

NKETOANA LOCAL MUNICIPALITY



INTERNAL AUDIT CHARTER 2009/10

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INTERNAL AUDIT CHARTER

1. INTRODUCTION

The Internal Audit Activity has been established in terms of the Municipal Finance Management Act (Act 56 of 2003).

This Internal Audit Charter represents the general authorisation from the Accounting Officer to conduct a certain scope of work. The specific authorisation to do the work is the Three Year Rolling Strategic Internal Audit Plan and the Annual Internal Audit Plan, which is approved by the Audit Committee.

The Council of Matjhabeng Municipality supports an Internal Audit as an independent appraisal function to examine and evaluate Municipal activities as a service to management and the Council.

To this end, Internal Audit Activity will furnish them with analyses, recommendations, and information concerning the activities examined.

2. DEFINITION OF INTERNAL AUDIT

The Institute of Internal Auditors defines internal auditing as follows:

“... 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.”

Internal Audit therefore evaluates and contributes to the improvement of risk management, internal control and governance systems.

3. MISSION

The mission of the internal auditing Activity is to provide independent, objective assurance and consulting services designed to add value and improve the municipality's operations. It helps the municipality accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

4. VALUES

In carrying out our mission, we share certain beliefs and values

- Our primary focus is to provide excellent service to the Council
- Our examination will be performed in accordance with applicable standards established by the Institute of Internal Auditors (IIA)
- We are committed to the highest degree of fairness, integrity, and ethical conduct in the performance of our mission.
- We will adhere to Code of Ethics.

- Our relationships with the Council community will be characterized by respect, helpfulness, sharing, patience and openness.
- We are committed to maintaining our professionalism as internal auditors through continuance of our education and training.
- Although we are part of the Municipality, we are committed to maintaining our independence in defining our scope and objective of our examinations.

5. SCOPE OF WORK

The audit scope will generally be based on management's assessment of organisational risk. The audit coverage should generally focus on high-risk areas identified in consultation with the Audit Committee and Executive Management. Details of the coverage will be included in the Annual Internal Audit Plan.

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

- 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.
- Employee's 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 improvement are fostered in the municipal control process.
- Significant legislative or regulatory issues impacting the municipality are recognized and addressed properly.

Opportunities for improving management control, profitability, and the Municipality's image may be identified during audits. These will be communicated to the appropriate level of management.

6. CONSULTING ENGAGEMENT

Internal Audit Activity may conduct consulting services as part of their normal or routine activities as well as in response to requests by management. These may include:

- 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 a merger and acquisition team or system conversion team; and
- Emergency consulting engagements - participation on a team established for recovery or maintenance of operations after a disaster or other extraordinary business event, or a team assembled to supply temporary help to meet a special request or unusual deadline.

7. ACCOUNTABILITY

The Chief Audit Executive (CAE), in the discharge of his/her duties, shall be accountable to the Audit Committee and the Accounting Officer to:

- Provide annually an assessment on the adequacy and effectiveness of the organisation's processes for controlling its activities and managing its risks set forth under the mission and scope of work;
- Report significant issues related to the processes for controlling the activities of the Municipality, including potential improvements to those processes, and provide information concerning such issues through active and constructive resolution;
- Periodically provide information on the status and results of projects conducted in terms of the Annual Internal Audit Plan, ad hoc requests by the Audit Committee and Executive Management, as well as the sufficiency of resources; and
- Coordinate with other control and monitoring functions (risk management, compliance, security, legal, ethics, and external audit).

8. INDEPENDENCE

To provide for the independence of the Internal Audit Function, the Chief Audit Executive (CAE) and personnel report to the Audit Committee and the Accounting Officer in a manner outlined under Accountability above. The CAE and personnel report to the Accounting Officer for administrative purposes.

9. RESPONSIBILITY

The CAE and staff are responsible for rendering Internal Audit Services to the Municipality.

The CAE and staff must:

- Prepare a flexible Three-year Rolling Strategic Internal Audit Plan and an Annual Internal Audit Plan using an appropriate risk based methodology, including any risks or control concerns identified by the Audit Committee and Executive Management, and submit that plan to the Audit Committee for review and approval as well as periodic updates;
- Assess the operational procedure and monitoring mechanisms over all transfers made and received, including transfers in terms of the annual Division of Revenue Act;
- Co-ordinate with other internal and external providers of assurance to ensure proper coverage and to minimise duplication of effort;
- Assist the Accounting Officer in maintaining efficient and effective controls by evaluating those controls to determine their effectiveness and efficiency, and

by developing recommendations for enhancement or improvement. The controls subject to evaluation should encompass the following:

- a) the information systems environment;
 - b) the reliability and integrity of financial and operational information;
 - c) the effectiveness of operations;
 - d) safeguarding of assets; and
 - e) compliance with laws, regulations and controls;
- Assist the Accounting Officer in achieving the objectives of the institution by evaluating and developing recommendations for the enhancement or improvement of the processes through which:
 - a) objectives and values are established and communicated;
 - b) the accomplishment of objectives is monitored;
 - c) accountability is ensured; and
 - d) corporate values are preserved.

The CAE and staff, has the responsibility to:

- Implement the Annual Internal Audit Plan for the first year of the Rolling Three-year Strategic Internal Audit Plan, as approved, including as appropriate any special tasks or projects requested by the Audit Committee and Executive Management. The terms of reference for those assignments, which may involve some measure of line responsibility, will however be agreed upon beforehand;
- Provide professional internal audit staff with sufficient knowledge, skills, experience to meet the requirements of this Charter;
- Evaluate and assess significant merging/consolidating functions and new or changing services, processes, operations, and control processes coincident with their development, implementation, and/or expansion. The terms of reference for those assignments, which may involve some measure of line responsibility, will however be agreed upon beforehand;
- Issue periodic reports to the Audit Committee and the Accounting Officer summarising results of audit activities;
- Keep the Audit Committee and the Accounting Officer informed of emerging trends and successful practices in internal auditing;
- Provide a list of significant measurement goals and results to the Audit Committee;
- Assist in the investigation of significant suspected fraudulent activities within the organisation, and notify management and the Audit Committee of the results. The terms of reference for those assignments, which may involve some measure of line responsibility, will however be agreed upon beforehand;
- Consider the scope of the work performed by the external auditors and any other third party, as appropriate, for the purpose of providing optimal combined audit coverage at a reasonable overall cost;
- Prepare plans indicating the proposed scope of each audit in the Annual Internal Audit Plan; and
- Prepare a quarterly report to the Audit Committee detailing its performance against the Annual Internal Audit Plan, to allow effective monitoring and possible intervention.

10. AUTHORITY

The CAE reports functionally to the Audit Committee and has unrestricted access to the Chairperson of Audit Committee, the Accounting Officer and Executive Management.

Internal Audit is authorised to:

- Have unrestricted access to all relevant functions, records, property and personnel;
- Have full and uninhibited access to the Audit Committee and the Accounting Officer;
- Allocate its own resources; determine frequencies, subjects, scope of work to be performed; and apply the techniques required to accomplish its audit objectives; and
- Obtain the necessary assistance of personnel in the various sections and units of the Municipality where they perform internal audit reviews, as well as other specialised services from within or outside the organisation.

Internal Audit is not authorised to:

- Perform any operational duties for the Municipality;
- Initiate or approve accounting transactions external to the internal auditing function; and
- Direct the activities of any employee except to the extent that such employees have been appropriately assigned to the internal auditing teams or to otherwise assist the internal auditors in carrying out investigations.

11. STANDARDS OF AUDIT PRACTICE

The internal auditing Activity will meet or exceed the *International Standards for the Professional Practice of Internal Auditing* of The Institute of Internal Auditors.

12. QUALITY ASSURANCE REVIEWS

Annual reviews will be performed to assess compliance with the Internal Audit Function's Charter the Internal Audit Manual, *the Standards for the Professional Practice of Internal Auditing*, the *Code of Ethics*.

A qualified, independent reviewer or a review team from outside the Municipality will conduct an external Quality Assurance reviews at least once every five years. The Audit Committee Charter furthermore requires the Audit Committee to evaluate the effectiveness and efficiency of the Internal Audit Function.

13. REVIEW PERIOD

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

14. APPROVAL

Approved by the Audit Committee

Date

Accepted by the Accounting officer

Date
