

NEWCASTLE MUNICIPALITY



**INTERNAL AUDIT CHARTER
2017/2018**

INTERNAL AUDIT CHARTER

Item No.	I N D E X	Pages
1.	Purpose	3
2.	Legislation Governing Internal Audit Activity	3
3.	Mission Statement	3
4.	Internal Audit Activity Scope of Work	3
	4.1 Compliance and Limited Regularity Audit	4
	4.2 Auditing performance information	4
	4.3 Internal Audit Activity Responsibility with Regard to Fraud and Corruption and Other Irregularities	4
5.	Accountability	5
6.	Independence	6
7.	Consulting Services	6
8.	Responsibility	7
9.	Authority	8
10.	Confidentiality	8
11.	Due Care	9
12.	Relationship with Management	9
13.	Relationship with External Auditors	10
14.	Fraud Limitation	10
15.	Planning	10
16.	Controlling	10
17.	Recording	11
18.	Reporting and Follow Up	11
19.	Staffing and Training	11
20.	Standard and Code of Ethics of Audit Practice	11
21.	Charter Review	11
22.	Conclusion	12

1. PURPOSE

The purpose of this Charter is to set out the nature, role, responsibility, status and authority of Internal Audit Activity within Newcastle Local Municipality. It also regulates the relationship between the Internal Audit Unit and Management.

2. LEGISLATION GOVERNING INTERNAL AUDIT ACTIVITY

The Internal Audit Activity is established in terms of Section 165 of the Municipal Finance Management Act No 56 of 2003 (MFMA).

3. MISSION STATEMENT

To enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.

Core Principles for the Professional Practice of Internal Auditing

- Demonstrates integrity.
- Demonstrates competence and due professional care.
- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives, and risks of the organization.
- Is appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement.
- Communicates effectively.
- Provides risk-based assurance.
- Is insightful, proactive, and future-focused.
- Promotes organizational improvement.

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

Definition of Internal Auditing states the fundamental purpose, nature, and scope of internal auditing.

4. INTERNAL AUDIT ACTIVITY ROLE AND RESPONSIBILITY

The scope of work of the Internal Audit Activity is to determine whether Newcastle Local Municipality's network of risk management, control and governance processes, as designed and represented by management, are adequate and functioning in a manner to ensure:

- that risks are appropriately identified and managed;
- that interaction with the various governance groups occurs as needed;
- that significant financial, managerial, and operating information is accurate, reliable, and timely;
- that employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations;
- that resources are acquired economically, used efficiently, and adequately protected;
- that programs, plans, and objectives are achieved;
- that quality and continuous improvement are fostered in Newcastle Local Municipality control process; and
- that significant legislative or regulatory issues impacting Newcastle Local Municipality are recognized and addressed appropriately.
- Evaluate and report on Performance Management.

4.1 Compliance and Limited Regulatory Audit

Compliance Auditing is performed after the internal controls have been evaluated and is defined as test of controls. The overall objective of this is to express an opinion on the achievement of the control objectives of each significant system.

4.2 Auditing the performance management system and reported performance information

The accounting officer are responsible for ensuring that the Newcastle municipality has a performance management including documentation addressing integrated performance information structures and systems within existing management processes and systems; definitions and technical standards of all the information collected for identifying, collecting, verifying and storing information used in managing results of performance management and publication of performance information.

The internal audit activity audits the results of performance measurements by evaluating and developing recommendations for the enhancement and improvement of the processes followed through which objectives and values are established and communicated; the accomplishment of objectives is monitored; accountability is ensured; corporate values are preserved, in order to assist the accounting officer to achieve the objectives in the IDP. The internal audit activity provides assurance to council through the audit committee that performance information reported on is accurate, complete, useful and reliable.

4.3 Internal Audit Activity's Responsibility with Regard to Fraud and other irregularities

The principal safeguard against fraud and misstatement is an effective system of internal control. It must however be recognized that there are inherent limitations in any system of internal control including human error and circumventions through collusion. The prevention and detection of fraud is therefore management's responsibility.

Internal Audit is responsible for identifying control weaknesses and risks facing NLM and to make recommendations to improve controls in order to mitigate the identified risk.

4.4 Information Technology audits

Information technology controls are controls that support management and governance as well as provide general and technical controls over information technology infrastructures such as applications, information, infrastructure, and people. Information technology governance ensures that the municipality's information technology supports the organization's strategies and objectives

Internal auditor activity evaluates and provides assurance over adequacy of technology controls to mitigate risks. Not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing. The internal audit activity must assess whether the information technology governance of the organization supports the organization's strategies and objectives. Information Technology Audits will be outsourced.

5. ACCOUNTABILITY

The Chief Audit Executive, in the discharge of her duties, shall be accountable administratively to the Municipal Manager and functionally to the Audit Committee:

- Provide annually, an assessment on the adequacy and effectiveness of Newcastle Municipality processes for controlling its activities and managing its risks.
- Report significant issues related to processes for controlling the activities of the Newcastle Municipality, including potential improvements to those processes, and provide information concerning such issues through resolution;
- Periodically provide information on the status and results of the annual audit plan.

6. INDEPENDENCE

Organisational independence permits the internal audit activity to function without interference or the perception of interference. The independence of the internal audit activity is reliant on the CAE. Organisational independence is further facilitated when the CAE reports functionally to council through the Audit and Performance Committee and administratively to the Municipal Manager. Decisions relating to funding and resources of the internal audit activity should be determined by the Audit and Performance Committee.

Administrative reporting means reporting to the Municipal Manager for assistance in establishing direction, support, and administrative interface. Functional reporting means reporting to Audit and Performance Committee for strategic direction, reinforcement, and accountability. As part of the CAE's reporting to the Audit and Performance Committee, will be confirmation at least annually, on the organisational independence of the internal audit activity.

The Internal Audit Activity requires direct and unrestricted access to council and the Audit and Performance Committee in order to achieve the degree of independence necessary to effectively carry out its responsibilities. Independence is attained through organisational status and objectivity. The status of the Internal Audit Activity must enable cooperation from management and staff and ensure unrestricted access to all functions, records, property and personnel

7. CONSULTING SERVICES

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:

- Formal consulting engagements: planned and subject to written agreement;
- Informal consulting engagements: routine activities such as participating on standing committees, limited life projects, ad hoc meetings and routine information exchange;

- Emergency consulting engagements: participation on a team assembled to supply temporary help to meet a special request or tight deadline.

The Internal Auditor should, however, maintain his/her objectivity when drawing conclusions and offering advice to management. The following consulting services may be provided:

- Advice;
- Facilitation; and
- Training.

The comprehensive scope of work of Internal Audit Activity should provide reasonable assurance that the organisation's risk management; control and governance systems are effective and efficient. In areas where, in the opinion of the Chief Audit Executive, specialised audit skills are lacking within the unit, the services of external service providers may be employed.

8. RESPONSIBILITY

The Chief Audit Executive must have the following responsibility to:

- Develop a flexible annual audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by management, and submit that plan to the Audit and Performance Committee for review and approval.
- Implement the annual audit plan, as approved, including, and as appropriate, any special task or projects requested by the management and the Audit and Performance Committee;
- Maintain a professional audit staff compliment with sufficient knowledge, skills, experience and professional certification to meet the requirements of this Charter.
- Establish a quality assurance program which assures the operations of internal auditing activities.
- Perform consulting services, beyond internal auditing assurance services, to assist

management in meeting their objectives. Examples may include facilitation, process design, training and advisory service;

- Evaluate and assess significant merging/consolidating functions and new or changing services, processes, operations and control processes coincident with their development, implementation and or expansion;
- Issue periodic reports to the Audit and performance Committee and management summarizing results of audit activities;
- Keep the Audit and Performance Committee informed of emerging trends and successful practices in Internal Auditing;
- Provide a list of significant measurement goals and result to the Audit and Performance Committee;
- Will engage with the Auditor General staff during the AG's audit of the financial statements of the municipality, about the work of the internal audit activity in the AG's assessment of the internal audit activity and during the consideration of the reports of internal audit for determining whether the AG will place reliance on the work of the internal audit activity.

9. AUTHORITY

There are no restrictions placed upon the scope of internal audit's work. Members of the internal audit function engaged on internal audit work are entitled to receive whatever information or explanations they consider necessary to fulfill their responsibilities to senior management. In this regard, internal audit may have access to any records, personnel or physical property of Newcastle Municipality.

The Internal Auditors are not authorised to:

- Perform any operational duties for Newcastle Municipality;
- Initiate or approve accounting transactions outside Internal Audit Activity; and

- Direct the activities of any Newcastle Municipal employee not employed by the Internal Audit Activity, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

The Chief Audit Executive will:

- Allocate resources, set frequencies, select subjects, determine scope of work, and apply the techniques required to accomplish audit objectives.
- Obtain the necessary assistance of staff in units of Newcastle Municipality where the internal audit activity perform audits.

10. CONFIDENTIALITY

Internal Auditors have an obligation to respect the confidentiality of information obtained during audits. The duty of confidentiality continues even after the completion of the assignment. This duty must be observed by the internal auditors unless specific authority has been given to disclose information or there is a legal or professional duty to disclose.

11. DUE CARE

The Internal Auditors should exercise due care in fulfilling their responsibilities. In order to demonstrate that due care has been exercised, the Internal Auditors should be able to show that their work has been performed in a way which is consistent with the standards for the professional practice of Internal Auditing of the Institute of Internal Auditors.

The Internal Auditors should be impartial in discharging their responsibilities. Bias, prejudice or undue influence must not be allowed to impair objectivity. The integrity and conduct of internal auditors must be above reproach. They must not place themselves in positions where responsibilities and private interests' conflict and personal interests

should be declared.

12. RELATIONSHIP WITH MANAGEMENT

The CAE should prepare the internal audit plan in consultation with senior management. The timing of internal assignments should be arranged in consultation with the Audit and Performance Committee and management except on those rare occasions where an unannounced visit is a necessary part of the audit approach. Consultation can lead to the identification of areas of concern to management.

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.

13. RELATIONSHIP WITH EXTERNAL AUDITORS

The Internal Auditors will co-ordinate their work with other assurance providers as directed by the Audit Committee. The External Auditors will be notified of the activities through an invitation to all audit committee meetings where the audit plan and audit reports are presented and discussed.

14. PLANNING

Internal Audit should prepare strategies, periodic and operational work plans. The periodic plan, July to June, should schedule audit assignments to be carried out in the ensuing period. It should define the purpose and duration of each audit assignment and allocate staff and other resources accordingly and must be formally approved by the Audit and Performance Committee.

15. EXECUTION

Internal Auditor work should be recorded at all times. Internal Auditors 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 as contained in the internal audit methodology.

16. REPORTING AND FOLLOW UP

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 Officers, and the Audit and Performance Committee.

Internal Audit Activity 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. Progress on management action plans will be provided in the form of a resolution register as reported by management. Follow up audit will be specified in the annual plan for each year.

17. REQUESTS FOR INFORMATION AND COMMUNICATION OF AUDIT FINDINGS

Information requested by internal audit must be submitted to internal audit within 2 days of requests being sent to management. Communication of draft audit report must be responded to within 5 days of the communication sent out. All responses must be reviewed by the SED and be detailed including action plans to address the audit findings.

19. STAFF AND TRAINING

The Internal Auditor Activity should be appropriately staffed in terms of number, qualification and experience, having regard to their responsibilities and objectives. Internal Auditors are properly trained to fulfill all their responsibilities. Internal auditors attend training courses for their continuous professional development as is required in terms of the standards.

20. STANDARDS AND CODE OF ETHICS OF AUDIT PRACTICE

The *Standards* apply to individual internal auditors and the internal audit activity. The *Standards*, together with the Code of Ethics, encompass all mandatory elements of the International Professional Practices Framework. Internal Auditors that work in the internal audit activity are required to be members of the IIA (SA).

A code of ethics is necessary and appropriate for the profession of internal auditing. Internal auditors are expected to apply and uphold the following principles:

20.1 Integrity

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

20.2 Objectivity

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.

20.3 Confidentiality

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

20.4 Competency

Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

21 QUALITY ASSURANCE

Quality assurance reviews will be conducted on internal audit activity to ensure compliance with the standards. There are two types of quality assurance, internal assessments which are ongoing monitoring of the performance of the internal audit activity and external assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team accredited by the IIA.

22. CHARTER REVIEW

The Chief Audit Executive will annually review the Charter and present it to the audit committee for approval.

23. CONCLUSION

To achieve full effectiveness the scope of the Internal Audit Activity should provide an unrestricted range of coverage of the Municipality's operations, and the Internal Audit Activity should have sufficient authority to allow access to such records, assets and personnel as are necessary for proper fulfillment of its responsibilities.

The Internal Audit Activity, if allocated sufficient resources will meet or exceed the Institute of Internal Auditors Standards and abide by the Code of Ethics as outlined in the International Professional Practice Framework.

The Internal Audit Activity as a service to the Municipality, should assess, evaluate and report to management on the adequacy and effectiveness of Internal Controls.

It is management's responsibility to maintain the internal control system and to ensure that Newcastle Municipality's resources are properly utilized. This includes responsibility for the prevention and detection of fraud and other illegal acts.

2017/2018 INTERNAL AUDIT CHARTER

THE CHIEF AUDIT EXECUTIVE

SIGNED: 

DATE: 8 December 2017

AUDIT COMMITTEE CHAIRPERSON

APPROVED: 

DATE: 8 DECEMBER 2017