



INTERNAL AUDIT CHARTER

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1. INTRODUCTION

The Council and Audit and Performance Audit Committee (“APAC”) is responsible for overseeing the establishment of effective systems of internal control in order to provide reasonable assurance that Garden Route District Municipality’s (“GRDM”) financial and non-financial objectives are achieved. Executing this responsibility includes the establishment of an internal audit function in accordance with this document.

This document defines the Internal Audit Activity’s purpose, responsibilities and authority.

2. PURPOSE OF INTERNAL AUDIT

Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve Garden Route District Municipality’s operations. It helps GRDM to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Internal Audit will provide the Council and management with analyses, appraisals and recommendations concerning the activities reviewed.

3. ROLE OF INTERNAL AUDIT

The role of internal audit in the municipality is to assist the Municipal Manager and the Council to meet their objectives and to discharge their responsibilities by providing an independent evaluation of the adequacy and effectiveness of GRDM’s network of risk management, control and governance processes.

Internal audit is a systematic, objective appraisal of the diverse operations and controls within Garden Route District Municipality to ensure the:

- The information systems environment;
- The reliability and integrity of financial and non-financial information;
- The effectiveness of operations;
- Safeguarding of assets;
- Economical and efficient use of resources; and
- Compliance with all applicable legislation within the Government environment.

4. RESPONSIBILITY OF INTERNAL AUDIT

Internal Audit assurance is provided through applying the Standards and Core Principles for the Professional Practice of Internal Auditing, the Definition of Internal Auditing and the Code of Ethics of the Institute of Internal Auditors South Africa (IIASA).

The Chief Audit Executive (CAE), in the discharge of his or her duties, shall be accountable to the Audit and Performance Audit Committee to:

- Provide an assessment on the adequacy and effectiveness of processes of controlling its activities;

- Report significant issues related to processes for controlling the activities of Garden Route District municipality, 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 internal audit plan and the sufficient use of department resources; and
- To handle documents and information given to Internal Audit as part of a review in the same prudent and confidential manner than by those employees/officials normally accountable for it.

The Chief Audit Executive and Internal Audit staff members have, amongst others, the following responsibilities:

- Develop a three year strategic and flexible risk-based audit plan using 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;
- Prepare and implement an annual internal audit plan, as approved by APAC, covering Section 165(2) of the Municipal Finance Management Act (MFMA) 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 Unit 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 *Refer standard 1200 of the Standards for the professional practice of internal auditing*;
- Establish a quality assurance and improvement program (QAIP) by which the Chief Audit Executive assures the operation of internal audit activities *Refer standard 1300 of the Standards for the professional practice of internal auditing*;
- Perform consulting services, beyond internal auditing assurance services, to assist management in meeting its objectives. Examples may include facilitation, training and advisory services. Informal consulting engagements include routine activities such as participating in Council and management meetings, ad hoc meetings and routine information exchange *Refer standard 1100 of the Standards for the professional practice of internal auditing*; and
- Issue at least quarterly reports to the Audit and Performance Audit Committee and management summarizing results of audit activities.

5. RELATIONSHIPS WITH OTHER ASSURANCE PROVIDERS

Internal Audit will co-ordinate their work with the other assurance providers as directed by management and the Audit and Performance Audit Committee. The external auditors will be notified of the activities of internal audit in order to ensure proper coverage and minimise duplication of audit effort.

6. INDEPENDENCE

- To provide for the independence of the Internal Audit Activity (IAA), the CAE and personnel report functionally to the Audit and Performance Audit Committee and administratively to the Accounting Officer or his/her nominee.

- The Internal Audit section shall have an independent status within the Municipality and will not be involved in the day-to-day internal validation systems of the Municipality.
- The Audit and Performance Audit Committee must concur on the appointment or removal of the CAE.
- The CAE has a standing invitation to attend meetings of the executive committee or other committees made up of a majority of senior executives, but is not a member of these committees in order to protect independence.
- All internal audit activities shall remain free of influence by any element in the organisation, including matters of:
 - Audit selection;
 - Scope;
 - Procedures;
 - Frequency;
 - Timing; or
 - Report content to permit maintenance of an independent and objective attitude necessary in rendering reports.
- Internal Auditors shall have no direct operational responsibility or authority over any of the activities they review.
- When performing consulting engagements, the nature and scope of the engagement are agreed with the management prior to its commencement. The internal auditors will not assume any management responsibilities during and after the engagement.
- The organisational structure must promote the independence of the internal audit function as a whole and allow internal audit to form its judgements objectively.

7. AUTHORITY

The CAE and staff of the Internal Audit Unit are authorised amongst others to:

- Have full, free and unrestricted access, at all reasonable times, to all premises, functions, records, property, and personnel relevant to any function under review;
- Have full and free access to Council and the Audit and Performance Audit Committee;
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives; and
- Obtain the necessary assistance of personnel of GRDM as well as other specialised services from within or outside the Municipality.

8. COMBINED ASSURANCE

Internal audit must make an assessment of the adequacy of the combined assurance approach adopted by Garden Route District Municipality. This assessment includes the adequacy of risks covered by the different assurance providers and the reliability of the assurance provided.

9. LIMITATION OF SCOPE

Impairments of independence and/or any attempted scope limitation by management must be reported in writing to the Audit and Performance Audit Committee and if necessary to Council. *(Refer standard 1130 of the Standards for the professional practice of internal auditing)*

10. RESTRICTIONS

The CAE and staff of the IAA are not authorised to:

- Perform any operational duties for the Municipality;
- Be involved in the implementation of internal control systems but may be consulted on the adequacy of controls when they are first implemented;
- Initiate or approve accounting transactions external to the internal auditing department; and
- Direct the activities of any of the municipality's employee's not employed by the internal audit department, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

11. AUDIT SCOPE

11.1 Risk Management

Internal Audit has to assist the Council, Executive Managers and Managers in evaluating the municipality's risk management process to give an opinion on the adequacy and effectiveness of risk management and internal controls systems.

11.2 Controls

Internal Audit has to assist the Council, Executive Managers and Managers in maintaining effective controls by evaluating those controls to determine their efficiency, and by developing recommendations for enhancement or improvement. Accounting controls are designed to safeguard assets and ensure the accuracy of financial records.

11.3 Governance

Internal Audit has to assist the Council, Executive Managers and Managers in achieving the objectives of the municipality by evaluating and approving the process through which:

- objectives and values are established and communicated;
- the accomplishment of objectives is monitored;
- accountability is ensured; and
- Council's values are preserved.

11.4 Performance Management

Internal Audit has to audit performance management according to legislation and the Performance Framework approved by Council.

11.5 Financial Audits

Financial audits address accounting and reporting of financial transactions, including authorisations, receipt and disbursements of funds.

11.6 Operational Audits

Review operating information and the means used to identify, measure, classify and report such information; review the means for safeguarding assets; provide analysis and evaluate operational results with comparison to established goals, objectives, policies, plans, laws, procedures and resolutions.

11.7 Surprise audits

Internal Audit must perform surprise audits in order to be effective especially where money is involved. The section does not need to get permission from any directorate

before proceeding with such audit, but must immediately afterwards inform the relevant level of management of the outcome.

11.8 Compliance Audits

Reviewing the systems established by management to ascertain 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.

11.9 Fraud Limitation/Investigations

The identification and prevention of fraud is a management responsibility. Internal Audit is well qualified to assist management to identify the main fraud risks facing the Council and could assist management in designing appropriate controls that could minimise the effects of the risks.

11.10 Ad hoc assignments

Carry out ad hoc appraisals, inspections, investigations, examinations or reviews requested by the Accounting Officer or APAC [MFMA s165(2)(c)], having due regard for the available resources.

Any instances of fraud or non-compliance with legislation which may come to Internal Audit's attention during its activities will be reported to the Audit and Performance Audit Committee. After obtaining approval from the Chairperson of the Audit and Performance Audit Committee, Internal Audit can assist management in performance of fraud investigations.

12. REPORTING

- Internal Audit will perform the internal audit procedures in line with the scope as set out.
- After every engagement a written report will be prepared and issued by the auditors to the management. This report will contain the outcome and findings and any recommendations made.
- The Chief Audit Executive should establish and maintain a system to monitor the disposition of results communicated to management. A follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.
- Internal Audit will submit a quarterly report to the Audit and Performance Audit Committee on the:
 - Status of Internal Audit activities;
 - Significant findings and management action plans;
 - Follow-up on previously reported internal audit findings;
 - Any instance of fraud or non-compliance with legislation identified during the performance of the Internal Audit activities; and
 - Performance of Internal Audit against the annual Internal Audit plan to allow effective monitoring and possible intervention.

13. MANAGEMENT

APAC is responsible for approval of the scope of internal audit work, and for recommending the action to be taken on the outcome of or findings from their work.

Management, in conjunction with the Accounting Officer, is responsible for:

- Ensuring that a risk assessment is conducted regularly to identify emerging risks of the Council. A risk management strategy must be drawn up and used by management to direct Internal Audit effort and priority;
- Proposing the areas of investigation by Internal Audit;
- Ensuring the Internal Audit function has –
 - The support of Executive Management;
 - Direct access and freedom to report to the Accounting Officer and APAC;
 - Free access to books of account, records, cash, stores, property and other sources of relevant information.
- Maintaining internal control, including proper accounting records and other management information suitable for running the Municipality; and
- Reviewing Internal Audit reports and the timely implementation of recommendations as considered appropriate, in the light of Council's resources.

14. STANDARDS AND CODE OF ETHICS

Internal audit will seek to meet or exceed the IIA Standards and abide by the Code of Ethics as outlined in the International Standards for the Professional Practice of Internal Auditing (ISPPA).

15. QUALITY ASSURANCE AND IMPROVEMENT PROGRAM (QAIP)

The activities of the internal audit unit must be guided, monitored and supervised at each level of operation to ensure that the unit is consistently performing in accordance with the International Standards for the Professional Practice of Internal Audit. The quality assurance and improvement program should include periodic internal assessments within a short time prior to an external assessment which can facilitate and reduce the cost of the external assessment.

a) Internal assessments

The Chief Audit Executive must ensure that internal assessments are performed. Internal assessments should include ongoing reviews of the performance of the internal audit activity. These should be performed through self-assessment or by other persons within the municipality with knowledge of internal audit practices and the IIA Standards. The Chief Audit Executive, at least annually, must report on the results of internal assessments.

Internal assessments should appraise among others:

- Compliance with the legislative framework;
- Definition of internal audit;
- IIA Standards;
- Internal audit charter;
- Code of ethics; and
- Internal audit methodology.

APAC should annually assess the effectiveness of the Internal Audit function also.

b) External assessments

The internal audit unit must be subjected to an external assessment at least once every five years, the results of which should be communicated to the Audit and Performance Audit Committee and the Municipal Manager. An external assessment must be conducted by a qualified reviewer or a review team from outside the municipality.

On completion of the external assessment, the review team should issue a formal report containing an opinion. The Chief Audit Executive in consultation with the Municipal Manager should prepare a written action plan in response to comments and recommendations in the report.

16. REVIEW OF CHARTER

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

17. APPROVAL OF THE CHARTER

Garden Route District Municipality's Internal Audit Charter is hereby approved by the APAC.

Dr A Potgieter
Approved by Audit Committee

DATE