

INTERNAL AUDIT CHARTER

2024/25

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PURPOSE

The purpose of the internal audit function is to strengthen Ngqushwa Local Municipality's ability to create, protect, and sustain value by providing the Council and management with independent, risk-based, and objective assurance, advice, insight, and foresight.

The internal audit function enhances Ngqushwa Local Municipality's:

- Successful achievement of its objectives.
- Governance, risk management, and control processes.
- Decision-making and oversight.
- Reputation and credibility with its stakeholders.
- Ability to serve the public interest.

Ngqushwa Local Municipality's internal audit function is most effective when:

- Internal auditing is performed by competent professionals in conformance with The IIA's Global Internal Audit Standards, which are set in the public interest.
- The internal audit function is independently positioned with direct accountability to the Audit and Performance Committee (audit committee).
- Internal auditors are free from undue influence and committed to making objective assessments.

COMMITMENT TO ADHERING TO THE GLOBAL INTERNAL AUDIT STANDARDS

The Ngqushwa Local Municipality's internal audit function will adhere to the mandatory elements of the Institute of Internal Auditors' International Professional Practices Framework, which are the Global Internal Audit Standards and Topical Requirements. The chief audit executive will report quarterly to the Audit Committee and senior management regarding the internal audit function's conformance with the Standards, which will be assessed through a quality assurance and improvement program.

MANDATE

The internal audit function's mandate is its authority, role, and responsibilities which may be granted by Council / Audit Committee and / or laws and regulations.

Following are the laws, regulations and standards prescribing the internal audit mandate:

- Municipal Finance Management Act, Act No. 53 of 2003
- Treasury Regulations
- Global Internal Audit Standards
- National Treasury Internal Audit Framework

AUTHORITY

Ngqushwa Local Municipality's internal audit function mandate is found in section 165 of the MFMA, which states:

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

The internal audit function's authority is created by its direct reporting relationship to the Council through the Audit Committee. Such authority allows for unrestricted access to the Audit Committee.

Council authorizes the internal audit function to:

- Have full and unrestricted access to all functions, data, records, information, physical property, and personnel pertinent to carrying out internal audit responsibilities. Internal auditors are accountable for confidentiality and safeguarding records and information.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques, and issue communications to accomplish the function's objectives.
- Obtain assistance from the necessary personnel of Ngqushwa Local Municipality and other specialized services from within or outside Ngqushwa Local Municipality to complete internal audit services.

INDEPENDENCE, ORGANIZATIONAL POSITION, AND REPORTING RELATIONSHIPS

The chief audit executive will be positioned at a level in the organization that enables internal audit services and responsibilities to be performed without interference from management, thereby establishing the independence of the internal audit function. The chief audit executive will report functionally to the Audit Committee and administratively (for example, day-to-day operations) to the Municipal Manager. This positioning provides the organizational authority and status to bring matters directly to senior management and escalate matters to the Council, when necessary, without interference and supports the internal auditors' ability to maintain objectivity.

The chief audit executive will confirm to the Audit Committee, at least annually, the organizational independence of the internal audit function. If the governance structure does not support organizational independence, the chief audit executive will document the characteristics of the governance structure limiting independence and any safeguards employed to achieve the principle of independence. The chief audit executive will disclose to the Audit Committee any interference internal auditors encounter related to the scope, performance, or communication of internal audit work and results. The disclosure will include communicating the implications of such interference on the internal audit function's effectiveness and ability to fulfill its mandate.

CHANGES TO THE MANDATE AND CHARTER

Circumstances may justify a follow-up discussion between the chief audit executive, audit committee, and senior management on the internal audit mandate or other aspects of the internal audit charter. Such circumstances may include but are not limited to:

- A significant change in the Global Internal Audit Standards.
- A significant reorganization within municipality.
- Significant changes in the chief audit executive, audit committee, and/or senior management.
- Significant changes to the municipality's strategies, objectives, risk profile, or the environment in which the organization operates.
- New laws or regulations that may affect the nature and/or scope of internal audit services.

AUDIT COMMITTEE OVERSIGHT

To establish, maintain, and ensure that Ngqushwa Local Municipality's internal audit function has sufficient authority to fulfill its duties, the audit committee will:

- Discuss with the chief audit executive and senior management the appropriate authority, role, responsibilities, scope, and services (assurance and/or advisory) of the internal audit function.
- Ensure the chief audit executive has unrestricted access to and communicates and interacts directly with the audit committee, including in private meetings without senior management present.
- Discuss with the chief audit executive and senior management other topics that should be included in the internal audit charter.
- Participate in discussions with the chief audit executive and senior management about the "essential conditions," described in the Global Internal Audit Standards, which establish the foundation that enables an effective internal audit function.
- Approve the internal audit function's charter, which includes the internal audit mandate and the scope and types of internal audit services.

- Review the internal audit charter annually with the chief audit executive to consider changes affecting the organization, such as the employment of a new chief audit executive or changes in the type, severity, and interdependencies of risks to the organization; and approve the internal audit charter annually.
- Approve the risk-based internal audit plan.
- Provide input to the internal audit function's human resources administration and budgets.
- Review the internal audit function's expenses.
- Provide input to senior management on the appointment and removal of the chief audit executive, ensuring adequate competencies and qualifications and conformance with the Global Internal Audit Standards.
- Review and provide input to senior management on the chief audit executive's performance.
- Receive communications from the chief audit executive about the internal audit function including its performance relative to its plan.
- Ensure a quality assurance and improvement program has been established and review the results annually.
- Make appropriate inquiries of senior management and the chief audit executive to determine whether scope or resource limitations are inappropriate.

CHIEF AUDIT EXECUTIVE ROLES AND RESPONSIBILITIES

ETHICS AND PROFESSIONALISM

The chief audit executive will ensure that internal auditors:

- Conform with the Global Internal Audit Standards, including the principles of Ethics and Professionalism: integrity, objectivity, competency, due professional care, and confidentiality.
- Understand, respect, meet, and contribute to the legitimate and ethical expectations of the municipality and be able to recognize conduct that is contrary to those expectations.
- Encourage and promote an ethics-based culture in the municipality.
- Report organizational behavior that is inconsistent with the municipality's ethical expectations, as described in applicable policies and procedures.

OBJECTIVITY

The chief audit executive will ensure that the internal audit function remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of engagement selection, scope, procedures, frequency, timing, and communication. If the chief audit executive determines that objectivity may be impaired in fact or appearance, the details of the impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively such that they believe in their work product, do not compromise quality, and do not subordinate their judgment on audit matters to others, either in fact or appearance.

Internal auditors will have no direct operational responsibility or authority over any of the activities they review. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, or engage in other activities that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing operational duties for Ngqushwa municipality or its affiliates.
- Initiating or approving transactions external to the internal audit function.
- Directing the activities of any Ngqushwa municipality's employee that is not employed by the internal audit function, except to the extent that such employees have been appropriately assigned to internal audit teams or to assist internal auditors.

Internal auditors will:

- Disclose impairments of independence or objectivity, in fact or appearance, to appropriate parties and at least annually, such as the chief audit executive, audit committee, management, or others.
- Exhibit professional objectivity in gathering, evaluating, and communicating information.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid conflicts of interest, bias, and undue influence.

MANAGING THE INTERNAL AUDIT FUNCTION

The chief audit executive has the responsibility to:

- At least annually, develop a risk-based internal audit plan that considers the input of the audit committee and senior management. Discuss the plan with the audit committee and senior management and submit the plan to the audit committee for review and approval.
- Communicate the impact of resource limitations on the internal audit plan to the audit committee and senior management.
- Review and adjust the internal audit plan, as necessary, in response to changes in the municipality's business, risks, operations, programs, systems, and controls.
- Communicate with the audit committee and senior management if there are significant interim changes to the internal audit plan.
- Ensure internal audit engagements are performed, documented, and communicated in accordance with the Global Internal Audit Standards and laws and/or regulations.
- Follow up on engagement findings and confirm the implementation of recommendations or action plans and communicate the results of internal audit services to the audit committee and senior management quarterly and for each engagement as appropriate.
- Ensure the internal audit function collectively possesses or obtains the knowledge, skills, and other competencies and qualifications needed to meet the requirements of the Global Internal Audit Standards and fulfill the internal audit mandate.
- Identify and consider trends and emerging issues that could impact the municipality and communicate to the audit committee and senior management as appropriate.
- Consider emerging trends and successful practices in internal auditing.
- Establish and ensure adherence to methodologies designed to guide the internal audit function.
- Ensure adherence to the municipality's relevant policies and procedures unless such policies and procedures conflict with the internal audit charter or the Global Internal Audit Standards. Any such conflicts will be resolved or

documented and communicated to the audit committee and senior management.

- Coordinate activities and consider relying upon the work of other internal and external providers of assurance and advisory services. If the chief audit executive cannot achieve an appropriate level of coordination, the issue must be communicated to senior management and if necessary escalated to the audit committee.

COMMUNICATION WITH THE AUDIT COMMITTEE AND SENIOR MANAGEMENT

The chief audit executive will report quarterly to the Audit Committee and senior management regarding:

- The internal audit function's mandate.
- The internal audit plan and performance relative to its plan.
- Internal audit budget.
- Significant revisions to the internal audit plan and budget.
- Potential impairments to independence, including relevant disclosures as applicable.
- Results from the quality assurance and improvement program, which include the internal audit function's conformance with The IIA's Global Internal Audit Standards and action plans to address the internal audit function's deficiencies and opportunities for improvement.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other areas of focus for the audit committee that could interfere with the achievement of municipality's strategic objectives.
- Results of assurance and advisory services.
- Resource requirements.
- Management's responses to risk that the internal audit function determines may be unacceptable or acceptance of a risk that is beyond the municipality's risk appetite, this risk acceptance could be a result of funding restrictions impacting management's ability to respond to risks toward strategic objectives.

QUALITY ASSURANCE AND IMPROVEMENT PROGRAM

The chief audit executive will develop, implement, and maintain a quality assurance and improvement program that covers all aspects of the internal audit function. The program will include external and internal assessments of the internal audit function's conformance with the Global Internal Audit Standards, as well as performance measurement to assess the internal audit function's progress toward the achievement of its objectives and promotion of continuous improvement. The program also will assess, if applicable, compliance with laws and/or regulations relevant to internal auditing. Also, if applicable, the assessment will include plans to address the internal audit function's deficiencies and opportunities for improvement.

Annually, the chief audit executive will communicate with the audit committee and senior management about the internal audit function's quality assurance and improvement program, including the results of internal assessments (ongoing monitoring and periodic self-assessments) and external assessments. External assessments will be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the municipality; qualifications must include at least one assessor holding an active Certified Internal Auditor® credential.

Public sector competencies and knowledge as well as knowledge of the Global Internal Audit Standards should be considered when selecting external assessors.

SCOPE AND TYPES OF INTERNAL AUDIT SERVICES

The scope of internal audit services covers the entire breadth of the municipality, including all of municipality's activities, assets, and personnel as captured in the internal audit function's audit universe. The scope of internal audit activities also encompasses but is not limited to objective examinations of evidence to provide independent assurance and advisory services to the audit committee and management on the adequacy and effectiveness of governance, risk management, and control processes for the municipality.

The nature and scope of advisory services may be agreed with the party requesting the service, provided the internal audit function does not assume management responsibility. Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during advisory engagements. These opportunities will be communicated to the appropriate level of management.

Internal audit engagements may include evaluating whether:

- Risks relating to the achievement of the municipality’s strategic objectives are appropriately identified and managed.
- The actions of the municipality’s officers, directors, management, employees, and contractors or other relevant parties comply with the municipality’s policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations and programs are consistent with established goals and objectives.
- Operations and programs are being carried out effectively, efficiently, ethically, and equitably.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the municipality.
- The integrity of information and the means used to identify, measure, analyze, classify, and report such information is reliable.
- Resources and assets are acquired economically, used efficiently and sustainably, and protected adequately.

Approved by the Audit Committee at its meeting on 25 July 2024.

Acknowledgments/Signatures




Chief Audit Executive 05/08/2024
Date



Audit Committee Chairperson 05/08/2024
Date

Audit Committee Chairperson **Date**



Municipal Manager 07/08/2024
Date