

# **INTERNAL AUDIT CHARTER**

## **2022/23**

## I. References

The following documents were considered in the development of this charter:

- Municipal Finance Management Act, Act No. 53 of 2003
- Treasury Circulars
- King report on corporate governance
- IIA International Professional Practices Framework
- National Treasury Internal Audit Framework

## II. Abbreviations

Abbreviation	Explanation
AC	Audit Committee
CAE	Chief Audit Executive
IAM	Internal Audit Manager
NLM	Ngqushwa Local Municipality
MM	Municipal Manager
IA	Internal Audit
IAA	Internal Audit Activity
IIA	Institute of Internal Auditors
MFMA	Municipal Finance Management Act

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## 1. Introduction

The Council and Audit Committee (AC) is responsible for overseeing the establishment of effective systems of internal control in order to provide reasonable assurance that Ngqushwa Local Municipality's (NLM) financial and non-financial objectives are achieved. Executing this responsibility includes the establishment of an internal audit function in accordance with section 165 of the Municipal Finance Management Act (MFMA).

This document defines the Internal Audit Activity's purpose, responsibilities and authority.

## 2. Purpose of the Internal Audit

Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve Ngqushwa Local Municipality's operations. It helps NLM to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. Internal Audit will provide the Council and management with analyses, appraisals and recommendations concerning the activities reviewed.

## 3. Role of management

**Management** is responsible for:

- establishing and maintaining **internal controls** to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations and
- availing information to the Internal Audit to ensure that IA objectives are executed effectively.

## 4. Role of Internal Audit

The role of internal audit in the municipality is to assist the Municipal Manager (MM) and the Council to meet their objectives and to discharge their responsibilities by

providing an independent evaluation of the adequacy and effectiveness of NLM's network of risk management, control and governance processes.

Internal audit is a systematic, objective appraisal of the diverse operations and controls within NLM to ensure:

- the reliability and integrity of financial and non-financial information;
- the effectiveness of operations;
- safeguarding of assets;
- economical and efficient use of resources and
- compliance with all applicable legislation within the sphere of Government.

## **5. Independence and Objectivity**

- To provide for the independence of the Internal Audit Activity (IAA), the Internal Audit Manager (IAM) and personnel report functionally to the AC and administratively to the MM.
- The IAA shall have an independent status within the Municipality and will not be involved in the day-to-day internal validation systems of the Municipality.
- The AC must concur on the appointment or removal of the Head of Internal Audit.
- The IAM has a standing invitation to attend meetings of the management committee or other committees made up of a majority of senior executives, but is not a member of these committees in order to protect independence.
- All internal audit activities shall remain free of influence by any element in the organisation, including matters of:
  - Audit selection
  - Scope
  - Procedures
  - Frequency
  - Timing
  - Report content to permit maintenance of an independent and objective attitude necessary in rendering reports.
- Internal Auditors shall have no direct operational responsibility or authority over any of the activities they review.
- When performing consulting engagements, the nature and scope of the engagement are agreed with the management prior to its commencement.

The internal auditors will not assume any management responsibilities during and after the engagement.

- The organisational structure must promote the independence of the internal audit function as a whole and allow the IAA to form its judgements objectively.

## **6. Responsibilities of the Internal Audit**

Internal Audit assurance is provided through applying the Standards and Core Principles for the Professional Practice of Internal Auditing, the Definition of Internal Auditing and the Code of Ethics of the Institute for Internal Auditors South Africa (IIASA).

The IAM, in the discharge of his or her duties, shall be accountable to the AC to:

- Provide an assessment on the adequacy and effectiveness of processes of controlling its activities;
- Report significant issues related to processes for controlling the activities of NLM, including potential improvements to those processes, and provide information concerning such issues for further action by management;
- Provide information periodically on the status and results of the internal audit plan and the sufficient use of department resources and
- To handle documents and information given to the IAA as part of a review in the same prudent and confidential manner than by those employees/officials normally accountable for it.

**The Internal Audit Manager and Internal Audit staff members have, amongst others, the following responsibilities:**

- Develop a three-year strategic and flexible risk-based audit plan using appropriate risk-based methodology, including any risks or control concerns identified by management and submit that plan to the AC for review and approval;
- Prepare and implement an annual internal audit plan, as approved by AC, covering Section 165(2) of the Municipal Finance Management Act (MFMA) and

as appropriate any special tasks or projects requested by management and the AC;

- Establish policies and procedures to guide the IAA and direct its administrative functions and
- Issue at least quarterly reports to the AC and management summarizing results of audit activities.

## **7. Internal Audit Strategic Plan**

The IAA shall establish risk-based plan to determine its priorities, the plan must be consistent with the municipality's strategic objectives. The Council and Management should be consulted for inputs prior the approval by the AC.

The internal audit plan should:

- Set out the recommended scope of internal audit work for the period and outline resources necessary to fulfil the plan, where external resources will be used.
- Be a three (3) year strategic plan.
- Detailed plans indicating the proposed scope of each audit should be reflected in the annual internal audit plan.

The IAA's plan as well as the fieldwork must focus on the risks to which NLM is exposed.

## **8. Resource Requirements**

- The IAM, in conjunction with the MM, should develop an internal audit structure taking into cognisance the size of the municipality including risk and complexity of the operations.
- Provision should be made for levels of supervision and review of audit work in line with due professional care as provided for in the Standards.
- The IAM should have control and responsibility over the internal audit budget.

## **9. Co-Sourcing**

The IAA has outsourced some of its services from Lunika Chartered Accountants for a period of 2 years which commenced on 05 January 2022 and ending on 31 December 2023.

The IAM of Ngqushwa Local Municipality manages the outsourced function.

## **10. Quality Assurance and Improvement Program (QAIP)**

The activities of the IAA must be guided, monitored and supervised at each level of operation to ensure that the unit is consistently performing in accordance with the Standards.

The quality assurance and improvement program should include periodic internal assessments within a short time prior to an external assessment which can facilitate and reduce the cost of the external assessment

### **10.1 Internal Assessment**

The IAM must ensure that internal assessments are performed. Internal assessments should include ongoing reviews of the performance of the IAA. These should be performed through self-assessment or by other persons within the municipality with knowledge of internal audit practices and the IIA Standards. The IAM at least annually, must report on the results of internal assessments.

Internal assessments should appraise among others:

- Compliance with the legislative framework.
- Definition of internal audit.
- IIA Standards.
- Internal audit charter.
- Code of ethics.
- Internal audit methodology.
- The AC should annually assess the effectiveness of the Internal Audit function.



## **10.2 External assessments**

- The internal audit unit must be subjected to an external assessment at least once every five years, the results of which should be communicated to AC and the MM. An external assessment must be conducted by a qualified reviewer or a review team from outside the municipality.
- On completion of the external assessment, the review team should issue a formal report containing an opinion. The IAM in consultation with the MM should prepare a written action plan in response to comments and recommendations in the report.

## **11. Coordination of Efforts with Other Assurance Providers**

Internal Audit shall co-ordinate their work with the other assurance providers as directed by management and AC. The external auditors will be notified of the activities of internal audit in order to ensure proper coverage and minimise duplication of audit effort.

## **12. Nature of Work**

### **12.1 Governance**

Internal Audit has to assist the Council, Executive Managers and Managers in achieving the objectives of the municipality by evaluating and approving the process through which:

- Objectives and values are established and communicated;
- The accomplishment of objectives is monitored;
- Accountability is ensured and
- Council's values are preserved.

### **12.2 Controls**

Internal Audit has to assist the Council, Executive Managers and Managers in maintaining effective controls by evaluating those controls to determine their efficiency, and by developing recommendations for enhancement or improvement.

Accounting controls are designed to safeguard assets and ensure the accuracy of financial records.

### **12.3 Risk Management**

Internal Audit has to assist the Council, Executive Managers and Managers in evaluating the municipality's risk management process to give an opinion on the adequacy and effectiveness of risk management and internal controls systems.

## **13. Audit Process**

### **13.1 Engagement Planning**

IAA must develop and document a plan for each engagement, including the engagement's objectives, scope, timing and resource allocations. Engagement planning involves consideration of objectives of the activities being reviewed, scope, resource allocation and the work program.

### **13.2 Performing the Engagement**

Performing the engagement involves conducting field work to ensure that the objectives of the audit are achieved. This includes review, analysis and verification of information contained in documents, physical items, and corroboration by officials.

### **13.3 Communicating Results**

- Internal audit should communicate the results of the audit engagements to management by issuing an audit report. Findings should be included in the audit report and discussed with the department being audited. It is important that agreement be reached regarding the facts of each matter included in the final report.
- The audit results should be communicated to the municipality and relevant senior and executive management. Communications must include the engagement objectives and scope as well as applicable conclusions, recommendations, and action plans.

- Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications and where appropriate include the internal auditor's overall opinion and/or conclusions.
- Recommendations may be general or specific and should address the root cause of the finding.
- Engagement results must be disseminated to those who are in a position to take corrective action or ensure that corrective action is taken.
- The internal auditors must solicit comments from management timeously. Management must provide comments in accordance with the terms agreed upon in the engagement letter.
- Internal audit should record all attempts to obtain management comments.

#### **13.4 Monitoring Progress**

- Observations and recommendations requiring immediate action should be monitored by the IAA until corrected. IAA should ensure that actions taken by management address the identified deficiencies.
- A process should be developed for the implementation of management action plans.
- IAA should follow-up on the previous year's findings to determine if internal audit advises are being implemented by the management.

#### **14. Consulting Engagements**

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

Objectives, scope and limitations of the consulting assignment should be confirmed in writing in an engagement letter. The responsibilities of both management and internal audit should be defined and documented in the engagement letter that should be signed by both parties.

#### **14.1 The types of consulting work include the following:**

- **Formal consulting engagements**– those that are planned and subject to written agreement.
- **Informal consulting engagements** – routine activities such as participation on standing committees limited-life audit projects, ad-hoc meetings and routine information exchange.
- **Special consulting engagements** – participation on dedicated teams such as system conversion team.
- **Emergency consulting engagements** – participation on a team established for recovery or maintenance of operations after a disaster or other extraordinary event, or a team assembled to supply temporary help to meet a special request or unusual deadline.

#### **14.2 Acceptance of Consulting Activities**

The following guidelines are provided for assisting the IAA in accepting consulting activities:

- Some consulting activities are specifically identified in the approved internal audit annual plan and
- Other consulting activities are initiated by managers communicating directly.

The IAM should:

- Request the AC's approval for consulting activities that significantly affect the approved internal audit's annual operational plan;
- Consider the impact of independence and objectivity on the internal audit activity before acceptance of the consulting activities;
- Consider whether the internal auditors have the requisite skills, knowledge, time and competencies to perform the proposed consulting activities and
- Consider the risks associated with the proposed consulting activities.

## **15. Responsibility of Management**

AC is responsible for approval of the scope of internal audit work, and for recommending the action to be taken on the outcome of or findings from their work.

Management, in conjunction with the MM, is responsible for:

- Ensuring that a risk assessment is conducted regularly to identify emerging risks of the Council. A risk management strategy must be drawn up and used by management to direct Internal Audit effort and priority;
- Ensuring the Internal Audit function has the support of Executive Management, direct access and freedom to report to the MM and AC, free access to books of account, records, cash, stores, property and other sources and relevant information;
- Maintaining sound internal controls, including proper accounting records and other management information suitable for running the Municipality and
- Reviewing Internal Audit reports and the timely implementation of recommendations as considered appropriate, in the light of Council's resources.

## **16. Authority and Scope of the Internal Audit**

### **16.1 Authority**

The IAM and staff of the IAA are authorised amongst others to:

- Have full, free and unrestricted access, at all reasonable times, to all premises, functions, records, property, and personnel relevant to any function under review;
- Have full and free access to Council and the AC;
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives and
- Obtain the necessary assistance of personnel of NLM as well as other specialised services from within or outside the Municipality.

## 16.2 Scope of the Internal Audit

Internal Audit Scope among others include but not limited to:

- **Performance Management-** Internal Audit has to audit performance management according to legislation and the Performance Framework approved by Council.
- **Financial Audits-** Address accounting and reporting of financial transactions, including authorisations, receipt and disbursements of funds.
- **Operational Audits-** Review operating information and the means used to identify measure, classify and report such information; review the means for safeguarding assets; provide analysis and evaluate operational results with comparison to established goals, objectives, policies, plans, laws, procedures and resolutions.
- **Surprise audits-** Internal Audit must perform surprise audits in order to be effective especially where money is involved. The section does not need to get permission from any directorate before proceeding with such audit, but must immediately afterwards inform the relevant level of management of the outcome.
- **Compliance Audits-** Reviewing the systems established by management to ascertain compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports, and determining whether the Municipality is in compliance.
- **Fraud Limitation/Investigations-** The identification and prevention of fraud is a management responsibility. Internal Audit is well qualified to assist management to identify the main fraud risks facing the Council and could assist management in designing appropriate controls that could minimise the effects of the risks.
- **Ad hoc Assignments-** Carry out ad hoc appraisals, inspections, investigations, examinations or reviews requested by the MM or AC [MFMA s165(2)(c)], having due regard for the available resources. Any instances of fraud or non-compliance with legislation which may come to Internal Audit's attention during its activities will be reported to the AC. After obtaining approval from the Chairperson of the AC, Internal Audit can assist management in performance of fraud investigations.


## 17. Review of the Charter

- This charter will be reviewed on an annual basis and submitted to the AC for approval.

## 18. Approval

- This IA Charter is prepared by the internal audit, approved by the Audit Committee and accepted by the Ngqushwa Local Municipality.

### Prepared by:




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**Ms. LK. Ramncwana**  
**Manager: Internal Audit**

05 September 2022

**Date**

### Accepted by on behalf of Management by:



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**Mr V. Mbangi**  
**Acting Municipal Manager**

06/09/22

**Date**

### Approved by:



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**Ms. V. Hlehliso**  
**Chairperson: Audit and Risk Committee**

20-10-22

**Date**

### Concurred by:



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**Cllr. S. Maneli**  
**Mayor**

17-10-22

**Date**