



CHRIS HANI
DISTRICT MUNICIPALITY
SUSTAINING GROWTH
THROUGH OUR PEOPLE

INTERNAL AUDIT CHARTER

2018/19

INTERNAL AUDIT CHARTER

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1. PURPOSE

The purpose of the internal audit function of Chris Hani District Municipality is to provide independent, objective assurance and consulting services designed to add value and improve the District Municipality's operations. It helps the District Municipality accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The Internal Audit Activity (IAA) intends to function in a manner that ensures that:

- 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;
- Employees' 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 organization's control process; and
- Significant legislative or regulatory issues impacting the organization are recognized and addressed appropriately.
- Opportunities for improving management control, operations, and the organisations image may be identified during audits. The IAA shall communicate identified opportunities and risks to the appropriate levels of management.

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2. LEGISLATIVE MANDATE

Section 165 of the Municipal Finance Management Act (MFMA) no 56 of 2003 and the King IV Report on Corporate Governance give rise to the establishment of the Internal Audit Activity.

3. OBJECTIVE AND MISSION

The mission of the Internal Audit Activity is to enhance and protect the Chris Hani District Municipality's value by providing risk-based and objective assurance, advice and insight.

4. SCOPE

Internal Auditors shall at all times conduct the work or any other tasks assigned to them in accordance with the International Standards for Professional Practice of Internal Auditing and shall further comply with the Code of Ethics for internal auditors, as published by the Institute of Internal Auditors (IIA). Internal Audit follows an integrated approach, which places emphasis on the identification of risks, the prioritising thereof and testing of controls over key risk areas. The integrated audit approach combines two types of audit engagements, i.e. assurance and consulting services.

4.1 ASSURANCE ENGAGEMENTS

These refer to the evaluation of the adequacy, effectiveness and efficiency of the District Municipality's risk management, control and governance processes. The purpose of this is to provide reasonable assurance that these processes are functioning as intended and will enable the District Municipality to achieve its goals and objectives, as well as provide recommendations on improving the organization's operations. Business systems, processes, operations, functions and activities within the organisation shall be subjected to internal audit's evaluation. Examples of assurance engagements to be provided are as follows:

- Financial;
- Performance;
- Compliance;
- IT

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4.2. CONSULTING ENGAGEMENTS

These refer to advisory and related engagements, the nature and scope of which should be agreed upon with the auditee 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;

The Internal Auditors should, however, maintain their 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 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 Chief Audit Executives (CAE), specialised audit skills are lacking within the unit, the services of external service providers may be employed.

5. ACCOUNTABILITY

The CAE, in the discharge of his/her duties, shall be accountable to the Municipal Manager and the Audit Committee to:

- Provide annually an assessment on the adequacy and effectiveness of the Chris Hani District Municipality's processes for controlling its activities and managing its risks in the areas set forth under the mission and scope of work;
- Report significant issues related to the processes for controlling the activities of the organisation and its affiliates, including potential improvements to those processes, and provide information concerning such issues through resolution;
- Periodically provide information on the status and results of the annual audit plan and the sufficiency of organisations resources; and

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- Coordinate with and provide oversight of other control and monitoring functions (risk management, compliance, ethics, external audit).

6. INDEPENDENCE

To provide for the independence of the IAA, its personnel shall report to the CAE, who reports administratively to the Municipal Manager and functionally to the Audit Committee.

Additionally, the IAA shall not:

- Have direct operational responsibility or authority over any of the activities they review;
- Develop nor install systems or procedures, prepare records, or engage in any other activities that would normally be audited;
- Initiate or improve accounting transactions external to the organisation

7. AUTHORITY

The CAE and internal audit staff are authorised to:

- Have unrestricted access to examine all information, both paper-based documents and electronic information residing on computer systems, and to inspect all physical assets. However they must safeguard any assets or information that is examined and maintain the confidentiality thereof.
- Have full and free access to the Audit Committee, Executive management, Council, Management and staff
- Allocate resources, set frequencies, select subjects, determine scope of work, and apply the techniques required to accomplish audit objectives; and
- Obtain the necessary assistance of personnel in units of the organization where they perform audits, as well as other specialised services from within or outside the organization.
- Implement a control to ensure that each project team member shall declare interest before commencement of an audit project.

The Internal Audit is not authorised to:

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- Perform any operational duties for the municipality;
- Initiate or approve accounting transaction external to the internal auditing unit.
- Direct the activities of any municipal employee not employed by the internal auditing activity, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.
- Participate in the design, development and implementation of new financial or other systems or policy within the municipality other than on advisory and consulting capacity.

8. RESPONSIBILITY

The IAA must prepare the following:

- A rolling three-year strategic IA plan based on its assessment of key areas of risk for the institution, having regard to its current operations, those proposed in its strategic plan and its risk management strategy;
- An annual IA plan for the first year of the rolling three year strategic IA plan; and
- Plans indicating the proposed scope of each audit in the annual IA plan.

The IAA will be responsible to:

- Assess the operational procedure and monitoring mechanisms over all transfers made and received, including transfers in terms of the annual Division of Revenue Act;
- Evaluate and assess new or changing services, processes, operations and control processes, (information technology-based or otherwise), coincident with their development, implementation, and / or expansion;
- Assist, facilitate or execute investigations of suspected fraudulent / irregular activities within the organization;
- Issue at least quarterly reports to the Audit Committee summarizing results of audit activities and any other report(s) as circumstances may dictate;
- Maintain a professional audit staff with sufficient knowledge, skills and experience to meet the requirements of this charter; and

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8.1. PLANNING

The IAA shall submit to the Audit Committee for approval, an internal audit plan, setting out the recommended scope of their work. This plan should be based on the results of the annual risk assessment process and should allocate internal audit resources to the areas where the greatest risks are present. In addition it should identify the costs of resources necessary to fulfil the plan. The plan should indicate the timing and frequency of the audit activities.

The annual internal audit plan should be developed with reference to a longer term strategic outlook for internal audit work, prepared in conjunction with management and supported by them, and should have regard to the business plans and strategic outlook of the organisation as a whole.

8.2. REPORTING RESPONSIBILITY

As required by the International Standards for the Professional Practice of Internal Audit (ISPPIA), Internal Audit reports functionally to the Audit Committee and administratively to the Accounting Officer.

After each audit, Internal Audit shall immediately issue a draft audit report on issues/findings to the Head of Department concerned. Management's comments and action plans should be received within 5 working days from issuing the audit report.

A written final audit report will be issued to the Head of the Department within 3 working days of receiving management's comments and an Executive Summary of the report will be submitted to the Municipal Manager. Internal audit reserves the right to report any critical or significant issue directly to the Municipal Manager or the Chairperson of the Audit Committee before consulting with management.

Internal Audit will report every quarter to the Audit Committee and Municipal Manager on the:

- Status of the Internal Audit activities;
- Significant findings and management action plans;
- Follow-up on previously reported audit findings;
- Internal Audit budgets and variances;
- Internal Audit resources requirements

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Internal Audit will report every quarter to the Performance Audit Committee and Municipal Manager on the Audit of Performance measures as required by section 45 of the Municipal Systems Act (MSA).

9. QUALITY ASSURANCE MATTERS

The CAE will establish and maintain a quality assurance programme to evaluate the operations of the internal auditing function. Quality control in internal audit will include the following:

- The CAE shall maintain an ongoing system to measure performance of Internal Audit staff;
- A structured training programme shall be followed in order to develop the technical, conceptual and management abilities of the Internal Audit personnel;
- The audit approach followed shall be regularly evaluated to ensure that it conforms to the developments taking place within the Internal Audit field; and
- As far as possible, the CAE and the IAA staff shall be members of the Institute of Internal Auditors.

An external assessment of the IAA should be conducted as prescribed by an independent qualified reviewer or review team. Assessment of the Internal Audit function should include the evaluation of:

- Compliance with the IIA Standards and Code of Ethics;
- Adequacy of the Internal Audit Charter, policies and procedures;
- Contribution to the organisation's risk management, governance and control processes;
- Compliance with applicable laws, regulations and government standards; and
- Whether the IAA adds value and improves the organisation's operations.

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10. STANDARDS FOR PROFESSIONAL PRACTICE

Internal Audit shall at all times meet or exceed the *Standards for the Professional Practice of Internal Auditing*, the Core Principles for the Professional Practice of Internal Auditing and the Code of Ethics, as published by the Institute of Internal Auditors when conducting their work or any other tasks assigned to them.

The core principles articulate internal audit effectiveness and they should all be present and operating effectively.

1. Demonstrates integrity.
2. Demonstrates competence and due professional care.
3. Is objective and free from undue influence (independent).
4. Aligns with the strategies, objectives, and risks of the organization.
5. Is appropriately positioned and adequately resourced.
6. Demonstrates quality and continuous improvement.
7. Communicates effectively.
8. Provides risk-based assurance.
9. Is insightful, proactive, and future-focused.
10. Promotes organizational improvement.

11. AUDIT COMMITTEE MEETINGS

The IAA shall provide secretarial services to the AC. An agenda of items for discussion, together with any supporting documents and information shall be distributed to all members of the Audit Committee, other interested members of Council and parties attending the meeting agenda papers at least five days prior to the date of the meeting. Any person who is going to attend a meeting may, not less than seven days prior to the meeting, request the Secretariat to add such items, as deemed necessary, to the agenda.

Draft minutes of the meeting shall be prepared for review by the Chairperson of the AC/PERAC within 14 working days of the date of the meeting. Copies of the revised minutes must be distributed to all members and other relevant parties within 1 month of the date of the meeting.

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12. EVALUATION OF PERFORMANCE

The Assessment of the Internal Audit Activity shall be evaluate on an annual basis as follows:

- Internal Audit to perform a self assessment in terms of this charter;
- Management shall also perform an evaluation at the end of each project;
- The Audit Committee to perform a final evaluation of the effectiveness of the internal audit activity.

Results of annual assessment by the Internal Audit, Management and Audit Committee shall be summarised into one report and be presented to the Audit Committee for discussion and formulation of recommended improvements.

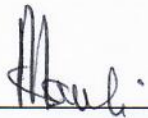
13. REVIEWAL OF THE CHARTER

The Internal Audit Charter will be revised on an annual basis to ensure that it is in line with changes in legislation, ISPPIA and requirements of the CHDM. This Charter shall only be effective if approved by the Audit Committee and Municipal Manager in consultation with the Head of Internal Audit.

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14. APPROVAL

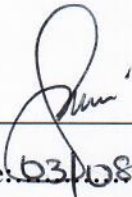
This Audit Charter is prepared and submitted by Manager Internal Audit and approved by the Audit Committee and acknowledged by the Municipal Manager of CHDM.



Date: 03/08/2018

Approved by: Mr J Mbawuli

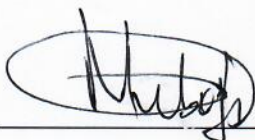
Audit Committee Chairperson



Date: 03/08/2018

Acknowledged by: Mr. B.J Mthembu

The Acting Municipal Manager



Date: 03/08/2018

Submitted by: Mrs. N.M Roboji

Internal Audit Manager