

**Dr Beyers Naude Local
Municipality**

Internal Audit Charter

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1 Introduction

The Dr Beyers Naude Local Municipality (“the municipality”) has established a co-sourced Internal Audit Function¹ to provide the Management and the Audit Committee with assurance through independent appraisal of the business processes and controls necessary to manage the risks to ensure that the municipality achieves its objectives.

This Internal Audit Charter (“Charter”) represents the general authorisation from management to conduct a certain scope of work. The specific authorisation to do the work is the internal audit plan, which is approved by the Audit Committee.

Any reference to Municipality’s Internal Audit Department/Function shall be construed as referring to the Chief Audit Executive of the municipality.

2 Co-source of Internal Audit Function

It is recorded that the municipality’s internal audit function will be co-sourced for the 2016/17 financial year. Any reference to the municipality’s Internal Audit Department shall be construed as referring to the Chief Audit Executive responsible for the municipality’s internal audit function.

3 Mission

The mission of Internal Audit is to provide an innovative, responsive and effective value – added internal audit service by assisting management in controlling risks, monitoring compliance, improving the efficiency and effectiveness of internal control systems and governance processes.

4 Purpose

Internal Audit is an independent appraisal function established by the Council to evaluate the adequacy and effectiveness of controls, disciplines, systems and procedures, within the municipality, in order to reduce business risks to an acceptable level in a cost effective manner.

5 Independence

Independence is achieved through the organisational status of the Internal Audit Function and the objectivity of the internal auditors.

¹ In this document, the words “Internal Audit Function” and “Internal Audit Department” are used interchangeably.

- In achieving its independent organisational status, Internal Audit shall report to the Audit Committee. The relationship between the Audit Committee and the Internal Audit Function encompasses reporting and oversight relationships.
- The Internal Audit department will report administratively to the Municipal Manager, and functionally to the Audit Committee of the Council.
- Each internal auditor shall have an objective attitude and will be in a sufficiently independent position to be able to exercise judgement, express opinions and present recommendations with impartiality. Specifically:
 - The Internal Audit Function, notwithstanding its employment by the municipality, should be free from any conflict of interest arising either from professional or personal relationships or other interests in the municipality or related activity, which it may subject to audit.
 - The Internal Audit Function should be free from undue influence, which either restricts or modifies the scope or conduct of its work or over-rules or significantly affects its judgement as to the content of any internal audit charter.
 - In the interests of independence the Internal Audit Function will have no direct responsibility for or authority over, any of the municipality's activities and will have direct access to all members of the Audit Committee.

6 Authority

The Chief Audit Executive reports to the Municipal Manager of the municipality administratively and functionally to the Audit Committee and has unrestricted access to the Chairperson of the Audit Committee.

The Chief Audit Executive and Internal Audit staff are authorised to:

- Carry out a programme of Internal Audit projects, as necessary, to meet the objectives and purpose of the department
- To have full access to all relevant municipal documents, records, assets, properties, plants, computers, personnel etc., that will enable Internal Audit to fulfill its mandate, with very strict and absolute accountability for safekeeping and confidentiality thereof, whilst carrying out the Internal Audit mission.

Specific, defined, sensitive and highly confidential matters will, however, be handled by the Chief Audit Executive him/herself.

In the interests of independence the municipality's Internal Audit staff has neither direct responsibility for, nor authority over, any of the activities they review.

7 Scope and Responsibilities

The Chief Audit Executive, through the Internal Audit department, is responsible for rendering Internal Audit Services to the municipality.

Audits are conducted in accordance with the Code of Ethics and Standards of the Professional Practice of Internal Auditing as laid down by the Institute of Internal Auditors.

The audit scope will be based on management's assessment of corporate risk. Audit coverage should focus on high-risk areas and stress internal control assessments.

The activities performed by the municipality's Internal Audit department in executing its responsibilities include but is not restricted to:

- Ascertaining the level of compliance with policies, plans, procedures, laws and regulations
- Assessing the adequacy of controls to safeguard assets, including intangible assets
- Appraising the economy and efficiency with which resources are employed
- Reviewing operations to ascertain whether established objectives and goals are being achieved as planned and
- Assisting management in identifying business risks and assessing the adequacy of their risk management processes
- Reviewing the risk philosophy of the municipality. This includes the risk management policy, risk management strategy, fraud prevention plan, risk management reporting lines, the values that have been developed for the municipality
- Reviewing the appropriateness of the risk tolerance levels set by the municipality taking into consideration the risk profile of the municipality
- Providing assurance over the design and functioning of the control environment, information and communication systems and the monitoring systems
- Providing assurance over the municipality's risk identification and assessment processes
- Utilising the results of the risk assessment to develop long term and current year internal audit plans

- Providing independent assurance as to whether the risk management strategy, risk management implementation plan and fraud prevention plan have been effectively implemented within the municipality
- Providing independent assurance over the adequacy of the control environment. This includes providing assurance over the effectiveness of the internal controls implemented to mitigate the identified risks
- Review of performance management information on a quarterly basis
- Review of the Annual Financial Statements
- Ongoing review of Council approved policies.

The result of the audits and, where appropriate, recommended corrective actions are presented to the management of the function or activity under review.

The Chief Audit Executive is responsible for promoting the development of an effective Internal Audit function in the municipality. The Chief Audit Executive is also responsible for participating in the Audit Committee, which was established to enhance the overall effectiveness of Internal Auditing in the municipality.

8 Fraud Limitation

The identification and prevention of fraud is clearly a management responsibility. Internal audit is well qualified to assist management to identify the main fraud risks facing the various Departments and can assist management in designing appropriate controls that could minimise the effects of the risks.

9 Reporting

Detailed written reports will be prepared and issued to management following the completion of each audit. The contents will be discussed with the management of the units audited, and their responses taken into account, before the report is finalised and distributed. Executive summary reports, containing significant audit findings and recommendations, shall be provided to the Municipal Manager.

Regular reports highlighting significant audit findings and recommendations, and summarising internal audit activities shall be provided to the Chairperson of the Audit Committee and reported on at Audit Committee meetings.

10 Internal Audit Service

Dependent on resources the objective is to visit all the municipal locations as frequently as considered necessary, with more important and high-risk areas being reviewed more often. The planning and execution of such visits, and the frequency thereof will be determined from time to time when the Risk Profile and Internal Audit Plan are updated.

11 Management's Responsibilities

Although the role of Internal Audit is to review internal controls, systems, procedures, risks etc., management and ultimately the Council retain full responsibility for ensuring that the municipality maintains an appropriate framework of controls to reduce business risks to an acceptable level.

Management also has the responsibility and accountability for addressing weaknesses and inefficiencies, which have been identified in both External and Internal Audit Reports, and for taking the necessary corrective action.

Other management responsibilities include:

- To play an active and contributory role in establishing a Risk Profile and Internal Audit Plan for the institution and for their own specific divisions/operations and thereafter accept co-ownership of the continuous maintenance and update of the profile and plan; and
- To inform the Chief Audit Executive and Municipal Manager of any significant internal control problems, thefts, frauds, defalcations, unauthorised transactions, accounting breakdowns, large stock shortages, major bad debts etc. Significant matters will be reported on at the Audit Committee meetings.

12 Relationship with External Auditors

The municipality's External Auditors fulfill a statutory duty for which they are responsible to the Council.

The Chief Audit Executive will co-ordinate its activities with those of the external auditors in order to obtain maximum assurance and to avoid duplication of audit effort.

Internal audit will carry out follow-ups on comments and recommendations contained in the External Audit reports.

13 Special Assignments

The Chief Audit Executive may from time to time accept requests from the Municipal Manager to undertake special assignments. The terms of reference for those assignments, which may involve some measure of line responsibility, will, however, be agreed upon beforehand.

14 Review and approval

This charter has been approved by the members of the audit committee and adopted by the Council. The charter may be reviewed and amendments proposed from time to time.

Chairperson – Audit Committee

Municipal Manager