

# UMZIMVUBU LOCAL MUNICIPALITY



## INTERNAL AUDIT CHARTER 2019/2020

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## 1. PURPOSE OF THE INTERNAL AUDIT CHARTER

The purpose of the Internal Audit Charter is to set out the statement of purpose, authority and responsibility of Internal Audit within Umzimvubu Local Municipality and to outline the scope of the Internal Audit work. The internal audit charter establishes the internal audit activity's position within the municipality, including the nature of the internal audit functional reporting and relationship with the audit committee and management, authorizes access to record, personnel, and physical properties relevant to the performance of engagements.

## 2. INTRODUCTION

The Internal Audit Activity shall provide Umzimvubu Local Municipality's Management and Council with an independent and objective evaluation of the effectiveness, efficiency, and application of the accounting, financial, and other internal controls necessary to accomplish Municipal objectives in compliance with Municipal Finance related practices and other policies and procedures, regulatory requirements, and sound business practices.

The following is the definition of internal audit:

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

## 3. FUNCTION

The following functions are performed by the Internal Audit unit:

1. Internal audit is an appraisal function established within the Municipality to independently examine and evaluate the internal controls, risk management and governance processes of the Municipality and report to management and the audit committee.
2. It is a control function which functions by examining and evaluating the adequacy and effectiveness of internal controls. To this end, the Unit will furnish the audit committee and Management with analyses, appraisals and recommendations concerning the activities reviewed.

3. Internal audit is functionally reporting to the Audit Committee and for administrative purposes will report to the Municipal Manager.
4. Internal audit shall have an independent status within the Municipality and will not be involved in the day-to-day internal operations of systems within the Municipality.

#### **4. AUDIT SCOPE**

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organization's governance, risk management, and internal control process.

Internal Audit also evaluates the quality of performance in carrying out assigned responsibilities to achieve the organization's stated goals and objectives. This includes:

1. Evaluating the reliability and integrity of information and the means used to identify measure, classify, and report such information;
2. Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the Department;
3. Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
4. Evaluating the effectiveness and efficiency with which resources are employed;
5. Evaluating 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;
6. Monitoring and evaluating governance processes;
7. Monitoring and evaluating information and communication technology processes;
8. Monitoring and evaluating the effectiveness of the municipal risk management processes;
9. Coordinating the relationship between the management and other assurance providers; and

10. Performing consulting and advisory services related to governance, risk management and control processes as appropriate for the organization.

*Consulting services will include:*

- (a) Formal consulting agreement – those that are planned and subject to written agreements;
  - (b) Information consulting engagements – routine activities such as participation on standing committees, ad-hoc meetings, limited life audits and routine information exchange;
  - (c) Special consulting engagements – participation on dedicated teams such as system conversion teams; and
  - (d) Emergency consulting engagements – participation on a team established for recovery or maintenance of operations after a disaster or other extraordinary business event;
  - (e) Support provided to management in the design and development of effective control measures; and
  - (f) Facilitation of risk assessment.
11. Reporting periodically to management and the audit committee on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan;
  12. Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Audit Committee;
  13. Evaluating specific operations at the request of the Audit Committee or Management, as appropriate;
  14. Communicate to Management and the Audit Committee on the internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years; and
  15. Maintaining of professional audit staff with sufficient knowledge, skills, experience and professional certification to meet the requirements of this charter.

## **5. CODE OF ETHICS**

### **Principles**

Internal Auditors are expected to apply and uphold the following principles:

#### **1. Integrity**

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.

#### **2. Objectivity**

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.

#### **3. Confidentiality**

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

#### **4. Competency**

Internal auditors apply the knowledge; skills and experience needed in the performance of internal audit services.

## **Rules of Conduct**

### 1. Integrity

Internal Auditors:

- Shall perform their work with honesty, diligence and responsibility
- Shall observe the law and make disclosure expected by the law and the profession.
- Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization.
- Shall respect and contribute to the legitimate and ethical objectives of the organisation.

### 2. Objectivity

Internal auditors:

- Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation.
- Shall not accept anything that may impair or be presumed to impair their professional judgement
- Shall disclose all material facts known to them that, if not disclosed may distort the reporting of activities under review

### 3. Confidentiality

Internal Auditors:

- Shall be prudent in the use and protection of information acquired in the course of their duties.

- Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

#### 4. Competency

Internal Auditors:

- Shall engage only in those services for which they have the necessary knowledge, skills and experience.
- Shall perform internal audit services in accordance with the *International Standards for the Professional Practice of Internal Auditing*.
- Shall continually improve their proficiency and the effectiveness and quality of their services.

#### 6. PROFICIENCY AND DUE PROFESSIONAL CARE

Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collective must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.

#### 7. CONTINUING PROFESSIONAL DEVELOPMENT

Internal auditors must enhance their knowledge, skills and other competencies through continuing professional development. The municipality should assist the internal audit activity with the necessary resources and funding the approved continuing professional development plan.



## **8. QUALITY ASSURANCE AND IMPROVEMENT PROGRAM**

The Assistant Manager: Internal audit must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.

The quality assurance and improvement program must include both internal and external assessments.

### **8.1 Internal Assessments**

This will include:

- i. Ongoing monitoring of the performance of the internal audit activity; and
- ii. Periodic self-assessments by other persons within the municipality with sufficient knowledge of internal audit practices.

### **8.2 External Assessments**

These assessments must be conducted at least every five years by a qualified, independent assessor or assessment team from outside the municipality.

### **8.3 Reporting on the quality assurance and improvement program**

The Assistant Manager: Internal audit must communicate the results of quality assurance and improvement program to senior management and the audit committee.

## **9. AUTHORITY**

The Internal Audit Staff is authorized to:

1. Have full and unrestricted access to any and all municipal records, physical properties, and personnel relevant to any function under review or audit.
2. Request the assistance of all Municipal employees in fulfilling Internal Audit's function.
3. Maintain the independence necessary to render objective reports by assuring all audit activities (including audit scope, procedures, frequency, timing, and report content) are free from influence by auditee.
4. Have free and unrestricted access to the Municipal Manager and Audit Committee.

**The Internal Audit staff is not authorized to:**

1. Perform any operational duties for the Municipality or its affiliates without approval of the Municipal Manager and/or the Audit Committee;
2. Initiate or approve accounting transactions external to Internal Audit;
3. Assume direct operational responsibility or authority over any of the activities under review or audit;
4. Develop or install systems or procedures, prepare records, or engage in any other activity that would normally be audited.

**Subject to the approval by the Audit Committee, Internal audit is authorized to:**

1. Decide on the nature, scope and timing of audits;
2. Enter all premises of the Municipality and have access to and inspect all documents and records;
3. Require any officer of the Municipality to supply such information and explanations as may be needed; and
4. Have discussions with Heads of Departments and employees of the Municipality at any reasonable time.

## **10. INDEPENDENCE**

To provide for the independence of the Internal Audit unit, internal audit staff shall report to the Assistant Manager: Internal audit, who in turn shall report functionally to the audit committee and administratively to the Accounting Officer on the implementation of the Annual Internal Audit Plan.

Internal Audit shall also report to the Audit and Performance Committee on matters relating to internal audit, controls, Accounting procedures and practices, risk and risk management, performance management, loss control and compliance with Municipal Finance Management Act and other applicable legislation.

## 11. RESPONSIBILITIES

The Assistant Manager: Internal Audit Unit's responsibility to the Audit Committee and Management:

The Assistant Manager: Internal Audit unit and the Internal Audit staff have a responsibility to:

1. Develop an 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.
2. Submit a signed copy to the Municipal Manager for record keeping.
3. Report significant changes to the approved plan shall be to the Municipal Manager and to the Audit Committee for approval.
4. Implement the approved Annual Audit Plan and any special tasks or projects requested by the Municipal Manager, Audit Committee, or Management.
5. Maintain sufficient knowledge, skills, expertise, and professional certifications to meet the requirements of this Charter.
6. Apply the care and skill expected of a reasonably prudent and competent internal auditor.
7. Safeguard the documents and information given to Internal Audit during a periodic review or audit in the same prudent manner employed by those employees normally accountable for the documents and information.
8. Evaluate and assess new or changing services, processes, and operations coincident with their development, implementation, and/or expansion.
9. Issue periodic reports to the Municipal Manager, Audit Committee, and management summarizing results of audit activities.
10. Keep the Municipal Manager, Audit Committee, and management informed of emerging trends and successful practices in internal auditing.
11. Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the Municipality at a reasonable overall cost.

## **12. PROFESSIONAL CONDUCT OF INTERNAL AUDIT UNIT**

1. The Internal Audit Activity will govern itself by adherence to The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards);
2. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance;
3. The Institute of Internal Auditors' Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations;
4. In addition, the internal audit activity will adhere to municipal policies and procedures and the internal audit activity's standard operating procedure manual;
5. All internal audit staff are to ensure that their behavior at all times accords with the Municipality's' Code of Conduct as well as the Institute of Internal Auditors Code of ethics;
6. All internal audit staff must conduct themselves and their work in an objective manner, with an independent state of mind and always in the best interests of the Municipality;
7. Internal audit staff must ensure that they do not engage in any activity which would be in conflict with either the interests of the Municipality or the internal audit unit's objectives;
8. Where there is doubt, the matter must be referred to the Assistant Manager: Internal Audit and in the case of the Assistant Manager: Internal Audit this should be referred directly to the Municipal Manager;
9. Internal audit staff are required to be members of the Institute of Internal Auditors in South Africa and the municipality will support reasonable official duties they may incur with such institution provided such activities do not hinder the effectiveness of the Internal Audit Function;
10. Internal audit staff must ensure that they stay abreast of all new development methods and techniques of both internal auditing and the operational areas of their responsibility;
11. The municipality must also play a key role in supporting continuing professional development of the Internal Audit Unit as a whole.

### **13.ACCESS TO INTERNAL AUDIT REPORTS AND WORKING PAPERS**

The final internal audit reports will be distributed to the Management, Municipal Manager and the Audit Committee.

The reports will be communicated to Management for follow-up and reporting purposes, other officials of the municipality may have access to these reports from their respective managers.

*The following users have access to internal audit working papers:*

1. Service providers appointed to perform external quality assurance;
2. Office of the Auditor General (SA) for audit purposes;
3. The Municipal Manager and the Audit Committee for internal quality assessments; and
4. When requested for use by the Courts of Law.

## Glossary

### 1. Code of Ethics

The Code of Ethics of The Institute of Internal Auditors (IIA) are Principles relevant to the profession and practice of internal auditing, and Rules of Conduct that describe behavior expected of internal auditors. The Code of Ethics applies to both parties and entities that provide internal audit services. The purpose of the Code of Ethics is to promote an ethical culture in the global profession of internal auditing.

### 2. Control

Any action taken by management to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

### 3. Adequate Control

Present if management has planned and organized (designed) in a manner that provides reasonable assurance that the organization's risks have been managed effectively and that the organization's goals and objectives will be achieved efficiently and economically.

### 4. Engagement

A specific internal audit assignment, task, or review activity, such as an internal audit, control self-assessment review, fraud examination, or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.

### 5. Engagement Objectives

Broad statements developed by internal auditors that define intended engagement accomplishments.

### 6. Independence

The freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.

### 7. Objectivity

An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality

compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others.

#### 8. Engagement Opinion

The rating, conclusion, and/or other description of results of an individual internal audit engagement, relating to those aspects within the objectives and scope of the engagement.

#### 9. 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 and compliance engagements.

#### 10. 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.

#### 11. Governance

The combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives.

#### 12. Conflict of Interest

Any relationship that is, or appears to be, not in the best interest of the organization. A conflict of interest would prejudice an individual's ability to perform his or her duties and responsibilities objectively.

#### 14. ADOPTION AND 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 accepted by the Accounting Officer. The charter should be reviewed annually.



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

20 June 2019

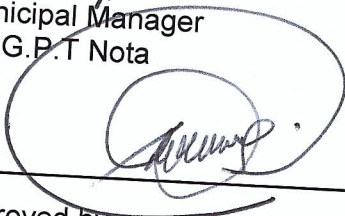
Date



Endorsed by  
Municipal Manager  
Mr. G.P.T Nota

20 June 2019

Date



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

20 June 2019

Date