

**PIXLEY KA SEME DISTRICT MUNICIPALITY**

**SHARED INTERNAL AUDIT UNIT**



**INTERNAL AUDIT CHARTER**

**2016/2017**

## TABLE OF CONTENTS

## PAGE

1.	Introduction	3
2.	Mission Statement	3
3.	Vision Statement	3
4.	Legislation Associated with Internal Audit	4
5.	Objectivity	4
6.	Independence	4
	6.1 Administratively to Municipal Manager	5
	6.2 Functional to Audit Committee	5
7.	Authority and Responsibility	5
	7.1 Responsibilities of Auditee Management	6
	7.2 Responsibilities of Internal Audit Management	6
8.	Scope and Role of Internal Audit	6
	8.1 Financial Auditing	7
	8.2 Information System Auditing	8
	8.3 Forensic Auditing	8
	8.4 Risk Assessment	8
	8.5 Environmental Auditing	8
	8.6 Performance Auditing	8
	8.7 Quality Assurance and Governance Auditing	9
	8.8 Internal Audit Reports	9
9.	Responsibility for Corrective Actions	10
10.	Audit Committee	10
11.	Management of Internal Audit Function	11
12.	General	12
13.	Addendums	13
14.	Approval	13

## **1. INTRODUCTION**

- 1.1 The Internal Audit Charter sets out the terms of reference for the Shared Internal Audit Unit – Pixley Ka Seme District Municipality. The Internal Audit Charter further sets out the purpose, authority and responsibility of the Internal Audit Unit. It is a document that embodies the spirit of the contract binding the Audit Committee, Senior Management, and the Internal Audit function. It covers certain fundamental aspects of the Internal Audit function within the organization.
- 1.2 The Internal Audit Unit was established within Pixley Ka Seme District Municipality. The District Municipality then came to an agreement with all Local Municipalities within its jurisdiction to provide them with Internal Auditing services.
- 1.3 A dedicated team of auditors has been assigned to provide assurance and related consulting to the Municipalities within the Pixley Ka Seme District, comprising of the following:
  - Pixley Ka Seme District Municipality
  - Emthanjeni Municipality
  - Umsobomvu Municipality
  - Ubuntu Municipality
  - Kareeberg Municipality
  - Renosterberg Municipality
  - Siyathemba Municipality
  - Siyancuma Municipality
  - Thembelihle Municipality

## **2. MISSION STATEMENT**

The mission of the Shared Internal Audit Unit within PIXLEY KA SEME District Municipality is to be an independent, objective assurance and consulting activity designed to add value and improve the operations of the Municipalities within its jurisdiction.

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

## **3. VISION STATEMENT**

The Shared Internal Audit Unit within Pixley Ka Seme District Municipality will strive to become a leading Internal Audit Unit in South Africa's Municipal environment that is supportive of the mission and vision of the PIXLEY KA SEME District Municipality.

#### **4. LEGISLATION ASSOCIATED WITH INTERNAL AUDIT**

The establishment of the Internal Audit Unit within Pixley Ka Seme District Municipality is prescribed by the following:

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

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

- (2) The internal audit unit of a municipality or municipal entity must—
- (a) prepare a risk-based audit plan and an internal audit program for each financial year;
  - (b) advise the accounting officer and report to the audit committee on the implementation of the internal audit plan and matters relating to—
    - (i) internal audit;
    - (ii) internal controls;
    - (iii) accounting procedures and practices;
    - (iv) risk and risk management;
    - (v) performance management;
    - (vi) loss control; and
    - (vii) Compliance with this Act, the annual Division of Revenue Act and any other applicable legislation; and
  - (c) Perform such other duties as may be assigned to it by the accounting officer.
  - (3) The internal audit function referred to in subsection (2) may be outsourced if the municipality or municipal entity requires assistance to develop its internal capacity and the council of the municipality or the board of directors of the entity has determined that this is feasible or cost-effective."

#### **5. OBJECTIVITY**

Objectivity is essential to auditing. Thus, the Internal Audit Unit should not normally develop or install accounting procedures or controls, prepare records, or engage in activities that its personnel would normally review and appraise and that could reasonably be construed to compromise its independence. Objectivity need not be adversely affected by the determination and the recommendation of standards and techniques of control to be applied in developing systems and procedures under its review or by lending its technical assistance to management in systematic analyses of operations or activities.

#### **6. INDEPENDENCE**

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

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

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

### **6.2 Functionally to the Audit Committee involves:**

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

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

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

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

## **7. AUTHORITY AND RESPONSIBILITY**

Through this Charter, the Council authorizes the Internal Audit Unit to have unrestricted access to all the Municipality's activities, records, personnel and property, including intellectual and electronic properties required in the performance of audit assignments.

Internal Audit staff is restricted from performing operational duties, or approving or initiating accounting transactions.

The Council also prohibits all staff of the Municipality from providing the Auditors with any form of misleading statements or false representation.

The services performed by the Auditors are staff and advisory functions only, and in no way relieve line department personnel of operating responsibilities assigned to them.

The Internal audit Unit is responsible to conduct the internal audit in such a way that it encompass the evaluation of risk management, control and governance systems and they should contribute to the improvement thereof.

## **7.1 RESPONSIBILITIES OF AUDITEE MANAGEMENT**

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

- Continuous utilization of Internal Audit services to assist in the effective discharge of their duties.
- Active participation in the development of audit scope for every assignment.
- Provision of all pertinent documents in whatever format required for audit examination.
- Provision of adequate accommodation and clerical assistance as mutually agreed upon during an audit assignment.
- Responding timeously to audit findings and recommendations.
- Timeous implementation of agreed audit recommendations.

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

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

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

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

- Assurance entails reviewing and reporting on the: adequacy, effectiveness and economy of the systems of financial, operational and managerial control, including the reliability, accuracy and timeliness of management information; adequacy, effectiveness and economy of the systems around procurement, utilisation, protection and disposal of resources;
- extent of compliance with, relevance of, and financial effect of, established internal policies, standards, plans and procedures and the extent of compliance with external laws and regulations;
- extent to which assets, revenue, income and interests of the clients are accounted for and safeguarded against fraud, corruption, losses of all kinds, wastage, inefficient administration and any other causes;
- alignment of processes and systems with the Municipalities' strategic objectives and goals;
- effectiveness of the risk management strategy of the Municipalities;
- effectiveness of the Municipalities' fraud response plans; and
- operational procedures and monitoring mechanisms over all transfers made and received, including transfers in terms of the annual Division of Revenue Act.

The Shared Internal Audit Unit – Pixley Ka Seme District Municipality may conduct **consulting services** as part of its normal activities, as well as in response to requests by management.

Consulting services are advisory and related client service activities, the nature and scope of which are intended to add value and improve operations regarding governance, risk management and controls. Such services are, however, limited to services concerning:

- counsel;
- advisory;
- facilitation; and
- training

**The responsibility of internal auditing is:**

### **8.1 Financial Auditing**

- Reviewing the procurement systems and contracts (compliance, irregularities, audit concerns, etc) to provide audit assurance;
- Reviewing the municipality's formal procurement policies to ensure that it has taken into account black economic empowerment;
- Examination and evaluation of the municipality wide income systems and related business units;
- Providing assurance that the municipality complies with appropriate legislation relevant to

Human Resources and Payroll Administration to ensure completeness, accuracy and disclosure.

- Identify key risk areas within the municipality's expenditure in terms of completeness, validity, accuracy, authorization, disclosure and to address areas of deficiency.
- Reviewing the reliability and integrity of financial and operating information and the means used to identify measure, classify and report such information.

## **8.2 Information System Auditing**

- Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- Examination and evaluation of information system projects in terms of defined objectives and given terms of reference.
- Ensure the technical reviews of business information systems i.e. networks, database, CAATs, etc.

## **8.3 Forensic Auditing**

- Assist in the investigation of significant suspected fraudulent activities within the municipality, and notify management and the audit committee of the results;
- Review the effectiveness of development and implementation of adequate/appropriate preventative strategies to combat fraud, economic crime, corruption, mal-administration, etc.;
- Investigation and reporting of alleged/reported fraudulent activities for maximum of R30 000 to a relevant authorities, with remedial action. Alleged/reported fraud for an amount above R30 000 should be outsourced. Municipality's current procurement policy to be used in that case.

## **8.4 Risk Assessment**

- Assessment of organizational risk; and
- Combat / limit loss within the municipality by defining appropriate preventative and detective measures.

## **8.5 Environmental Auditing**

- Compliance to legislations and municipal bylaws;

## **8.6 Performance Auditing**

- Provide a list of significant measurement goals and results to the audit committee;
- Facilitation of self assessment reviews of controls, with affected business units;
- Examination and evaluation of the Municipality's business systems;
- Review of the Municipality's Performance Management Systems;



- Submission of quarterly reports on the Performance Management System of the Municipality to the Audit Committee;
- Review of the monitoring system to ensure that the Municipality is achieving the performance targets set;

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

- Ensures that the Internal Audit function operates in terms of directives of the municipality, policies, procedures, IIA standards and related professional associations;
- Coordination of the Audit Committee and related committee activities;
- Compliance reviewing of statutory, common law and other requirements that cover the ethical behavior of Managers and officers of the Municipalities.
- Review communication, awareness and compliance of the Municipality's Code of Conduct;
- Monitoring and reporting of irregularities regarding Councilors and Officials, i.e. declaration of the nature and extent of their interests in contracts, gifts received, etc.
- Informing the necessary authorities (e.g. audit committee) of the advancements made by the Municipality on ethical standards;
- Identification and reporting of ethical conduct violations;
- All reports should be reviewed by the Audit Manager prior to the release thereof.
- Audit files should be reviewed prior to finalization of the audit report.
- The quality of the Internal Audit personnel should be monitored on a regular basis.
- A structured training policy should be followed in order to develop the technical, conceptual and management abilities of the personnel of the internal audit division.
- The audit approach being used should be regularly evaluated and benchmarked against practice in order to ensure that it complies with the highest standards.
- An independent and appropriately qualified party should conduct a quality assurance review of the activities of the internal audit unit at least every 5 years. Their detailed findings must be submitted to the Municipal Manager as well as to the Audit Committee.

### **8.8 Internal Audit Reports**

#### **8.8.1 Format**

The internal audit report should at least address the following:

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

### **8.8.2 Timing**

An informal query report must be given to the manager of the Municipality being audited with **7 days** after completion of the audit. Management will have **7 days** to prepare their comments on the findings and recommendations contained in the report. An Audit report which includes managements' responses and auditors' responses will be issued to Management within 3 days after managements' responses have been received. At the end of the audit year an overall report which contains all findings that were not resolved during the year will be issued to management.

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

### **8.8.3 Distribution of reports**

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

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

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

## **9 Responsibility for corrective action and handling of differences of opinion with management.**

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

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

## **10. AUDIT COMMITTEE**

The Audit committee of the PIXLEY KA SEME District Municipality has been established by the Council. The trust of the Committee will be to help the Council and the Management in the discharge of their duty of financial reporting and corporate governance.

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

## 11. MANAGEMENT OF INTERNAL AUDIT FUNCTION

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

- Internal Audit as a consulting function assists Management in its task of achieving institutional strategic goals.
- Resources of the Unit of Internal Audit are efficiently and effectively employed.
- Audit work conforms to the Standards for the Professional Practice of Internal Auditing, published by the Institute of Internal Auditors.
- Auditors comply with the Institute of Internal Auditors "Code of Ethics" and the "Statement of Responsibilities".
- The Unit complies with COSO control framework as well as the risk management framework.
- The corporate governance principles as envisaged in the King Report on Corporate Governance in South Africa are also complied with.

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

- Goals, Objectives and Mission statements.
- Risk Assessments *in consultation with management*.
- Annual Audit Work Schedules.
- Staffing Plans and Financial Budgets.
- Activity Reports.

The Chief Audit Executive will also:

- Provide written policies and procedures to guide the audit staff.
- Establish a program for selecting and developing the human resources of the Internal Audit Unit.
- Co-ordinate internal and external audit efforts as required by Standard 2050. This is to ensure proper audit coverage and minimize duplication of efforts. In exercising its oversight role, the Council may request the Audit Committee with the guidance Chief Audit Executive to assess the performance of external auditors in his role of co-ordinating internal and external audit efforts. This co-ordination of efforts involves:
  - Periodic meetings to discuss matters of mutual interest.
  - Exchange of audit reports and management letters.
  - Common understanding of audit techniques, methods and terminology.
- Establish and maintain a quality assurance program to evaluate the operations of the Internal Audit Unit.
- Provide staff assistance to the Audit Committee of Council.

## 12 General

- Develop a flexible strategic audit plan and a flexible annual audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by management, and submit that plan to the audit committee for review and approval as well as periodic updates;
- Implement the annual audit plan, as approved, including as appropriate any special tasks or projects requested by management and the audit committee;
- Maintain a professional audit staff with sufficient knowledge, skills, experience and professional certifications to meet the requirements of this Charter;
- Reviewing the systems established to ensure compliance with those policies, plans, procedures, laws, regulations and contracts that could have a significant impact on operations and reports and determining whether the municipality is in compliance;
- Reviewing the means of the safeguarding of assets and, as appropriate, verifying the existence of such assets;
- Appraising the economy, efficiency and effectiveness with which resources are employed;
- Reviewing operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned;
- Observing risk areas to reduce or eliminate losses that could occur in the future;
- Advising and assisting management in rectifying material weaknesses in the system of internal control on a consultancy basis so as to avoid re-occurrence;
- Keep the audit committee informed of emerging trends and successful practices in internal auditing;
- Reporting to the Office of the Municipal Manager and senior management on its findings; and
- Following-up on findings and recommendations of previous audits that have not received the appropriate action.
- In areas where, specialist, audit skills are lacking within the internal audit Unit, the services of the external auditors or other outside consultants may be employed within the bounds of the delegation of authorities.

**13 Addendums**

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

- "A" Standards and Statements for the professional practice of Internal Auditing as prescribed by the Institute of Internal Auditors (IIA)
- "B" IIA Code of Ethics.
- "C" IIA Statement of responsibilities.
- "D" The Municipal Finance Management Act
- "E" The King 11 report on corporate governance.
- "F" COSO ERM framework, published 15 July 2003.

**APPROVED BY:**

  
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Manager, Internal Audit

10/11/2016  
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Date

**APPROVED BY:**

  
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Chairperson: Audit Committee

10/11/2016  
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Date