



éDUMBE LOCAL MUNICIPALITY

INTERNAL AUDIT CHARTER

INTERNAL AUDIT CHARTER: éDUMBE LOCAL MUNICIPALITY

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CHARTER AND TERMS OF REFERENCE

1. PURPOSE

1.1 The purpose of this charter is to:

1.1.1 define the purpose of internal audit activity, the authority and responsibility of internal audit Unit;

1.1.2 establish the internal audit activity's position within the Municipality, including the nature of the Manager: Internal Audit Unit's functional reporting relationship with the Council;

1.1.3 authorize access to records, information, personnel, and physical properties relevant to the performance of internal audit activity;

1.1.4 defines the scope of internal audit activities; and

1.1.5 provide guidance to the Municipality Internal Audit Unit about main issues and procedures which it needs to consider as part of its work;

1.2 The Municipality's Internal Audit Unit should also have regard to the statements and standards issued by the accountancy, auditing and internal auditing bodies and International Standards for the Professional Practice of Internal Audit (ISPPA) issued by the Institute of Internal Auditors of South Africa (IIA) and also to any requirements regarding internal audit set out in relevant statutes or regulations.

2. LEGISLATION GOVERNING INTERNAL AUDIT FUNCTION

2.1 The Internal Audit Unit is governed by the Municipal Finance Management Act No. 56 of 2003 (MFMA) which provides for the establishment of the Internal Audit Unit so as to regulate the function; and to provide for matters incidental thereto within municipality

2.2 The Municipal Council is required by section 165(1) of the Municipal Finance Management Act No 56 of 2003 to implement and maintain a system of internal audit under the control and direction of an audit committee subject to subsection (3) of the said act.

2.3 The Internal Audit Unit subscribe to the ISPPA including the Code of Ethics.

3. ACCOUNTABILITY OF INTERNAL AUDIT UNIT

The Municipality Internal Audit Unit is directly accountable functionally to the Audit Committee, as established in terms of section 166 of the MFMA. This accountability applies despite the administrative location of the Internal Audit Unit which is under the Office of the Municipal Manager.

4. OBJECTIVES AND SCOPE OF INTERNAL AUDIT UNIT

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

The Internal Audit Unit shall provide assurance on the effectiveness and efficiency of the systems of internal control, risk management, governance and compliance with the Constitution of the Republic of South Africa and laws and regulation governing Local Government.

The Municipality Internal Audit Unit shall also perform consulting services such as forensic investigations, training, special reviews on certain functions and helping management with the implementation of turn around strategies. All consulting activities shall be authorized by the Audit Committee before carried out with the exception of forensic investigations which can be performed by internal audit unit on their own accord or requested by the Accounting Officer or Executive Committee or Council or Audit Committee.

5. INTERNAL AUDIT UNIT'S RESPONSIBILITY WITH REGARD TO FRAUD AND CORRUPTION AND OTHER IRREGULARITIES

- (i) éDumbe Local Municipality Internal Audit Unit shall exercise due professional care in performing its activities.
- (ii) éDumbe Local Municipality Internal Audit Unit shall consider all possibilities of material irregularities or non-compliance when conducting its activities.
- (iii) When éDumbe Local Municipality Internal Audit Unit staff member suspects wrong doing he or she shall report to the Manager: Internal Audit Unit who shall in turn report to the Audit Committee immediately and to the Municipal Manager.
- (iv) When éDumbe Local Municipality Internal Audit Unit have a strong suspicion that the Municipal Manager has played a role in suspected fraud, corruption, theft, maladministration, mismanagement or any other serious irregularity, such cases shall be reported directly to the éDumbe Local Municipality Audit Committee.
- (v) Where suspicion is aroused or there are reasonable grounds for suspicion, éDumbe Local Municipality Internal Audit Unit must go behind the documents and the numbers to track down improprieties.
- (vi) In addition to understanding control systems, internal auditors should be aware of the kind of fraud that could be practiced.
- (vii) In order for éDumbe Local Municipality Internal Audit Unit to be more successful in detecting fraud, they should develop a greater awareness of how it occurs and why.

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- (viii) éDumbe Local Municipality Internal Audit Unit shall recommend whatever investigation is considered necessary in the circumstances.
- (ix) Detection and Deterrence of fraud is the responsibility of management; however, éDumbe Local Municipality Internal Audit Unit is responsible for examination and evaluating the adequacy and effectiveness of actions taken by management to fulfill this obligation.
- (x) Internal auditors should have sufficient knowledge of fraud to be able to identify indicators that fraud might have been committed.
- (xi) Internal Auditors are responsible for conducting investigations.
- (xii) Internal Auditors are responsible for issuing interim and final reports during and at the conclusion of the investigation phase. The final report shall include all findings, conclusions, recommendations and corrective measures.
- (i) éDumbe Local Municipality Internal Audit Unit shall report all cases of criminal activities to the Municipal Council and éDumbe Local Municipality Audit Committee for registration of the case with South African Police Services (SAPS) for criminal investigation and prosecution as required by Section 37 of Prevention and Combating of Corrupt Activities Act, Act No. 12 of 2004.
- (ii) Internal Auditors shall review the effectiveness of the monitoring methods on all criminal investigations reported by the Municipal Council to the SAPS and report regularly to éDumbe Local Municipality Audit Committee.
- (iii) Internal Auditors should always be mindful of the fact that a refusal to see the obvious, a failure to investigate the doubtful, if sufficiently gross, may furnish evidence leading to an inference of fraud. This means that heedlessness and reckless disregard of consequences may take the place of deliberate intention.

6. RESPONSIBILITY TO THE ACCOUNTING OFFICER

éDumbe Local Municipality Internal Audit Unit is responsible to the Accounting Officer to ensure that it gives assurance as to the effectiveness and efficiency of the systems of internal controls employed in the municipality which the function serves as well as governance and risk management. This should not, however, be construed as channeling the Internal Audit's direct responsibility to the Accounting Officers as this function reports to the Audit Committee as laid out in Section 3 of this charter.

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7. POWERS AND DUTIES OF THE éDUMBE MUNICIPALITY INTERNAL AUDIT UNIT

The powers of éDumbe Local Municipality Internal Audit Unit as laid down in the MFMA and ISPPIA are as follows:

- a. éDumbe Local Municipality Internal Audit Unit has access to all records and properties of the municipality and any information in the custody and control of any person employed by éDumbe Local Municipality and third parties contracted or doing a business with the municipality that is necessary for the performance of its duties.
- b. éDumbe Local Municipality Internal Audit Unit must -
 - (a) examine and evaluate the business processes and related systems of internal control of the municipality and assist management in assessing risks;
 - (b) investigate any matter -
 - (i) it deems necessary; or
 - (ii) referred to it in writing by Member of Cabinet responsible for Corporate Governance and Traditional Affairs or Member(s) of Executive Council (MEC) of the Province of KwaZulu-Natal (i.e. Cabinet), Minister responsible for Corporative Governance and Traditional Affairs and National Treasury, Office of the Presidency, any Member of Parliament or Audit Committee or Auditor-General or Mayor or Exco or an Accounting Officer or member of public; or
 - (iii) against an Accounting Officer which has been submitted directly to the relevant MEC by a member of the public for referral to éDumbe Local Municipality Internal Audit Unit; or
 - (iv) against a Mayor or member of the Council which has been submitted directly to the relevant MEC by a member of the public for referral to éDumbe Local Municipality Internal Audit Unit;
 - (c) prepare a three year risk based audit plan and an annual audit plan to be approved by the Audit Committee;
 - (d) report to the Accounting Officer any irregularities or significant control weaknesses occurring in the Department of that accounting officer;
 - (e) make recommendations to the accounting officer to remedy any deficiencies occurring in the municipality;
 - (f) report to the Audit Committee the results of all audits or other assignments undertaken by the Internal Audit Unit, and the status of its completed work compared to the approved annual audit plan;

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- (g) make any recommendations it deems fit for consideration by the Audit Committee; and
- (i) prepare an Internal Audit Charter for éDumbe Local Municipality Internal Audit Unit which must be approved by the Audit Committee.

8. FUNDAMENTAL PRINCIPLES GOVERNING THE INTERNAL AUDIT UNIT

éDumbe Local Municipality Internal Audit Unit shall be guided by the principles as laid down in the following paragraphs. These principles are designed to ensure that the unit demonstrates a high degree of independence, objectivity, professionalism and skills as reasonably expected from a body of this stature.

The essentials for effective internal auditing are:

8.1 Independence:

- 8.1.1 éDumbe Local Municipality Internal Audit Unit has the independence in terms of organizational status and personal objectivity which permits the proper performance of its duties. éDumbe Local Municipality Internal Audit Unit is independent as it reports to the Audit Committee functionally.
- 8.1.2 Independence is achieved through the organizational status of the éDumbe Local Municipality Internal Audit Unit and the objectivity of internal auditors is ensured by the Manager: Internal Audit Unit through interaction with staff and reviews of working paper files and reports prepared by internal auditors.
- 8.1.3 The status of the éDumbe Local Municipality Internal Audit Unit enables it to operate effectively. The support of management is essential. éDumbe Local Municipality Internal Audit Function should be involved in the determination of its own priorities, in consultation with management. Accordingly the Manager: Internal Audit Unit has direct access to, and freedom to report to, all senior management including the Audit Committee.
- 8.1.4 Each internal auditor has an objective attitude of mind and sufficiently independent position to be able to exercise judgment, express opinions and present recommendations with impartiality:
 - (i) éDumbe Local Municipality Internal Audit Unit notwithstanding its employment by the municipality should be free from any conflict of interest arising either from professional or personal relationships or other interests in the municipality or activity which it subjects to audit.
 - (ii) éDumbe Local Municipality Internal Audit Unit should be free from undue influences which either restrict or modify the scope or conduct of its work or over-rule or significantly affect judgment as to the content of the internal audit report.

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- (iii) éDumbe Local Municipality Internal Audit Unit does not and should not allow its objectivity to be impaired when auditing an activity for which it has authority or responsibility.
- (iv) éDumbe Local Municipality Internal Audit Unit should be consulted about significant proposed changes in the internal control system, policies and the implementation of new systems and should make recommendations on the standards of control to be applied. This need not prejudice éDumbe Local Municipality Internal Audit Unit's objectivity in subsequently reviewing those systems.
- (v) éDumbe Local Municipality Internal Audit Unit should not undertake non-audit duties. However, should the internal auditors be required to do so, management should understand that they are not acting as auditors.

Where any of the situations referred to above arise, this must be clearly declared by éDumbe Local Municipality internal Audit Unit so that consideration can be given to the need for alternative arrangements for the audit assignment.

8.2 Staff and Training:

- 8.2.1 Internal auditors should be properly trained to fulfill all their responsibilities.
- 8.2.2 The effectiveness of éDumbe Local Municipality Internal Audit Unit depends substantially on the quality, training and experience of its staff. Staff should be appointed with the appropriate education and training, experience, positive attitude, aptitude, personal qualities and potential to grow. Steps should be taken to provide the necessary training and continuing professional education.
- 8.2.3 éDumbe Local Municipality Internal Audit Unit should be suitably qualified and possess a wide experience of internal audit.
- 8.2.4 The Manager: Internal Audit Unit should participate in the recruitment and selection of his/her staff. New entrants to Internal Audit Unit should have time to familiarize themselves with the programmes, projects, initiative and activities of the éDumbe Local Municipality, the local government mandate and activities as well as Internal Audit Function and be able to demonstrate their suitability for internal audit activities.
- 8.2.5 The Manager: Internal Audit Unit has a responsibility to ensure that the internal auditor receives the necessary training for the performance of the full range of duties.
- 8.2.6 Training should be tailored to the needs of the individual. It should include both the theoretical and tactical knowledge and its practical applications under the supervision of suitably competent and experienced internal auditors.

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8.2.7 Account should be taken of:

- (i) internal audit objectives and priorities;
- (ii) the type of internal audit work;
- (iii) previous training, experience and qualifications; and
- (iv) personal development in the light of the needs of the municipality and the Internal Audit Unit

8.2.8 Training is a planned and continuing process at all levels and covers:

- (i) basic training - providing the knowledge of basic auditing principles and practices which all internal auditors should possess;
- (ii) development training - in general audit skills and techniques and inter-personal skills, to improve the effectiveness of those currently employed in internal audit; and
- (iii) specialized training - for those responsible for the internal audit activities which require skills or knowledge.

8.2.9 The internal auditor should keep abreast of current developments, improvements, new techniques and practices in auditing as well as ISPPA.

8.2.10 The internal auditor should maintain technical competence through professional development which includes:

- (i) private reading and studying; and
- (ii) participation in professional activities such as attending meetings, courses and conferences.

8.2.11 The Manager: Internal Audit Unit should co-ordinate, and keep under review, the training requirements of internal auditors. Should be responsible for preparing training profiles which identify the training needs requirements for different levels of internal auditors, and should maintain personal training records for each individual.

8.3 Relationships:

éDumbe Local Municipality Internal Audit Unit should seek to foster constructive working relationships and mutual understanding with management, the Audit Committee and the external auditors. This relationship should not compromise or be seen to be compromising the internal auditor's independence and objectivity.

8.3.1 Relationship with Management

8.3.1.1 The Manager: Internal Audit Unit should prepare the internal audit plan independent of management and consult with senior management on issues of concern in their areas of operation that they would wish included in the three year rolling audit plan and annual plan. The Manager: Internal Audit Unit should arrange the timing of internal audit assignments in consultation with the Accounting Officer and the

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Executive, except on those rare occasions where an unannounced visit is a necessary as part of the audit approach

- 8.3.1.2 Matters which may arise in the course of the audit are confidential and discussion is restricted to management directly responsible for the area being audited unless they impact on other departments the discussion may be broadened.
- 8.3.1.3 Discussion with management is necessary when preparing the audit report. This should be an essential feature of the good relationship between the internal auditors and management.

8.3.2 Relationship with the Audit Committee

- 8.3.2.1 The Manager: Internal Audit Unit should report and liaise with the Audit Committee on a regular basis on matters affecting and pertinent to éDumbe Local Municipality Internal Audit Unit. Direction and guidance should be sought from the Audit Committee on a regular basis.
- 8.3.2.2 The Audit Committee must be appraised on regular on internal audit activities.
- 8.3.2.3 Recommendations not implemented by management should be tabled at the Audit Committee meetings for direction and resolution.

8.3.3 Relationship with External Audit

- 8.3.3.1 The aim should be to achieve mutual recognition and respect, leading to joint improvement in performance and the avoidance of unnecessary duplication of effort. External and internal audit rely on each other's work, subject to limits determined by their different responsibilities, objectives and reporting requirements. Consultations should be held and consideration given to whether any work of either party is adequate in coverage and pitch for the purpose of the other.
- 8.3.3.2 Regular meetings should be held between internal and external audit at which joint audit planning, priorities, scope and audit findings are discussed and information exchanged.

8.4 Confidentiality

- 8.4.1 Internal Auditors have an obligation to respect the confidentiality of information about the client's affairs. The duty of confidentiality continues even after the completion of the assignment. This duty must be observed by the internal auditors

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unless specific authority has been given to disclose information or there is a legal or professional duty to disclose.

- 8.4.2 Confidentiality is not only a matter of disclosure of information. It also requires that internal auditors acquiring information in the course of performing audit services shall neither use nor be seen to be using that information for personal advantage or for the advantage of a third party.
- 8.4.3 Internal Auditors should consult the Manager: Internal Audit Unit or the Audit Committee for guidance and advice if there is pressure to disclose information to parties other than management of éDumbe Local Municipality, the Accounting Officer of the Municipality or the Audit Committee.

8.5 Proficiency:

- 8.5.1 éDumbe Local Municipality Internal Audit Unit must be appropriately staffed in terms of qualifications, experience, skills and other competencies that are relative to its responsibilities and objectives.
- 8.5.2 Individual internal auditors must possess the knowledge, skills, and other appropriate competencies required to perform their responsibilities.

8.6 Due Professional Care:

- 8.6.1 éDumbe Local Municipality Internal Audit Unit must exercise due professional care in fulfilling its responsibilities.
- 8.6.2 In order to demonstrate that due care has been exercised, éDumbe Local Municipality Internal Audit Unit must be able to show that its work has been performed in a way which is consistent with the ISPPA.
- 8.6.3 éDumbe Local Municipality Internal Audit Function should possess a thorough knowledge of the aims of the éDumbe Local Municipality and the internal control system. The Internal Audit Unit must also be aware of the relevant law and the requirements of relevant professional and regulatory bodies.
- 8.6.4 The standards and statements issued by the Institute of Internal Auditors are relevant to the work of éDumbe Local Municipality Internal Audit Unit.
- 8.6.5 éDumbe Local Municipality Internal Audit Unit should be impartial in discharging all its responsibilities; bias, prejudice or undue influence must not be allowed to limit or override objectivity. At all times, the integrity and conduct of each internal auditor must be above reproach. He must not place himself in a position where responsibilities and private interests' conflict and any personal interest should be declared.

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8.6.6 The Manager: Internal Audit Unit should promote and maintain adequate quality standards in the work performed by the unit. He/ She should establish methods of evaluating the work of his staff to ensure that the function fulfills its responsibilities and has proper regard to this statement.

9 PLANNING, CONTROLLING and RECORDING INTERNAL AUDIT ACTIVITY

Internal audit work should be planned, controlled and recorded in order to determine priorities, establish and achieve objectives, and ensure the effective and efficient use of audit resources.

9.1 Planning

éDumbe Local Municipality Internal Audit Unit should prepare strategies, periodic and operational work plans. The periodic plan, July to June each financial year, should schedule audit assignments to be carried out in the ensuing period. It should define the objective, scope and duration of each audit assignment and allocate staff and other resources accordingly and must be formally approved by the Audit Committee. All internal audit plans should be sufficiently flexible to respond to changing priorities.

9.2 Controlling

Control of éDumbe Local Municipality Internal Audit Unit and the individual assignments is needed to ensure that internal audit objectives are achieved and work is performed efficiently and effectively. The most important elements of control are the direction and supervision of the internal audit staff and review of their work. This is assisted by an established audit approach and standard documentation. The Head of éDumbe Local Municipality Internal Audit Unit shall ensure that the necessary degree of control and supervision is exercised, which will depend on the complexity of the assignment and the experience of the auditor.

9.3 Recording

Internal audit work should be recorded at all times. The Manager: Internal Audit Unit should specify the required standard audit documentation and working papers and should ensure those standards are maintained. Internal audit working papers should be sufficiently completed and detailed to enable an experienced internal auditor with no previous connection with the assignment to subsequently ascertain from them what work was performed to support the conclusions reached. Working papers must be prepared as the audit assignment proceeds so that the critical details are not omitted and problems not overlooked. These should then be reviewed by internal audit management. éDumbe Local Municipality Internal Audit

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Unit should obtain sufficient, relevant and reliable evidence on which to base reasonable conclusions and recommendations.

9.4 Reporting and Follow-up

- 9.4.1 éDumbe Local Municipality Internal Audit Unit should ensure that findings, conclusions and recommendations arising from each assignment are communicated promptly to the appropriate level of management and actively seek comments and proposed action plan. They should ensure that arrangements are made to follow-up audit recommendations in order to monitor what action has been taken on them.
- 9.4.2 The primary purpose of internal audit reports is to provide management with an opinion on the adequacy of design of the system of internal control as well as whether they are operating effectively as intended.
- 9.4.3 Reporting arrangements, including the distribution of internal audit reports, should be agreed with management. Internal audit reports are confidential documents and their distribution should therefore be restricted to those managers who need to know, Accounting Officer, the Audit Committee and Auditor-General.

10. CONCLUSION

- 10.1 To achieve full effectiveness the scope of éDumbe Local Municipality Internal Audit Unit should provide an unrestricted range of coverage of the municipality within its operations, and éDumbe Local Municipality Internal Audit Function should have sufficient authority to allow access to such records, assets and personnel as are necessary for proper fulfillment of its responsibilities.
- 10.2 éDumbe Local Municipality Internal Audit Unit, as a service to the municipality, should contribute to internal control by examining, evaluating and reporting to management on its adequacy and effectiveness.
- 10.3 The internal audit activity should lead to the strengthening of internal control as a result of management response.
- 10.4 It is management's responsibility to maintain the internal control system and to ensure that the municipality's resources are properly applied in the manner and to the activities intended. This includes responsibility for the prevention and detection of fraud and other illegal acts.

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10.5 éDumbe Local Municipality Internal Audit Unit has regard to the possibility of fraud or theft and should seek to identify serious defects in internal control which might permit the occurrence of such an event. When éDumbe Local Municipality Internal Audit Unit discovers evidence of, or suspect fraud or theft, they should report firm evidence, or reasonable suspicions, to the appropriate level of management.

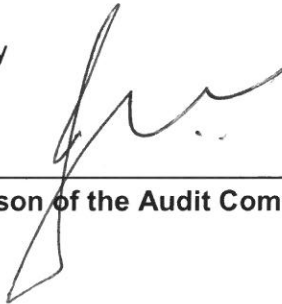
11. PERIOD OF REVIEW

The Manager Internal Audit is responsible for the maintenance of the Charter. The Charter shall be reviewed and approved by the Audit Committee on an annual basis.

12. APPROVAL

APPROVED BY THE éDUMBE LOCAL MUNICIPALITY AUDIT COMMITTEE

Signed By



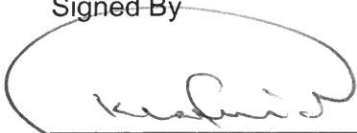
Chairperson of the Audit Committee

15/02/2018.

Date

ACCEPTED BY THE éDUMBE LOCAL MUNICIPALITY ACCOUNTING OFFICER:

Signed By



Accounting Officer

01/02/2018

Date