

MHLONTLO LOCAL MUNICIPALITY



INTERNAL AUDIT CHARTER

2020/2021

Table of Contents

<u>INTRODUCTION</u>	<u>5</u>
<u>VISION AND MISSION STATEMENTS</u>	<u>5</u>
<u>PURPOSE AND APPROVAL OF THE CHARTER</u>	<u>6</u>
<u>PURPOSE OF INTERNAL AUDIT.....</u>	<u>6</u>
<u>RESPONSIBILITIES</u>	<u>7</u>
<u>DUE CARE</u>	<u>9</u>
<u>SCOPE AND METHODOLOGY</u>	<u>9</u>
<u>INVOLVEMENT IN FRAUD (PREVENTION AND DETECTION) AND RISK MANAGEMENT</u>	<u>10</u>
<u>RESPONSIBILITY FOR INTERNAL CONTROL</u>	<u>11</u>
<u>INDEPENDENCE.....</u>	<u>11</u>
<u>ACCOUNTABILITY.....</u>	<u>13</u>
<u>REPORTING.....</u>	<u>13</u>
<u>RESPONSIBILITY OF MANAGEMENT.....</u>	<u>14</u>
<u>LIAISON WITH EXTERNAL AUDIT.....</u>	<u>15</u>
<u>AUTHORITY AND ACCESS.....</u>	<u>15</u>
<u>QUALITY ASSESSMENTS</u>	<u>16</u>
<u>CONFIDENTIALITY</u>	<u>17</u>
<u>CONCLUSION</u>	<u>17</u>
<u>ACCEPTANCE AND APPROVAL</u>	<u>17</u>

Introduction

- 1.1 Mhlontlo Municipality (“MLM”) is required to have an internal audit function in terms of section 165 (1) of the Municipal Finance Management Act no 56 of 2003 (“MFMA”).
- 1.2 Principle 11 of King IV: Supplement for municipalities, states that “The council should govern risk in a way that supports the municipality in setting and achieving its strategic objectives”.
- 1.3 This Internal Audit Charter is crucial to strengthening the independence and objectivity of the internal audit function of the Municipality, and is a requirement set out by the Institute of Internal Auditors.
- 1.4 The Chief Audit Executive is responsible for the Internal Audit Function (IAF) of the municipality and reports administratively to the Municipal Manager and functionally to the Audit Committee and have a standing invitation to all meetings of the Audit Committee.

Vision and Mission Statements

2.1 Vision Statement

- 2.1.1 The vision of the IAF is to be a strategic partner and trusted advisor to management that provides world class proactive internal audit services.

2.2 Mission Statement

- 2.2.1 In accordance with the definition of internal auditing and the authority to establish and maintain an IAF as contained in the MFMA, the mission statement of the IAF of MLM is to:
 - 2.2.1.1 provide professional independent objective assurance and consulting activity designed to add value and improve the operations of the MLM; and
 - 2.2.1.2 Assist MLM accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Responsibilities

- 5.1 Internal audit is responsible for the examination and evaluation of the adequacy and effectiveness of the municipality's systems of internal control.
- 5.2 The Chief Audit Executive must prepare, in consultation with and for approval by the audit committee:
 - 5.2.1 A rolling three-year strategic internal audit plan based on its assessment of key areas of risk for the municipality having regard to its current operations, those proposed in the strategic plan (IDP) and its risk management strategy;
 - 5.2.2 Develop and implement a flexible annual internal audit coverage plan for the first year of the rolling three-year strategic internal audit plan and each year afterwards;
 - 5.2.3 Plans indicating the proposed scope of each audit engagement/project in the annual internal audit coverage plan; and
 - 5.2.4 A quarterly report to the Audit Committee detailing its performance against the annual internal audit coverage plan to allow effective monitoring and possible intervention.
- 5.3 The Chief Audit Executive has a responsibility to:
 - 5.3.1 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;
 - 5.3.2 Issue at least quarterly reports to the Audit Committee summarizing results of audit activities, continuous professional development (CPD), quality assurance and improvement plan (QAIP) and any other report(s) as circumstances may dictate;
 - 5.3.3 Maintain a professional audit team with sufficient knowledge, skills and experience to meet the requirements of this charter; and
 - 5.3.4 Consider the scope of work of the external auditors (Auditor General of South Africa), as appropriate for the purpose of providing optimal audit coverage at a reasonable cost.

Due Care

- 6.1 The IAF should exercise due care in fulfilling its responsibilities.
- 6.2 In order to demonstrate that due care has been exercised, the IAF should be able to perform its work in a way that is consistent with ISPPIA.

Scope and Methodology

- 7.1 The scope of work of the IAF is to determine whether the MLM's system of governance, risk management and control processes, as designed by management, is adequate and functioning in a manner to ensure that:
 - 7.1.1 Risks are appropriately identified and managed;
 - 7.1.2 Interaction with the various governance groups occurs as needed;
 - 7.1.3 Significant financial, managerial, and operational information is accurate, reliable, and timely;
 - 7.1.4 Employee's actions are in compliance with policies, standards, procedures, and applicable laws and regulations;
 - 7.1.5 Resources are acquired economically, used efficiently, and adequately protected;
 - 7.1.6 Programs, plans, and objectives are achieved;
 - 7.1.7 Quality and continuous improvement are fostered in the municipality's control process; and
 - 7.1.8 Significant legislative or regulatory issues impacting MLM are recognized and addressed appropriately.
- 7.2 Opportunities for improving management control, economy, efficiency and effectiveness of operations, and the MLM's image may be identified during audits. These will be communicated to the appropriate level of management.
- 7.3 The IAF will assess whether the information technology governance of the municipality sustains and supports its strategies and objectives.
- 7.4 The IAF may perform consulting engagements which can be categorized as:
 - 7.4.1 Formal consulting engagements - planned and subject to written agreement with management and approval by Audit Committee.

Involvement in MSCOA

8.5 Internal audit has an important role to play in ensuring good MSCOA , including achieving MSCOA project goals and to create and maintain particular organisational values. It does so through the appropriate accountability and by evaluating processes that contribute to the achievement of these goals and values, specifically the communication of the goals and values and the processes used to monitor their achievement.

Responsibility for Internal Control

9.1 The existence of internal audit in no way diminishes the responsibility of MLM's management for implementing and maintaining effective systems of internal control, risk management and governance. Internal audit will not design or participate in control activities, as this would compromise its independence.

9.2 However, internal audit can and will provide advice on the design and implementation of internal controls. Internal audit staff will have neither direct responsibility for, nor authority over, any of the activities that they audit.

Independence

10.1 To provide for the independence of the IAF, the Chief Audit Executive shall report:

10.1.1 Administratively and directly to the municipal manager, and

10.1.2 Functionally and periodically to the Audit Committee of the municipality in a manner outlined under accountability below.

10.1.3 As part of its periodic report to the Audit Committee, the Chief Audit Executive shall provide a quarterly report detailing the performance of the internal audit function against the approved annual internal audit coverage/operational plan and other documents referred to in 5.3.2 above to allow for effective monitoring and possible intervention.

10.1.4 The Chief Audit Executive shall report to council through the Audit Committee.

- 10.2.2 The internal auditor should be free from undue influence, which either restricts or modifies the scope or conduct of the audit work or significantly affects judgments as to the content of any audit report.
- 10.3 The Chief Audit Executive will confirm with Audit Committee, at least annually, the organisational independence of the internal audit activity.

Accountability

- 11.1 The Chief Audit Executive, in the discharge of his/her duties, shall be accountable administratively to the municipal manager and functionally to the Audit Committee to:
- 11.1.1 Provide regular assessment on the adequacy and effectiveness of the MLM's processes for controlling its activities and managing its risk;
 - 11.1.2 Report significant issues related to the corporate governance, risk and control processes for controlling the activities of the municipality, including potential improvements to those processes and provide information concerning such issues through active and constructive recommendations; and
 - 11.1.3 Periodically provide information on the status and results of the annual internal audit plan and sufficiency of the internal audit's resources.

Reporting

- 12.1 The Chief Audit Executive shall establish and maintain a system to monitor the disposition of results communicated to management.
- 12.2 The system shall be designed to ensure that the IAF communicates promptly the results of the audit assignment/engagement.
- 12.3 Internal audit shall prepare, communicate and/or discuss the initial draft results with the relevant line management, who must immediately thereafter furnish internal Audit, within **5 days** from the date of the draft report, with their

- 13.3 However, it can and will provide advice on the design and implementation of internal controls.
- 13.4 Management is responsible for ensuring that the corrective action is taken on reported weaknesses within reasonable time to all audit reports.
- 13.5 Management is also responsible for ensuring that the IAF has the support of management, has direct access and freedom to report to top management including the municipal manager and the Audit Committee and has adequate resources for carrying out its annual audit plan.
- 13.6 Management should ensure that adequate risk management processes are in place and functioning as intended and internal controls are established and maintained, including proper accounting records and other management information for running the municipality.

Liaison with External Audit

The IAF will have unlimited access and communicate regularly with the external auditors to ensure that:

- 14.1 Internal and external audit activities are properly co-ordinated and planned.
- 14.2 Audit work is not duplicated.
- 14.3 External audit can rely on the work of internal audit.
- 14.4 Issues of mutual concern are resolved.
- 14.5 External audit receives copies of internal audit reports and are timeously informed of significant issues emanating from internal audits; and
- 14.6 Sharing of information from the working papers and on perceived risks.

Authority and Access

The Chief Audit Executive and staff of the IAF are authorized to:

- 15.1 Have full and unrestricted access to information, including all functions, records, property and personnel of the municipality relevant to their audits. All information given to the IAF will be handled in a prudent manner;
- 15.2 Have free and full access to the municipal manager of the municipality and the Audit Committee;

Confidentiality

Persons performing the internal audit work and those with access to internal audit work papers and reports are expected to maintain the confidentiality of any data, which may be considered to be of a sensitive or confidential nature.

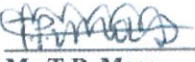
Conclusion

To achieve full effectiveness, the scope of the internal audit unit should provide an unrestricted range of coverage of the council's operation and the internal audit unit should have sufficient authority to allow accesses to such records, assets and personnel as are necessary for proper fulfilment and its responses.

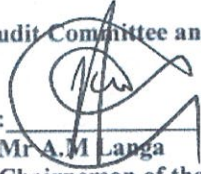
Acceptance and Approval

Prepared by: 
Ms B. Fokazi
Chief Audit Executive

25/06/2020
Date

Accepted by: 
Mr T.P. Mase
Acting Municipal Manager

25/06/2020
Date

Approved by Audit Committee and signed
on its behalf by 
: Mr A.M. Langa
Chairperson of the Audit Committee

25/06/2020
Date