

George Municipality

Internal Audit Charter
July 2017



**Building a better
working world**

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1. Introduction

In conformity with the commitment of the Council to be fully accountable to all stakeholders of the George Municipality (the Municipality), and in accordance with the requirements of Section 165(1) of the Municipal Finance Management Act, no 56 of 2003 (MFMA), the guidance articulated by King III and King IV and National Treasury's Circular 65 (Internal Audit and Audit Committee), an Internal Audit Function has been established.

The Municipality has appointed the Deputy Director: Internal Audit to head the function as Chief Audit Executive (CAE) and act as coordinator between the Municipality and the co-sourced Internal Audit service provider (the consortium of Ernst & Young Advisory Services (Pty) Ltd (EY) and Branford & Associates (B&A)), which was appointed in terms of Section 165(3) of the MFMA. This Charter sets out the framework within which the Internal Audit Section will operate to make positive contributions to the Municipality.

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.

Internal control is understood to mean the processes aimed at achieving reasonable assurance about the realisation of the following objectives:

1. The accomplishment of established objectives and goals for operations and programmes.
2. The economical and efficient use of resources.
3. The reliability and integrity of financial and non-financial information.
4. Compliance with relevant policies, procedures, laws and regulations.
5. Safeguarding of assets.

This document defines the role, organisational status, authority, responsibilities and scope of activities of the Internal Audit function. It also includes the principles underlying the realisation of the objectives of the function and the translation thereof into operational activities.

2. Purpose of Internal Audit

Internal audit is an independent, objective assurance and consulting activity 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 processes as a service to the Council in particular and to management in general.

The section will furnish the Council and management with analyses, appraisals and recommendations concerning the activities reviewed.

The section, headed by the CAE, will report to the Accounting Officer or to his / her nominee and will have ready and regular access to the Chairperson of the Audit Committee.

In addition the CAE should:

- Be a standing invitee to attend directors meetings.
- Evaluate the quality of work performed by the Auditor-General (AG).
- Act as liaison and main coordinator between the Municipality and the AG to facilitate the relationship between these two parties and to make sure the Municipality adheres to the requirements of the AG.

- Perform such other functions delegated by the Accounting Officer.

The EY Director, B&A Partner and staff assigned to the George Municipality Internal Audit engagement shall have no executive or managerial powers and duties in the Municipality, except those relating to the management of the co-sourced Internal Audit function.

3. Authority and independence - Status

The organisational status of Internal Audit should be sufficient to permit objectivity, and to assure the accomplishment of its audit responsibilities.

The section shall have an independent status within the Municipality and will not be involved in the day-to-day internal validation systems in the Municipality. Also, the section shall not be involved in the implementation of internal control systems but may be consulted on the adequacy of controls when they are first implemented.

Internal Audit reports administratively to the Accounting Officer or his nominated deputy and reports functionally to the Audit Committee of the Municipality.

Internal Audit has unlimited access to all premises, officials, records and documents of the Municipality including the Executive Mayor, Chairperson of the Audit Committee and the Accounting Officer.

4. Authority and independence - Organisational structure

The organisational structure must promote the independence of the Internal Audit function as a whole and allow Internal Audit to form its judgments objectively. Internal Audit has free and unrestricted access to management, officials, activities, physical locations and to all information considered necessary for the proper execution of Internal Audit's work.

The Internal Audit function has full, free and unrestricted access to any of the Municipality's financial and operational activities, records (either manual or electronic), physical properties and personnel relevant to a review, but subject to strict accountability for safekeeping and confidentiality thereof.

The EY Director, B&A Partner and staff of the Internal Audit function are not authorised to:

1. Perform any operational duties for the Municipality.
2. Initiate or approve accounting transactions external to the Internal Audit function.
3. Direct the activities of any official in the Municipality not employed by the Internal Audit function, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist Internal Audit.

Internal Audit staff generally do not assume a role other than in an advisory capacity in the design, installation or operation of control procedures.

Subject to the approval of the Audit Committee, the Internal Audit function in the execution of its duties is authorized to:

1. Decide on the nature, scope and timing of audits.
2. Enter all premises of the operations within the Municipality and have access to and inspect all documents and records.
3. Require any official or any Councillor of the Municipality, to supply such information and explanations as may be needed.
4. Have discussions with line managers and officials of the Municipality at any reasonable time.

5. Limitation of scope

Any attempted scope limitation by management must be reported, preferably in writing, to the Accounting Officer and to the Audit Committee. The question of whether an action from management in fact constitutes a scope limitation is at the judgement of the CAE in consultation with the EY Director and B&A Partner.

Except in cases of suspected fraud, the Accounting Officer and the Audit Committee may decide to accept a limitation of scope.

In such instances, the CAE in consultation with the EY Director and B&A Partner 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 Accounting Officer and the Audit Committee for their renewed consideration.

6. Responsibilities

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). Internal audit provides assurance to the Municipality's stakeholders that the Municipality operates in a responsible manner by performing the following functions:

1. Evaluating the Municipality's governance processes including ethics, especially the "tone at the top".
2. Performing an objective assessment of the effectiveness of risk management and the internal control framework.
3. Systematically analysing and evaluating business processes and associated controls.
4. Providing a source of information, as appropriate, regarding instances of fraud, corruption, unethical behaviour and irregularities.

The scope of possible activities that the Internal Audit function can engage in includes:

1. Monitoring the risk management infrastructure and practices.
2. Review systems and operations to assess the extent to which organizational objectives are achieved, and the adequacy of controls over activities leading to such achievement.
3. Reviewing the reliability and integrity of financial and operational information and the means used to identify, measure, classify and report such information.
4. Appraise utilization of resources with regard to economy, efficiency and effectiveness.
5. Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets.
6. Reviewing the systems established by management to ascertain 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.
7. Recommend improvements in procedures and systems to prevent waste, extravagance and fraud.
8. Advise on appropriate systems of controls and other accounting and operational matters in a consulting capacity.
9. Draw attention to any failure to take remedial action.
10. Provide a written assessment regarding the effectiveness of the system of internal control and risk management.
11. Conduct and document a review of the key financial reporting controls in identified financial systems and processes, which must be submitted to the Audit Committee to enable its comments to be included in the annual report.
12. Carry out any ad hoc appraisals, inspections, investigations, examinations or reviews requested by the Accounting Officer or by the Audit Committee [MFMA S165(2)(c)].

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 Internal Audit plan based on the available budget and agreed scope of work that needs to be performed.

Subject to the overall guidelines and policies of the Council and of the Audit Committee, the Internal Audit function shall be solely responsible for the planning, implementation and reporting of the audits.

For this purpose, Internal Audit shall:

1. Prepare a risk based strategic plan to set the direction and approach of audits in the long run [MFMA S165(2)(a)].
2. Prepare a detailed annual Internal Audit plan [MFMA S165(2)(a)] and an annual budget in consultation with the Accounting Officer for submission to the Audit Committee for approval.
3. Assess and recruit the necessary personnel to perform the Internal Audit functions necessary, and to invoice the Municipality for work done by such personnel on a basis agreed in a separate letter of engagement.
4. Carry out all activities to conduct the audits in an effective, professional and timely manner.
5. In terms of [MFMA S165(2)(b)] advise the Accounting Officer and report to the Audit Committee on the implementation of the Internal Audit plan and matters relating to:
 - Internal audit.
 - Internal controls.
 - Accounting procedures and practices.
 - Risk and risk management.
 - Performance management.
 - Loss control.
 - Compliance with the MFMA, the annual Division of Revenue Act, and any other applicable legislation.
6. In terms of [MFMA S165(2)(c)] perform such other duties as may be assigned to it by the Accounting Officer.
7. In terms of Municipal Systems Act, 2000 and the Municipal Planning and Performance Management Regulations, 2001:
 - Develop processes to audit the functionality, legal compliance and reliability of the Municipality's performance management system.
 - Assess the functionality and legal compliance of the performance management system.
 - Assess the reliability of the key performance indicators for the purpose of performance measurement.
 - Audit actual performance measures on a continuous basis.
 - Report quarterly to the Accounting Officer, and to the Audit Committee on work performed and related audit findings.
8. Report to the Accounting Officer, and to the relevant Director and Section head responsible for the subject matter of each audit as soon as is practical on completion of each audit.
9. Report to the Audit Committee, normally quarterly but not less than three times per annum and to the Internal Audit Steering Committee, normally monthly, but not less than ten times per annum on the performance of the section.

7. Management

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.

Management, in conjunction with the Accounting Officer, is responsible for:

1. Ensuring that a risk assessment is conducted regularly to identify emerging risks of the Council. A risk management strategy must then be drawn up and used by management to direct Internal Audit effort and priority;
2. Proposing the areas of investigation by Internal Audit;
3. Ensuring the Internal Audit function has -
 - The support of executive management;
 - Direct access and freedom to report to the Accounting Officer and the Audit Committee;
 - Free access to the books of account, records, cash, stores, property and other sources of relevant information.
4. Maintaining internal control, including proper accounting records and other management information suitable for running the Municipality; and
5. Reviewing Internal Audit reports and the timely implementation of recommendations as considered appropriate, in the light of Council's resources.

8. External relationships

Though the Internal Audit function shall have an independent status within the Municipality, the section shall interact with and complement the Departments and Sections to promote the objectives of the Municipality. In particular, the section shall:

1. Co-ordinate its work with that of other assurance providers.
2. Co-ordinate all review, evaluation and/or investigation activities within the Municipality, as may be requested by the Accounting Officer.
3. In order to facilitate effective combined assurance, liaise with the external auditors and:
 - Hold periodic meetings to discuss the planned activities.
 - Confirm that the audit programs are complementary.
 - Exchange audit work papers including systems documentation where practical.
 - Exchange management letters.
4. Act as the secretariat for the Audit Committee as well as the Internal Audit Steering Committee.
5. Verify, where necessary, data and information given to external agencies.
6. Comply with Standards, Codes of Conduct and Ethics that are promulgated from time to time by the relevant professional bodies.

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.

9. Operational planning

The parameters for the co-sourced Internal Audit function's operations functioning are set as follows, relating specifically to the EY and B&A Consortium staff utilised as part of the Internal Audit function and are the responsibility of EY and B&A:

1. Staffing:
 - High-level issues relating to the staffing of the function (e.g. training ground for management, skill sets, educational backgrounds, previous experience etc.) are addressed.
 - Also, the following matters are covered:
 - Preparation of written job descriptions for the various levels.
 - Methods of recruiting and selection.
 - Providing training and appropriate continuing professional educational opportunities for staff.
 - Evaluating performance at least on a periodic basis.
 - Counselling each member of the staff with respect to his / her performance and professional development.
2. Budgeting systems.
3. Tools and methodologies.
4. Internal audit planning:
 - The underlying principles and process of preparation and approval of the annual plan of activities.
 - Setting out the intended scope of the work during the upcoming period(s) are formalised in writing.
 - Identification and prioritisation of audit areas is to be based on the assessment of risks pertaining to the achievement of the Municipality's objectives and the related audit significance.
 - Such a risk analysis and determination of audit significance is the basis for the formal assessment of audit needs and the strategic audit plan.
 - The strategic audit plan should set out the frequency and the depth of coverage for each auditable area.
 - For all major audit activities this would normally ensure that the most significant audit areas are audited frequently and all auditable areas are covered within the strategic planning period.
 - A strategic audit plan, which facilitates coverage of the Municipality's operations as a whole, over a time frame of three to five years, is to be maintained and reviewed every year.
 - An annual audit plan including priority, timing and resource requirements is to be prepared for each year.
 - For each audit an individual plan is to be prepared and is to be approved by the EY Director, B&A Partner or the nominated EY Senior Manager / Manager.
5. Performance metrics.
6. Quality assurance.
7. Communication strategy:
 - The objectives are to secure that, within the Municipality, all relevant sections and staff are aware of the purpose, organisational status and added value that Internal Audit brings. A deliberate communication strategy enhances the effectiveness of the function.
8. Reporting:
 - Internal audit should be 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.

10. Assessment of effectiveness of Internal Audit function

The Audit Committee should annually assess the effectiveness of the Internal Audit function.

Internal audit should be assessed against the following criteria:

1. Achievement of the annual Internal Audit plan.
2. Compliance with the IIA's professional standards inclusive of quality assurance assessments on the level of compliance achieved.
3. Achievement of reporting protocols through management to the Audit Committee.
4. Timeliness of reporting of findings and activities.
5. Responsiveness to changing business / operational environment.
6. Management's acceptance of the Internal Audit findings.
7. Quality and relevance of the annual assessment reports.
8. Level of cooperation and interaction with other assurance providers within the agreed combined assurance approach.
9. Maintenance of adequate staffing / sourcing levels to meet the requirements of this charter.
10. Meeting the budget allocated to Internal Audit.

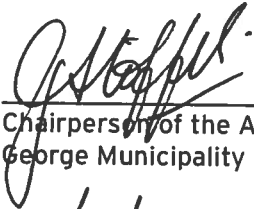
11. Review of charter

This charter must be updated at least once a year but more frequently as circumstances may necessitate. It should be approved by the Accounting Officer and endorsed by the Audit Committee, in order to formally establish the authority of the Internal Audit function.

12. Approval and acceptance

The George Municipality Internal Audit Charter is hereby duly approved and accepted by the following signatories:

Duly approved by:



Chairperson of the Audit Committee
George Municipality

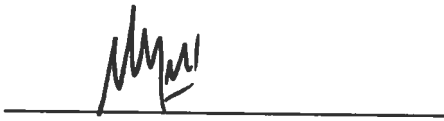
17/08/2017
Date



Municipal Manager
George Municipality

16/08/2017
Date

Duly accepted by:



Director
Ernst & Young Advisory Services (Pty) Ltd

17/8/2017
Date



Partner
Branford & Associates

17/8/2017
Date

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