

OVERBERG

DISTRICT MUNICIPALITY

INTERNAL AUDIT CHARTER

Updated: February 2018



Council Resolution No:

Date:

Municipal Manager:

Executive Mayor

Reference No:

Municipal Code No:

TABLE OF CONTENTS

| | |
|--|---|
| 1. BACKGROUND | 2 |
| 2. PURPOSE | 2 |
| 3. SCOPE OF INTERNAL AUDIT ACTIVITY | 2 |
| 4. APPOINTMENT AND REMOVAL OF THE HEAD: INTERNAL AUDIT SERVICES..... | 3 |
| 5. ACCOUNTABILITY..... | 3 |
| 6. INDEPENDENCE | 3 |
| 7. RESPONSIBILITIES..... | 3 |
| 8. INTERNAL AUDIT REPORTS | 5 |
| 9. RESOURCES | 5 |
| 10. AUTHORITY | 6 |
| 11. UNAUTHORISED ACTIVITIES | 6 |
| 12. STANDARDS AND CODE OF ETHICS..... | 6 |
| 13. APPROVAL..... | 7 |
| 14. REVIEW..... | 7 |

1. BACKGROUND

Internal audit forms part of the combined assurance model that incorporates and optimises all assurance services and functions. Taken as a whole, these functions enable an effective control environment, support the integrity of information used for decision-making by Management, Council and its committees, and support the integrity of the organisation external reports.

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve the municipality's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, controls and governance processes.

2. PURPOSE

The purpose of the internal audit activity is to provide an independent, objective assurance and consulting services designed to add value and improve the organisation's operations.

3. SCOPE OF INTERNAL AUDIT ACTIVITY

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

- Risks are appropriately identified and managed;
- Significant financial, managerial and operating information is accurate, reliable and timely;
- Resources are acquired economically, used efficiently and adequately protected; and
- Programs, plans and objectives are achieved.

Opportunities for improving management control, service delivery, and the organisation's image may be identified during audits and, communicated to the appropriate level of management.

4. APPOINTMENT AND REMOVAL OF THE HEAD: INTERNAL AUDIT SERVICES

The Audit and Performance Audit Committee must concur on the appointment or removal of the Head: Internal Audit Services.

5. ACCOUNTABILITY

Council delegates oversight of internal audit to the Audit and Performance Audit Committee.

The Head: Internal Audit Services, in the discharge of his/her duties, shall be accountable to management and the Audit and Performance Audit Committee perform the responsibilities as outlined in this charter.

6. INDEPENDENCE

To provide for the independence of the internal audit activity, the Head: Internal Audit Services and personnel report to the Audit and Performance Audit Committee on the performance of duties and functions that relate to internal audit. On other duties and administrative matters, the Head: Internal Audit Services reports to the Accounting Officer.

The Head: Internal Audit Services must have access to the chairperson of the Audit and Performance Audit Committee.

For reasons of independence, the Head: Internal Audit Services should not be a member of executive management, but is invited to attend executive meetings, as necessary, to be informed about strategy and policy decision and their implementation.

7. RESPONSIBILITIES

Through the Audit and Performance Audit Committee, Council assumes responsibility for internal audit by setting direction for the internal audit arrangements needed to provide objective and relevant assurance that contributes of the effectiveness of governance, risk management and control processes.

The Audit and Performance Audit committee must monitor on an ongoing basis that internal audit:

- Follows an approved risk-based internal audit plan
- Reviews the municipality's risk profile regularly, and proposes adaptations to the internal audit plan accordingly.

The Audit and Performance Audit Committee must ensure that an external, independent quality review of the internal audit function is conducted at least once every five years. This review may be conducted through peer reviews with independent validation.

The Head: Internal Audit Services and internal audit activity staff have amongst others the following responsibilities:

- Provide an annual assessment on the adequacy and effectiveness of the municipality's governance, risk management and control processes; and
- Report significant issues related to the processes for controlling the activities of the organisation, including potential improvements to those processes and provide information concerning such issues for further action by management;
- Provide information periodically on the status and results of the annual audit plan and the sufficiency of department resources; and
- Coordinate with and provide oversight of other control and monitoring functions (risk management, compliance, security, legal, ethics, environmental, external audit).
- The Audit and Performance Audit Committee shall therefore engage with council, the EXCO and Municipal Manager on issues relating to changes to the organizational structure of the Internal Audit Unit, appointments made and any disciplinary actions taken against these officials.
- Develop a strategic and flexible annual audit plan using the appropriate risk-based methodology, including any risks or control concerns identified by management, and submit that plan to the Audit and Performance Audit Committee for review and approval;
- Implement the annual audit plan, as approved, including, and as appropriate, any special tasks or projects requested by management and the Audit and Performance Audit Committee;
- Establish policies and procedures to guide the internal audit activity and direct its administrative functions;
- Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this charter;

- Establish a quality assurance program by which the Head: Internal Audit Services assures the operation of internal auditing activities.
- Perform consulting services, beyond internal auditing's assurance services, to assist management in meeting its objectives. Examples may include facilitation, process design, training and advisory services. Informal consulting engagements include routine activities such as participating on standing committees, limited life projects, ad hoc meetings and routine information exchange; and
- Issue at least quarterly reports to the Audit and Performance Audit Committee and management summarising results of audit activities.

8. INTERNAL AUDIT REPORTS

The Head: Internal Audit Services must ensure that quality assurance of the internal audit reports take place before any reports are issued.

Internal audit reports are distributed by the Head: Internal Audit Services to line managers who may provide input.

Should a line manager differ in opinion about content of the internal audit report, the Head: Internal Audit Services and line manager should engage and reach consensus.

The internal audit reports are distributed to the Chief Financial Officer after input has been incorporated. The reports are acknowledged by the Accounting Officer.

All reports shall be tabled for the Audit and Performance Audit Committee at the first meeting after the reports were issued.

9. RESOURCES

The Audit and Performance Audit Committee must ensure that:

- The arrangements for internal audit provide for the necessary skills and resources to address the complexity and volume of risk faced by the municipality, and
- Internal audit is supplemented as required by specialist services such as those provided by forensic fraud examiners and auditors, safety and process assessors, and statutory actuaries.

10. AUTHORITY

The Head: Internal Audit Services and staff of the internal audit activity are authorised amongst others to:

- Have unrestricted access to all functions, records, property and personnel;
- Have full and free access to the Audit and Performance Audit Committee;
- Allocate resources, set frequencies, select subjects, determine scope of work and apply the techniques required to accomplish audit objectives; and
- Obtain necessary assistance of personnel in units of the organisation where they perform audits, as well as other specialised services from within or outside the organisation.
- That all ad hoc assignments as requested to Internal Audit, be submitted to the Chairperson of the Audit and Performance Audit Committee.

11. UNAUTHORISED ACTIVITIES

The Head: Internal Audit Services and staff of the internal audit activity are not authorised to:

- Perform any operational duties for the organisation or its affiliates;
- Initiate or approve accounting transactions external to the internal auditing department;
- Direct the activities of any of the organisation's employee's not employed by the internal auditing department, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

12. STANDARDS AND CODE OF ETHICS

The internal auditing activity will meet or exceed the internal audit activity standards and abide by the Code of Ethics as outlined in the International Professional Practice Framework.

The Audit and Performance Audit Committee must obtain confirmation annually from the Head: Internal Audit Services that internal audit conforms to the Code of Ethics as outlined in the International Professional Practice Framework.

13. APPROVAL

The Audit and Performance Audit Committee must approve the Internal Audit Charter..

14. REVIEW

This charter will be reviewed periodically and updated as needed. The review report and updated charter must be submitted to the Audit and Performance Audit Committee for approval.