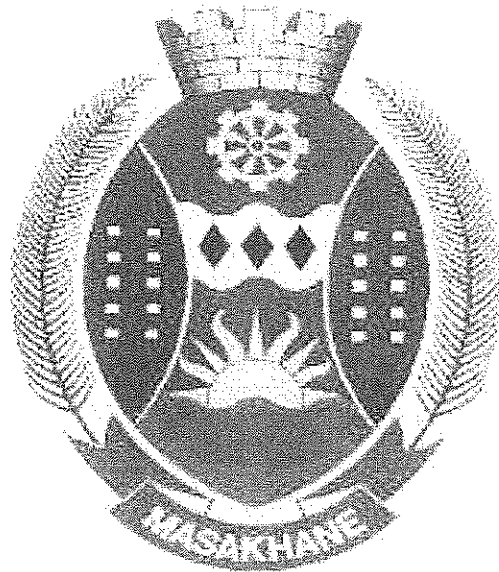


**STEVE TSHWETE LOCAL MUNICIPALITY**



**INTERNAL AUDIT CHARTER**

**2021/22**

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## **1. PURPOSE OF INTERNAL AUDIT CHARTER**

The purpose of the Steve Tshwete Local Municipality (STLM) Internal Audit Department Charter is to provide independent, objective assurance and consulting services designed to add value and improve the Municipality's operations. It serves as a framework within which the Internal Audit Department operate and adding value to the STLM operations.

The intention of the Internal Audit Charter is to:

- Provide a written record of formally approved policy of the Internal Audit Department,
- Guide adherence with the mandatory elements of the International Professional Practices Framework.
- Provide a framework for performing and promoting a broad range of value-added internal auditing services.
- Establish the basis for the evaluation of the performance of the Internal Audit Services.
- Foster improved organizational processes and operations.

### **Related IIA Standard**

1000 Purpose, Authority and Responsibility

The Purpose, Authority and Responsibility of the Internal Audit must be formally defined in a Charter, consistent with the IIA Standards, and approved by the Council.

## **2. MISSION STATEMENT**

- The Internal Audit Mission to enhance and protect organizational value by providing risk-based and objective assurance, advice and insight.
- Facilitating the achievement of this mission in line with the International Professional Practice Framework.
- In effective discharging of internal audit activity Management of STLM will effectively discharge responsibilities as furnished with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed and promote effective control at reasonable cost.

## **3. STANDARDS FOR PROFESSIONAL PRACTICE OF INTERNAL AUDITING**

The Internal Audit Department will govern itself by adherence to the mandatory element of The Institute of Internal Auditors International Professional Practice Framework, including the Core Principles for the Professional Practice of Internal auditing, the Code of Ethics, the International Standards for The Professional Practice of Internal Auditing, and the Definition of Internal Auditing. The Chief Audit Executive will report periodically to Senior Management and Audit & Performance Committee regarding internal audit activity's conformance to the Code of Ethics and the Standards.

### **3.1. LEGISLATIONS, REGULATIONS AND RELEVANT PRESCRIPTS GOVERNING INTERNAL AUDIT DEPARTMENT**

- Internal Audit Department is governed by the Municipal Finance Management Act, No. 56 of 2003 (MFMA), the Municipal Systems Act, No. 32 of 2000 (MSA), Municipal Planning and Performance Regulation Act (MPPR) and King Reports on Corporate Governance.
- Internal Audit Department is an appraisal activity established within the STLM in compliance with the requirements of the aforementioned Acts, Regulations and Prescripts; and independently examines and evaluates the activities of STLM as a service to Council and to the Management.

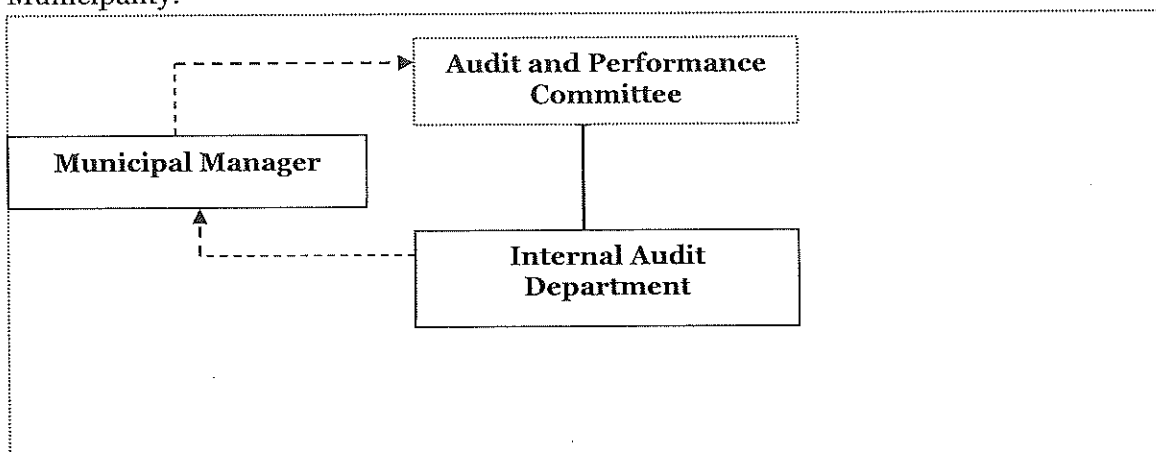
### **4. AUTHORITY**

- 4.1. The Chief Audit Executive will report functionally to the Audit and Performance Committee and administratively (i.e. day-to-day operations) to the Municipal Manager. To establish, maintain and assure that STLM's Internal Audit Department has sufficient authority to fulfill its duties, the Audit and Performance Committee will:
  - Approve the Internal Audit Charter.
  - Approve the Risk Based Internal Audit Plan.
  - Approve the internal audit budget and resource plan.
  - Receiving communications from the Chief Audit Executive on the Internal Audit Department performance relative to its plan and other matters.
  - Approve decisions regarding the appointment and removal of the Chief Audit Executive.
  - Approving the remuneration of the Chief Audit Executive.
  - Make appropriate inquiries of Management and the Chief Audit Executive to determine whether there is inappropriate scope or resource limitations.
- 4.2. There are no restrictions placed upon the scope of internal audit's work. Internal Audit team engaged on internal audit work are entitled to receive whatever information or explanations they consider necessary to fulfill their responsibilities to Senior Management and Audit & Performance Committee.
- 4.3. Documents and information given to Internal Auditors during a periodic review will be handled in the same prudent and confidential manner as by those employees normally accountable for them.
- 4.4. Authority is granted to Internal Audit Department to:
  - Have full, free and unrestricted access to any and all of the STLM functions, records, property and personnel and information relevant to any function under review, subject to accountability for confidentiality and safeguarding of records and information.
  - Have full, free and unrestricted access to the Audit & Performance Committee and the External Auditors.

- Allocated resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives and issue reports.
  - Obtain the necessary assistance of personnel in the Municipality, as well as other specialized services from within or outside when performing audits.
  - The Chief Audit Executive or his/her representative is required to sit in all the Audit & Performance Committee Meetings.
- 4.5. Authority is not granted to Internal Audit Department to:
- Perform any operational and administrative duties for the Municipality.
  - Initiate or approve accounting transactions outside the Internal Audit Department.
  - Direct the activities of any employee in the Municipality not employed by the Internal Audit Department.

## 5. INTERNAL AUDIT DEPARTMENT REPORTING LINES

The following Structure outlines the position of the Internal Audit Department within the Municipality:



## 6. INDEPENDENCE AND OBJECTIVITY

To provide for the independence of the Internal Audit Department, its personnel reports administratively to the Municipal Manager and functionally to the Audit & Performance Committee.

All internal audit activity shall remain free of influence by any element in the STLM, including matters of audit sample selection, scope, procedures, frequency, timing, or report content, to permit maintenance of an independent and objective mental attitude necessary in rendering reports.

- Internal Auditors shall have no direct operational responsibility or authority over any of the 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.

- 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.
- 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 systems, prepare records, or engage in any other activity that may impair internal auditor's judgment, including:
  - Assessing specific operations for which they had responsibility within the previous year.
  - Performing any operational duties for STLM or its affiliates.
  - Initiating or approving transactions external to the Internal Audit Department
  - Directing the activities of any STLM employee not employed by the internal audit Department, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.
- Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- Internal auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.
- The Chief Audit Executive must have full and independent access to the Audit & Performance Committee, Municipal Manager and Council Executives.
- The Chief Audit Executive will confirm to the Audit & Performance Committee, at least annually, the organizational independence of the internal audit activity.
- In case of whereby internal audit work dictate that the audit work is performed and may impair the independence of internal auditors involved, it is the responsibility of Chief Audit Executive to ensure that an appropriate independent review assessment is performed.
- The Chief Audit Executive is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments independence or objectivity.
  - Disclose any impairment of independence or objectivity, in fact or appearance, to Audit and Performance Committee
  - Exhibit professional objectivity in gathering, evaluation and communicating information about activity or process to being examined.
  - Make balanced assessments of all available and relevant facts and circumstances.
  - Take necessary precautions to avoid being unduly influenced by own interests or others in forming a judgement.

## 7. SCOPE OF WORK

- The scope of Internal Audit Department encompasses but not limited to objective examinations of evidence for the purpose of providing independent assessment to the Audit and Performance Committee, Management and outside parties on the adequacy and effectiveness of governance, risk management and control processes for STLM.
- The assessments will include but not limited:
  - Risk relating to the achievement of STLMs' strategic objectives re appropriately identified and managed.
  - The actions of STLM's officers, directors, employees, and contractors are in compliance with STLM's policies, procedures, and applicable laws, regulations, and governance standards.
  - The results of operations or programs are consistent with established goals and objectives.
  - Operations or programs are being carried out effectively and efficiently.
  - Established processes and systems enable compliance with the policies, procedures, and regulations that could significantly impact STLM
  - Information and the means used to identify, measure, analyze, classify, and report such information are reliable and have integrity.
  - Resources and assets are acquired economically, used efficiently and protected adequately.
- The Chief Audit Executive will report periodically to senior management and the audit & performance committee regarding:
  - Purpose, authority and Responsibility
  - Plan and performance relative to its plan
  - Conformance with The IIA's Code of ethics and Standards, and action plans to address any significant conformance issues
  - Significant risk exposures and control issues, including fraud risk, governance issues, and other matters requiring the attention of, or requested by, the Audit & Performance Committee.
  - Results of the audit engagement or other activities
  - Resource requirements
  - Any response to risk by management that may be unacceptable to STLM.
- The Chief Audit Executives also coordinates activities, where possible and considers relying upon the work of other internal and external assurance and consulting service providers as needed. The internal audit department may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided the internal audit department does not assume management responsibility.

## **8. ASSURANCE SERVICES**

- **Definition:** Assurance Service is an objective examination of evidence for the purpose of providing an independent assessment on risk management, control, or governance processes for the STLM.
- Internal auditors will conduct Assurance Services as part of their normal or routine functions as well as in response to requests by management.
- The Nature of Assurance Services, which will depend on the areas subject to review, provided to municipality by the Internal Audit Departments' defined as follows:

### **8.1.1. Compliance Audit**

- The objective of Compliance Audits will be to evaluate to what extent the by-laws, policies and procedures, statutory requirements, management decisions and council resolutions have been complied with.
- Statutory requirements will include adherence to the MFMA, Systems Act, DORA, Treasury Regulations and other legislation.
- Selection criteria: Compliance Audits will be performed where, all functions and processes linked to the risk areas of the Municipality, and compliance to statutory requirements; legislation; policies; by-laws and procedures is of fundamental importance to the proper functioning of Municipality.

### **8.1.2. Performance Auditing**

- The objective of Performance Audits / Value-For-Money reviews will be to evaluate economy, efficiency and effectiveness on the utilization of resources within the Municipality.
- The promotion of economy, efficiency and effectiveness depends on adequate overall management arrangements for planning, budgeting, authorization, control and evaluation of the use of resources. The Municipal Manager is responsible for the implementation of proper functioning of such overall management arrangements and the responsibility of Performance Audit is to confirm independently that these measures do exist and are effective and report to the management and the Audit & Performance Committee on these issues including the recommended actions to improve on the effectiveness, efficiency and economic utilization of resources.

### **8.1.3. Information Commutation Technology Auditing**

- ICT reviews include the evaluation of internal controls within the computer information system environment to ensure the validity, reliability and security of information. Furthermore, it includes the assessment of the efficiency and effectiveness of the computer information system environment.
- ICT reviews will be performed on key ICT systems and processes linked to the applicable strategic and business risk areas associated with these systems and to



evaluate whether proper ICT controls are in place in such a way as to ensure the ICT supports the business objectives of the organization.

#### **8.1.4. Ad Hoc Assignments**

- The Municipal Manager and the Audit & Performance Committee can request the Internal Audit to conduct an investigation/audit on their behalf even though the area under review was not scheduled to be reviewed in the current Internal Audit Plan.
- The Audit & Performance Committee will consider and approve all internal audit work requested which falls outside of the approved Internal Audit Plan.
- Many of the Ad-Hoc assignments referred to the internal audit may fall within the scope of either a Forensic or a Performance Audit. Should there be a request for an assignment of a special nature; the Internal Audit will consider accessing specialists to provide the Municipality with a quality service.

#### **8.1.5. Financial Discipline Review**

- Financial Discipline Review will be conducted on the key financial processes that have an impact on the financial position and performance of STLM as well as financial related controls in all Business Units.
- Financial Discipline Reviews will focus mainly on the evaluation of the adequacy and effectiveness of financial controls, control over value documentation, ensuring the safeguarding of asset, the completeness, accuracy, and timeous recording of transactions, errors and misstatement of financial information.

#### **8.1.6. Audit of Predetermined Objectives**

Audit of predetermined objectives will be conducted on a quarterly basis; the review will include verifying the alignment of the IDP, Budget, SDBIP and quarterly reports.

### **9. CONSULTING SERVICES**

- **Definition:** Consulting Services are the advisory and related client service activities, the nature and scope of which are agreed with the client and which are intended to add value and improve the STLM governance, risk management, and control processes without the internal auditor assuming management responsibility.
- The nature of Consulting Services provided to the STLM by the Internal Audit is defined as follows:
  - Consulting Services to be provided to the STLM are limited to Advisory Functions.
  - The scope of consulting services will be agreed upon with Management.
  - Internal auditors will conduct consulting services only in response to written requests by management and approved by the Audit & Performance Committee.

## **10. ACCOUNTABILITY**

The Internal Audit Department, in the discharge of its duties, shall be accountable to the Municipal Manager and the Audit & Performance Committee to:

- Annually provide an assessment on the adequacy and effectiveness of the STLM processes for controlling its activities and managing its risks in the areas set forth under the *Scope of work*.
- Report significant issues related to the processes for controlling the activities of the Municipality, including potential improvements to those processes, and provide information concerning such issues through active and constructive resolution.
- Periodically provide information on the status and results of the annual audit plan and the sufficiency of the Internal Audit Department resources.
- Co-ordinate and provide oversight function on other control and monitoring functions (risk management, compliance, security, legal, ethics, environmental, external audit etc.).

## **11. CODE OF ETHICS**

- The staff of the Internal Audit Department has the responsibility to conduct themselves so that their good faith and integrity are not open to question.
- Standards for the professional behaviour are based upon the Code of Ethics by Institute of Internal Auditors (IIA) as follows:
- Exercise honesty, objectivity, and diligence in the performance of their duties and responsibilities.
- Exhibit loyalty in all matters pertaining to the affairs of the Municipality and not knowingly be a party to any illegal or improper activity.
- Refrain from entering into activity which may be in conflict with the interest of the municipality or which would prejudice their ability to objectivity carry out their duties.
- Declare details of any private or business interest that may be in conflict with interest of Steve Tshwete local Municipality.
- Decline to accept fees or gifts from municipality or its related party or from internal sources.
- Declare details of any rewards, gift, favour, hospitality or other benefit promised, offered or granted in a register.
- Be prudent in the use of information for any personal gain or in a manner that knowingly would be detrimental to the welfare of Steve Tshwete Local Municipality
- Use reasonable care to obtain sufficient, factual evidence to support the conclusions drawn and, in reporting, reveal such material facts known to them, if not revealed, could distort the report of the results of operations under review or conceal an unlawful practice.
- Continue to strive for improvement in the proficiency and effectiveness of their service.
- Use care in returning documentation required in the performance of their duties.

## **12. INTERNAL AUDIT RESPONSIBILITIES**

- 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 Senior Management and Audit & Performance Committee for review and approval as well as for periodic updates.
- Consult and coordinate with the Chief Risk Officer in regard to key risk areas and adapt the internal audit plan if necessary.
- Establish and maintain appropriate structures and processes for co-ordination with external auditors, so as to maximize overall audit coverage and minimize duplication and cost.
- Implement the annual audit plan, as approved, including as appropriate any special tasks or projects requested by Management and the Audit Performance Committee.
- Maintain a professional audit staff with sufficient knowledge, skills, and experience and professional certifications to meet the requirements of this Charter.
- Evaluate and assess significant merging/consolidating functions and new or changing services, processes, operations, and control processes coincident with their development, implementations, and/or expansions.
- Issue periodic reports to the Audit & Performance Committee and Management summarizing the results of audit activities that keep the Audit & Performance Committee informed of emerging trends and successful practice in internal auditing.
- Provide a list of significant measurement goals and results for the Internal Audit Department to the Audit & Performance Committee.
- Assist in the investigations of significant suspected fraudulent activities within the STLM and notify Management and the Audit & Performance Committee of the results.
- Ensure that the STLM is adequately staffed with sufficient numbers of professional audit personnel, having the appropriate mix of skills, experience, leadership ability and attitude.
- Ensure the availability of sufficient financial resources to ensure that staff of the STLM is appropriately remunerated, incentivized, equipped, trained and supported.
- Ensure the existence and maintenance of appropriate internal audit policies and procedures to guide the audit staff, so as to achieve the objectives of the STLM.
  - Ensure that the audit work is planned and conducted in compliance with the audit policy, internal audit mandate, internal audit coverage plans and the Standards for the Professional Practice of Internal Auditing.
  - Establish and maintain a quality assurance program to evaluate the operations of the internal audit function.

## **13. RESPONSIBILITY OF CAE ON PERSONNEL**

- Chief Audit Executive is ultimately responsible for the work performed by all staff members of the internal audit function. This includes decisions regarding the required skills, educational levels, experience etc. for recruitment into the function, decision on the possible outsourcing or co-sourcing of capacity etc.

- The ultimate quality of the Internal Audit Department performance is directly related to the quality of the people employed. The Internal Audit Department should be directed and staffed with qualified and competent individuals.
- The CAE should report quarterly to the Chairperson of the Audit & Performance Committee as to the effectiveness of the present staff in fulfilling the stated objective of the Internal Audit Function.
- Continuing Professional Development
  - There shall be adequate professional development programs continuously to maintain and develop their skills.
  - Each auditor including Chief Audit Executive of internal audit will have to obtain a minimum of 40 hours per annum in respect continuing professional education.
  - The STLM shall make appropriate provision for maintaining and developing the competence of audit staff.

#### **14. RELATIONSHIP WITH EXTERNAL AUDITORS**

The Internal Auditors will coordinate their activities with those of the External Auditors in order to avoid duplication of audit effort.

This will be accomplished by:

- Discussions between the Internal Audit Department and the External Auditors Team on the annual internal and external audit plans;
- Periodic meetings to discuss the audit plans and activities;
- Access to the internal and external audit documentations;
- Exchange of management letters concerning their respective audit findings and recommendations. The Internal Audit Department may carry out follow-ups on comments and recommendations contained in the External Audit reports, and vice versa; and
- Sharing information of perceived risk areas.

#### **15. FRAUD LIMITATION**

The identification and prevention of fraud is management's responsibility. Standard 1210.A2 of the IPPF stipulates that – Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud. Therefore, the Internal Audit Department should assist management to identify the main fraud risks facing the Municipality and make value added recommendations/advise that could minimise the effects of such risks.

Management will include amongst others:

- Establish and maintain an adequate and effective system of internal control.
- Prevent and detect any fraud and irregularities.
- Institute any disciplinary actions.

## **16. RISK MANAGEMENT FUNCTIONS OF INTERNAL AUDITING**

Functions of Internal Auditing with respect to risk management –

- 16.1.1. The role of the Internal Audit Activity in risk management is to provide an independent, objective assurance on the effectiveness of the Institution's system of risk management.
- 16.1.2. Internal Audit Activity must evaluate the effectiveness of the entire system of risk management and provide recommendations for improvement where necessary.
- 16.1.3. Internal Audit Activity must develop its internal audit plan on the basis of the key risk areas. In terms of the International Standards for the Professional Practice of Internal Audit, determining whether risk management processes are effective is a judgment resulting from the Internal Auditor's assessment that:
  - Institutional objectives support and align with the Institution's mission.
  - Significant risks are identified and assessed.
  - Risk responses are appropriate to limit risk to an acceptable level; and
  - Relevant risk information is captured and communicated in a timely manner to enable the Accounting Officer / Authority, Management, the Risk Management Committee and other officials to carry out their responsibilities.
- 16.1.4. In case where the Internal Audit assumes the role of the Chief Risk Officer, his/her risk management responsibilities include:
  - Assisting Management to coordinate the development of the risk management policy, strategy and implementation plan.
  - Co-ordinating risk management activities.
  - Facilitating identification and assessment of risks.
  - Recommending risk responses to Management.
  - Developing and disseminating risk reports.
- 16.1.5. When assisting Management in establishing or improving risk management processes, Internal Audit must refrain from assuming management responsibilities for risk management.

## **17. RESPONSIBILITIES OF MANAGEMENT**

- Although the role of the Internal Audit Departments to review internal controls, systems, procedures, risks etc., ultimately management retains full responsibility for ensuring that the Municipality maintains an appropriate framework of controls to reduce risks to an acceptable level.
- Management also has the responsibility and accountability for addressing weaknesses and inefficiencies that have been identified in both External and Internal Audit Reports, and for taking the necessary corrective action.
- Management is further responsible for:
  - Proposing the areas of investigation by Internal Audit.
  - Ensuring that the Internal Audit Department has:
    - The support of Executive Management.

- Direct access and freedom to report to the Executive Management, including the Audit & Performance Committee.
- Maintaining internal control, including proper accounting records and other management information system.
- Responding to internal audit queries submitted to line management.
- Reviewing Internal Audit reports and implementing recommendations as considered appropriate.
- Informing the Internal Auditors of any significant internal control problems, thefts, fraud, unauthorised transactions, accounting breakdowns, major bad debts, etc. Significant matters will be reported at the Audit & Performance Committee meetings.

#### **18. RESPONSIBILITIES OF THE AUDIT & PERFORMANCE COMMITTEE**

- The Audit & Performance Committee will:
  - Recommend to Council for approval of the Internal Audit Charter.
  - Approve the appointment, suspension or termination of the Chief Audit Executive and any internal audit staff.
  - Approve the appointment or termination of or outsourced Internal Auditors contract.
  - Review the activities, organisational structure, and qualifications of the Internal Audit Function.
  - Review and approve the Three Year Strategic Risk-Based Internal Audit Plan and the Annual Internal Audit Plans.
  - Ensure that the internal auditors effectively perform their responsibilities and duties with due diligence.
  - Review progress against budgets and plan.
  - Review the results of any audit work performed.
  - Review any quality assurance reviews performed on the Municipality.
  - Ensure that the Internal Audit Department complies with the relevant rules and regulations.
  - Ensure that the Internal Audit Department maintains its independence.
  - Review the internal audit reports to management and management's response thereto.
  - Coordinate with External Audit.

#### **19. LIMITATION OF SCOPE**

- Any attempted scope limitation of Internal Audit activities by management must be reported, preferably in writing to the Municipal Manager and to the Audit & Performance Committee. The question of whether an action from management in fact constitutes as a scope limitation is at the judgment of the Chief Audit Executive.

- Except in cases of suspected fraud, the Municipal Manager and the Audit & Performance Committee may decide to accept a limitation of scope. In such instances the CAE should evaluate from time to time whether the circumstances surrounding the scope limitation are still valid and whether the scope limitation needs to be reported again to the Municipal Manager and the Audit & Performance Committee for their renewed consideration.
- Obtain the necessary assistance of personnel of STLM where they perform audits, as well as other specialized services from within or outside STLM. Documents and information given to internal auditors during a review will be handled in the same prudent manner as by those employees normally accountable for them in performing its functions.
- The CAE has unlimited access to all officers of the STLM including the Speaker, Executive Mayor and the Audit & Performance Committee Chair as well as the Municipal Manager.
- Internal audit staff generally does not assume a role other than in an advisory capacity in the design, installation or operation of control procedures. Any staff transferred into the Internal Audit Department from other departments should not review any aspects of their previous department work until a period of 12 months has elapsed.

## **20. INTERNAL AUDIT PLAN**

- The Chief Audit Executive at least annually, will submit to senior management and the Audit and Performance Committee an internal audit plan 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 Chief Audit Executive will communicate the impact of resource limitations and significant interim changes to senior management and the Council.
- 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 the Council.
- The Chief Audit Executive will review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls. Any significant deviation from the approved internal audit plan will be communicated to senior management and the Council through periodic activity reports.

## **21. QUALITY ASSURANCE AND IMPROVEMENT PROGRAM**

- The Chief Audit Executive is responsible also for providing periodically a self-assessment on the internal audit activity as regards its consistency with the Audit Charter (purpose, authority, responsibility) and performance relative to its Plan.
- In addition, the Chief Audit Executive will communicate to senior management and the Audit & Performance 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.

- The Audit & Performance Committee should annually assess the effectiveness of the internal audit.

#### **21.1. Internal Quality Review**

- The Chief Audit Executive must make provision for internal quality reviews to be undertaken periodically either internally or externally.
- Internal reviews should be conducted according to the approved programme and subject to the principles of objectivity and the acquisition of evidence

#### **21.2. External Quality Review**

- The Chief Audit Executive must make provision for external quality review to be commissioned periodically from appropriately qualified and independent reviewers. These reviews must be undertaken at least once every five years.
- 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 the 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.
- The Chief Audit Executive will communicate to senior management and the Audit & Performance 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.

#### **21.3. Standards and Quality Assurance**

- The Internal Audit Department shall perform their work in conformity with the International Standards for the Professional Conduct of Internal Auditing laid down by the Institute of Internal Auditors. Members of the Internal Audit Department shall adhere to the Code of Ethics of the Institute of Internal Auditors.
- All personnel in the Internal Audit Department should be members of the Institutes of Internal Auditors

#### **21.4. Principles of Quality Assurance**

- The work of internal audit must be supervised at each level of operating to ensure that a continuously effective level of performance, compliance with these standards is being maintained.



## 22. REPORTING

- A written report will be prepared and issued by the Chief Audit Executive or designee following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will also be communicated to the Audit & Performance Committee.
- The internal audit report will include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations.
- Management's response, whether included within the original audit report or provided thereafter (i.e. within thirty days) by management of the audited area should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.
- The internal audit activity will be responsible for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared.
- The Chief Audit Executive will periodically report to Management 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 or Council.
- Internal Audit Department reserves the right to report any critical or significant matter direct to the Municipal Manager or the Chairperson of the Audit & Performance Committee.
- CAE report quarterly to the Audit & Performance Committee of the STLM on whether:
  - Appropriate action has been taken on significant audit findings.
  - Audit activities have been directed towards the highest exposures to risk and towards increasing efficiency, economy and effectiveness of operations;
  - Internal and external audits co-ordinate so to avoid duplication;
  - Internal audit plans are adequate;
- There is an unwarranted restriction on the staffing and authority of the internal audit component or on access by internal auditors to all municipal activities, records, property and personnel
- CAE report to members of management who must be informed or who must take corrective action, the result of audit examinations, the audit opinions formed and the recommendations made.
- CAE evaluate any plans or actions taken to correct reported conditions for satisfactory disposition of audit findings. If the corrective action is considered unsatisfactory, hold further discussions to achieve acceptable disposition.
- CAE provide adequate follow-ups within 3 months after the audit to ensure that adequate corrective actions are taken and that they are effective.
- Management is responsible for seeing that corrective action on reported weakness is either planned or taken within 30 days from receipt of a report disclosing those weaknesses. They are also responsible for ensuring that management comments are forwarded to internal audit within (two) days from receipt of the audit report. If

after 2 days no response has been received from the management in relation to the audit report, it will be finalized without his/her input.

- CAE set standards for reporting and makes arrangements for the review and approval of reports by audit management before issue.
- A written report or reports must be issued to the Municipal Manager at the conclusion of the audit assignments. Any audit findings presenting material concerns must be reported to the Municipal Manager as soon as possible.
- Reports must be security classified in accordance with organizational policies and with the material covered by the report to avoid unauthorized disclosure of material which would otherwise be subjected to a security classification.
- Reports must not be issued to third parties without the approval of the Chief Audit Executive.
- In the event of a material error being discovered in an audit report, this must be corrected and communicated to all who received copies of the report.

### 23. REVIEW

The Chief Audit Executive should review the charter annually to assess whether the Purpose, Authority and Responsibility of Internal Audit function, as defined in the Charter, continue to be adequate to enable the Internal Audit Department to accomplish its objectives. The result of this periodic assessment should be communicated to the Municipal Manager and the Audit & Performance Committee for approval.

### 24. APPROVAL

PREPARED BY:

  
\_\_\_\_\_  
CHIEF AUDIT EXECUTIVE  
L DOŁO

30/06/2021

DATE

SUPPORTED BY:

  
\_\_\_\_\_  
MUNICIPAL MANAGER  
B KHENISA

01/07/2021

DATE

RECOMMEND BY:

  
\_\_\_\_\_  
CHAIRPERSON: AUDIT & PERFORMANCE COMMITTEE  
J MASITE

30/06/2021

DATE

**APPROVED BY:**

\_\_\_\_\_  
**SPEAKER OF COUNCIL**  
**A MABENA**

\_\_\_\_\_  
**DATE**

## 25. GLOSSARY

**Assurance Service** is an objective examination of evidence for the purpose of providing an independent assessment on risk management, control and governance process.

**Audit Programme** is a document that lists the procedures to be followed during an audit engagement.

**Chief Audit Executive (CAE)** is a top position within the municipality responsible for the internal audit function.

**Council** refers to the legislated body governing the activities of the STLM.

**Engagement** is a specific internal audit assignment, project, task or review activity such as fraud investigation or consultancy.

**External Auditors** refers to those audit professionals who perform independent annual audits of an organization's financial statements, for STLM this refers to the Auditor General or his appointee.

**Fraud** is any illegal act characterised by deceit, concealment or violation of trust.

**Governance Process** is a process of ensuring that values are set and communicated, objectives are set and operations are transparent to ensure accountability.

**Internal Audit Department** refers to those audit professionals who perform internal audit activities under the leadership of the Chief Audit Executive (Chief Audit Executive) and to those appointed.

**Internal Auditors** is in-house staff members tasked with the responsibility to perform audit activities.

**Management** are members of the Senior Management Service of the Municipality I.e. Municipal Manager, Executive Manager Corporate Services, Executive Manager Financial Services, Executive Manager Infrastructure Services and Executive Manager Community Services.

**Office of the Auditor-General** are officials of the Auditor-General responsible for the external audits of the Municipality.

**Programme Managers** are all senior managers responsible for programmes as per the Municipality's budget structure.

**Scope Limitations** is a restriction placed upon the internal auditing activity that precludes the Internal Audit Department from accomplishing its objectives and plans.

**Steve Tshwete Local Municipality (STLM)** is an organ of state within the local sphere of government exercising legislative and executive authority within an area determined in terms of the Local Government: Municipal Demarcation Act, 1998.

**Survey** is a process for gathering information, without detailed verification, on the activity being examined.