



**MSINGA MUNICIPALITY
INTERNAL AUDIT CHARTER**

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1. Introduction

Section 165 of the MFMA prescribes the establishment of the internal audit activity. Internal audit is an important component of internal control, risk management and corporate governance and provides the necessary assurance and advisory services to the organization.

This Internal Audit Charter represents the general authorization from management to conduct a certain scope of work. The specific authorization to do the work is the internal audit plan, which will be approved by the Audit Committee.

2. Role of Internal Audit

Msinga Local Municipality has established an internal audit unit to provide the Management and Audit Committee with assurance through independent appraisal of the business processes and controls necessary to manage the risks to ensure the municipality achieves its objectives.

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

3. Mission

The mission of Internal Audit is to provide an innovative, responsive and effective value added internal audit service by assisting management in controlling risks, monitoring compliance, improving the efficiency and effectiveness of internal control systems and governance processes.

4. Purpose

The purpose of the charter is to set the nature, role, responsibility and authority of the internal audit unit of the municipality and outline the scope of their work. It has been prepared to provide and support an effective internal audit service consistent with relevant legislative requirements and adherence to the Professional Standards published by the Institute of Internal Auditors (IIA).

The charter must be approved by the Audit Committee and accepted by the Accounting Officer.

5. Outsource of internal audit function

The Internal Audit Activity may be outsourced where the municipality requires capacity to develop its internal capacity and is deemed to be cost effective. Outsourcing should comply with supply chain management process. In situations in which the internal audit is outsourced, oversight and responsibility for the internal audit activity cannot be outsourced and must be maintained by management. The chief audit executive should manage the outsourced function.

Msinga Municipality will outsource some projects to the approved municipal panel of financial services consultants.

6. Objectivity and Independence

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Independence is achieved through the organisational status of the Internal Audit Function and the objectivity of the internal auditors.

- In achieving its independent organisational status, Internal Audit shall report to the Audit Committee. The relationship between the Audit Committee and the Internal Audit Function encompasses reporting and oversight relationships.
- The Internal Audit department will report administratively to the Municipal Manager, and functionally to the Audit Committee of the Council.
- Each internal auditor shall have an objective attitude and will be in a sufficiently independent position to be able to exercise judgement, express opinions and present recommendations with impartiality.

Specifically:

- The Internal Audit Function, notwithstanding its employment by Msinga, should be free from any conflict of interest arising either from professional or personal relationships or other interests in Msinga or related activity, which it may subject to audit.
- The Internal Audit Function should be free from undue influence, which either restricts or modifies the scope or conduct of its work or over-rules or significantly affects its judgement as to the content of any internal audit charter.
- In the interests of independence, the Internal Audit Function will have no direct responsibility for or authority over, any of the Municipality's activities and will have direct access to all members of the Audit Committee.

Internal Audit Activity should:

- Have no direct operational responsibility or authority over any of the activities reviewed;
- Neither develop nor install systems or procedures, prepare records, or engage in any other activity that would normally be audited;
- Not initiate or approve accounting transactions external to the scope; and
- Avoid conflict of interest

7. Authority

The Internal Audit & Risk Manager reports to the Municipal Manager of the Msinga Municipality and to the Msinga Municipality Audit Committee and has unrestricted access to the Chairperson of the Audit Committee.

The Internal Audit & Risk Manager and Internal Audit staff are authorised to:

- Carry out a programme of Internal Audit projects, as necessary, to meet the objectives and purpose of the departments within the Municipality;
- To have full access to all relevant Msinga documents, records, assets, properties, plants, computers, personnel etc., that will enable Internal Audit to fulfil its mandate, with very strict and absolute accountability for safekeeping and confidentiality thereof, whilst carrying out the Internal Audit mission.

Specific, redefined, sensitive and highly confidential matters will, however, be handled by the Internal Audit Manager him/herself.

In the interests of independence, the Municipality's Internal Audit staff has neither direct responsibility for, nor authority over, any of the activities they review.

The Internal Audit Function is not authorized to:

- Perform any operational duties for the Municipality or its affiliates.
- Initiate or approve accounting transactions external to the Internal Audit Function.
- Direct the activities of any of the Municipality's employees not employed by the Internal Audit Function, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors

8. Scope and responsibilities

The Internal Audit & Risk Manager, through the Internal Audit department, is responsible for rendering Internal Audit Services to the Municipality.

Audits are conducted in accordance with the Code of Ethics and Standards of the Professional Practice of Internal Auditing as laid down by the Institute of Internal Auditors.

The audit scope will be based on management's assessment of corporate risk. Audit coverage should focus on high-risk areas and stress internal control assessments.

The activities performed by the Municipality's Internal Audit department in executing its responsibilities include but is not restricted to:

- Ascertaining the level of compliance with policies, plans, procedures, laws and regulations;
- Assessing the adequacy of controls to safeguard assets, including intangible assets;
- Appraising the economy and efficiency with which resources are employed;
- Reviewing operations to ascertain whether established objectives and goals are being achieved as planned;
- Assisting management in identifying business risks and assessing the adequacy of their risk management processes;
- Reviewing the risk philosophy of the municipality. This includes the Risk Management Policy, Risk Management Strategy, Fraud Prevention Plan, Risk Management reporting lines, the values that have been developed for the municipality;
- Reviewing the appropriateness of the risk tolerance levels set by the Municipality taking into consideration the risk profile of the Municipality;
- Providing assurance over the design and functioning of the control environment, information and communication systems and the monitoring systems;
- Providing assurance over the municipality's risk identification and assessment processes;
- Utilising the results of the risk assessment to develop long term and current year internal audit plans;
- Providing independent assurance as to whether the Risk Management Strategy, Risk Management Implementation Plan and Fraud Prevention Plan have been effectively implemented within the Municipality;

- Providing independent assurance over the adequacy of the control environment. This includes providing assurance over the effectiveness of the internal controls implemented to mitigate the identified risks.

The result of the audits and appropriate recommended corrective actions are presented to the management of the function or activity under review.

The Internal Audit Manager is responsible for promoting the development of an effective Internal Audit function at the Municipality. The Internal Audit Manager is also responsible for participating in the Audit Committee, which was established to enhance the overall effectiveness of Internal Auditing in the municipality.

9. Due Professional Care

The Code of Ethics and Standards of the Professional Practice of Internal Auditing, as laid down by the Institute of Internal Auditors, are relevant to the work of the Internal Audit Function.

The Internal Audit & Risk Manager should promote and maintain adequate quality standards within the Internal Audit Function. S/he should establish methods of evaluating the work of staff, to ensure that the Function fulfils its responsibilities and has proper regard for the standards set by the Institute of Internal Auditors.

The integrity and conduct of each internal auditor must be above reproach, at all times. He/she must not place himself in a position where responsibilities and private interests' conflict and any personal interest should be declared timeously.

The internal auditor must not improperly disclose any information obtained during the course of his/her work.

10. Performance Auditing

The promotion of efficiency and effectiveness depends on adequate overall management arrangements for planning, budgeting, authorisation, control and evaluation of the use of resources. Whereas, managers are responsible for the implementation of proper functioning of such overall management arrangements, the responsibility of performance audit to confirm independently that these measures do exist and are effective and reported to management, and the Audit Committee on these issues.

Management has the following responsibilities:

- Implementing and managing a process of risk management within the Municipality by identifying and addressing risks and controls on a continuous basis,
- Proposing the areas of investigation by internal audit,
- Prevention of fraud, theft, corruption and maladministration,
- Development and implementation of new system,
- Ensuring that the internal audit function has the support of top management,
- Responding timeously to resolution of matters reported on and implementation of audit recommendations,
- Ensuring timely resolution of matters reported on and implementation of audit recommendations.

11. Internal Audit Plan

At least annually, the Internal Audit team will submit the Internal Audit Plan to senior management and the Audit Committee for review and approval. The Internal Audit Plan will consist of a work schedule as well as budget and resource requirements for the next fiscal/calendar year.

The Internal Audit Plan will be developed based on a prioritization of the audit universe using a risk- based methodology, including input of senior management and Audit Committee. Any significant deviation from the approved Internal Audit Plan will be communicated to senior management and the Audit Committee through periodic activity reports.

12. Periodic Assessment

The Internal Audit & Risk Manager will periodically report to senior management and audit committee on the internal audit activity's purpose, authority and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the audit committee.

In addition, the Chief Audit Executive will communicate to senior management and the Audit Committee on the internal audit quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.

13. Quality Assurance and Improvement

The activities of the internal audit must be guided, monitored and supervised at each level of operation to ensure that they are consistently performed in accordance with the International Standards for the Professional Practice of Internal Audit. The quality assurance and improvement programme 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.

14. Fraud Limitation

The identification and prevention of fraud is clearly a management responsibility. Internal audit is well qualified to assist management to identify the main fraud risks facing the various departments within the municipality and can assist management in designing appropriate controls that could minimize the effects of the risks.

15. Reporting

Detailed written reports will be prepared and issued to management following the completion of each audit. The contents will be discussed with the management of the units audited and their responses taken into account before the report is finalized and distributed.

Regular reports highlighting significant audit findings and recommendations and summarizing internal audit activities shall be provided to the Chairperson of the Audit Committee and reported on at Audit Committee meetings.

The Internal Audit Function will also report on the actual performance of the internal audit team against the annual internal audit plan to the Audit Committee on a quarterly basis. The Internal Audit Function will also be responsible for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open file until cleared.

16. Internal Audit Service

The planning and execution of internal audit visits, and the frequency thereof will be determined when the Risk Profile and Internal Audit Plan are compiled.

17. Management responsibilities

Although the role of Internal Audit is to review internal controls, systems, procedures, risks etc., management and ultimately the Council retain full responsibility for ensuring that the Municipality maintains an appropriate framework of controls to reduce business risks to an acceptable level.

Management also has the responsibility and accountability for addressing weaknesses and inefficiencies, which have been identified in both External and Internal Audit Reports, and for taking the necessary corrective action.

Other management responsibilities include:

- To play an active and contributory role in establishing a Risk Profile and Internal Audit Plan for the institution and for their own specific divisions/operations and thereafter accept co-ownership of the continuous maintenance and update of the profile and plan;
- To inform the Internal Audit Manager and Municipal Manager of any significant internal control problems, thefts, frauds, defalcations, unauthorized transactions, accounting breakdowns, large stock shortages, major bad debts etc. Significant matters will be reported on at the Audit Committee meetings;
- Ensuring that the Internal Audit Function has:
 - the support of top management
 - direct access and freedom to report to top management, including the audit committee,
- Maintaining proper accounting records.

18. Relationship with external auditors

The Municipality's External Auditors (Auditor General) fulfill a statutory duty for which they are responsible to the Council.

The Municipality's Internal Audit Unit will co-ordinate its activities with those of the external auditors in order to obtain maximum assurance and to avoid duplication of audit effort.

At the request of management, internal audit may carry out follow-ups on comments and recommendations contained in the External Audit reports (i.e. action plan follow, follow up audits on high risk areas etc.).

19. Special Assignments

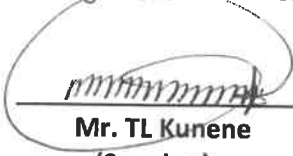
The Internal Audit Manager may from time to time accept requests from the Municipal Manager and/or the Audit Committee to undertake special assignments. The terms of reference for those assignments, which may involve some measure of line responsibility, will, however, be agreed upon beforehand.

20. Review period for Charter

The Internal Audit Charter should be reviewed annually and amendments proposed where necessary.


21. Approval of the Charter

Management recommends the approval of the internal Audit Charter.



Mr. TL Kunene
(Speaker)

Resolution No: 23/2020 FC



Mr. SL Sokhela
(Accounting Officer)

Approval Date:27/05/2020