

Beaufort West Municipality

Internal Audit Charter 2023



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INDEX

	PAGE
1. Introduction	1
2. Purpose and Mission	1
3. Objective of Internal Audit	1
4. Approval	1
5. Standards for the Professional Practice of Internal Audit	1
6. Authority of Internal Audit	1
7. Role of Internal Audit	2
8. Responsibilities of Management	2
9. Responsibilities of Internal Audit	3
10. Quality assurance and Improvement program	4
11. Relationship with Other Assurance Providers	4
12. Status of Internal Audit	4
13. Scope of Internal Audit work	5
14. Limitation of Scope	5
15. Related Functions	5
12. Planning and Reporting	8
13. Assessment of effectiveness of internal audit function	9

1. INTRODUCTION

In accordance with the requirements of section 165(1) of the Municipal Finance Management Act, no 56 of 2003 (MFMA) and the guidance articulated by National Treasury circular 65 (Internal Audit and Audit Committee), an Internal Audit function has been established.

The Municipality (collectively the Council, Executive Mayor, Municipal Manager (as Accounting Officer), Chief Financial Officer and senior management) is ultimately responsible for overseeing the establishment of effective systems of internal control in order to provide reasonable assurance that the Municipality's financial and non-financial objectives are achieved. Executing this responsibility includes the establishment of an Internal Audit function in accordance with this document.

2. PURPOSE AND MISSION

The purpose of this charter is to set out the nature, role, responsibility, status and authority of Internal Auditing within the Beaufort West Municipality, and to outline the scope of the internal audit work. The mission of Internal audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight.

3. OBJECTIVE OF INTERNAL AUDIT

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

4. APPROVAL

This charter establishes authority and responsibility conferred by management to the Internal Audit function. This charter will be reviewed at least annually by the Audit Committee and approved by the Council.

5. STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING

The Internal audit activity will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, and 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 the Audit committee regarding the Internal audit activity's conformance to the Code of Ethics and the Standards.

6. Authority

6.1 The Chief audit executive will report functionally to the Audit committee and administratively (i.e., day-to-day operations) to the Municipal Manager. To establish, maintain, and assure that the Municipality's Internal audit activity has sufficient authority to fulfil its duties, the Audit committee will:

6.1.1 Approve the internal audit activity's charter.

6.1.2 Approve the risk-based internal audit plan.

- 6.1.3 Recommend the approval of the internal audit activity's budget and resource plan.
- 6.1.4 Receive communications from the Chief audit executive on the Internal audit activity's performance relative to its plan and other matters.
- 6.1.5 Consult with management on the appointment and removal of the Chief audit executive by the Municipality.
- 6.1.6 Make appropriate inquiries of management and the Chief audit executive to determine whether there is inappropriate scope or resource limitations.

- 6.2 The Chief audit executive will have unrestricted access to, and communicate and interact directly with, the audit committee, including in private meetings without management present.

- 6.3 The audit committee authorises the internal audit activity to:
 - 6.3.1 Have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.
 - 6.3.2 Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
 - 6.3.3 Obtain assistance from the necessary personnel of the Municipality, as well as other specialised services from within or outside the Municipality, in order to complete the engagement.

7. ROLE OF INTERNAL AUDIT

- 7.1. The role of Internal audit in the Municipality is to assist the Municipal Manager and the Council to meet their objectives and to discharge their responsibilities by providing an independent appraisal of the adequacy and effectiveness of the controls set up by management to help run the Municipality.

- 7.2. The controls subject to evaluation should encompass the following:
 - 7.2.1 The information systems environment;
 - 7.2.2 The reliability and integrity of financial and operational information;
 - 7.2.3 The effectiveness of operations;
 - 7.2.4 Safeguarding of assets;
 - 7.2.5 Compliance with laws, regulations, council directives and controls; and
 - 7.2.6 Performance Management.

- 7.3 Internal Audit follows an integrated approach, which places emphasis on the identification of risks, the prioritising thereof and testing of controls over key risk areas. The integrated audit approach combines two types of audit engagements, i.e. assurance and consulting services.

8. RESPONSIBILITIES OF MANAGEMENT

- 8.1. The Audit Committee is responsible for approval of the scope of Internal audit work, and for recommending the action to be taken on the outcome of or findings from their work.

- 8.2. Management, in conjunction with the Municipal Manager, is responsible for:
 - 8.2.1 Ensuring that a risk assessment is conducted regularly to identify emerging risks of the Council. A risk management strategy was developed and used by management to direct Internal audit effort and priority;
 - 8.2.2 Proposing the areas of investigation by Internal Audit;
 - 8.2.3 Ensuring the Internal Audit function has –
 - 8.2.4 The support of executive management;

- 8.2.5 Direct access and freedom to report to the Municipal Manager and the Audit Committee;
- 8.3 Free access to the books of account, records, cash, stores, property and other sources of relevant information.
- 8.2.4 Maintaining internal control, including proper accounting records and other management information suitable for running the Municipality;
- 8.2.5 Reviewing internal audit reports and the timely implementation of recommendations as considered appropriate, in the light of Council's resources.

9. RESPONSIBILITIES OF INTERNAL AUDIT

- 9.1 Internal audit assurance is provided through applying the Standards for the Professional Practice of Internal Auditing and the Code of Ethics of The Institute of Internal Auditors (IIA)
- 9.2 Internal audit provides assurance to the Municipality's stakeholders that the Municipality operates in a responsible manner by performing the following functions:
 - 9.2.1 Evaluating the Municipality's governance processes including ethics, especially the 'tone at the top' (i.e. Mayor, Councilors, Municipal Manager, Directors);
 - 9.2.2 Performing an objective assessment of the effectiveness of risk management and the internal control framework;
 - 9.2.3 Systematically analyzing and evaluating business processes and associated controls; and
 - 9.2.4 Providing a source of information, as appropriate, regarding instances of fraud, corruption, unethical behavior and irregularities.
- 9.3 The scope of possible activities that the Internal audit function can engage in includes, but is not restricted to:
 - 9.3.1 Monitoring the risk management infrastructure and practices;
 - 9.3.2 Reviewing the reliability and integrity of financial and operational information and the means used to identify, measure, classify and report such information;
 - 9.3.3 Reviewing the systems established by management to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports, and determining whether the Municipality is in compliance;
 - 9.3.4 Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets;
 - 9.3.5 Appraising the economy and efficiency with which resources are employed;
 - 9.3.6 Reviewing operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned;
 - 9.3.7 Evaluating and assessing significant merging or consolidation of functions and new or changing services, processes, operations, and control processes that are coincidental with their development, implementation and/or expansion; and
 - 9.3.8 In accordance with the recommendation of the Report on Governance for South Africa – 2016 King Committee on Governance (King IV), Internal Audit must provide a written assessment regarding the effectiveness of the system of internal controls and risk management to the Council to enable the Council to report on the effectiveness of the system of internal controls in the annual report.
- 9.4 The annual allocation of Internal audit resources to the different possible activities is established on the basis of an approved Internal audit plan. The Audit Committee is responsible for approving the plan based on the agreed scope of

work that needs to be performed. Any subsequent changes to the plan should also be approved by the Audit Committee.

- 9.5 Internal Audit staff should be professionals with sufficient knowledge, skills, experience and professional certifications to enable them to perform the Internal Audit procedures.

10 QUALITY ASSURANCE AND IMPROVEMENT PROGRAM:

- 10.1 In order to ensure that the quality of the Internal Audit work is consistently at a high standard, the Internal Audit function will develop and maintain comprehensive measurement goals and will monitor performance against these goals and report the results to the Audit Committee on a regular basis.
- 10.2 The Audit Committee should ensure that the Internal audit function is subjected to an independent quality review as and when the Audit Committee determines it appropriate as a measure to ensure that the function remains effective.
- 10.3 The Chief audit executive will communicate to senior management and the Audit committee on the Internal audit activity's quality assurance and improvement program, including results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside the Municipality.

11. RELATIONSHIP WITH OTHER ASSURANCE PROVIDERS

- 11.1 Internal audit co-ordinates its work with that of the other assurance providers. The external auditors must be consulted in determining the activities of Internal and external audit in order to minimize duplication of audit effort. This may involve:
- 11.1.1 Periodic meetings to discuss the planned activities;
 - 11.1.2 The exchange of management letters;
 - 11.1.3 The forming of joint teams where appropriate;
 - 11.1.4 Internal Audit carrying out certain (financial) audit work;
 - 11.1.5 Other aspects of the relationship between the Municipality and the external auditors.
- 11.2 Internal audit must make an assessment of the adequacy of the combined assurance approach adopted by the Municipality. This assessment includes the adequacy of risks covered by the different assurance providers and the reliability of the assurance provided.

12. STATUS OF INTERNAL AUDIT

- 12.1 Independence of Internal Audit will be further ensured by:
- 12.1.1. Having unrestricted access to the Municipal Manager and to the Chairperson of the Audit Committee.
 - 12.1.2. Having unrestricted access at all times to any records, properties, resources and personnel relevant to the subject under review.
 - 12.1.3. Internal Audit will not assume any line management functions.
 - 12.1.4. Internal Audit will not be responsible for any of the activities which they audit.
 - 12.1.5. Internal Audit function will not assume the responsibility for the development, operation or control of any systems and procedures.

- 12.1.6. Internal Audit will include as part of its report to the Audit Committee a regular report on the level of Internal Audit personnel involved.
- 12.1.7. The appointment or removal of the Chief Audit Executive and/or Internal audit team will only be done in consultation with the Audit Committee.

13. SCOPE OF INTERNAL AUDIT

- 13.1 The Internal Auditors shall have access at all reasonable times to all books, documents, accounts, property, vouchers, records, correspondence and other data of the Council which are necessary for the proper performance of the Internal Audit function. It is incumbent on all municipal officials that they shall render every assistance to the Internal Auditors in carrying out their duties.
- 13.2 There are no restrictions placed upon the scope of the internal auditor'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 fulfil their responsibilities to management and Council.
- 13.3 The Internal Audit coverage may extend to all areas of Council and include financial, accounting, administrative, computing and other operational activities if relevant.
- 13.4 The extent and frequency of Internal audits will depend upon varying circumstances such as results of previous audits, relative risk associated with activities, materiality, the adequacy of the system of internal control and the resources available.

14. LIMITATION OF SCOPE

Any attempted scope limitation by management must be reported, preferably in writing, to the Municipal Manager and to the Audit Committee. The question of whether an action from management in fact constitutes a scope limitation is at the judgment of the Chief Audit Executive. Except in cases of suspected fraud, the Municipal Manager and the Audit committee may decide to accept a limitation of scope. In such instances, the Chief Audit Executive 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 Committee for their renewed consideration.

15. RELATED FUNCTIONS

15.1 Compliance and Limited Regularity Audit

- 15.1.1. 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 – i.e. satisfactory, needs improvement, or unsatisfactory - on the achievement of the control objectives of each significant system.
- 15.1.2. Although External Audit expresses an opinion on the financial statements, Internal Audit should also perform limited regularity audits to ensure that the following aspects are receiving immediate attention:

- 15.1.2.1. Auditing of financial systems and transactions which includes the evaluation of compliance with applicable laws, regulations, policies and instructions;
- 15.1.2.2. Audit of the probity and propriety of administrative decisions taken within the Council; and
- 15.1.2.3. Reporting of any other matter arising from or relating to the audit that the auditor considers should be disclosable.

- 15.1.3. Covering the whole spectrum of the Council's activities, is aimed at promoting the efficient, economical and effective management processes and evaluating the soundness, adequacy and effectiveness of internal controls by -
 - 15.1.3.1. Appraising the effective conduct of Council operations;
 - 15.1.3.2. Reviewing the reliability and integrity of financial, operating and management information;
 - 15.1.3.3. Reviewing systems to ascertain compliance with laws, regulations, policies and instructions;
 - 15.1.3.4. Ascertaining the extent to which assets and Council interests are being properly controlled and safeguarded from losses of any kind;
 - 15.1.3.5. Appraising the economy and efficiency with which financial, human and other resources are employed; and
 - 15.1.3.6. Monitoring the accomplishment of established objectives and goals for programmes.

15.2 Performance Auditing

- 15.2.1 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. Whereas Accounting officers are responsible for the implementation of proper functioning of such overall management arrangements, the responsibility of performance auditors is to confirm independently that these measures do exist and are effective, and report to the management and the Audit Committee on these issues. In the course of an investigation into overall management arrangements in a department the following will receive attention --
 - 15.2.1.1 System planning, budgeting, authorization, control and evaluation in respect of revenue, expenditure and the allocation of resources;
 - 15.2.1.2 The effect of decisions beyond the control of the Council which have had an adverse influence on the Council;
 - 15.2.1.3 Measures ensuring the proper management of all the resources of the Council;
 - 15.2.1.4 Measures developed to derive benefit from economies of scale of expertise, especially in the provision of goods and services;
 - 15.2.1.5 Specific steps aimed at improving the economy, efficiency and effectiveness of the activities of the Council.
 - 15.2.1.6 Proper assignment of responsibilities, powers and accountability, and measures to monitor results against predetermined objectives, performance norms and standards to ensure that above-average performance is encouraged and unacceptable performance is corrected timeously;
 - 15.2.1.7 Whether policy objectives were set and policy decisions taken with the necessary authority;
 - 15.2.1.8 The extent to which policy objectives were set and decisions taken on the basis of adequate, appropriate and reliable financial and other information and whether the critical underlying assumptions have been disclosed;
 - 15.2.1.9 If satisfactory arrangements for the consideration of alternative possibilities were made;
 - 15.2.1.10 Whether established policy goals and objectives as well as decisions on the implementation of policy are clearly defined and in line with the priorities of the

- government, and whether they were taken with proper authority at the appropriate level;
- 15.2.1.11 Whether conflict or possible conflicts exists between the various policy goals or objectives, or between the methods chosen to implement them; and
- 15.2.1.12 If the costs of rendering alternative levels of services were taken into account and reviewed if changes in cost should appear.

15.3 Computer Reviews

- 15.3.1 A high level review of the Information Technology (IT) controls to obtain an understanding of the control environment to support the audit risk assessment and to ensure that proper IT controls are in place in such a way as to ensure that IT support the business objectives of the Council, can be conducted on an ad hoc basis.
- 15.3.2 Apart from the high level review referred to above, Internal Audit can also be expected to review, on an ad hoc basis, specific computer and applications controls, controls over changes in the computer systems, the methodology of systems development, internal controls and procedures, back-up and recovery procedures, disaster recovery plan and the physical control of the computer facilities.

15.4 Fraud Limitation

- 15.4.1 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 Council and could assist management in designing appropriate controls that could minimise the effects of the risks.
- 15.4.2 Any instances of fraud or non-compliance with legislation which may come to Internal Audit's attention during its activities will be reported to the Audit Committee.

16. PLANNING AND REPORTING

16.1 Planning

16.1.1 Internal Audit will submit to the Audit Committee for approval, an operational Internal Audit plan, or any changes to the approved plan, setting out the recommended scope of their work. This plan should be based on the results of the risk assessment process and should allocate Internal Audit resources to the areas where the greatest risks are present. In addition it should identify the costs and resources necessary to fulfil the plan. The plan should indicate the timing and frequency of the audit activities.

16.1.2 The annual operational Internal Audit Plan should be developed with reference to a longer term strategic outlook for Internal Audit work, prepared in conjunction with management and supported by them, and should have regard to the business plans and strategic outlook of Council as a whole.

16.2 Reporting

16.2.1 Internal Audit will carry out the work as agreed, report the outcome and findings immediately to management, and will make recommendations on the action to be taken.

16.2.2 A written report of the above findings and recommendations will be prepared and issued by Internal Audit to Management at the conclusion of each audit and distributed as considered appropriate. The details, unless otherwise requested by Management, will be distributed to relevant line management, who will already have been made fully aware of the detail and whose co-operation in preparing the report will have been sought.

16.2.3. Internal Audit will also submit a quarterly report to the Audit Committee on the:

16.2.3.1 Status of the Internal Audit Activities;

16.2.3.2 Significant findings and management action plans;

16.2.3.3 Follow-up on previously reported internal audit findings;

16.2.3.4 Any instances of fraud or non-compliance with legislation identified during the performance of the Internal Audit Activities;

16.2.3.5 Performance of Internal Audit against the annual Internal Audit plan to allow effective monitoring and possible intervention.

16.2.4.1 Internal Audit shall have the right to report any critical or significant issue direct to the Municipal Manager or the Chairperson of the Audit Committee before consulting with management.

16.2.4.2 The above reporting is supported by an appropriate reporting protocol. This protocol holds that all reports in terms of factual findings and proposed action only, are agreed with management of the department or section being audited, before they are submitted to higher management levels or the Audit committee. The only possible exception is where management fraud is suspected. The reporting frequency, style and distribution should be documented.

16.2.4.3 The Local Government: Municipal Structures Amendment Act no 3 of 2021: section 79 A (3)(b) states that MPAC will review Internal audit reports together with comments from the Audit committee and make recommendations to the municipal council. The internal audit reports and the minutes of the Audit committee will be submitted to MPAC regularly.

17. ASSESSMENT OF EFFECTIVENESS OF INTERNAL AUDIT FUNCTION

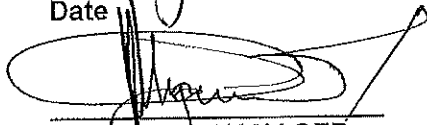
- 17.1 The Audit committee should annually assess the effectiveness of the Internal audit function. Internal audit should be assessed against the following criteria:
- 17.1.1 Achievement of the annual Internal audit plan;
 - 17.1.2 Compliance with IIA's professional standards inclusive of quality assurance assessments on the level of compliance achieved;
 - 17.1.3 Achievement of reporting protocols through management to the audit committee;
 - 17.1.4 Timeliness of reporting of findings and activities;
 - 17.1.5 Responsiveness to changing business/operational environment;
 - 17.1.6 Management's acceptance of the Internal audit findings;
 - 17.1.7 Quality and relevance of the annual assessment reports;
 - 17.1.8 Level of cooperation and interaction with other assurance providers within the agreed combined assurance approach;
 - 17.1.9 Maintenance of adequate staffing/sourcing levels to achieve the required to meet the requirements of this charter; and
 - 17.1.10 Meeting the budget allocated to Internal audit.
 - 17.1.11 Follow up of audit findings reported requiring action to rectify where necessary.

Duly approved by:



CHAIRPERSON OF THE AUDIT COMMITTEE

31 August 2022
Date



MUNICIPAL MANAGER

31 August 2022
Date

Duly accepted by:



CHIEF AUDIT EXECUTIVE

31 August 2022
Date