

UBUHLEBEZWE LOCAL MUNICIPALITY

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INTERNAL AUDIT CHARTER

2017/2018

TABLE OF CONTENTS

| INDEX | PAGE(S) |
|---|----------------|
| 1. Introduction | 3 |
| 2. Legislation Governing Internal Audit Activity | 3 |
| 3. Mission statement | 3 |
| 4. Accountability of the Internal Audit Activity | 3 |
| 5. Internal Audit Activity's Responsibility with Regard to Fraud, Corruption and other irregularities | 3 – 4 |
| 6. Responsibility to the Municipal Manager | 4 |
| 7. Powers and Duties of the Internal Audit Activity | 4 – 5 |
| 8. Fundamental Principles Governing the Internal Audit Activity | 5 – 9 |
| 9. Fraud Limitation | 10 |
| 10. Planning, Controlling and Recording | 10 |
| 11. Reporting and Follow Up | 11 |
| 12. Standards and Code of Ethics of the Audit Practice | 10 – 11 |
| 13. Consulting Services | 11 – 12 |
| 14. Conclusion | 12 |
| Approval | 13 |

1. Introduction

This charter provides guidance to the Internal Audit Activity of the Ubhlebezwe Municipality regarding the key functions it needs to consider as part of its operations.

The Internal Audit Activity should also have regard to the statements and standards issued by the Institute of Internal Auditors South Africa (IIASA), the Accounting Standards Boards and also to any requirements regarding internal audit set out in relevant statutes or regulations.

2. Legislation Governing Internal Audit Activity

The Internal Audit Activity is governed in terms of section 165 of the Municipal Finance Management Act No. 56 of 2003 (as amended) (MFMA) and by the Municipal Systems Act, No. 32 of 2000(MSA) which provides for the establishment of the Internal Audit Activity so as to regulate the function and to provide for matters incidental thereto.

3. Mission Statement

The mission of the Internal Audit Activity is to provide independent, objective assurance and consulting service designed to add value and improve the organization's operations. It helps the organization accomplish its objective by bringing a systematic, discipline approach to evaluate and improve the effectiveness of risk management, control and governance process.

4. Accountability of the Internal Audit Activity.

The Internal Audit Activity is directly accountable functionally to the Audit and Performance Audit Committee and administratively to the Municipal Manager.

5. Internal Audit Activity's Responsibility with Regard to Fraud, Corruption and other irregularities

As contemplated by section 165 of the MFMA, Act 56 of 2003 and also section 6 sub-section 2 (c), sections 40, 45 and 55 of Municipal Systems Act, Act No. 32 of 2000.

- Internal Audit Activity shall exercise due professional care in performing its activities
- Internal Audit Activity shall consider all possibilities of material irregularities or non-compliance when conducting its activities.
- When an internal auditor or Municipal official suspects wrongdoing he or she shall report to the Manager: Internal Audit who shall in turn report to the Audit Committee immediately and to the Municipal Manager and Investigate in terms of the procedures outlined in the Fraud Prevention Policy.
- In addition to understanding control systems, internal auditors should be aware of the kind of fraud that could be perpetrated in the organisation.
- Deterrence of fraud is the responsibility of management; however, Internal Audit Activity is responsible for examination and evaluating the adequacy and effectiveness of actions taken by management to fulfil this obligation.

- Internal auditors should have sufficient knowledge of fraud risk to be able to identify indicators that fraud might have been committed.

6. Responsibility to the Municipal Manager

Internal Audit Activity is responsible to the Municipal Manager to ensure that they give assurance as to the effectiveness and efficiency of the controls employed in the Municipality.

7. Powers and Duties of the Internal Audit Activity

The roles and responsibilities of the Internal Audit Activity is set out in Section 165 of the Municipal Finance Management Act, Act No. 56 of 2003 as follows:-

The Internal Audit Activity must –

- (a) Prepare on an annual basis a risk-based audit plan and an internal audit programme of the municipality for each financial year;
- (b) Advise the Accounting Officer/Municipal Manager through reports to the Audit Committee on the implementation of the internal audit plan and matters relating to
 - Internal Audit;
 - Internal Controls;
 - Accounting Procedures and Practices;
 - Risk and risk management;
 - Performance management;
 - Loss control; and
 - Compliance with MFMA, Division of Revenue Act (DORA) and any other applicable legislation;
- (c) Perform such other duties as may be assigned to it by the Accounting Officer/Municipal Manager

In addition to the above requirements, the Internal Audit Activity will undertake to:

- (d) Follow-up on recommendations of the Internal and External audit reports to ensure that these are adequately implemented and effective corrective measures taken.
- (e) Report to the Audit and Performance Audit Committee the results of all audits, investigations or other projects undertaken by the activity, and the status of its completed work assessed against the approved annual audit plan;
- (f) Prepare an Internal Audit Charter to be approved by the Audit and Performance Audit Committee and reviewed annually
- (g) The internal audit activity may be outsourced if the municipality requires assistance to develop its capacity and the council has determined that this is feasible or cost-effective
- (h) The Internal Audit Activity shall have access to all Municipal records and any information in the custody and control of any person employed by the Council, which is necessary for the effective performance of its duties:

- examine and evaluate the business processes and related control systems of the Council and assist management in assessing risks
 - investigate any matter; it deems necessary; referred to it in writing by Municipal Manager; Members of the Audit and Performance Audit Committee, Community, Public and staff, in terms of the procedures outlined in the Fraud Prevention Policy.
- (i) The Internal Audit Activity does not have any authority or responsibility for implementation of activities of the municipality that it audits i.e.
- The Internal Audit activity will not perform any line function tasks.
 - The Internal Audit activity will not initiate or approve accounting transactions external to the internal auditing directorate;
 - The Internal Audit Activity will not direct the activities of any department employee not employed by the internal audit, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.
 - The Internal audit activity will not directly participate in the design, development and implementation of new financial or other systems or policy within the Municipality other than in advisory and consulting capacity.
- The Internal Audit Activity will however review the new systems or policy and comment or advice on the adequacy of the control measures and the efficiency of the said systems and policy before they are implemented to enhance pro-activeness.
- (j) Undertake quarterly audit of Performance Management System in terms of sub regulation (1)(c)(ii) of the Municipal Planning and Performance Management Regulations (2001)
- (k) Respond to the council on any issues raised by the Auditor-General in the audit report
- (l) Provide written assessments of the effectiveness of internal financial controls and risk management to the Audit and Performance Audit Committee.

8. Fundamental Principles Governing the Internal Audit Activity

The Internal Audit Activity is guided by the principles as laid down in the following paragraphs. These principles are designed to ensure that the activity demonstrates a high degree of independence, objectivity, professionalism and skills as reasonably expected from a body of this stature.

The essentials for effective internal auditing are:

8.1 Independence and objectivity

The internal Audit Activity has the independence in terms of organizational status and personal objectivity which permits the proper performance of its duties.

Independence is achieved through the organizational status of the Internal Audit Activity and the objectivity of Internal Auditors

The Internal Audit Activity should determine its priorities in terms of the municipality's strategic and operational risk profile, in consultation with management. Accordingly the Internal Audit Activity has direct access to, and freedom to report to all senior management including the Audit and Performance Audit Committee and Council.

Each internal auditor has an objective attitude of mind and should be in a sufficiently independent position to be able to exercise judgment, express opinions and present recommendations with impartiality:

- The Internal Audit Activity notwithstanding its employment by the Council should be free from any conflict of interest arising either from professional or personal relationships or other interests in the Council or activity which it subjects to audit.
- The Internal Audit Activity should be free from undue influences which either restrict or modify the scope or conduct of its work or over-rule or significantly affect judgement as to the content of the internal audit report.
- The Internal Audit Activity should not allow its objectivity to be impaired when auditing an activity for which it has authority or responsibility.
- The Internal Audit Activity should be consulted about significant proposed changes in the internal control system and the implementation of the new systems and should make recommendations on the standards of control to be applied. This need not prejudice the Internal Audit Activity's objectivity in subsequently reviewing those systems.
- Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or the process being examined. Internal auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

Where any of the situations referred to above arise, this must be clearly declared by the Internal Audit Activity so that consideration can be given to the need for alternative arrangements for the audit assignment.

8.2 Staff and Training

The Internal Audit Activity should be appropriately staffed in terms of numbers, grades, qualifications and experience, having regard to its responsibilities and objectives.

The effectiveness of the Internal Auditors depends substantially on the quality, training and experience. Staff should be appointed with the appropriate background, personal qualities and potential. Steps should be taken to provide the necessary experience, training and continuing professional education.

The Manager: Internal Audit should participate in the recruitment and selection of his/her staff.

Any staff transferred into the internal audit activity from other departments should not review any aspects of their previous department's work until a reasonable interval of time has passed.

The Manager: Internal Audit has a responsibility to ensure that the internal audit staff receives the necessary training for the performance of the full range of duties, considering the following:

- Internal audit objectives and priorities
- The type of internal audit work
- Previous training, experience and qualifications; and

The internal auditor should keep abreast of current developments, improvements, new techniques and practices in auditing field.

The internal auditor should maintain technical competence through professional development which includes:

- Private reading and study
- Participation in professional activities such as attending meetings, courses and conferences
- Membership of the Institute of Internal Auditors

The Manager: Internal Audit should co-ordinate, and keep under review, the training requirements of Internal auditors.

8.3 Relationships:

The Internal Audit Activity should seek to foster constructive working relationships and mutual understanding with management, the Audit and Performance Audit Committee and the External auditors. This relationship should not compromise or be seen to be compromising the internal auditor's independence and objectivity.

8.3.1 Relationship with Management

The Manager: Internal Audit/Internal Auditor should prepare the risk based internal audit plan in consultation with senior management. The Manager Internal audit should arrange the timing of internal audit assignments in consultation with internal auditors and management, except on those rare occasions where an unannounced visit is a necessary part of the audit approach. Consultation can lead to the identification of areas of concern or of other interest to management.

Matters which arise in the course of the audit are confidential and discussion is restricted to management directly responsible for the area being audited unless they give express agreement to broaden the discussion.

Discussion with management is necessary when preparing the audit report. This should be an essential feature of the good relationship between the auditor and management.

The Three Year Rolling Audit Plan and Annual Plan must be tabled to Management Committee (MANCO) for information purposes.

8.3.2 Relationship with the Audit and Performance Audit Committee

The Internal Audit Activity should report and liaise with the Audit and Performance Audit Committee on a regular basis on matters affecting and pertinent to the Internal Audit Activity. Direction and guidance should be sought from the Audit and Performance Audit Committee on a regular basis.

Internal and external audit recommendations and action plans not implemented by management should be tabled at the Audit and Performance Audit Committee meetings for direction and resolution.

The Audit and Performance Audit Committee should annually assess the effectiveness of the internal audit function. Against criteria including:

- Achievement of the annual internal audit plan;
- Compliance with the IIA professional standards;
- Achievement of reporting protocols through management the Audit Committee;
- Timeliness of reporting findings and activities;
- Management's implementation of audit findings;
- Level of cooperation and interaction with other assurance providers within the combined assurance approach;
- Maintenance of adequate staffing/sourcing levels to achieve the objectives of the internal audit function; and

8.3.3 Relationship with External Auditors

The aim should be to achieve mutual recognition and respect, leading to joint improvement in performance and the avoidance of unnecessary duplication of effort. Consultations should be held and consideration given to whether any work of either auditor is adequate for the purpose of reliance. This will be accomplished by:

- a compulsory meeting between Internal and External Auditors to discuss the annual internal and external audit plan;
- periodic meetings to discuss the audit plan and activities;
- access by the External Auditors to Internal Audit's documentation;
- exchange of management letters; and
- access to system documentation.

Since the Internal Auditors evaluates the Council's internal control system, the external auditor needs to be satisfied that the Internal Audit Function is planned and executed effectively and efficiently in terms of the standards of the Institute of Internal Auditors.

The internal auditors should attend the Audit Steering Committee meetings at which joint audit planning, priorities, scope and audit findings are discussed and information exchanged.

8.4 Confidentiality

Internal Auditors have an obligation to respect the confidentiality of information about the municipality's affairs. The duty of confidentiality continues even after the completion of the assignment. This duty must be observed by the internal auditors unless specific authority has been given to disclose information or there is a legal or professional duty to disclose.

Confidentiality is not only a matter of disclosure of information. It also requires that internal auditors acquiring information in the course of performing audit services shall neither use nor be seen to be using that information for personal advantage or for the advantage of a third party.

Internal auditors should consult the Manager: Internal Audit or the Audit and Performance Audit Committee for guidance and advice if there is pressure to disclose information to parties other than management of Internal Audit Activity, the Municipal Manager or the Audit and Performance Audit Committee.

8.5 Due Care

The Internal Auditors should exercise due care in fulfilling their responsibilities.

In order to demonstrate that due care has been exercised, the Internal Auditors should be able to show that their work has been performed in a way which is consistent with the Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors.

The Internal Auditors should possess a thorough knowledge of the aim of the Municipality and the internal control system. The Internal Auditors must also be aware of the relevant law and the requirements of relevant professional and regulatory bodies.

The standards and statements issued by the Institute of internal Auditors are relevant to the work of the Internal Auditors.

The Internal Auditors should be impartial in discharging all their responsibilities; bias, prejudice or undue influence must not be allowed to limit or override objectivity. At all times, the integrity and conduct of internal auditors must be above reproach. They must not place themselves in positions where responsibilities and private interests' conflict and any personal interest should be declared.

Internal Auditors should promote and maintain adequate quality standards. They should establish methods of evaluating their work to ensure that the function fulfils their responsibilities and has proper regard to this statement.

9. Fraud Limitation

The identification and prevention of fraud is clearly a management responsibility. Internal Auditors are well qualified to assist management to identify the main fraud risks

facing Ubhlebezwe Municipality and could assist management in designing appropriate controls that could minimize the effect of the risks.

10. Planning, Controlling and Recording

10.1 Planning

Internal Audit should prepare strategies, periodic and operational work plans. The periodic plan, July to June, should schedule audit assignments to be carried out in the ensuing period. It should define the purpose and duration of each audit assignment and allocate staff and other resources accordingly and must be formally approved by the Audit Committee. All internal audit plans should be sufficiently flexible to respond to changing priorities.

10.2 Controlling

Control of the Internal Auditors and the individual assignments is needed to ensure that internal audit objectives are achieved and work is performed efficiently and effectively. The most important element of controls are the direction and supervision of the internal auditors and review of their work. This is assisted by an established audit approach and standard documentation. Internal Auditors shall ensure that the necessary degree of control and supervision is exercised, which will depend on the complexity of the assignment and the experience of the auditor.

10.3 Recording

Internal Auditor's work should be recorded at all times. Internal Auditors should specify the required standard audit documentation and working papers and should ensure those standards are maintained. Internal Audit working papers should be sufficiently completed and detailed to enable an experienced internal auditor with no previous connection with the assignment to subsequently ascertain from them what work was performed to support the conclusions reached. Working papers must be prepared as the audit assignment proceeds so that the critical details are not omitted and problems not overlooked. These should then be reviewed by internal audit management. Internal Auditors should obtain sufficient, relevant and reliable evidence on which to base reasonable conclusions and recommendations.

11. Reporting and Follow up

The primary purpose of internal audit reports is to provide management with an overall opinion on the adequacy of design of the system of internal control as well as whether they are operating effectively.

Reporting arrangements, including the distribution of internal audit reports, should be agreed with management. Internal audit reports are confidential documents and their distribution should therefore be restricted to those managers who need to know, Accounting Officers, and the Audit and Performance Audit Committee. Internal Auditors will issue findings as they arise and will allow management 3 working days to respond to findings raised.

Internal Audit Activity should ensure that findings, conclusions and recommendations arising from each assignment are communicated promptly to the appropriate level of management and actively seek comments and proposed action plan. They should ensure that arrangements are made to follow-up recommendations in order to monitor what action has been taken on them.

The strategic and operational plan should include follow-up audits in order to assess the extent to which internal audit recommendations and management action plans have been implemented. Repeat audit findings must be reported to Audit and Performance Audit Committee.

12. Standards and Code of Ethics of Audit Practice

The Internal Audit Activity, if allocated sufficient resources will meet or exceed the Institute of Internal Auditors Standards and abide by the Code of Ethics as outlined in the International Professional Practice Framework.

13. Consulting Services

These refer to advisory and related engagements, the nature and scope of which should be agreed upon with management. The following categories of consulting engagements may be performed:

- Formal consulting engagements: planned and subject to written agreement;
- Informal consulting engagements: routine activities such as participating on standing committees, limited life projects, ad hoc meetings and routine information exchange;
- Special consulting engagements: participation on a merger and acquisition team or system conversion team; and
- Emergency consulting engagements: participation on a team assembled to supply temporary help to meet a special request or tight deadline.

The Internal Auditor should, however, maintain his/her objectivity when drawing conclusions and offering advice to management. The following consulting services may be provided:

- Counsel;
- Advice;
- Facilitation; and
- Training.

The comprehensive scope of work of Internal Audit Activity should provide reasonable assurance that the organisation's risk management; control and governance systems are effective and efficient. In areas where, in the opinion of the Manager: Internal Audit, specialised audit skills are lacking within the activity, the services of external service providers may be employed.

14. Conclusion

To achieve full effectiveness the scope of the Internal Audit Activity should provide an unrestricted range of coverage of the Municipality's operations, and the Internal Audit Activity should have sufficient authority to allow access to such records, assets and personnel as are necessary for proper fulfilment of its responsibilities

The Internal Audit Activity, as a service to the Municipality, should contribute to internal control by examining, evaluating and reporting to management on its adequacy and effectiveness of systems.

The internal audit activity should lead to the strengthening of internal control as a result of management response.

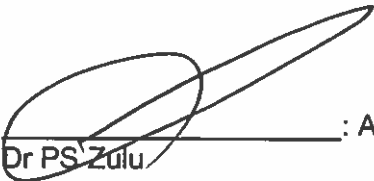
It is management's responsibility to maintain the internal control system and to ensure that the Ubhlebezwe Municipality's resources are properly applied in the manner and to the activities intended. This includes responsibility for the prevention and detection of fraud and other illegal acts.

The Internal Audit Activity has regard to the possibility of fraud or theft and should seek to identify serious defects in internal control which might permit the occurrence of such an event. When the Internal Audit Activity discovers evidence of, or suspect's fraud or theft, they should report firm evidence, or reasonable suspicions, to the appropriate level of management.

APPROVAL OF THE INTERNAL AUDIT CHARTER


_____ : Municipal Manager
Mr. GM Sibeke

09/06/2017
Date


_____ : Audit and Performance Audit Committee Chairperson
Dr PS Zulu

09/06/17
Date