



**Saldanha Bay Municipality**

**Internal Audit Charter**

**Approved by Audit Committee per  
item OK 9/3-14 dated... 11. March 2014**

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# 1 Introduction

## 1.1 Purpose

The purpose of the charter is to set out the role, objectives, responsibility, accountability and authority of the internal audit function as conferred by the Audit Committee.

## 1.2 Definition of Internal Audit

Internal audit is 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 governance, risk management and control processes.

## 1.3 Legislative Mandate

*The Local Government: Municipal Finance Management Act, No 56 of 2003 under Chapter 14, Section 165 – Internal audit unit stipulates that-*

*(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 audit;*
  - (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 subsection (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.*

## **1.4 Scope of Work**

### **1.4.1 Assurance Engagements**

The scope of the internal audit activity assurance engagements is to determine whether the municipality's network of governance, risk management and control processes as designed and represented by management, are adequate and functioning in a manner to ensure amongst others that:

- risks are appropriately identified, assessed and managed;
- significant financial, managerial and operating information are accurate, reliable and timely;
- resources are acquired economically, used efficiently and adequately safeguarded; and
- programs, plans and objectives are conformed with
- Review, appraise and report on the:
  - Systems established by management to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports, and determining whether the municipality is in compliance.
  - Operations to ascertain whether results are consistent with established objectives and goals.
- To add value by being an independent control official, having exposure to all operations of the Municipality. Internal audit aims to help strengthen and

improve risk management and control frameworks through the promulgation of better practice.

- To ensure that the community's best interest is central to management of the municipality.

#### **1.4.2 Consulting Engagements**

The scope of the internal audit activity consulting engagements focuses on assisting management in problem solving activities, achieving the municipality's objectives, and adding value to line and senior management. Consulting engagements that may be accepted are:

- formal consulting engagements – those that are planned and subject to written agreement;
- informal consulting engagements – routine activities such as participation on standing committees (observer), limited-life audit projects, ad-hoc reviews and \_meetings and routine information exchange;
- special consulting engagements – participation on dedicated teams such as a 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 temporary help to meet a special request or unusual deadline.

The Chief Audit Executive must request the Audit Committee's approval for consulting activities that significantly affect the approved internal audit's annual plan.

Internal Audit will proactively participate in the development of new processes to ensure that key risks are identified and appropriately addressed at the earliest opportunity. The internal audit activity will participate on control and operational committees (observer); perform investigations of control breakdowns and share risk and control better practices with management.

- Where departments require the assistance of Internal Audit, the extent of involvement will be determined taking into account:
  - the need for independence;
  - the availability of resources;
  - the audit plan for the year;
  - requests of the Audit Committee.

Internal Audit will under no circumstances be involved in the operations of the municipality or in the selection or implementation of internal control measures, or approving accounting transactions outside their own jurisdiction. Management can request an opinion when considering major changes; however, the eventual development and introduction will remain the responsibility of management.

## **1.5 Authority of Internal Audit**

- direct access and functional accountability to the Audit Committee.
- for administrative purposes the Chief Audit Executive reports to the Municipal Manager.
- to communicate directly with the members of the Audit Committee.
- In order for internal audit to meet its objectives, it is imperative that the function is kept fully informed of changes to departmental activities and structure. Internal audit must on a regular basis meet with management to assess / obtain the following:
  - strategic plans of the municipality;
  - financial performance review from monthly management accounts (should indicate any proposed new changes in systems and/or processes);
  - details of management structure and staff changes;
  - copies of relevant correspondence from external auditors and regulatory bodies;
  - details of any material lawsuit or complaint made against the municipality;
  - details of any suspected fraud or procedural irregularity;
  - information from stakeholder relations regarding new issues / changes.



- The Municipal Manager will be guided by the recommendations of the Chairperson of the Audit Committee for the appointment or removal of the Chief Audit Executive.
- Meet on a regular basis with the external auditors to discuss the following:
  - The proposed audit plan for the current and next financial year with the emphasis to eliminate gaps and duplications in the combined coverage.
  - Critical risks that may impact on the external audit risk.

## **1.6 Internal Audit Activity and Management Responsibility**

### **1.6.1 Internal Audit Activity Responsibility**

The **responsibility** of the Internal Audit Activity is to:

- develop a risk-based, flexible annual audit plan that includes management's concerns. It should be submitted to the Audit Committee for review and approval and periodic updates;
- implement the annual audit plan, including any special tasks or projects requested by the Municipal Manager and the Audit Committee;
- make adequate provision for follow-up audits in the annual Risk Based Internal Audit Plan and perform follow-up audits
- maintain professional audit staff with sufficient knowledge, skills, and experience and professional certifications;
- issue periodic reports to the Audit Committee and Management summarizing results of audit activities;
- inform the Audit Committee of emerging trends and practices in auditing;
- ensure that all working papers generated during reviews are properly referenced, safeguarded with access restricted to duly authorised persons; and
- assist in the investigation of significant suspected fraud and report the results.

The Chief Audit Executive and Staff of the Internal Audit Activity are **authorized** to:

- Have unrestricted access to all functions, records, property, and personnel;
- Have full and free access to the Audit Committee;
- Allocate resources, set frequencies, select subjects, determine scope of work, and apply techniques required to accomplish internal audit objectives; and
- Obtain the necessary assistance of auditee personnel and other specialized services from within or outside the organization.

The Chief Audit Executive and Staff of the Internal Audit Activity are **not authorized** to:

- perform any operational duties for the organization.
- initiate or approve accounting transactions external to the Internal Audit Activity.
- direct the activities of any organization employee not employed by the Internal Audit Activity or assigned to assist the internal auditors.

#### **1.6.2 Management Responsibility**

- provide the internal audit activity with full support and cooperation at all levels of operations;
- provide the internal audit activity complete access to all records, property and personnel relative to the performance of their duties and responsibilities;
- provide a written response to all Internal Audit reports submitted;

## 1.7 Accountability of Internal Audit

Internal audit must adhere to the following:

- *The International Standards for Professional Practice of Internal Audit and The Code of Ethics established by the Institute of Internal Auditors.*
- A proactive risk based audit approach is used to evaluate the quality of all financial, operational and management processes with emphasis on the high risk areas. **The existence of Internal Audit shall however not cause any reduction in the responsibility of line management for the implementation and maintenance of internal controls.**
- Internal Audit should be staffed with people with the appropriate qualifications and experience relevant to the areas and to examine all areas in which the municipality operates. In those areas where Internal Audit does not have the appropriate skills, audits should be outsourced to other service providers.
- Internal Audit uses audit techniques best suited for each particular circumstance with maximum use of technology as a quality standard.

## 1.8 Relationship between Internal and External Audit

The Audit Committee encourages consultation between external and internal auditors. Co-ordination of efforts involves periodic meetings to discuss matters of mutual interest; the exchange of working papers, management letters and reports; and a common understanding of audit techniques, methods and terminology.

## **1.9 Written Assessment of Internal Controls and Risk Management**

Provide a written assessment to the Audit Committee of the effectiveness of the organization's system of internal controls as risk management for the areas in which internal audit work were performed

## **1.10 Standards for Professional Practice**

Internal Audit Activity shall at all times meet or exceed the *International Standards for Professional Practice of Internal Auditing* and *The Code of Ethics*, as published by the Institute of Internal Auditors when conducting its work or any other tasks assigned to it.

## **1.11 Review Period**

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

OK9/3-14 INTERNAL AUDIT CHARTER AND METHODOLOGY AND AUDIT COMMITTEE CHARTER

(3/5/5)

(Report of the Municipal Manager)  
(M Hermanus)

**RESOLVED**

- i) that the report be noted;
- ii) that the Audit Committee approve the internal audit charter and methodology in principle and recommend the internal audit methodology for approval by Council;
- iii) that the Municipal Manager endorses the audit committee charter;
- iv) that the Municipal Manager support the internal audit methodology;
- v) that the audit committee charter be work shopped with Council together with Circular 65 training on 7 April 2014 and tabled before council for approval; and
- vi) that subsequent to the approval, the internal audit charter, internal audit methodology and audit committee charter be implemented and reviewed regularly to ensure industry relevance.

OK14/9-14 CORRECTION OF AUDIT COMMITTEE MINUTES OF MEETING OF 11 MARCH 2014

(3/5/5)

(Report of the Municipal Manager)  
(M Hermanus)

**RESOLVED**

- i) that the report be noted;
- ii) that the audit committee gives approval that the minutes of the Audit Committee meeting of 11 March 2014 item OK9/3-14 be corrected to state the following "that the audit Committee approve the internal audit charter and methodology in principle and recommend the audit committee charter for approval by Council".

REVISED AUDIT COMMITTEE CHARTER

(Report of the Municipal Manager)  
(M Hermanus)

**RESOLVED**

- i) that the report be noted;
- ii) that the Audit Committee Charter be approved; and
- iii) that the Audit Committee Charter be reviewed at least annually or as circumstances required.