

**eMADLANGENI LOCAL MUNICIPALITY
KWAZULU NATAL**



**INTERNAL AUDIT CHARTER
2017/2018**

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INTERNAL AUDIT CHARTER**

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1. PURPOSE

The purpose of this charter is to set out the nature, role, responsibility, status and authority of Internal Audit Activity within eMadlangeni Local Municipality and to outline the scope of the Internal Audit Activity.

This charter also provides guidance to the Internal Auditors about main issues and procedures which they need to consider as part of their work.

The Internal Auditors should also have regard to the statements and standards issued by the accountancy and auditing (both internal and external) bodies and also to any requirements regarding internal audit set out in the relevant statutes or regulations.

2. LEGISLATION GOVERNING INTERNAL AUDIT

The Municipal Finance Management Act No 56 of 2003 (MFMA) which provides for the establishment of the Internal Audit Activity so as to regulate the function; and to provide for matter incidental thereto.

3. MISSION STATEMENT

The mission of the Internal Audit Activity is to provide independent, objective assurance and consulting service designed to add value and improve the organization's operations. It helps the organization accomplish its objective by bringing a systematic, discipline approach to evaluate and improve the effectiveness of risk management, control and governance processes.

4. INTERNAL AUDIT SCOPE OF WORK

The scope of work of the Internal Audit Activity is to determine whether the eMadlangeni Local Municipality network of risk management, control and governance processes, as designed and represented by management, are adequate and functioning in a manner to ensure:

- that risks are appropriately identified and managed;

- that interaction with the various governance groups occurs as needed;
- that significant financial, managerial, and operating information is accurate, reliable, and timely;
- that employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations;
- that resources are acquired economically, used efficiently, and adequately protected;
- that programs, plans, and objectives are achieved;
- that quality and continuous improvement are fostered in the EMadlangeni Local Municipality control process;
- that significant legislative or regulatory issues impacting the EMadlangeni Local Municipality are recognized and addressed appropriately; and
- That Performance Management is evaluated and reported upon.

4.1 Compliance and limited Regularity Audit

Compliance Auditing is performed after the internal controls have been evaluated and is defined as test of controls. The overall objective of this is to express an opinion - i.e. satisfactory, needs improvement, or unsatisfactory on the achievement of the control objectives of each significant system.

Although External Audit expresses an opinion on the financial statements; Internal Audit should also perform limited regularity audits to ensure that the following aspects are receiving immediate attention.

- Auditing of financial systems and transactions which includes the evaluation of compliance with applicable laws, regulations, policies and instructions;
- Audit of the probity and propriety of administrative decisions taken within the Council; and

- Reporting of any other matter arising from or relating to the audit that the auditor considers should be disclosable.
- Covering the whole spectrum of the Council's activities, is aimed at promoting the efficient, economical and effective management processes and evaluating the soundness, adequacy and effectiveness of internal controls by appraising the effective conduct of Council operations;
- Reviewing the reliability and integrity of financial, operating and management information;
- Reviewing systems to ascertain compliance with laws, regulations, policies and instructions;
- Ascertaining the extent to which assets and Council interests are being properly controlled and safeguarded from losses of any kind;
- Appraising the economy and efficiency with which financial, human and other resources are employed; and
- Monitoring the accomplishment of established objectives and goals for programs.

4.2 Performance Auditing

The promotion of economy, efficiency and effectiveness depends on adequate overall management arrangements for planning, budgeting, authorization, control and evaluation of the use of resources. Whereas the Accounting Officer is responsible for the implementation of proper functioning of such overall management arrangements, the responsibility of performance audit is to confirm independently that these measures do exist and are effective and report to the management and the Audit Committee on these issues.

In the course of an investigation into overall management arrangements in a department the following will receive attention –

- System planning, budgeting, authorization, control and evaluation in respect of revenue, expenditure and the allocation of resources;
- The effect of decisions beyond the control of the Council which have had an adverse influence on the Council;
- Measures ensuring the proper management of all the resources of the Council;
- Measures developed to derive benefit from economies of scale of

expertise, especially in the provision of goods and services;

- Specific steps aimed at improving the economy, efficiency and effectiveness of the activities of the Council.
- Proper assignment of responsibilities, powers and accountability, and measures to monitor results against predetermined objectives, performance norms and
- Standards to ensure that above-average performance is encouraged and
- Unacceptable performance is corrected timeously;
- Whether policy objectives were set and policy decisions taken with the necessary authority;
- The extent to which policy objectives were set and decisions taken on the basis of adequate, appropriate and reliable financial and other information and whether the critical underlying assumptions have been disclosed;
- If satisfactory arrangements for the consideration of alternative possibilities were made;
- Whether established policy goals and objectives as well as decisions on the implementation of policy are clearly defined and in line with the priorities of the government, and whether they were taken with proper authority at the appropriate level;
- Whether conflict or possible conflicts exists between the various policy goals or objectives, or between the methods chosen to implement them; and
- If the costs of rendering alternative levels of services were taken into account and reviewed if changes in cost should appear.

4.3 Internal Audit Activity Responsibility with Regard to Fraud and Corruption and other irregularities

The identification and prevention of fraud is clearly a management responsibility. Internal Audit is well qualified to assist management to identify the main fraud risks facing EMadlangeni Local Municipality and could assist management in designing appropriate controls that could minimize the effects of the risks.

4.4 Forensic Audit and Investigative Activity

- The scope of work of the Forensic Audit and Investigative Activity is to determine whether malpractice has occurred to the detriment of the Municipality and to establish such evidence as would permit the Municipality to seek redress at law against such perpetration. Additionally the scope would include establishing the appropriate evidence, where required, to defend the Municipality in the event of action against it. Opportunities for improving management control, profitability, and the EMadlangeni Local Municipality's image may be identified during audits.

4.5 Computer reviews

A high level review of the Information Technology (IT) controls to obtain an understanding of the control environment to support the audit risk assessment and to ensure that proper IT controls are in place in such a way as to ensure that IT support the business objectives of the Council, can be conducted on an ad hoc basis.

Apart from the high level review referred to above, Internal Audit can also be expected to review, on an ad hoc basis, specific computer and applications controls, controls over changes in the computer systems, the methodology of systems development, internal controls and procedures, backup and recovery procedures, disaster recovery plan and the physical control of the computer facilities.

4.6 FRAUD LIMITATION

- The identification and prevention of fraud is clearly a management responsibility.
- Internal Audit is well qualified to assist management to identify the main fraud risks facing the Council and could assist management in designing appropriate controls that could minimise the effects of the risks.
- Any instances of fraud or non-compliance with legislation which may come to Internal Audit's attention during its activities will be reported to the Audit Committee.

5. REPORTING LINES

The Manager Internal Auditor in the discharge of his/her duties, shall report administratively Municipal Manager and functional the Audit Committee to:

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

6. INDEPENDENCE

To provide for the independence of the Internal Audit Activity, its personnel report to the Manager Internal Audit, who reports administratively to the Municipal Manager and functionally to the Audit Committee in a manner outlined in the above section on accountability. The Internal Audit Activity will include as part of its reports to the Audit Committee a regular report on internal audit personnel. Independence of Internal Audit will be further ensured by:

- Having unrestricted access to the Municipal Manager and to the Chairperson of the Audit Committee.
- Having unrestricted access at all times to any records, properties, resources and personnel relevant to the subject under review.
- Internal Audit will not assume any line management functions.
- Internal Audit will not be responsible for any of the activities which

they audit.

- Members of the Internal Audit function will not assume the responsibility for the development, operation or control of any systems and procedures.
- Internal Audit will include as part of its report to the Audit Committee a regular report on the level of Internal Audit personnel involved.
- The appointment or removal of the Chief Internal Audit shall only be done in concurrence with the Audit Committee.
- Appointment or removal of the Internal Audit team will be done in consultation with the Audit Committee.

7. CONSULTING SERVICES

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

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

The Internal Auditor should, however, maintain his/her objectivity when drawing conclusions and offering advice to management. The following consulting services may be provided:

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

The comprehensive scope of work of Internal Audit should provide reasonable assurance that the organisation's risk management; control and governance systems are effective and efficient. In areas where, in the opinion of the

Manager Internal Audit: Internal Auditing, specialised audit skills are lacking within the unit, the services of external service providers may be employed.

8. RESPONSIBILITY

The Manager Internal Audit and his/her staff have the following responsibility to:

- develop a flexible three year and annual audit plans 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 as well as periodic updates;
- implement the annual audit plan, as approved, including, and as appropriate, any special task or projects requested by the management and the Audit Committee;
- maintain a professional audit staff compliment with sufficient knowledge, skills, experience and professional certification to meet the requirements of this Charter.
- Establish a quality assurance program which assures the operations of internal auditing activities.
- Perform consulting services, beyond internal auditing assurance services, to assist management in meeting its objectives. Examples may include facilitation, process design, training and advisory service;
- evaluate and assess significant merging/consolidating functions and new or changing services, processes, operations and control processes coincident with their development, implementation and or expansion;
- issue periodic reports to the Audit Committee and management summarizing results of audit activities;
- keep the Audit Committee informed of emerging trends and successful practices in Internal Auditing;

- provide a list of significant measurement goals and result to the Audit Committee;
- assist in the investigation of significant suspected fraudulent activities within the EMadlangeni Local Municipality and notify management and the Audit Committee of the results; and
- consider the scope of work of the External Auditors as regulators, as appropriate, for the purposes of providing optimal audit coverage to the EMadlangeni Local Municipality at a reasonable overall cost.

9. AUTHORITY

There are no restrictions placed upon the scope of internal audit's work. Members of the Internal Audit Activity engaged on internal audit work are entitled to receive whatever information or explanations they consider necessary to fulfill their responsibilities to senior management. In this regard, internal audit may have access to any records, personnel or physical property of eMadlangeni Local Municipality.

The Manager Internal Audit and his/her staff are not authorised to:

- perform any operational duties for the eMadlangeni Local Municipality;
- initiate or approve accounting transactions outside Internal Auditing Activity; and
- direct the activities of any eMadlangeni Local Municipality employee not employed by the Internal Audit Activity, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

Manager Internal Audit will:

- allocate resource, set frequencies, select subjects, determine scope of work, and apply the techniques required to accomplish audit objectives; and

- obtain the necessary assistance of personnel in units of eMadlangeni Local Municipality where they perform audits as well as other specialized services from within or outside EMadlangeni Local Municipality.

10. LIMITATION OF SCOPE

Any attempted scope limitation by management must be reported, preferably in writing, to the Municipal Manager 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 Manager Internal Audit. Except in cases of suspected fraud, the Municipal Manager and the audit committee may decide to accept a limitation of scope. In such instances, the Manager Internal Audit should evaluate 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 Municipal Manager and the audit committee for their renewed consideration

11. CONFIDENTIALITY

Internal Auditors have an obligation to respect the confidentiality of information about eMadlangeni Local 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 activities 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 the Audit Committee for guidance and advice if there is pressure to disclose information to parties other than the Municipal Manager or the Audit Committee.

12. DUE CARE

The Internal Auditors should exercise due care in fulfilling their responsibilities. In order to demonstrate that due care has been exercised, the Internal Auditors should be able to show that their work has been performed in a way which is consistent with the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors.

The Internal Auditors should possess thorough knowledge of the aim of the municipality and internal control system. The Internal Auditors must also be aware of the relevant laws 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 Auditors.

The Internal Auditors should be impartial in discharging all their responsibilities. Bias, prejudice or undue influence must not be allowed to limit or override objectivity. At all times, the integrity and conduct of internal auditors must be above reproach. They must not place, themselves in positions where responsibilities and private interests' conflict and personal interests should be declared.

Internal Auditors should promote and maintain adequate quality standards. They should establish methods of evaluating their work to ensure that the function fulfils their responsibility and has proper regard to this statement.

13. RELATIONSHIP WITH MANAGEMENT

The Manager Internal Audito should prepare the internal audit plan in consultation with senior management. The Manager internal audit should arrange the timing of internal audit assignments in consultation with the Audit Committee 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 external auditors and management.

The Three Year Rolling Audit Plan and Annual Plan must be tabled to the Management Committee for information purposes.

14. RELATIONSHIP WITH EXTERNAL AUDITORS

The Internal Auditors will co-ordinate their work with others as directed by the audit committee. The External Auditors will be notified of the activities of Internal Audit in order to minimize the duplication of audit effort. This will be accomplished by:

- a compulsory meeting between Internal and External Auditors to discuss the annual internal and external audit plan;
- periodic meetings to discuss the audit plan and activities;
- access by the External Auditors to Internal Audit's documentation;
- exchange of management letters; and
- access to system documentation.

Internal audit shall foster relationship with other stakeholders for an example, District family municipalities, Department of Co-operative Governance and Traditional Affairs, Provincial Treasury.

15. PLANNING

Internal Audit should prepare strategies, periodic and operational work plans. The periodic plan, July to June, should schedule audit assignments to be carried out in the ensuing period. It should define the purpose and duration of each audit assignment and allocate staff and other resources accordingly and must be formally approved by the Audit Committee. All internal audit plans should be sufficiently flexible to respond to changing priorities.

- Internal Audit will submit to the Audit Committee for approval, an Operational Internal Audit plan, setting out the recommended scope of their work. This plan should be based on the results of the risk assessment process and should allocate Internal Audit resources to the areas where the greatest risks are present. In addition it should identify the costs and resources necessary to fulfill the plan. The plan should indicate the timing and frequency of the audit activities.

- The annual Operational Internal Audit Plan should be developed with reference to a longer term strategic outlook for Internal Audit work, prepared in conjunction with management and supported by them, and should have regard to the business plans and strategic outlook of Council as a whole.

16. CONTROLLING

Control of the Internal Auditors and the individual assignments is needed to ensure that internal audit objectives are achieved and work is performed efficiently and effectively. The most important element of controls are the direction and supervision of the internal auditors and review of their work. This is assisted by an established audit approach and standard documentation. The Manager Internal Audit 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.

17. RECORDING

Internal Auditor's work should be recorded at all times. The Manager Internal Audit 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 internal audit manager. Internal Auditors should obtain sufficient, relevant and reliable evidence on which to base reasonable conclusions and recommendations.

A written report of the findings and recommendations will be prepared and issued by Internal Audit Manager to Management at the conclusion of each audit and distributed as considered appropriate. The details, unless otherwise requested by Management, will be distributed to relevant line management, who will already have been made fully aware of the detail and whose co-operation in preparing the report will have been sought.

Internal Audit Manager will also submit a quarterly report to the Audit Committee on the:

- ◆ Status of the Internal Audit Activities;
- ◆ Significant findings and management action plans;
- ◆ Any instances of fraud or non-compliance with legislation identified during the performance of the Internal Audit Activities;
- ◆ Performance of Internal Audit against the annual Internal Audit plan to allow effective monitoring and possible intervention.

Internal Audit shall have the right to report any critical or significant issue direct to the Municipal Manager or the Chairperson of the Audit Committee before consulting with management.

18. REPORTING AND FOLLOW UP

Internal Audit Activity 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. They should ensure that arrangements are made to follow-up audit recommendations in order to monitor what action has been taken on them.

The primary purpose of internal audit reports is to provide management with an 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 those managers who need to know, Accounting Officers, and the Audit Committee.

19. ASSESSMENT OF EFFECTIVENESS OF INTERNAL AUDIT FUNCTION

The audit committee should annually assess the effectiveness of the internal audit function. Internal audit should be assessed against the following criteria:

- Achievement of the annual internal audit plan;
- Compliance with IIA's professional standards inclusive of quality assurance assessments on the level of compliance achieved;
- Achievement of reporting protocols through management to the audit committee;
- Timeliness of reporting of findings and activities;
- Responsiveness to changing business/operational environment;
- Management's acceptance of the internal audit findings;
- Quality and relevance of the annual assessment reports;
- Level of cooperation and interaction with other assurance providers

within the agreed combined assurance approach;

- Maintenance of adequate staffing/sourcing levels to achieve the required to meet the requirements of this charter; and
- Meeting the budget allocated to internal audit.

20. STAFF AND TRAINING

The Internal Auditors should be appropriately staffed in terms of numbers, grades, qualification and experience, having regard to their responsibilities and objectives. Internal Auditors are properly trained to fulfill all their responsibilities.

The effectiveness of the Internal Auditors depends substantially on their quality, training and experience. The Internal Auditors should be suitably qualified and possess a wide experience of internal audit.

21. STANDARDS AND CODE OF ETHICS

The Internal Auditing Activity, if allocated sufficient resources will meet or exceed the International Standards for Professional Practice of Internal Auditing of The Institute of Internal Auditors and abide by the Code of Ethics as outlined in the International Professional Practice Framework.

22. REVIEW PERIOD

This charter establishes authority and responsibility conferred by management to the Internal Audit function. This charter will be reviewed at least annually by the Audit Committee and approved by the Council.

23. CONCLUSION

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

The Internal Audit Activity, as a service to the Municipality, should contribute to internal control by examining, evaluating and reporting to management on its

adequacy and effectiveness.

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 Municipality'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 Activity 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 Activity discovers evidence of, or suspect fraud or theft, they should report firm evidence, or reasonable suspicions, to the appropriate level of management.

APPROVED BY THE EMADLANGENI LOCAL MUNICIPALTY AUDIT COMMITTEE

SIGNED BY:..... DATE:.....
CHAIRPERSON OF THE AUDIT COMMITTEE

ACCEPTED BY THE ACCOUNTING OFFICER OF EMADLANGENI LOCAL MUNICIPALITY

SIGNED BY:..... DATE:.....