

**NGQUSHWA LOCAL MUNICIPALITY  
INTERNAL AUDIT CHARTER**

**DATE OF REVIEW: 14 July 2016**



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**Internal Audit Charter**

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**1. Scope**

It is the express interest of the Council and the Municipal Manager to promote accountability, integrity and efficiency in the operations of the Ngqushwa Local Municipality (hereafter referred to as the "Municipality"). This charter establishes an Internal Audit Activity (IIA) which provides a central point for the coordination of and responsibility for activities that promote accountability, integrity and efficiency in the municipality.

The Municipality is required to have an internal audit function in terms of section 165 of the Municipal Finance Management Act no 56 of 2003 ("MFMA"). It is also re-enforced by the recommendations of the King III Report on Corporate Governance.

**2. Purpose**

2.1 The internal audit function of the Municipality is required to provide independent, objective assurance and consulting services designed to add value and improve the Municipality's operations. It assists the Municipality in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes. The IIA intends to function in a manner that ensures that:

- Risks are appropriately identified and managed;
- Interaction with the various governance groups occurs as needed;
- Significant financial, managerial and operating information is accurate, reliable and timely;
- Employees' actions are in compliance with policies, standards, procedures and applicable laws and regulations;
- Resources are acquired economically, used efficiently and adequately protected;
- Programs, plans and objectives are achieved;
- Quality and continuous improvements are fostered in the organizations controls process; and
- Significant legislative/regulatory issues impacting the organization are recognized and addressed appropriately.

2.2. It is the objective of the Internal Audit Function to provide the council and management of the Municipality with independent assurance about the adequacy and effectiveness of the municipality's systems of internal controls and the quality of performance in carrying out assigned responsibilities.

2.3. Internal Audit Function will serve as an independent appraisal function within the municipality to examine and evaluate its activities. To this end, the Internal Audit function will furnish the municipality with analyses, appraisals, recommendations, counsel and information concerning the activities reviewed.

**3. Authority**

3.1 The Council resolved to establish the Internal Audit Function and placed it under the Municipal Managers Department. The Manager of the Internal Audit shall report administratively to the Municipal Manager and functionally to the established Audit Committee (AC) of the Municipality.

3.2 The Internal Audit Manager has the authority to communicate directly with the accounting officer, audit committee, municipal council, and other appropriate governing authorities.



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- 3.3 The Internal Audit Manager has the authority to regularly attend and participate in meetings which relate to the Internal Audit Unit’s oversight responsibilities for auditing, financial reporting, corporate governance and control.
- 3.4 The AC has the authority to promote independence in the Internal Audit Function and to ensure broad audit coverage, adequate consideration of audit reports and appropriate action on the audit reports.
- 3.5 The Municipal Manager (MM) shall have authority to request changes in the approved annual audit plan during the financial year, but these changes shall subsequently be submitted to the AC for approval.
- 3.6 The scope of work performed by the Office of the Internal Audit shall be unrestricted. In order for the Office of the Internal Audit to properly carry out their responsibilities, the office shall be granted the following authority:
- 3.6.1 Complete access to all municipality’s records and documents;
  - 3.6.2 Ability to request reasonable assistance from appropriate personnel in acquiring requested records and documents;
  - 3.6.3 Inspection privileges to all assets owned, leased or borrowed by the municipality;
  - 3.6.4 Ability to request reasonable assistance from appropriate personnel in locating assist owned, leased and borrowed by the municipality;
  - 3.6.5 Entry privileges to any and all facilities used by the municipality and
  - 3.6.6 Interview privileges, either written or oral, with all municipality management, employees and councillors.

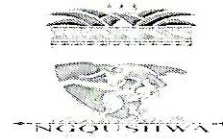
**Delegation of Authority:**

<b>From</b>	<b>To</b>	<b>Type of Delegation</b>
Council	Audit Committee	1. Authority to promote the independence of the internal audit function. Authority to review and approve the strategic and annual audit plan and table it to the council for noting.
Council	Municipal Manager	Authority to request changes in the approved annual audit plan during the financial year but these changes shall be submitted to audit committee for approval
Council	Internal Audit Office	Complete access to all municipality’s records and documents
Council	Internal Audit Office	Ability to request reasonable assistance from appropriate personnel in acquiring requested documents and records
Council	Internal Audit Office	Inspection privileges to all assets owned, leased or borrowed by the municipality
Council	Internal Audit Office	Ability to request reasonable assistance from appropriate personnel in locating assets owned,



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		leased or borrowed by the municipality.
Council	Internal Audit Office	Entry privileges to any and all facilities used by the municipality.
Council	Internal Audit Office	Interview privileges either written or oral with all municipality management, employees and councillors
Council	Internal Audit Office	Authority to conduct audits of all departmental offices, activities and programs under the control of the municipality. Such include operational, compliance, performance and management functions.
Council	Internal Audit Office	Authority to act in conjunction with the MM to prepare, long-term and annual audit plans that include objectives and goals, audit schedules, staffing plans and financial budgets.
Council	Internal Audit Office	Authority to schedule meetings with MM and respective audited departments before issuing the report.
Council	Internal Audit Office	Authority to submit copies of the final audit report to all councillors, MM, CFO and audited departmental staff after approval by the Audit Committee and retain a copy for permanent records.
Council	Internal Audit Office	Authority to initiate and conduct any other audits or review deemed necessary.
Council	Internal Audit Office	Authority to assess the reliability and validity of the information provided by the municipality on performance measures and standards and make recommendations, where necessarily
Council	Internal Audit Office	Authority to conduct, supervise or coordinate other activities carried out or financed by the council for the purposes of promoting economy, efficiency in the administration/ prevention and detection of fraud and abuse in its programs and operations.
Council	Internal Audit Office	Authority to initiate and coordinate investigations designed to detect, deter, prevent and eradicate fraud,



		waste, mismanagement, misconduct and other abuse in the entity.
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**4. Responsibility**

The Internal Audit Function shall conduct performance, financial, compliance and electronic data processing audits of all departments, offices, activities and programs under the control of the municipality. Performance audits include economy, efficiency and program audits, while financial audits include high level review of Annual Financial Statements and financial related audits. Over and above internal audit will perform consulting engagements as required by the definition of internal auditing.

**4.1. Performance Audits**

Economy and Efficiency Audits to determine:

- Whether the municipality is acquiring, protecting and using its resources economically and efficiently.
- Whether the municipality has complied with laws and regulations concerning matters of economy and efficiency.

Program audits

- The extent to which the desired results or benefits established by the legislature, Council or other authorised bodies is being achieved.
- The effectiveness of programs, activities, functions and/ or system controls.
- Whether the municipality has complied with laws and regulations applicable to the program.

**4.2. Financial Audits**

To determine:

- Whether the financial statements presented are fairly stating the financial position, results of operations and cash flows or changes in financial position in accordance with Generally Accepted Accounting Principles (GAAP).
- Whether the municipality has complied with laws and regulations for those transactions and events that may have material effect on the financial statements.
- Whether the municipality has adhered to specific financial compliance requirements.
- The Internal Audit Manager or any employee of the internal audit office shall not conduct or supervise an audit of an activity for which he/she was responsible or within he/she was employed during the preceding two years.

**4.3. Other Duties and Responsibilities**

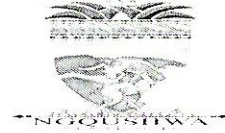
- It shall be the duty and responsibility of The Internal Audit Manager to:
- Assess the reliability and validity of the information provided by the Municipality on performance measures and standards, and make recommendations for improvement, if necessary.
- Review the actions taken by the Municipality to improve program performance and meet program standards and make recommendations for improvement, if necessary.
- Provide direction for, supervise, and coordinate audits, investigations, and management reviews relating to the programs and operations of the Municipality, except when The Internal Audit

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Manager does not possess the qualifications and experience or capacity necessary to conduct such audits. An outside expert may be called to conduct such an audit.

- Keep the Audit Committee in consultation with the Municipal Manager informed concerning instances of fraud, abuses and deficiencies relating to programs and operations administered by the Municipality that may come to his attention during performance of his duties. Recommend corrective action concerning fraud, abuses, and deficiencies and report on the progress made in implementing corrective action.
- Ensure effective coordination and cooperation between the Auditor General and other governmental bodies in order to avoid duplication.
- Review, as appropriate, rules relating to the programs and operations of the Municipality and make recommendations concerning their impact.
- Ensure that an appropriate balance is maintained between audit, investigative, and other accountability activities.
- Review the risk mitigating factors of the municipality and report to the audit committee on a quarterly basis.
- Provide assurance to management and the Audit Committee on the adequacy and effectiveness of the risk management process by conducting assessments and reporting on the organization's risk management process.
- Advice and coach management in risk management process, develop risk policy and frameworks.
- Internal audit activity shall assess and make recommendations for improving governance process in its accomplishment of the following objectives:
  - Promoting appropriate ethics and values within the municipality;
  - Ensuring effective organizational performance management and accountability;
  - Communicating risk and control information to appropriate areas of municipality; and
  - Coordinating the activities of and communicating information among the audit committee, external, internal auditors and management.
- Internal audit unit is accountable to the audit committee as follows:
  - Maintain open and effective communication with the audit committee;
  - Develop a flexible annual audit plan using a risk based methodology, addressing any weaknesses in risks or controls identified;
  - Submit the audit plan to the audit committee for review and approval;
  - Report on the implementation and results of the annual audit plan including special tasks requested by management and the audit committee;
  - Assist in drafting the agenda and documentation, and facilitate the distribution thereof to the audit committee in advance of meetings;
  - Meet periodically with the chairperson of the audit committee to discuss whether the material and information furnished meets the requirements of the audit committee;
  - Obtain advice from the audit committee whether the frequency and time allocated to the committee is sufficient to attend effectively to all matters;



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- Cooperate with the audit committee as they conduct annual reviews of the performance of the internal audit function;
- Submit the internal audit charter to the audit committee for review and approval on an annual basis and as necessary.

### 5. Resource Requirements

5.1. The budget of internal audit is the responsibility of the accounting officer, audit committee and chief audit executive to ensure that the internal audit activity is adequately resourced for effective functioning.

5.1. The Internal Audit Manager shall have control and responsibility over the internal audit budget. The budget must cover the following items:

- Personnel related expenditure;
- Capital expenditure and software;
- Training and development;
- Institute of Internal Auditors membership fees; and
- Quality assurance programs.

5.2. The Internal Audit Manager and the accounting officer shall develop an internal audit structure taking into consideration the magnitude of the municipality including risk and complexity of the operations.

5.3. Provision shall be made for levels of supervision and review of audit work in line with due professional care as provided for in the International Standards for the Professional Practice of Internal Audit.

5.4. The Internal Audit Manager shall develop recruitment, placement, training and a staff retention programme to ensure that appropriate skills are available.

5.5. To improve effectiveness of internal audit, staff at all levels must have well-documented job descriptions, performance evaluations and training programmes.

### 6. Standard Audit Practice

6.1. The Internal Audit Office shall develop strategic (3 year term) and annual operational audit plans based on the findings of periodic risk assessments conducted.

6.2. The Internal Audit Office shall submit an annual budget and audit plan, reflecting scheduled audits, non-audit activities and related resources to be devoted to such activities, to the Audit Committee within 30 days of the beginning of each fiscal year for review, discussion and approval.

6.3. The long term and annual audit plans shall be developed by The Internal Audit Manager. The Audit Committee may amend the annual plan during the year. The Internal Audit Manager may initiate and conduct any other audit or review he/she deems necessary to undertake. Reasonable notice, at the discretion of The Internal Audit Manager, should be given to appropriate personnel of intent to audit in their area. An exception to reasonable notice will be taken in cases that involve surprise audits.



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**7. Professional Standards**

- 7.1. The Office of The Internal Audit Manager shall adhere to generally accepted governmental auditing standards.
- 7.2. The Office of The Internal Audit Manager will conduct its affairs in accordance with this Charter and the Standards for the Professional Practice of Internal Auditing as issued by the Institute of Internal Auditors.

**8. Reporting Arrangements**

- 8.1. After each audit, Internal Audit shall immediately issue a draft audit report on issues/findings to the Head of Department concerned.
- 8.2. Management's comments and action plans should be received within 10 working days from issuing the audit report.
- 8.3. The audited department/office shall respond in writing regarding audit findings and recommendations indicating agreement or disagreement, and reasons for any disagreements, plans for implementing solutions to identified weakness, and a timetable to complete such activities.
- 8.4. The Internal Audit Managers shall evaluate management comments received. The following considerations will be made with respect to the assessment:
  - The adequacy and relevance of management's response to findings and recommendations;
  - Any disagreements raised by management on the findings;
  - Proposed actions by management and ensure that actions taken by management address the identified deficiencies; and
  - The impact of management's actions on the report.
- 8.5. An agreement shall be reached between the Head of Department and the Internal Audit Unit regarding the facts of each matter included in the final report.
- 8.6. The Internal Audit Manager will include the full text of the response in the final report.
- 8.7. A written final audit report will be issued to the Head of the Department within 5 days of receiving management's comments and an Executive Summary of the report will be submitted to the Municipal Manager.
- 8.8. Internal audit reserves the right to report any critical or significant issue direct to the Municipal Manager and the Chairperson of the Audit Committee before consulting with the Head of Department concerned.
- 8.9. Internal Audit will report every quarter to the audit committee on the:
  - Status of the Internal Audit activities;
  - Significant findings and management action plans;
  - Follow-up on previously reported audit findings;
  - Internal Audit budgets and variances and;
  - Internal Audit resources requirements.
  - Status of risk mitigation in the municipality.

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- 8.10. The Internal Audit Manager will have direct communication with the Audit Committee of the municipality through the office of the Municipal Manager.
- 8.11. Internal Audit reports will be prepared within the following guidelines:
- Each audit will result in a written report. Audit reports will be numbered sequentially by year and The Internal Audit Manager will maintain a cross-reference of audit reports by department/office and/or program.
  - Prior to providing a final audit report to the AC, The Internal Audit Manager will provide a draft report to the Municipal Manager and the Auditee Department/Office for review and comment regarding factual content. Draft reports shall remain confidential. The audit work papers and notes related to such audit report are confidential. Accordingly, each page of the draft report shall be stamped "Confidential Draft Document".
  - Upon review and consultation with both the Municipal Manager and The Internal Audit Manager, the Municipal Manager may instruct The Internal Audit Manager to transmit the report to the Council.
  - The Internal Audit Manager will schedule a meeting to review the report and response with the MM, and respective audited department/office before issuing a final written report. After such meeting The Internal Audit Manager shall agenda the final audit report for the next available Audit Committee meeting.
- 8.12 The report will contain the professional conclusions of the auditor regarding the activities audited. The Internal Audit Manager shall include in the audit reports:
- a) A precise statement of the objective and scope of the audit.
  - b) A statement that the audit was performed in accordance with generally accepted governmental auditing standards, if appropriate.
  - c) A statement that an examination for compliance with applicable laws, policies and regulations was conducted and presentation of the findings associated with that examination.
  - d) A summary of findings, including a statement of underlying root causes of findings, evaluation criteria used and the current and prospective significance of the findings.
  - e) A statement that internal control systems were examined and a report of any material weakness found in the internal control systems, if appropriate.
  - f) Statements of response submitted by the audited department/office relevant to the audit findings.
  - g) A concise statement of the corrective actions already taken as a result of the audit findings or on the auditee's own initiative.
  - h) Recommendations for additional, necessary or desirable action.

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### **9. Monitoring Progress**

- 9.1. Observations and recommendations requiring immediate action shall be monitored by internal audit activity until corrected.
- 9.2. Follow-up audits shall entail verification of implementation of management actions. The Internal Audit Manager will institute procedures to include:
- An evaluation of management response;
  - Verification of the response; and
  - A follow-up engagement and reports submitted to Council to address actions not being implemented.
- 9.3. The Internal Audit Manager may request periodic status reports from audited departments, offices, or divisions regarding actions taken to address reported deficiencies and audit recommendations.

### **10. Consulting Activities**

- 10.1. The objective of consulting services is to aid management in problem solving activities, achieving the municipality's objectives, and add value to line and senior management. The charter should include the authority and responsibilities of consulting services.
- 10.2. Internal audit shall obtain an understanding of the nature of the engagement to clearly articulate the terms of reference. Agreed upon procedures will be documented in the engagement letter and approved with the client.
- 10.3. Objectives, scope and limitations of the consulting assignment will be confirmed in writing in the engagement letter. The responsibilities of both management and internal audit shall be defined and documented in the engagement letter. The engagement letter will subsequently be signed by both parties.
- 10.4. All working papers prepared during the execution of the consulting engagement will be kept as evidence of conducting the procedures.
- 10.5. Internal audit will communicate issues and preliminary results of the consulting engagement with line management during the performance of the engagement.
- 10.6. As agreed upon in the engagement letter, internal audit shall report results of the consulting activity.
- 10.7. The Internal Audit Manager must request the audit committee's approval before the commencement of an engagement for consulting activities that significantly affect the approved internal audit's annual operational plan.
- 10.8. Prior to the acceptance of a consulting engagement, an evaluation of the impact that the engagement shall have on the independence and objectivity of the internal audit's activity shall be made by The Internal Audit Manager.
- 10.9. The Internal Audit Manager may only accept engagements once it has been established by him/her that The Internal Audit Managers have the requisite skills, knowledge, time and competencies to perform the proposed consulting activities.



- 10.10. The Internal Audit Manager shall consider the risks associated with the proposed consulting activities.

### **11. Fraud and Other Irregularities**

- 11.1. During the course of audit work, The Internal Audit Manager and his/her staff shall remain vigilant and alert to any indications of fraud, abuse or illegal acts.
- 11.2. If The Internal Audit Manager detects apparent violations of law or apparent instances of misconduct by an employee, or information that breach of regulation/law may be reasonably anticipated, The Internal Audit Manager after consultation with the Municipal Manager, shall report the irregularity in writing to the Municipal Manager and the Audit Committee unless the matters implicates Municipal Manager himself/herself, the report will be furnished with the Chairperson of the Audit Committee only.

### **12. Responsibility for Internal Control**

The existence of internal audit in no way diminishes the responsibility of the Municipality's management for implementing and maintaining effective systems of control, risk management and governance. Internal audit will not design or participate in control activities, as this would compromise its independence.

However, internal audit can and will provide advice on the design and implementation of internal controls. Internal audit staff will have neither direct responsibility for, nor authority over, any of the activities that they audit.

### **13. Independence and Organization**

- 13.1. To ensure its independence, the internal audit function will interact administratively with executive management (report administratively to the Municipal Manager) and report functionally to the Audit Committee;
- 13.2. Internal Audit will have the right to refer any matters, where its independence may be compromised to the Audit Committee for their review and resolution thereof;
- 13.3. As described above, internal audit will not have authority over, or responsibility for, any operational activities other than the actual review thereof; and
- 13.4. Internal Audit may neither develop nor install systems or procedures, prepare records, or engage in any other activity that would normally be audited.
- 13.5. The Internal Audit Function shall not initiate or approve accounting transactions external to the scope; and
- 13.6. The Internal Audit Function shall avoid conflict of interest.

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**14. Liaison with External Auditors**

Internal Audit will have unlimited access and shall communicate regularly with the external auditors (Auditor General) to ensure that:

- Internal and External Audit activities are properly coordinated and planned;
- Audit work is not duplicated;
- Issues of mutual concern are resolved; and
- Key risks and audit scope are discussed and priorities emphasized.
- AG receives copies of internal audit reports and is timeously informed of significant issues emanating from internal audit function's implementation of its mandate.

**15. Quality Assurance Review**

15.1. The Internal Audit Manager will establish and maintain a quality assurance program to evaluate the operations of the internal audit function. Quality control in the internal audit function will include the following:

- The head of the internal audit shall maintain an ongoing system to measure performance of internal audit staff in line with, amongst others, compliance with the legislative framework, definition of internal auditing, standards, internal audit charter, code of ethics and methodology.
- A structured training program shall be followed in order to develop the technical, conceptual and management abilities of the internal audit personnel
- The audit approach followed shall be regularly evaluated to ensure that it conforms to the developments taking place within the internal audit profession and
- As far as possible, the head of the internal audit and internal audit staff shall be members of the Institute of Internal Auditors South Africa.

15.2. The Audit Committee shall review activities of the Office of the Internal Audit at least once every three years, utilizing guidelines endorsed by the National Treasury or a relevant professional body. A copy of the written report of this independence review shall be furnished to the council and Municipal Manager.

15.3. An external assessment of the Internal Audit function shall be conducted at least once every five years as prescribed, by an independent qualified reviewer / review team. Assessment of the Internal Audit function should include the evaluation of:

- Compliance with IIA standards and Code of Ethics;
- Adequacy of the Internal Audit Charter, policies and procedures
- Contribution to the organization's risk management, governance and control processes;
- Compliance with applicable laws, regulations and government standards and
- Whether the Internal Audit function adds value and improves the municipality's operations.
- General standards, such as staff qualifications, due professional care and quality assurance.
- Fieldwork standards such as planning, supervision and audit evidence.
- Reporting standards such as report contents, presentation and timeliness

15.4. On completion of the external assessment, the review team should issue a formal report containing an opinion and submit such report to the audit committee and the accounting officer.



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- 15.5. The Internal Audit Manager in consultation with the accounting officer will subsequently prepare a written action plan in response to comments and recommendations in the report.
- 15.6. The municipality shall reimburse the costs of the appointed quality control review team.

**16. Conclusion**

The Internal Audit activity should lead to the strengthening of internal control as a result of management response. Internal Audit shall at all times meet or exceed the Standards for the Professional Practice of Internal Auditing and the Code of Ethics, as published by the Institute of Internal Auditors when conducting their work or any other tasks assigned to them.

It is management's responsibility to maintain the internal control system and to ensure that the resources are properly applied in the manner and to the activities intended. This includes responsibility for the prevention of fraud and other illegal activities.

Prepared by:

  
\_\_\_\_\_  
Mr N Mbadu  
MANAGER: INTERNAL AUDIT

  
\_\_\_\_\_  
Date

Accepted by on behalf of Management by:

  
\_\_\_\_\_  
Mr Thandekile Mnyimba  
MUNICIPAL MANAGER

  
\_\_\_\_\_  
Date

Approved by:

  
\_\_\_\_\_  
Dr. W Plaatjes  
Chairperson: Audit Committee

  
\_\_\_\_\_  
Date

Concurred by:

\_\_\_\_\_  
Cllr. M. Siwisa  
Mayor

\_\_\_\_\_  
Date

*Note: The approved internal audit charter must be distributed to all internal audit staff, and they in turn, should sign acknowledgement of receipt thereof.*