



***ILEMBE DISTRICT MUNICIPALITY***

***INTERNAL AUDIT CHARTER***

***JUNE 2019***

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## 1. INTRODUCTION

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

## 2. LEGISLATION GOVERNING INTERNAL AUDIT

The Internal Audit Function is governed by section 165 of the Municipal Finance Management Act (MFMA) No. 56 of 2003 and section 14(1)(a) of the Local Government Municipal Planning and Performance Regulations, 2001 (Regulations), which provides for the establishment of the Internal Audit Unit so as to regulate the function and to provide for matters incidental thereto.

## 3. PURPOSE AND MISSION OF THE INTERNAL AUDIT UNIT

The purpose of Internal Audit unit is to provide an independent, objective *assurance* and *consulting* services designed to add value and improve the municipality's operations. The mission of internal audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice and insight. It helps the municipality to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

#### 4. AUTHORITY OF INTERNAL AUDIT UNIT

4.1 The Head of internal audit will report functionally to the audit committee (*as formed in terms of section 166 of the MFMA*) and administratively (i.e. day-to day operations) to the Municipal Manager. To establish, maintain, and assure that internal audit unit has sufficient authority to fulfill its duties, the audit committee will:

- (a) Approve the internal audit charter,
- (b) Approve the risk-based internal audit plan,
- (c) Review and make recommendations with regards to the internal audit unit's budget and resource plan,
- (d) Receive communications from the head of internal audit on the internal audit performance relative to its plan and other matters,
- (e) Concur on the appointment and removal of the Head of Internal Audit;
- (f) Make appropriate enquiries of management and the head of internal audit to determine whether there is inappropriate scope or resource limitations.
- (g) Be consulted regarding the appointment or removal of the Internal Audit team (outsourced/ co-sourced).

4.2 The Head of internal audit will have unrestricted access to, and communicate and interact directly with, the audit committee including in private meetings without management present.

4.3 The Internal Audit Unit is authorized to have full, free and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.

4.4 The Internal Audit Unit is authorized to allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports. The Internal Audit coverage may extend to all areas of Council and include financial, accounting, administrative, computing and other operational activities if relevant.

The extent and frequency of internal audits will depend upon varying circumstances such as results of previous audits, relative risk associated with

activities, materiality, the adequacy of the system of internal control and the resources available.

4.5 The Internal Audit Unit shall determine its priorities in terms of the municipality's strategic and operational risk profile, in consultation with management. Accordingly the Internal Audit Unit has direct access to all senior management and Council.

4.6 The Internal Audit Unit is authorized to obtain any assistance from the necessary personnel of the municipality, as well as other specialized services from within or outside the municipality in order to complete the engagement.

## **5 SCOPE OF INTERNAL AUDIT ACTIVITIES**

### **5.1 Scope**

The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Audit Committee, management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for the municipality. Internal audit assessments include evaluating whether:

- (a) Risks relating to the achievement of the municipality's strategic objectives are appropriately identified and managed.
- (b) The actions of the municipality's officers, directors, employees and contractors are in compliance with the municipality's policies, procedures and applicable laws, regulations, and governance standards.
- (c) The results of operations or programs are consistent with established goals and objectives.
- (d) Operations or programs are being carried out effectively and efficiently.
- (e) Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact on the municipality.
- (f) Information and the means used to identify, measure, analyse, classify, and report such information are reliable and have integrity.
- (g) Resources and assets are acquired economically, used efficiently, and protected adequately.

## 5.2 Reporting

The Head of Internal Audit will report periodically to senior management and the Audit Committee regarding:

- (a) The internal audit activity's purpose, authority, and responsibility.
- (b) The internal audit activity's plan and performance relative to its plan.
- (c) The internal audit activity's conformance with The IIA's Code of Ethics and *Standards*, and action plans to address any significant conformance issues.
- (d) Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Audit committee.
- (e) Results of all audit engagements undertaken or other activities and the status of completed work against the approved plan.
- (f) Resource requirements.
- (g) Any response to risk by management that may be unacceptable to the municipality.

Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

## 5.3 Limitation of Scope

Any attempted scope limitation by management will 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 head of 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 Head of 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.

## **6 RESPONSIBILITIES OF MANAGEMENT**

Management, in conjunction with the Municipal Manager, is responsible for:

- (a) Ensuring that a risk assessment is conducted regularly to identify emerging risks of the Council. A risk management strategy must then be drawn up by management and used to direct internal audit effort and priority;
- (b) Proposing the areas of investigation by Internal Audit;
- (c) Ensuring that the Internal Audit function has -
  - the support of senior management;
  - direct access and freedom to report to the Municipal Manager and the Audit Committee;
  - free access to the books of account, records, cash, stores, property and other sources of relevant information.
- (d) Maintaining internal control, including proper accounting records and other management information suitable for running the Municipality;
- (e) Reviewing internal audit reports and the timely implementation of recommendations as considered appropriate, in light of Council's resources.

## **7. INTERNAL AUDIT RESPONSIBILITY WITH REGARDS TO FRAUD AND CORRUPTION**

- (a) Internal Audit Unit shall exercise due professional care in performing its activities.
- (b) Internal Audit Unit shall consider all possibilities of material irregularities or non-compliance when conducting its activities.
- (c) When an internal auditor suspects wrongdoing he or she shall report to the Head of Internal Audit who shall in turn report to the Audit Committee and to the Municipal Manager action.
- (d) In addition to understanding control systems, internal auditors should be aware of the kind of fraud that could be perpetrated in the organization.
- (e) 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 fulfill this obligation.

- (f) Internal auditors should have sufficient knowledge of fraud risk to be able to identify any fraud indicators.

## **8. INTERNAL AUDIT RESPONSIBILITY WITH REGARDS TO GOVERNANCE, RISK MANAGEMENT AND CONTROL:**

### **8.1 Governance**

Internal Audit will assess and make recommendations for improving governance process in its accomplishment of the following objectives:

- (a) Promoting appropriate ethics and values within the municipality;
- (b) Ensuring effective organizational performance management and accountability;
- (c) Communicating risk and control information to appropriate areas of the municipality;
- (d) Co-ordinating the activities of and communicating information among audit committee, external, internal auditors and management.

### **8.2 Risk Management**

Internal audit will provide assurance to management and the audit committee on the adequacy and effectiveness of the risk management process. Internal audit will examine, evaluate, report and recommend improvements on management's risk processes. Internal audit shall not be responsible for risk management processes.

### **8.3 Control**

Internal audit will evaluate the adequacy and effectiveness of controls encompassing the municipality's governance, operations and information systems based on the results of the risk assessment.

**The controls subject to evaluation will encompass the following:**

- (a) The information systems environment;
- (b) The reliability and integrity of financial and operational information;
- (c) The effectiveness of operations;
- (d) Safeguarding of assets; and



- (e) Compliance with laws, regulations, council directives etc.

## 9 CONSULTING SERVICES

These services are advisory in nature and the scope is agreed with the client. The intention of providing these services is to add value and improve the organisation's governance, risk management and control without the internal auditors assuming management responsibilities.

Internal audit should obtain an understanding of the nature of the engagement to clearly articulate the terms of reference. Agreed upon scope and procedures should be documented in the engagement letter and accepted by the client.

The services may include advices, facilitation and training if necessary.

Types of consulting engagements are:

- (a) **Formal consulting engagements**- these are planned and subject to written agreement.
- (b) **Informal consulting engagements**- these are routine activities such as participation on standing committees, ad-hoc meetings & routine information exchange etc.
- (c) **Special consulting engagements**- participation on dedicated teams e.g. system conversion team;
- (d) **Emergency consulting engagements**- participation on a team established for recovery or maintenance of operations after a disaster/ extra-ordinary event etc.

## 10 RESPONSIBILITIES OF THE HEAD OF INTERNAL AUDIT

The Head of Internal Audit has the responsibility to:

- (a) Prepare an Internal Audit Charter which must be approved by the Audit Committee and accepted by the Accounting Officer. The charter will be reviewed annually and at any time if necessary.
- (b) Submit, at least annually, a risk-based internal audit plan to senior management for consideration and the Audit Committee for review and approval.
- (c) Communicate to senior management and the Audit Committee the impact of resource limitations on the internal audit plan.
- (d) Review and adjust the internal audit plan, as necessary, in response to changes in the municipality's business, risks, operations, programs, systems, and controls.
- (e) Communicate to senior management and the Audit Committee any significant interim changes to the internal audit plan.
- (f) Ensure that each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.
- (g) Follow up on internal and external audit engagement findings and corrective actions, and report periodically to senior management and the Audit Committee any corrective actions not effectively implemented for direction and resolution.
- (h) Ensure that the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- (i) Ensure that the internal audit activity collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter.
- (j) Ensure that trends and emerging issues that could impact on the municipality are considered and communicated to senior management and the Audit Committee as appropriate.
- (k) Ensure that emerging trends and successful practices in internal auditing are considered.
- (l) Establish and ensure adherence to policies and procedures designed to guide the internal audit activity.

- (m) Ensure adherence to the municipality's relevant policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to senior management and the Audit Committee.
- (n) Ensure conformance of the internal audit activity with the Standards, with the following qualifications:
  - If the internal audit activity is prohibited by law or regulation from conformance with certain parts of the Standards, the Head of Internal Audit will ensure appropriate disclosures and will ensure conformance with all other parts of the *Standards*.
  - If the *Standards* are used in conjunction with requirements issued by other authoritative bodies, the Head of Internal Audit will ensure that the internal audit activity conforms with the *Standards*, even if the internal audit activity also conforms with the more restrictive requirements of other authoritative bodies.

## **11 OTHER RESPONSIBILITIES OF INTERNAL AUDIT UNIT**

### **11.1 Internal audit is required to:**

- (a) Perform the responsibilities as laid out in Section 165 of the Municipal Finance Management Act, Act No. 56 of 2003.
- (b) Undertake audit of Performance Management in terms of section 45 of the Municipal Systems Act, sub regulation 14 (1) (c) of the Municipal Planning and Performance Management Regulations (2001).

### **11.2 With regards to performance audits, 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 auditors is to confirm independently that these measures do exist and are effective, and report to the management and the Audit committee on these issues.

**11.3 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, back-up and recovery procedures, disaster recovery plan and the physical control of the computer facilities.

## **12 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:

### **12.1 Professionalism**

The internal audit unit will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, *the International Standards for the Professional Practice of Internal Auditing*, and the definition of Internal Auditing.

The Institute of Internal Auditors' strongly recommended guidance will also be adhered to as applicable to guide the operations. Internal audit unit will also have regard to any requirements regarding internal audit set out in relevant statutes or regulations and other available guidelines e.g. King IV Report on Corporate Governance.

## 12.2 Independence and Objectivity

- (a) The Head of Internal Audit will ensure that the internal audit unit remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing and report content. If the head of internal audit determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed with appropriate parties.
- (b) Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.
- (c) The Internal Audit Unit (IAU) does not have any authority or responsibility for implementation of activities of the municipality that it audits, i.e.
  - The IAU will not perform any line function tasks nor assume any line management functions;
  - The IAU will not initiate or approve accounting transactions external to the internal auditing section;
  - The IAU will not direct the activities of any department / employee not employed by the internal audit, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors;
  - The IAU will not directly participate in the design, development and implementation of new financial or other systems or policy within the municipality other than in advisory and consulting capacity. The Internal Audit Unit will however review the new systems or policy and comment or advise on the adequacy of the control measures and the efficiency of the said systems and policy before they are implemented to enhance pro-activeness.
  - Internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgement.
  - Members of the IAU will not assume the responsibility for the

development, operation or control of any systems and procedures;

- (d) The IAU notwithstanding its employment by the municipality will free itself from any conflict of interest arising either from professional or personal relationships or other interests in the municipality or activity which it subjects to audit.
- (e) The IAU is 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.
- (f) The IAU 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.
- (g) Where the head of internal audit has or is expected to have roles and /or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.
- (h) Internal auditors shall:
  - Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
  - Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
  - Make balanced assessments of all available and relevant facts and circumstances.
  - Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.
- (i) The head of internal audit will confirm to the audit committee, at least annually, the organizational independence of the internal audit unit.
- (j) The head of internal audit will disclose to the audit committee any interferences and related implications in determining the scope of internal auditing, performing work, and / or communicating results.

### 12.3 Staff and Training

- (a) The Internal Audit Unit should be appropriately staffed in terms of numbers, grades, qualifications and experience, having regard to its responsibilities and objectives.
- (b) 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.
- (c) The head of internal audit should participate in the recruitment and selection of his/her staff.
- (d) The Head of Internal Audit 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
- (e) The internal auditor should keep abreast of current developments, improvements, new techniques and practices in auditing field.
- (f) 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
- (g) The Head of Internal Audit will 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.

## **12.4 Relationships**

The Internal Audit Unit will 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.

### **12.4.1 Relationship with Management**

The head of internal audit will prepare the risk based internal audit plan in consultation with senior management. The internal auditors will 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.

### **12.4.2 Relationship with the Audit Committee**

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



### **12.4.3 Relationship with External Audit**

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

This may involve:

- periodic meetings to discuss the planned activities;
- the exchange of audit work papers including systems documentation;
- the exchange of management letters;
- the forming of joint teams where appropriate;
- internal audit carrying out certain (financial) audit work;
- other aspects of the relationship between the organisation and the external auditors.

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

### **12.5 Confidentiality**

Internal Auditors have an obligation to respect the confidentiality of information about the 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 will consult the Head of Internal Audit or the Audit Committee 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.

## **12.6 Due Care**

The Internal Audit Unit shall 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 International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors.

The IAU should possess a 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 IAU 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 head of internal audit shall promote and maintain adequate quality standards in the internal audit unit. He/she shall establish methods of evaluating the work of staff to ensure that the function fulfils its responsibilities and has proper regard to this statement.

## **13 PLANNING, CONTROLLING AND RECORDING:**

Internal audit work will 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.

### **13.1 Planning**

Internal Audit Unit must prepare an annual internal audit plan as required by the act and also prepare a rolling three-year strategic internal audit plan based on its assessment of key areas of risk for the municipality, having regard to its current operations, those proposed in its strategic plan and risk management strategy.

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

All internal audit plans shall be sufficiently flexible to respond to changing priorities.

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.

### **13.2 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 Head of 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.

### **13.3 Recording**

Internal audit work should be recorded at all times. The head of 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 management. Internal Audit Unit should obtain sufficient, relevant and reliable evidence on which to base reasonable conclusions and recommendations.

## **14 REPORTING AND FOLLOW-UP**

Internal audit reports are confidential documents and their distribution shall therefore be restricted to management, Accounting Officer, the Audit Committee and Auditor-General.

Internal Audit Unit will 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 shall 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.

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

- (a) Status of the Internal Audit Activities;
- (b) Significant findings and management action plans;
- (c) Follow-up on previously reported internal audit findings;
- (d) Any instances of fraud or non-compliance with legislation identified during the performance of the Internal Audit Activities;
- (e) Performance of Internal Audit against the annual Internal Audit plan to allow effective monitoring and possible intervention;
- (f) The results of internal audit performed in terms of 14(2) (c) of the Local Government Municipal Planning and Performance Regulations, 2001.

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 prior to consulting with relevant management.

## **15 QUALITY ASSURANCE AND IMPROVEMENT PROGRAM**

In order to ensure that the quality of the Internal Audit work is consistently at an acceptable standard, the Internal Audit function will develop and maintain comprehensive measurement goals and will monitor performance against these goals and report the results to the Audit Committee on a regular basis. The Audit

Committee ensures that the internal audit function is subjected to an independent quality review as and when the Audit Committee determines it appropriate as a measure to ensure that the function remains effective.

The activities of internal audit will be guided, monitored and supervised at each level of operation to ensure that they are consistently performed in accordance with the Internal Auditing Standards. The quality assurance and improvement will include periodic internal assessments which will be conducted prior to the external assessment.

#### **15.1 Internal Assessment:**

The Head of Internal Audit will ensure that internal assessments are performed. Internal assessments will include ongoing reviews of performance of internal audit unit. The results of internal audit assessment on performance will be reported annually.

#### **15.2 External Assessment:**

The internal audit will be subjected to an external assessment after five years. A report containing the results of the external assessment will be communicated to the Accounting Officer and the Audit Committee.

### **16 CO-ORDINATION OF EFFORTS WITH OTHER ASSURANCE PROVIDERS**

Internal audit will make an assessment of the adequacy of the combined assurance approach adopted by the Municipality should this be in place. This assessment includes the adequacy of risks covered by different assurance providers and the reliability of assurance provided.

Internal audit will share information, co-ordinate its activities and consider relying upon the work of other internal & external assurance and consulting service providers as needed. There'll be access to each other's audit plans and audit reports.

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

The internal audit activity may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided the internal audit activity does not assume management responsibility.

## 17 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:

- (a) Achievement of the annual internal audit plan;
- (b) Compliance with IIA's professional standards inclusive of quality assurance assessments on the level of compliance achieved;
- (c) Achievement of reporting protocols through management to the audit committee;
- (d) Timeliness of reporting of findings and activities;
- (e) Responsiveness to changing business/operational environment;
- (f) Management's acceptance of the internal audit findings;
- (g) Level of co-operation and interaction with other assurance providers within the agreed combined assurance approach.

## 18 APPROVAL:

ACCEPTED BY:

MUNICIPAL MANAGER  
Mr. N. G. Kumalo



Date

20/07/2020

APPROVED BY

AUDIT COMMITTEE CHAIRPERSON  
Mr. V. Mtshali



Date

07/07/2020

Resolution Number

## **19. GLOSSARY:**

### **Internal Audit Definition:**

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 governance, risk management and control processes.

### **Charter:**

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The internal audit charter establishes the internal audit activity's position within the organization; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

### **Assurance Services:**

An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements.

### **Consulting Services**

Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training.

### **Mandatory Guidance:**

Standards, Code of Ethics, Internal Audit Definition

### **Strongly Recommended Guidance:**

Practice Advisories, Practice Guides, Position Papers

