

UMZIMVUBU LOCAL MUNICIPALITY

OFFICE OF THE MUNICIPAL MANAGER: INTERNAL AUDIT



UMZIMVUBU
— LOCAL MUNICIPALITY —

INTERNAL AUDIT CHARTER 2017/2018

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1. Introduction and Definition of Internal Auditing

The purpose of the Internal Audit Charter is to formally document and define the purpose, authority and responsibility of Internal Audit Activity (IAA). This charter provides guidance to the Umzimvubu Local Municipality Internal Audit Activity about main issues and procedures which it needs to consider as part of its work.

Umzimvubu Local Municipality Internal Audit Activity 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 relevant statutes or regulations.

Internal auditing is 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 the organisations's risk management, internal control, and governance processes.

2. Legislation Governing the Internal Audit Activity

Umzimvubu Local Municipality Internal Audit Activity is governed by section 165 of the Municipal Finance Management Act No. 56 of 2003 (MFMA) which provides for the establishment of the Internal Audit Activity within municipalities.

Internal Audit strives to meet and /or exceed the requirements of Internal Audit from the Institute of Internal Auditors of South Africa (IIASA); the King III report on Corporate Governance and other leading practice requirements.

3. Accountability of Umzimvubu Local Municipality Internal Audit Activity

To provide for the independence of the Internal Audit Activity, the Assistant Manager: Internal Audit and personnel report 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 Umzimvubu Local Municipality Internal Audit Activity

The scope of work of the Internal Audit Activity is to determine whether the organisation's network of governance, risk management and control processes, as designed and represented by management, is adequate and functioning in a manner to ensure amongst others that:

- Risks are appropriately identified and managed;
- Significant financial, managerial and operating information is accurate, reliable and timely;
- Resources are acquired economically, used efficiently, and adequately protected; and
- Programs, plans and objectives are achieved.

5. Internal Responsibility with Regard to Fraud and Corruption

- Umzimvubu Local Municipality Internal Audit Activity shall exercise due professional care in performing its activities.
- Umzimvubu Local Municipality Internal Audit Activity shall consider all possibilities of material irregularities or non-compliance when conducting its activities.
- When an internal auditor suspects wrongdoing he or she shall report to the Internal Audit Management who shall in turn report to the Audit Committee immediately and to the responsible Municipal Manager for the municipality concerned.
- Where suspicion is aroused or there are reasonable grounds for suspicion, Umzimvubu Local Municipality Internal Audit Activity must go behind the documents and the numbers to track down improprieties.
- In addition to understanding control systems, internal auditors should be aware of the kind of fraud that could be practiced.
- In order for Umzimvubu Local Municipality Internal Audit Activity to be more successful in detecting fraud, they should develop a greater awareness of how it occurs and why.
- Umzimvubu Local Municipality Internal Audit Activity shall recommend whatever investigation is considered necessary in the circumstances.
- Deterrence of fraud is the responsibility of management, however, Umzimvubu Local Municipality Internal Audit Activity is responsible for examination and evaluating the adequacy and effectiveness of actions taken by management to fulfill this obligation.
- Internal auditors should have sufficient knowledge of fraud to be able to identify indicators that fraud might have been committed.

6. Responsibility to Accounting Officers

Umzimvubu Local Municipality Internal Audit Activity is responsible to the Accounting Officer to ensure that they give assurance as to the effectiveness and efficiency of the controls employed in the municipality which the function serves. This should not, however, be construed as channeling the Internal Audit's direct responsibility to the Accounting Officer as this function reports to the Audit Committee as laid out in Section 3 of this charter.

7. Powers and Duties of the Umzimvubu Local Municipality Internal Audit Activity

(1) The internal audit activity, with strict accountability for confidentiality and safeguarding of records and information; is authorised full, free and unrestricted access to any and all of Umzimvubu Local Municipality's records, physical properties and personnel pertinent to carrying out any engagement. All employees are requested to assist the internal audit activity in fulfilling its roles and responsibilities. The internal audit activity will also have free and unrestricted access to the Audit Committee.

(2) Umzimvubu Local Municipality Internal Audit Activity must –

- a) examine and evaluate the business processes and related control systems of the municipality's and assist management in assessing risk;
- b) investigate any matter -
 - i. it deems necessary;
 - ii. referred to it in writing by Council or Accounting Officer of a municipality or
 - iii. against an Accounting Officer which has been submitted directly to the relevant Councillor by a public servant for referral to Umzimvubu Local Municipality Internal Audit Activity;
- c) prepare on an annual basis an audit plan to be approved by the Audit Committee;
- d) report to the Accounting Officer any irregularities or significant control weaknesses occurring in the municipality;
- (e) make recommendations to the accounting officer to remedy any deficiencies occurring in the municipality;
- (f) report to the Audit Committee the results of all audits or other projects undertaken by the internal audit function, and the status of its completed work compared to the approved annual audit plan;
- (g) provide a secretariat function to the Audit Committee;
- (h) make any recommendations it deems fit for consideration by the Audit Committee;
and

- (i) prepare an Audit Charter for Umzimvubu Local Municipality Internal Audit Activity which must be approved by the Audit Committee.

8. Fundamental Principles Governing the Internal Audit Activity

Umzimvubu Local Municipality Internal Audit Activity 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

Umzimvubu Local Municipality Internal Audit Activity has the independence in terms of organisational status and personal objectivity which permits the proper performance of its duties.

Independence is achieved through the organisational status of the Umzimvubu Local Municipality Internal Audit Activity and the objectivity of internal auditors.

The status of the Umzimvubu Local Municipality Internal Audit Activity enables it to operate effectively. The support of management is essential. Umzimvubu Local Municipality Internal Audit Activity should be involved in the determination of its own priorities, in consultation with management. Accordingly the Head of the Internal Audit Unit has direct access to, and freedom to report to, all senior management including the audit committee.

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:

- Umzimvubu Local Municipality Internal Audit Activity should be free from any conflict of interest arising either from professional or personal relationships.
- Umzimvubu Local Municipality Internal Audit Activity 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.
- Umzimvubu Local Municipality Internal Audit Activity should not allow its objectivity to be impaired when auditing an activity for which it has authority or responsibility.
- Umzimvubu Local Municipality Internal Audit Activity 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 Umzimvubu Local

Municipality Internal Audit Activity's objectivity in subsequently reviewing those systems.

- Umzimvubu Local Municipality Internal Audit Activity should not undertake non-audit duties. However, should the internal auditors be required to do so, management should understand that they are not acting as an auditor but on exception on a non-audit basis.

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

8.2 Staff and Training

Umzimvubu Local Municipality Internal Audit Activity should be appropriately staffed in terms of numbers, grades, qualifications and experience, having regard to its responsibilities and objectives. Internal auditors are properly trained to fulfill all their responsibilities.

The effectiveness of Umzimvubu Local Municipality Internal Audit Activity 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 Assistant Manager of Umzimvubu Local Municipality Internal Audit Activity should participate in the recruitment and selection of his/her staff. New entrants to internal audit work should have time to familiarise themselves with the activities of the Umzimvubu Local Municipality Internal Audit Activity and the local government, and be able to demonstrate their suitability for audit work.

The Assistant Manager of Umzimvubu Local Municipality Internal Audit Activity has a responsibility to ensure that the internal auditor receives the necessary training for the performance of the full range of duties.

Training should be tailored to the needs of the individual. It should include both the theoretical knowledge and its practical applications under the supervision of suitably competent and experienced internal auditors.

Account is taken of:

- internal audit objectives and priorities;
- the type of internal audit work;
- previous training, experience and qualifications; and
- personal development in the light of the needs of the Umzimvubu Local Municipality Internal Audit Activity.

Training is a planned and continuing process at all levels and covers:

- basic training - providing the knowledge of basic auditing principles and practices which all internal auditors should possess;
- development training - in general audit skills and techniques and inter-personal skills, to improve the effectiveness of those currently employed in internal audit; and
- specialised training - for those responsible for the internal audit activities which require skills or knowledge.

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

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

- private reading and study; and
 - participation in professional activities such as attending meetings, courses and conferences, lecturing, writing articles and papers and contributions to research groups.
- The Assistant Manager of Umzimvubu Local Municipality Internal Audit Activity should co-ordinate, and keep under review, the training requirements of internal auditors. He will be responsible for preparing training profiles which identify the training requirements for different grades of internal auditor, and should maintain personal training records for each individual.

8.3 Relationships

Umzimvubu Local Municipality Internal Audit Activity 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 Assistant Manager of Umzimvubu Local Municipality Internal Audit Activity should prepare the Internal Audit Plan in consultation with Senior Management. The Assistant Manager of Umzimvubu Local Municipality Internal Audit Activity should arrange the timing of internal audit assignments in consultation with the 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.

The Three Year Rolling Audit Plan and Annual Audit Plan must be tabled to the Accounting Officer of municipality for information purposes.

8.3.2 Relationship with the Audit Committee

The Assistant Manager of Umzimvubu Local Municipality Internal Audit Activity should report and liaise with the Audit Committee on a regular basis on matters affecting and pertinent to Umzimvubu Local Municipality Internal Audit Activity. Direction and guidance should be sought from the Audit Committee on a regular basis. Comments and recommendations not implemented by management should be tabled at the Audit Committee meetings for direction and resolution.

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. External and internal audit rely on each other's work, subject to limits determined by their different responsibilities, respective strengths and special abilities. Consultations should be held and consideration given to whether any work of either auditor is adequate for the purpose of the other.

Since Umzimvubu Local Municipality Internal Audit Activity evaluates the municipality's internal control system, the external auditor needs to be satisfied that Umzimvubu Local Municipality Internal Audit Activity is being planned and performed effectively and efficiently. This review needs to be seen by both parties as a necessary part of the working relationship.

Regular meetings should be held between internal and external audit at which joint audit planning, priorities, scope and audit findings are discussed and information exchanged.

8.4 Confidentiality

Internal Auditors have an obligation to respect the confidentiality of information about the client'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 the Audit Committee for guidance and advice if there is pressure to disclose information to parties other than the Accounting Officer; management of Umzimvubu Local Municipality, or the Audit Committee.

8.5 Due Care:

Umzimvubu Local Municipality Internal Audit Activity should exercise due care in fulfilling its responsibilities.

In order to demonstrate that due care has been exercised, Umzimvubu Local Municipality Internal Audit Activity 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.

Umzimvubu Local Municipality Internal Audit Activity should possess a thorough knowledge of the aims of the municipality and the internal control system. Umzimvubu Local Municipality Internal Audit Activity 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 Umzimvubu Local Municipality Internal Audit Activity.

Umzimvubu Local Municipality Internal Audit Activity 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 must not place himself in a position where responsibilities and private interests' conflict and any personal interest should be declared.

The Assistant Manager of the Umzimvubu Local Internal Audit Activity should promote and maintain adequate quality standards in the internal audit unit. She should establish methods of evaluating the work of her staff to ensure that the function fulfills its responsibilities and has proper regard to this statement.

9. Planning, Controlling, Recording and Reporting & follow - up:

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

9.1 Planning

At least annually; the Assistant Manager Internal Audit should prepare and submit to senior management and the Audit Committee an internal audit plan for review and approval. The internal audit plan will consist of a work schedule as well as budget and resource requirements for the next calendar year. The internal audit plan will be developed based on prioritization of the audit universe using a risk – based methodology; including input of senior management.

An internal audit plan should be sufficiently flexible to respond to changing priorities.

9.2 Controlling

Control of Umzimvubu Local Municipality Internal Audit Activity and 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 approach and standard documentation. The Assistant Manager of Umzimvubu Local Municipality Internal Audit Activity 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 Assistant Manager of Umzimvubu Local Municipality Internal Audit Activity 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. Umzimvubu Local Municipality Internal Audit Activity should obtain sufficient, relevant and reliable evidence on which to base reasonable conclusions and recommendations.

9.4 Reporting and Follow-up

Umzimvubu Local Municipality 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, the Audit Committee and Auditor-General.

10. Conclusion

To achieve full effectiveness the scope of Umzimvubu Local Municipality 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.

Umzimvubu Local Municipality 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 municipalities' 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.

Umzimvubu Local Municipality 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 Umzimvubu Local Municipality Internal Audit Activity discovers evidence of, or suspects fraud or theft, they should report firm evidence, or reasonable suspicions, to the appropriate level of management.

11. Approval

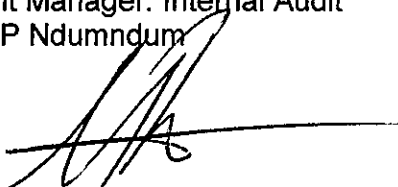
The Internal Audit terms of reference as set out on this charter are hereby approved by the Umzimvubu Local Municipality Audit and Performance Committee and the Accounting Officer for the 2017/2018 financial year

Signed By:



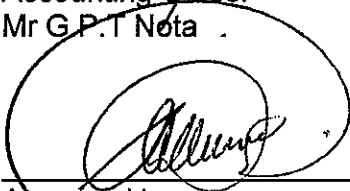
Accepted by
Assistant Manager: Internal Audit
Ms P.P.P Ndumndum

05/07/2017
Date



Approved by
Accounting Officer
Mr G.P.T Neta

05/07/2017
Date



Approved by
Chairperson: Audit & Performance Committee
Mr M. A Nkosi

05/07/2017
Date