



**INTERNAL AUDIT CHARTER  
OF MATATIELE LOCAL MUNIICIPALITY**

## **INTERNAL AUDIT CHARTER**

### **1. BACKGROUND**

An Audit Charter is a formal and official document setting out the purpose, authority and responsibility of internal audit. This document has been approved by the Council, being the governing body of local municipality which in turn is accountable to the shareholder, the state.

The Audit Charter is prepared in accordance with the recommendations of the Institute of Internal Auditors and has been prepared taking into account the recommendations of the King II Report on Corporate Governance.

Matatiele Local Municipality ("or Local Municipality") is required to have an internal audit function in terms of section 165 (1) of the Municipal Finance Management Act no 56 of 2003 ("MFMA").

This Internal Audit Charter is crucial to strengthening the independence and objectivity of the internal audit function of the Local Municipality.

### **2. PURPOSE OF INTERNAL AUDIT**

The purpose of the internal audit is to provide an independent and thus objective review of the internal control systems within the local municipality. Accordingly, the internal audit is responsible to both the Council and Executive Management, providing these structures with reasonable assurance regarding the effectiveness of the local municipality's corporate governance, risk management and the system of internal control. This is achieved through bringing a systematic and a disciplined approach to the evaluation of the effectiveness of these governance prescriptions.

### **3. ROLE OF THE INTERNAL AUDIT**

#### **3.1 Status and role of internal audit**

- To enable Internal Audit to be effective, it has to have the respect and the unqualified support and co-operation of both the Council and Management.
- The head of internal audit will administratively report to the municipal manager and will have free, ready and regular access to the mayor, the speaker of the council and the chairperson of the audit committee.
- The Internal auditor should report at all audit committee meetings. It is submitted that all reportable items by internal audit would have been presented to management before hand and management afforded the opportunity to comment on such findings and that such management comments including the method, timing and responsibility for addressing such audit findings shall be an integral of such final reports.
- In instances where Internal audit has reason to believe that its independence has been or is likely to be compromised, it will have a right to refer such matters to the Audit Committee for review and resolution.
- The appointment and dismissal of the internal auditor shall be with the concurrence of the audit committee.

#### **3.2 Scope of internal audit**

- Internal audit is an independent, objective assurance and consulting activity to add value and improve the provision of services by the district municipality. It helps the municipality accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness risk management, control and governance processes.
- The internal audit function must provide the following:
  - Assurance that management processes are adequate to identify and monitor significant risks;
  - Confirmation of the effective operation of the established internal control systems;
  - Credible processes for feedback on risk management and assurance; and
  - Objective confirmation that the council receives the right quality of assurance and information from management and that this information is reliable.
- The internal audit plan should be based on risk assessment as well as on issues highlighted by the audit committee and management. The risk assessment process should be of a continuous nature as to identify not only residual or existing but emerging risks and should be conducted formally at least annually and also as often as necessary. The risk assessment should be co-ordinated with the council's own assessment of risk.
- The internal audit plan should be submitted to the audit committee for approval. In the course of its execution of the planned audit work, it is recognized that internal audit is empowered to employ various professional tools and techniques that are in line and recognised by the Institute of Internal Auditors. This will enable the internal audit to guarantee the quality of its service and accordingly thus afford the audit committee the means to assess the same.

- The internal audit function should link with the regional auditor general's office (external providers of assurance) to ensure proper coverage of financial, operational and compliance controls and to minimise duplication of effort.
- While the internal audit function will provide reasonable assurance on the extent to which controls are in place to mitigate the business, operational and financial risks, it is important to emphasize or reiterate the fact that the council (through its management) will always assume the full responsibility and accountability for the internal controls of the local municipality. It is important therefore that each member of the council understands the significant risks impacting the district council and is therefore able to make informed decisions on the appropriateness of the focus of the internal audit function, as well as passing judgement on the work performed by internal audit to draw an opinion on the functioning of the controls in place to mitigate the business, operational and financial risks.
- In situations where the council feels that there are significant risks that are not being sufficiently managed, the council will look to internal audit to work with management in creating and maintaining a comprehensive risk management plan to manage these risks.
- The council will also look to internal audit to evaluate and report on the process by which the goals, values and IDP of the local municipality are established, communicated and measured. This particular function is vital to ensure that management is accountable for achieving the strategies of the district municipality that are decided on by the council.

#### **4. FUNCTIONS OF THE INTERNAL AUDIT**

- To carry out risk based auditing, entailing a comprehensive risk assessment of the district council, preparation of the resultant audit plan, execution thereof and reporting on the results of such work. Reporting such work will entail drafting and discussing of semi-formal and formal reports with management. Management shall comment on such findings of internal audit and these comments shall be integral part of the final audit report. The focus of Management comments shall be on providing solutions as against attempts to justify the status quo.
- The risk based auditing referred to above will entail a review of business risk, control risk as well as the financial risks the local municipality is exposed to.
- To ensure compliance by the Local Municipality with legal and regulatory provisions, code of conduct, by-laws, procedures and rules established by the council.
- To assess and review the extent to which the resources of the Local Council are being utilized / employed. Issues such as wasteful expenditure in terms of the Municipal Finance Management Act are relevant here. Resources are not only limited to financial resources and assets, but extend to human and intellectual capital.
- To add value to the business of the local municipality.
- To ensure that the provision of various Municipal Finance Management Act, Systems Act and National Treasury Regulations and other promulgated and gazetted documents are in place i.e. are being observed by the local council and are functional.
- To carry out and execute special investigations as directed by the Council and / or the Audit Committee.

## **5. AUTHORITY AND ACCESS**

Internal audit is authorized and mandated to:

- Have unrestricted access to all functions, records, property and personnel of the local municipality;
- Have full and free access to the council and the audit committee;
- Allocate resources, determine the timing / frequency of the work, determine the scope of work, and apply the relevant techniques required to accomplish audit objectives;
- Obtain the necessary assistance from all personnel members in various units / departments / sections of the organization in the course of executing its work. In addition to this, internal audit is authorized and mandated to obtain specialized services both from inside and from outside the local council.

Internal audit is not authorized to:

- Perform any operational duties for the municipality.
- Initiate or approve accounting transactions external to the internal audit department.
- Direct the activities of any employee in the organization not employed by the internal auditing department, except to the extent that such employee(s) has / have been appropriately assigned to auditing teams or otherwise assisting internal auditors.

## **6. RESPONSIBILITY FOR INTERNAL CONTROL**

The existence of internal audit in no way diminishes the responsibility of the Local Municipality's management for implementing and maintaining effective systems of control, risk management and governance. Internal audit will not design or participate in control activities, as this would compromise its independence.

However, internal audit can and will provide advice on the design and implementation of internal controls. Internal audit staff will have neither direct responsibility for, nor authority over, any of the activities that they audit.

## **7. LIAISON WITH EXTERNAL AUDIT**

Internal audit will have unlimited access and communicate regularly with the external auditors to ensure that:

- Internal and external audit activities are properly co-ordinated and planned.
- Audit work is not duplicated.
- External audit can rely on the work of internal audit.
- Issues of mutual concern are resolved.
- External audit receives copies of internal audit reports and are timeously informed of significant issues emanating from internal audits.

## **8. INVOLVEMENT IN FRAUD (PREVENTION AND DETECTION) AND RISK MANAGEMENT**

Internal audit will play an important role in fraud prevention and detection within the Local Municipality.

Specifically, internal audit will:

- By its regular presence at the Local Municipality's operations, act as a deterrent to would-be fraudsters.
- Assist management to prevent fraud by increasing their awareness of the threat by evaluating the adequacy and effectiveness of internal controls and, where appropriate, by obtaining agreement from management to take corrective action where deficiencies are found to exist.
- Increase the probability of detecting incidences of fraud during the fieldwork audit.

However, internal audit cannot itself prevent fraud from occurring. Control systems can break down and collusion can defeat the best designed systems of internal control.

Internal audit will liaise closely with the Local Municipality's Risk Management Committee/ management's risk management activities as they relate to internal audit and risk related matters. As stated above, the exact scope and role of internal audit's participation and assistance in the risk management process will be agreed through consultation with the Audit Committee and Risk Management Committee/ management. The Risk Management Committee or its equivalent will devise and Implement a Fraud Prevention Strategy.

It is recognized that as a result of funding constraints the Local Municipality may not be able to afford a fully fledged Risk Management Committee, however the functioning of its equivalent will be protected and overseen by the Audit Committee.

## **9. RISK MANAGEMENT STRATEGY**

**10. STANDARDS OF AUDIT PRACTICE**

The internal auditing department will at least meet or preferably exceed the Standard for the Professional Practice of Internal Auditing of the Institute of Internal Auditors.

**11. APPROVAL OF THE INTERNAL AUDIT CHARTER**

***Chairperson of the Audit Committee:***

**Name:** \_\_\_\_\_

**Signature:** \_\_\_\_\_

**Date:** \_\_\_\_\_

***Municipal Manager:***

**Name:** \_\_\_\_\_

**Signature:** \_\_\_\_\_

**Date:** \_\_\_\_\_

***Mayor:***

**Name:** \_\_\_\_\_

**Signature:** \_\_\_\_\_

**Date:** \_\_\_\_\_