessary duplication of effort. Consultations should be held and consideration given to whether any work of either auditor is adequate for the purpose of reliance.

Since the Internal Audit Unit evaluates the Council's internal control system, the external auditor needs to be satisfied that the Internal Audit Function is planned and executed effectively and efficiently in terms of the standards of the Institute of Internal Auditors.

The internal audit unit should attend the Audit Steering Committee meetings at which joint audit planning, priorities, scope and audit findings are discussed and information exchanged.

The internal audit unit must make an assessment of the adequacy of the combined approach adopted by Ulundi Municipality. This assessment includes the adequacy of the risks covered by the different assurance providers and the reliability of the assurance provided.

8.4 Confidentiality

Internal Auditors have an obligation to respect the confidentiality of information about Ulundi Municipality's affairs. The duty of confidentiality continues even after the completion of the assignment. This duty must be observed by the internal auditors unless specific authority has been given to disclose information or there is a legal or professional duty to disclose.

Confidentiality is not only a matter of disclosure of information. It also requires that internal auditors acquiring information in the course of performing audit services shall neither use nor be seen to be using that information for personal advantage or for the advantage of a third party.

Internal Auditors should consult their supervisors for guidance and advice if there is pressure to disclose information to parties other than management of Internal Audit Unit, the Municipal Manager or the Audit Committee.

8.5 Due Care:

The Internal Audit Unit should exercise due care in fulfilling its responsibilities.

In order to demonstrate that due care has been exercised, the Internal Audit Unit 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.

The Internal Audit Unit should possess a thorough knowledge of the objectives of the Council and the internal control system. The Internal Audit Unit must also be aware of the relevant law and the requirements of relevant professional and regulatory bodies.

The standards and statements issued by the Institute of Internal Auditors are relevant to the work of the Internal Audit Unit.

The Internal Audit Unit should be 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 position where responsibilities and private interests' conflict and any personal interest should be declared.

The Internal Audit Unit should promote and maintain adequate quality standards in the internal audit unit. 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.

9. Planning, Controlling and Recording:

Internal audit work should be planned, controlled and recorded in terms of its methodology in order to determine priorities, establish and achieve objectives, and ensure the effective and efficient use of audit resources.

9.1 Planning

Internal Audit Unit should prepare in consultation with, and for approval by the audit committee:

- a) a rolling three-year strategic internal audit plan based on its assessment of key areas of risk for the department, having regard to its current operations, those proposed in its strategic plan and its risk management strategy;
- b) an annual internal audit plan for the first year of the rolling three-year strategic internal audit plan;
- c) Plans indicating the proposed scope of each audit in the annual internal audit plan;

- d) A modus operandi, with management inputs, to guide the audit relationship; and
- e) A quarterly report to the audit committee detailing its performance against the plan, to allow effective monitoring and possible intervention.

The Internal Audit plan should define the purpose and duration of each audit assignment and allocate staff and other resources accordingly.

The Internal Audit plan must be considered and approved by the Audit Committee. All internal audit plans should be sufficiently flexible to respond to changing priorities.

9.2 Controlling

Control of the individual assignments is needed to ensure that internal audit objectives are achieved and work is performed efficiently and effectively. The most important elements of control are the direction and supervision of the internal audit staff and review of their work. This is assisted by an established audit methodology and standard documentation. The Audit Manager shall ensure that the necessary degree of control and supervision is exercised, which will depend on the complexity of the assignment and the experience of the auditor.

9.3 Recording

Internal audit work should be recorded at all times. The Manager: Internal Audit Unit should specify the required standard audit documentation and working papers and should ensure those standards are maintained. Internal audit working papers should be sufficiently completed and detailed to enable an experienced internal auditor with no previous connection with the assignment to subsequently ascertain from them what work was performed to support the conclusions reached. Working papers must be prepared as the audit assignment proceeds so that the critical details are not omitted and problems not overlooked. These should then be reviewed by Deputy Director Internal Auditment. Internal Audit Unit should obtain sufficient, relevant and reliable evidence on which to base reasonable conclusions and recommendations.

9.4 Reporting and Follow-up

The primary purpose of internal audit reports is to provide management with an overall opinion on the adequacy of design of the system of internal control as well as whether they are operating effectively.

Reporting arrangements, including the distribution of internal audit reports, should be agreed with management. Internal audit reports are confidential documents and their distribution should therefore be restricted to management and key operational personnel, Municipal Manager, the Audit Committee, Auditor-General South Africa, the Council, and, where necessary, the Ulundi Municipality's EXCO, Council and MPAC.

Internal Audit Unit should ensure that findings, conclusions and recommendations arising from each assignment are communicated promptly to the appropriate level of management and actively seek comments and proposed action plan.

The strategic and operational plan should include follow-up audits in order to assess the extent to which internal audit recommendations and management action plans have been implemented. Repeat audit findings must be reported to audit committee.

10. External Assessments

The internal audit must be subjected to an external assessment at least once every five years, the results of which should be communicated to the audit committee and the accounting officer. An external assessment must be conducted by a qualified reviewer or review team from outside Ulundi Municipality. On completion of the external assessment, the review team should issue a formal report containing an opinion. The Deputy Director Internal Auditor in consultation with the accounting officer should prepare a written action plan in response to comments and recommendations in the report.

11. Coordination of efforts with other assurance providers

Internal audit should share information and co-ordinate its activities with other assurance providers within Ulundi Municipality or municipal entity. This is done to ensure appropriate coverage of risk areas and minimise duplication of efforts. There should be access to each other's audit plans and audit reports. There should be periodic meetings held between internal audit and external audit. At these meetings key risks, audit scope and audit findings should be discussed and priorities should be emphasized.

12. Conclusion

To achieve full effectiveness the scope of the Internal Audit Unit should provide an unrestricted range of coverage of the Ulundi Municipality's operations, and the Internal Audit Unit should have sufficient authority to allow access to such records, assets and personnel as are necessary for proper fulfilment of its responsibilities.

The Internal Audit Unit, as a service to the Council, should contribute to internal control by examining, evaluating and reporting to management on its adequacy and effectiveness of systems.

The internal audit activity should lead to the strengthening of internal control as a result of management response.

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

The Internal Audit Unit has regard to the possibility of fraud or theft and should seek to identify serious defects in internal control which might permit the occurrence of such an event. When the Internal Audit Unit discovers evidence of, or suspect's fraud or theft, they should report firm evidence, or reasonable suspicions, to the appropriate level of management.

13. Approval

APPROVED BY THE AUDIT COMMITTEE

Resolution: _____

Date: _____

Chairperson of Audit Committee: _____

Head: Internal Audit: _____