



Internal Audit Charter

2015/2016

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1. PURPOSE

- 1.1. The purpose of this charter is to set out the nature, role, responsibility, status and authority of the internal audit function of Elias Motsoaledi Local Municipality. It also outlines the scope of internal audit work and relevant services. It provides the Head of Internal Audit and the management of EMLM with a broad overview of and framework for the function of Internal Audit.
- 1.2. The purpose of Elias Motsoaledi Municipality Internal Audit Unit is to provide an independent, objective assurance and consulting services which are designed to add value and improve the municipality's operations. To help the municipality achieve its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

2. SCOPE OF WORK

- 2.1. The scope of work is derived from the Municipal Finance Management Act of 2003 section 165(2) which outlines that, the internal audit unit of a municipality must:
 - (a) Prepare a risk-based audit plan and internal audit plan 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 MFMA, 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.
- 2.2. The Internal Audit activity may be outsourced where the municipality requires capacity to develop its internal audit unit capacity and is deemed to be cost effective. Outsourcing should comply with the supply chain management process. In situations where the internal audit is outsourced, oversight and responsibility for the internal audit unit cannot be outsourced and must be maintained by management. The Chief Audit Executive should manage the outsourced function.

3. SERVICES RENDERED BY INTERNAL AUDIT UNIT

- 3.1. The Internal Audit unit renders assurance and consulting services.
 - 3.1.1. Assurance services may include amongst others:

- (a) Assurance to the audit committee and management on the adequacy and effectiveness of the risk management process.
- (b) Assurance on the adequacy and effectiveness of controls encompassing the municipality's governance, operations, and information systems.

3.1.2. Consulting services

Provide consulting activities as advisory and related service activities, the nature and scope of which will be agreed upon with the municipal manager and which are intended to add value and improve the municipality's operations. Consulting activities may include services amongst others as conducting internal control training, providing advice to management about the control concerns in new systems and participating in meetings.

4. INDEPENDENCE

- 4.1. To provide for the independence of the Elias Motsoaledi Internal Audit unit, the Chief Audit Executive will report functionally to the Audit Committee and administratively to the Accounting Officer. The Audit Committee will concur on the appointment and removal of the Chief Audit Executive.
- 4.2. The internal audit activity will remain free from interference by any element in the municipality, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.
- 4.3. Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install system, prepare records, or engage in any other activity that may impair internal auditor's judgment.

5. RESPONSIBILITY

- 5.1. The Internal Audit Unit has amongst others, the following responsibilities:
 - (i) Develop a three year strategic and flexible annual audit plan based on an assessment of risks and exposures that may affect the municipality. The Chief Audit Executive must ensure that strategic and operational plans are developed annually, approved by the audit committee and accepted by the accounting officer.
 - (ii) Implement the annual audit plan, as approved, including, and as appropriate, any special tasks or projects requested by Management and the Audit Committee.
 - (iii) Review the operational plan to identify any amendments needed to reflect changing priorities and emerging needs. The audit committee should approve material changes to the operational internal audit plan.
 - (iv) Establish policies and procedures to guide the Internal Audit Unit and direct its administrative functions.
 - (v) Establish and report on a quality assurance and improvement program.
 - (vi) Communicate the results of the audit engagement to management by issuing an audit report. The report must be disseminated to those who are in a position to take corrective action or ensure that corrective action is taken.

- (vii) Perform consulting services, beyond internal audit's assurance services, to assist management in meeting their objectives, e.g. facilitation, process design, training and advisory services. Informal consulting engagements including routine activities such as participating on standing committees, limited life projects, ad hoc meetings and routine information exchange.
- (viii) Submit quarterly reports to the audit committee detailing its performance against the annual internal audit plan.

6. AUTHORITY

6.1. The Internal Audit Unit is authorized amongst others to:

- (i) Have unrestricted access to all functions, records, property, and personnel
- (ii) Have full and free access to the Audit Committee
- (iii) Allocate resources, set frequencies, select subjects, determine the scope of work, and apply the techniques required to accomplish audit objectives.
- (iv) Obtain the necessary assistance of personnel in all departments where they perform audits, as well as other specialized services from within or outside the municipality.

6.2. The Internal Audit Unit is not authorized to:

- (i) Have any operational responsibility or authority over municipal activities they review. Accordingly, they shall not develop nor install systems or procedures, prepare records, or engage in any other activity which would normally be audited.
- (ii) Direct activities of any of the municipality's employees not employed by the internal audit unit, except to the extent that such employee has been appropriately assigned to the audit team or otherwise to assist the internal auditors.

7. PROFESSIONAL STANDARDS OF AUDIT PRACTICE

7.1. The Internal Audit unit shall govern themselves by adherence to The Institute of Internal Auditors' "Code of Ethics", King III report and Municipal Finance Management Act. The Institute's "*International Standards for the Professional Practice of Internal Auditing*" (*Standards*) shall be complied with.

8. QUALITY ASSURANCE AND IMPROVEMENT PROGRAM:

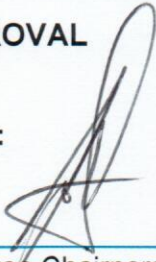
- 8.1. The Internal Audit activity will maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The program will include an evaluation of the internal audit activity's conformance with the definition of Internal Auditing and Standards and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.
- 8.2. The Chief Audit Executive will communicate to Senior Management and the Audit Committee on the internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.

9. REVIEWAL

- 9.1. The Internal Audit charter will be reviewed at least annually and when necessary to ensure that it conforms to the relevant best practice standards and legislation.

10. APPROVAL

Approved by:



Audit Committee Chairperson

25-08-2015

Date

Accepted by:



Municipal Manager

Elias Motsoaledi
Local Municipality

26 AUG 2015

Date

26/8/2015

Municipal Manager