

**LEPELLE – NKUMPI LOCAL MUNICIPALITY
INTERNAL AUDIT CHARTER**

LEPELLE – NKUMPI LOCAL MUNICIPALITY INTERNAL AUDIT CHARTER

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SECTION A: PREAMBLE & MANDATE

1. PREAMBLE

1.1 Lepelle – Nkumpi Local Municipality fully supports the broader strategy of government to improve risk management, control and governance processes. The Charter is also in line with the key transformation priorities of Batho Pele, which are, among other things;

- 1.1.1 Economic, efficient and effective use of resources;
- 1.1.2 maintenance of a high standard of professional service culture and
- 1.1.3 transparency and accountability.

1.2 The Government, as the curator for public funds, pledged to take responsibility for these funds by passing legislation to ensure economic, efficient and effective utilisation of public resources. The Municipal Finance Management Act, Act 56 of 2003 is aimed at:

- 1.2.1 Modernising the system of financial management;
- 1.2.2 Enabling local authorities managers to manage, but at the same be more accountable;
- 1.2.3 Ensuring the timely provision of information;
- 1.2.4 Eliminating waste and corruption in the use of public assets

1.3 Section 165 of the MFMA (Act 56 of 2003) provides for the maintenance of:

- 1.3.1 an effective, efficient and transparent system of financial and risk management and internal control;
- 1.3.2 a system of internal audit under the control and direction of the Audit Committee.

Section 166 of the MFMA (Act 56 of 2003)

provides for the establishment of the Audit Committee to direct the activities of the Internal Audit Function. The Charter is aimed at promoting risk management, control and governance processes.

2. MANDATE

This charter derives its mandate from the following legislative prescripts:

- 2.1 Municipal Finance Management Act, (Act 56 of 2003)
- 2.2 MFMA Circular 65
- 2.3 King III Report on Corporate Governance
- 2.4 Standards for the Professional Practice of Internal Auditing



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SECTION B: INTERNAL AUDIT CHARTER

1. BACKGROUND

1.1 Role of the Accounting Officer and Executive Management

The Accounting Officer exercises overall authority over the affairs of Lepelle – Nkumpi Local Municipality. The Accounting Officer is assisted by all Executive Managers with the administration of the Municipality. This group of persons is known as the Executive Management committee.

Executive Management Committee is responsible for the sustainability and accountability of the municipal actions, conduct and performance. The primary responsibility of the Executive Management Committee is:

1.1.1 To establish goals and objectives and develop as well as implement policies and programmes.

1.1.2 The identification of risk exposures and implementation of effective strategies to mitigate them.

1.1.3 The economic, effective and efficient utilisation of the Municipal resources.

1.1.4 Ensuring compliance with legislation, regulations, ethical and business norms.

1.1.5 Ensuring relevant, reliable and credible financial and operational information. Safeguarding of the Municipal assets.

The Accounting Officer may delegate some of his/her duties to such committees, as he/she deems advisable. One such committee is the Audit Committee, which remains responsible to the Municipal Council and the Accounting Officer. The Audit Committee supports the Accounting Officer in the execution of his/her duties but is not responsible for the execution of any of the management's duties.

1.2 Objectives of the Charter

The objectives of the Internal Audit Charter are the following:

1.2.1 To minimise the management risk that deficiencies could occur in the risk management process of the Municipality as a whole.

1.2.2 To manage the audit risk of the Municipality to the advantage of Management.



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1.2.3 To set out broad audit objectives with regard to the duties and functioning of the Internal Audit Component.

1.2.4 To set out respective functioning of the Internal Audit Component with regard to the management of the audit risk and how their activities should be co-ordinated with the activities of the Office of the Auditor-General.

2. OVERALL AUDIT CHARTER

The principle of objectivity and independence of the audit process is supported at all levels in the municipality and is reflected in the structuring and reporting lines of the Internal Audit Component as well as the establishment of the Audit Committee.

Executive Management supports the principle of “value-for-money” auditing and the financial audit should also consider the economy, efficiency and effectiveness issues.

Executive Management is ultimately responsible for the internal controls within the Municipality but the day-to-day responsibility for setting up and maintaining effective systems of internal controls rests with the Accounting Officer.

3. SCOPE OF THE AUDIT CHARTER

3.1 Contents of the Audit Charter

The Audit Charter covers the role and responsibilities of the Internal Audit Component.

3.2 What the Charter does not cover

It is not the objective of the Internal Audit Charter to set standards, procedures or methods for the execution of audits. The responsibility for this rests with the Chief Audit Executive with regard to internal audit strategies and procedures and with the responsible audit partners in the case of external audit strategies and procedures.

4. ACCOUNTING OFFICER'S RESPONSIBILITY OVER THE INTERNAL AUDIT CHARTER

The Accounting Officer and the Internal Audit Component should, prior to consideration by the Audit Committee, agree to future minor changes to the charter. In the case of major changes to the Audit Charter, approval by the Audit Committee should be obtained.



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5. STATEMENT OF PURPOSE, AUTHORITY AND RESPONSIBILITY – INTERNAL AUDIT CHARTER

5.1 PURPOSE

The purpose of this charter is to set out the nature, role, responsibility, status and authority of Internal Auditing within the organisation and to outline the scope of the internal audit.

This charter determines the ability and responsibility of the Internal Audit function set by the Audit Committee and explains the roles and scope of the Internal Audit within Lepelle-Nkumpi Local Municipality.

5.2 MISSION STATEMENT

The mission of Lepelle - Nkumpi's Internal Audit is to provide an independent, objective assurance and advisory service designed to add value and improve Lepelle Nkumpi's operations. It helps Lepelle - Nkumpi Municipality to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

5.3 INTERNAL AUDIT SCOPE OF WORK

The scope of work of Internal Audit is to determine whether Lepelle - Nkumpi's network of risk management, control and governance processes, as designed and represented by management, are adequate and functioning in a manner that ensures amongst others that:

- 5.3.1 Risks are appropriately identified and managed;
- 5.3.2 Significant financial, managerial, and operating information is accurate, reliable, and timely;
- 5.3.3 Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations;
- 5.3.4 Resources are acquired economically, used efficiently, and adequately protected;
- 5.3.5 Programs, plans, and objectives are achieved;
- 5.3.6 Quality and continuous improvement are fostered in Lepelle – Nkumpi's control process; and
- 5.3.7 Significant legislative or regulatory issues impacting Lepelle - Nkumpi Municipality are



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recognised and addressed appropriately.

Opportunities for improving management control, profitability, service delivery and Lepelle - Nkumpi's image may be identified during audits. They will be communicated to the appropriate level of management.

5.4. AUTHORITY

5.4.1 Chief Audit Executive is authorised to prepare a broad risk-based coverage plan for internal auditing within the Municipality.

5.4.2 In providing its assurance services, Internal Audit will examine and evaluate the adequacy and effectiveness of management controls implemented by the Municipality to direct its activities towards the accomplishment of its objectives in accordance with municipal policies and regulations.

5.4.3 To provide effective and efficient assurance services with due professional care, Chief Audit Executive and Internal Audit staff members are authorised to have full, free and unrestricted access to all functions, records, information, Municipal property and personnel.

5.4.4 Internal Audit has authority to provide consulting services to the Municipality, but does not have the authority or responsibility over activities reviewed, therefore Internal Audit will not be held responsible for systems of internal control. Designing, connecting, installing and operating systems of internal control are non-audit functions. Internal Audit can, however, provide advice on the designing and implementation of internal controls. Management is responsible for the design and the implementation of internal controls.

5.4.5 No person shall obstruct or interfere with the work of Internal Auditors. All employees of Lepelle – Nkumpi Local Municipality and contracted outside service providers shall give their full co-operation to the Internal Auditors.

5.4.6 Chief Audit Executive and Internal Audit staff shall have full, free and unrestricted access to the Accounting Officer, Chairperson of the Audit Committee and Office of the Auditor-General.

5.4.7 The Accounting Officer may direct Internal Audit to perform non-audit functions and offer special tasks with the understanding that they are not functioning as internal auditors. Care should, however, be taken to ensure that the effectiveness, independence and objectivity of Internal Audit is not compromised.



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5.5 RESPONSIBILITY OF INTERNAL AUDIT

Chief Audit Executive and Internal Audit staff has responsibility:

5.5.1 To establish policies and procedures to guide the internal auditing activity and direct its administrative functions.

5.5.2 To develop a three-year rolling internal audit plan as per the risk assessment report of the Municipality.

5.5.3 To execute a flexible one- year Internal Audit Coverage Plan approved by the Audit Committee. The plan should include any special tasks or projects as per the Audit Committee and management's requests.

5.5.4 To evaluate and assess significant changes in the services, policies, and operations within the Municipality and advice accordingly.

5.5.5 To issue quarterly reports to the Audit Committee and the Accounting Officer summarising results of audit activities.

5.5.6 To assist in the investigation of significant suspected fraudulent activities within the Municipality and report the results to the Audit Committee and the Accounting Officer.

5.5.7 To maintain a professional audit staff with sufficient knowledge, skills and professional certification to perform their audit responsibilities.

5.5.8 To ensure that Internal Audit activity is adequately resourced for effective functioning, have control and responsibility over Internal Audit Budget. The Budget should at least cover the following items:

5.5.8.1 Personnel related expenditure

5.5.8.2 Capital Expenditure and Software

5.5.8.3 Training and Development

5.5.8.4 Institute of Internal Auditors and Institute of Municipal Finance Officers membership fees.

5.5.8.5 Quality assurance programs

5.5.9 Chief Audit Executive in conjunction with the Accounting Officer, should develop and review Internal Audit Structure taking into cognizance the size of the Municipality including risk and complexity of the operations.



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5.6 MANDATE AND REPORTING

5.6.1 Chief Audit Executive obtains its mandate from the Audit Committee and is responsible for the Internal Audit function.

5.6.2 Chief Audit Executive reports administratively to the Accounting Officer and functionally to the Audit Committee.

5.6.3 Chief Audit Executive will report quarterly to the Audit Committee on:

5.6.3.1 Identified significant audit findings and recommendations.

5.6.3.2 Any significant deviations from the approved audit plan, staffing plans and financial budgets as well as reasons thereof.

5.6.3.3 Appropriate management action taken to address deficiency findings.

5.6.3.4 Whether audit activities have been directed towards the highest exposure to risk and towards increasing economy, efficiency and effectiveness of operations.

5.6.3.5 Whether internal and external audit efforts are co-ordinated to avoid duplications.

5.6.3.6 Any unwarranted restriction on the staffing and authority of the Internal Audit or on access by Internal Auditors to the Municipality's activities, records and personnel.

5.7 AUDIT APPROACH AND METHODOLOGY OF INTERNAL AUDIT

Internal Auditors shall at all times conduct the work or any other tasks assigned to them in accordance with the Audit Methodology and the Standards for the Professional Practice of Internal Auditing. Internal Audit shall further comply with the Code of Ethics of Internal Auditors, as published by the Institute of Internal Auditors.

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.



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5.7.1 Assurance engagements

These refer to the evaluation of the adequacy, effectiveness and efficiency of the 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 Municipality to achieve its goals and objectives. As well as provide recommendations on improving the Municipality's operations. All business systems, processes, operations, functions and activities within the Municipality should be subjected to Internal Audit's evaluation. The following types of assurance engagements should be provided:

- 5.7.1.1 Financial
- 5.7.1.2 Performance
- 5.7.1.3 Compliance
- 5.7.1.4 Systems security

5.7.2 Consulting engagements

5.7.2.1 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:

- 5.7.2.1.1 Formal consulting engagements – planned and subject to written agreement.
- 5.7.2.1.2 Informal consulting engagements – routine activities such as participating on standing committees, limited life projects, ad hoc meetings and routine information exchange.
- 5.7.2.1.3 Special consulting engagements – participation on a merger and acquisition team or system conversion team.
- 5.7.2.1.4 Emergency consulting engagements – participation on a team assembled to supply temporary help to meet a special request or tight deadline.

5.7.2 Internal Auditors should, however, maintain their objectivity when drawing conclusions and offering advice to management. The following consulting services may be provided:

- 5.7.2.1 Counsel / Advice
- 5.7.2.2 Facilitation
- 5.7.2.3 Process design and
- 5.7.2.4 Training

5.7.8 The comprehensive scope of work of Internal Audit should provide reasonable assurance that the Municipality's risk management, control and governance systems are effective and efficient.

5.7.9 In areas where, in the opinion of the Chief Audit Executive, specialised audit skills are lacking within the Unit, the services of outside Consultants may be employed through consultation with the Accounting Officer.



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5.8 QUALITY CONTROL INTERNAL AUDIT

5.8.1 Chief Audit Executive will establish and maintain a quality assurance programme to evaluate the operations of the internal auditing function. Quality control in Internal Audit should include the following:

5.8.1.1 Chief Audit Executive should maintain an ongoing system to measure performance of Internal Audit staff.

5.8.1.2 A structured training programme should be followed in order to develop the technical, conceptual and management abilities of the Internal Audit personnel.

5.8.1.3 The audit approach followed should be regularly evaluated to ensure that it conforms to the developments taking place within the Internal Audit field.

5.8.1.4 As far as possible, all Internal Auditors should be members of the Institute of Internal Auditors SA, Municipal Internal Auditors Forum, Institute for Municipal Finance Officers or any forum established with an aim of sharing practical experience within the internal audit profession.

5.8.2 An external assessment of internal audit should be conducted every five years from the date of establishment of the Unit by an independent qualified reviewer or review team. Assessment of Internal Audit should

include the evaluation of:

5.8.2.1 Compliance with the IIA Standards and Code of Ethics.

5.8.2.2 Adequacy of the Internal Audit Charter, policies and procedures.

5.8.2.3 Contribution to the Municipality's risk management, governance and control processes.

5.8.2.4 Compliance with audit charter, applicable laws, regulations and government standards.

5.8.2.5 Whether Internal Audit adds value and improves the Municipality's operations.

5.8.2.5 Internal Audit staff continuous development requirements achieved.

5.8.2.6 Internal Assessment will be performed in every two years by Provincial Treasury.

5.9 DISTRIBUTION OF INTERNAL AUDIT REPORTS

5.9.1 Timing

A draft Internal Audit report should be given to the affected Executive Manager audited within 14 days after the completion of the audit. The auditee Management should have 3 (Three) days to prepare comments on the accuracy of the draft report, which will be discussed at a meeting arranged for this purpose. Thereafter the report will be issued as a final report to the Auditee Management.



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Where, in the opinion of the Chief Audit Executive, a critical aspect is identified during the audit, the matter should be discussed with the operational management and followed up in writing. The final report should be brought to the attention of the Accounting Officer and the Audit Committee.

5.9.2 Distribution of reports

Detailed final reports should be distributed to the members of operational management who are responsible for the unit being audited via the auditee Management. Copies of all detailed reports should also be sent to the Office of the Auditor-General for information.

Summary reports should also be prepared, distributed and presented to the Audit Committee on a quarterly basis.

5.9.3 Corrective action and differences of opinion with management.

The responsibility for corrective action lies with the relevant operational management. Where Internal Audit is of the opinion that operational management is not taking appropriate action with regard to previous recommendations, the matter should be reported to the Accounting Officer and the Audit Committee.

Should a disagreement arise between the Internal Audit and the relevant operational management regarding a specific finding or recommendation, Chief Audit Executive should convene a meeting with the interested parties in order to resolve the matter. Should the matter not be resolved at this level, it should be discussed with the Accounting Officer and the Audit Committee.

5.10 REQUESTS FOR SPECIAL PROJECTS

All requests for the assistance by Internal Audit in the execution of special projects must be submitted in writing to the Accounting Officer and ratified by the Audit Committee.

5.11 CO-OPERATION WITH THE OFFICE OF THE AUDITOR-GENERAL

Internal Audit and the Office of the Auditor-General should have regular contact in order to maximise the benefits that the Municipality receives from the total audit process. During these meetings, emphasis must be placed on audit planning, possible deficiencies or duplication in the work and critical risk area.

5.12 FRAUD LIMITATION

The identification and prevention of fraud is clearly a management responsibility. Internal Audit is well qualified to assist management to identify the fraud risks facing Lepelle - Nkumpi Municipality and could assist management in designing appropriate controls that would minimise the effect of the risks.



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5.13 REVIEW PERIOD

This Charter will be reviewed on an annual basis, in consultation with the Accounting Officer and submitted to the Audit Committee for approval.

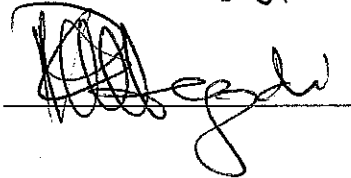
5.14 APPROVAL OF CHARTER

Recommended by Municipal Manager



Date 15 June 2016

Accepted by Audit Committee



Date 15 June 2016

