

# INTERNAL AUDIT SERVICE CHARTER

Item A-CORP (69-2009) CM 29/10/2009	THE UPDATED INTERNAL AUDIT SERVICE CHARTER
--	--

## RESOLVED:

**That** the Updated Internal Audit Service Charter, attached as **Annexure “A”** to the report, **BE NOTED** and **APPROVED**, subject to the deletion of the following clauses:

(i) Clause 5.4 that reads as follows:

*“The Audit Committee must concur on the appointment or removal of the Chief Audit Executive.”*

(ii) The third bullet under Clause 11.1 that reads as follows:

*“Be fully involved in the appointment, replacement and dismissal of the CAE”*

**EKURHULENI METROPOLITAN MUNICIPALITY**  
**INTERNAL AUDIT SERVICES CHARTER**

---

**TABLE OF CONTENTS**

<b>SECTION</b>	<b>TOPIC</b>	<b>PAGE</b>
1	Definitions used in the charter	3
2	Introduction	4
3	Legislation and Regulations governing Internal Audit	4
4	Mission and Scope of work	5
5	Independence	7
6	Organisational status and Authority	7
7	Roles and Responsibilities of the Internal Audit Function	9
8	Responsibilities of Management	10
9	Reporting responsibilities	10
10	Quality Reviews	11
11	Audit Committee	12
12	Relationships with External Auditors	12
13	Code of Ethics	12
14	Skills, Qualifications and Experience	13
15	Consultations process	14
16	Amendment & Review of the Charter	14
17	Approval	15

## 1. DEFINITIONS USED IN THE CHARTER

**Audit Charter** A document which defines the internal audit function's purpose, authority and responsibility.

**Audit Report** is signed, written document which presents the purpose, scope, and results of the audit. Results of the audit may include findings, conclusions (opinion), and recommendations.

**Audit Responsibility** The roles, scope and objectives documented in the service level agreement between Management and Internal Audit Function.

**Audit Scope** refers to the activities covered by internal audit.

**Charter** of the internal auditing activity is a formal written document which defines the internal audit's purpose, authority, and responsibility.

**CCC** customer care centres.

**Compliance** refers to the ability to reasonably ensure conformity and adherence to organisation policies, plans, procedures, laws, regulations, and contracts: It also refers to compliance with the requirements of the MFMA and related Treasury Regulations as issued from time to time.

**Ekurhuleni Metropolitan Municipality (EMM)** 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.

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

**Council** refers to the legislated body governing the activities of the EMM and consists of:

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

**Management** includes those individuals with responsibilities for setting and / or achieving the organisation's goals and objectives.

**Monitoring** encompasses supervising, observing, and testing activities and appropriately reporting to responsible individuals.

**Municipal Entities** is a private company or a service utility established by a municipality in terms of section 84 of the MFMA.

**Municipal Public Accounts Committee (MPAC)** is an oversight committee or other collective structure of a municipality elected to deal with oversight reports referred to on section 129 of the MFMA.

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

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

## **2. INTRODUCTION**

2.1 The Standard for the professional Practice of Internal Auditing of the Institute of Internal Auditors recommended that the purpose, authority, and responsibility of the Internal Auditing Activity be defined in a formal written document (“Internal Audit Services Charter”).

2.2 This Internal Services Audit Charter serves as a framework within which the Internal Audit will operate to make positive contributions to the organisation. This charter is intended to:

- Provide a written record of formally approved policies of the internal audit function;
- Provide a basis for the evaluation of the performance of the internal audit function by the management of Ekurhuleni Metropolitan Municipality (EMM);
- Serve as a basic document in the organisation and administration of the internal audit function.

## **3. LEGISLATION AND REGULATIONS GOVERNING INTERNAL AUDIT**

3.1 The Ekurhuleni Metropolitan Municipality (“Ekurhuleni”) Internal Audit Function is governed by the Municipal Finance Management Act, No. 56 of 2003 (“MFMA”), the Municipal Systems Act, No, 32 of 2000 (“MSA”), the Standards for the Professional Practice of Internal Auditing (“IIA Standards”), and the latest King Report on Corporate Governance.

3.2 Internal Audit is an appraisal function established within the organisation in compliance with the requirements of the MFMA and MSA and independently examines and evaluates the activities of the organisation as a service to the Council in particular and to the management in general.

3.3 EMM supports Internal Audit as an independent appraisal function to examine and evaluate the activities as a service to management. The objectives of internal auditing are to assist senior managers of the organisation in the effective discharge of their responsibilities by furnishing them with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed and by promoting effective control at reasonable cost. Furthermore to evaluate and report on compliance with the Municipal Finance Management Act, Municipal Systems Act and related Treasury Regulations.

## **4. MISSION AND SCOPE OF WORK**

4.1 The mission of the Internal Audit Function is to provide independent, objective assurance and consulting services, within Ekurhuleni and its entities, designed to add value and improve the organisation’s operations. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

4.2 In order to achieve its aims, Internal Audit strives to:

- meet and/or exceed, the stakeholder's objectives for internal audit;
- meet and/or exceed, the requirements of internal audit from the Institute of Internal Auditors, the latest King report on Corporate Governance and other leading practice requirements;
- maintain the required skills and competencies of internal auditors; and
- uphold high standards of ethics and independence.

4.3 The scope of work of the internal audit function is to determine whether the organisation's risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed.
- Interaction with the various governance groups occurs, as needed.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Employee's actions are in compliance with policies standards, procedures and applicable laws and regulations.
- Resources are acquired economically, used efficiently, and adequately protected;
- Programs, plans, and objectives are achieved.
- Quality and continuous improvement are fostered in Ekurhuleni's control processes.
- Significant legislative or regulatory issues impacting Ekurhuleni are recognized and addressed properly.

4.4 The scope of internal audit encompasses the following activities:

- Facilitate a risk assessment through obtaining an understanding of the Ekurhuleni's objectives and related risks impacting its performance, assessing the business risks after consultation with management which includes interviews/workshops with management of each department evaluation and assessment of significant risks areas and related key control;
- Prepare a strategic three-year rolling internal audit plan, inclusive of an annual internal audit coverage plan and submit to the Audit Committee for approval;
- Review the adequacy and effectiveness of internal control systems;
- Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information;
- Reviewing the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations that could have significant impact on its operations and reports, and determining whether the organisation is in compliance;

- 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;
  - Review means of safeguarding assets and, as appropriate, verifying the existence of such assets;
  - Reviewing and appraising the economy and efficiency with which resources are employed;
  - Review contracts and other agreements with outside firms providing goods and services as appropriate. Review the records and documentation of these outside firms when deemed necessary to ascertain compliance with the contracts terms;
  - Coordinate audits efforts with those of the external auditors and to eliminate duplication of audit efforts;
  - Examine the validity of measures used to assess the achievement of operational objectives;
  - Review the organisation's compliance guidelines for ethical business conduct;
  - Evaluate plans and action taken to correct reported conditions;
  - Provide adequate follow-up to ensure corrective action is taken and evaluate and its effectiveness;
  - Conduct special examinations or investigations at the request of management or audit committee;
  - Monitor fraud control and preventative mechanisms;
  - Report on loss control;
  - Manage the and create awareness of the Fraud Hotline; and
  - Report to the Audit Committee as to whether:
    - a) Appropriate action has been taken on significant audit findings and the status of corrective action;
    - b) Audit activities have been directed toward highest exposures to risk and toward increasing efficiency, economy, and effectiveness of operations;
    - c) There is any unwarranted restriction on access by management to internal auditors on all organisations activities, records, property, and personnel.
- 4.5 Opportunities for improving management control service delivery and the organisation's image may be identified during audits and, communicated to the appropriate level of management.

## **5. INDEPENDENCE**

- 5.1 The Internal Audit function, headed by the Chief Audit Executive is functionally responsible to the Chairman of the Audit Committee and his/her designate and for administrative purposes will report to the City Manager or his/her designate. The

Internal Audit function shall have no executive or managerial powers and duties within Ekurhuleni.

5.2 The internal auditing function will further ensure its independence by virtue of the following:

- organisational status and personal objectivity in the proper performance of its duties;
- freedom from any undue influences, which either restrict or modify the scope or conduct of its work or over-rule or significantly affect judgement as to the content of the internal audit report;
- will not undertake any management responsibilities for or on behalf of Ekurhuleni; and
- will only undertake non-audit services as permitted by the Audit Committee. Non-audit services will be agreed with management and approved by the Audit Committee.

5.3 Where any of the situations referred to above arise, these must be clearly declared by Internal Audit, so that consideration can be given for the need to find alternative arrangements for the proposed engagement.

## **6. ORGANISATIONAL STATUS AND AUTHORITY**

6.1 The Internal audit function is authorized to audit all parts of Ekurhuleni, CCC and its entities in accordance with the internal audit coverage plan approved by the Audit Committee and shall therefore, in consultation with the City Manager or his/her designate:

- Have unrestricted access to all functions, records, property, and personnel. Documents and information given to internal auditors during a periodic review will be handled in the same prudent manner as by those employees normally accountable for them;
- Have full and free access to the Audit Committee;
- Unrestricted access to the Municipal Public Accounts Committee;
- Unrestricted access to the external auditors;
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives. The Internal Audit function will make special efforts to accommodate the organisation's daily operations in scheduling and conducting reviews;
- Obtain the necessary assistance of personnel within the various departments of Ekurhuleni where they perform audits, as well as other specialised services from within or outside the organisation;
- Provide annually an assessment on the adequacy and effectiveness of the system of the internal control established by management of EMM in controlling the activities and managing the risks in the areas set forth under the mission and scope for work;

- Report significant issues related to the processes for controlling the activities of Ekurhuleni, CCC and its entities, including potential improvements to those processes, and providing information concerning such issues through resolution;
- Provide information periodically on the status and results of the annual internal audit coverage plan;
- Coordinate with and provide oversight of other control and monitoring functions (risk management, compliance, security, legal, ethics, environmental, external audit).

6.2 The Chief Audit Executive and staff of the Internal Audit Department are not authorised to:

- Perform any operational duties by developing and installing procedures, preparing records, or engaging in activities that would normally be reviewed;
- Initiate or approve accounting transactions external to the internal audit function;
- Direct the activities of any Ekurhuleni employee not employed by the internal audit department, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

## **7. ROLES AND RESPONSIBILITIES OF THE INTERNAL AUDIT FUNCTION**

7.1 The Chief Audit Executive and staff of the internal auditing function have responsibility to:

- Prepare rolling three-year strategic internal audit plan, using appropriate risk- based methodology, including any risks or control concerns identified by management, and submit these plans to the Municipal Manager and Audit Committee for review and approval. In compiling the three-year strategic plan, Internal Audit will take into account Ekurhuleni risk profile to ensure a risk based audit process;
- Develop a flexible annual internal audit plan using appropriate risk-based methodology, including any risks or controls concerns identified by management, and submit that plan to the Municipal Manager and Audit Committee for review and approval;
- Implement the annual internal audit plan, as approved, including as appropriate, any special tasks or projects requested by management and the Audit Committee;
- Prepare audit planning memorandums indicating the proposed scope of each audit in the annual internal audit plan;
- Review the activities or operations of the organisation. Furthermore, an internal audit does not in any way relieve other persons in Ekurhuleni of the responsibilities assigned to them;
- Establish policies and procedures to guide the Internal Audit Function and direct its administrative functions;
- Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this charter;



- Establish a quality assurance program by which the CAE assures the operation of internal auditing activities;
- Perform consulting services; beyond internal auditing's assurance services to assist management in meeting its objectives. Examples may include facilitation, process design, training, and advisory services. Informal consulting engagements include routine activities such as participating on standing committees, limited life projects, ad-hoc meetings and routine information exchange;
- Evaluate and assess significant merging/ consolidating functions and new or changing services, processes, operations, and control processes coincident with their development, implementation, and/or expansions;
- Keep the Audit Committee informed of emerging trends and successful practices in internal auditing;
- Prepare written reports at least quarterly reports to the audit committee and management summarising results of audit activities;
- Assist in the investigation of significant suspected fraudulent activities within Ekurhuleni and its municipal entities and notify management and the audit committee of the results;
- Consider the scope of work of the external auditors, as appropriate, for the purpose of providing optimal audit coverage to Ekurhuleni at reasonable overall cost;
- Submit internal audit reports pertaining to irregularities to the Municipal Public Accounts Committee.

## **8. RESPONSIBILITIES OF MANAGEMENT**

### **8.1 Management is responsible for:**

- Establishing and maintaining effective internal control and governance processes, as well as evaluating the effectiveness of the system;
- Proposing additional areas for review by Internal Audit;
- Ensuring that Internal Audit has:
  - a) the direct support of all managers;
  - b) direct access and freedom to report to management; and
  - c) direct access to records and all information required for audit purposes; and
- Reviewing and responding on a timely basis to all audit reports issued by Internal Audit and implementing such recommendations as considered appropriate, within the pre determined period.

## **9. REPORTING RESPONSIBILITIES**

- ### **9.1**
- A written audit report will be prepared and issued by the Internal Audit function following the conclusion of each audit discussed and reviewed with the City Manager and/or his/her designate and the manager of the activity or function the report pertains to. The

EMM management will respond to the findings/observations within a reasonable period as stated by the Chief Audit Executive and the Internal Audit will finalise the report and issue the final report as per the agreed distribution list. The response will include actions taken or those that will be taken if necessary, regarding specific report findings and recommendations.

- 9.2 Summaries of all audit reports will be forwarded quarterly to members of the Audit Committee including audit activities undertaken during the quarter detailing the auditors' performance against the coverage plan, to allow for effective monitoring and possible intervention.
- 9.3 The Chief Audit Executive will forward completed audit reports to the chairperson of the Audit Committee and City Manager and/or his/her designate.
- 9.4 The report will normally indicate.
- Introduction;
  - Audit scope;
  - Process followed;
  - Overall assessment of Auditable Activities;
  - Findings relating to prior period;
  - Significant findings;
  - Housekeeping findings;
  - Acknowledgement;
  - Audit conclusions for each of the objectives, including acknowledgement of good practice and remedial actions already in progress;
  - Audit observations with necessary proof of examples, including identification of the condition, criteria, root cause and effect;
  - Recommendations, including solutions as far as practically possible; and
  - Comments and agreement to the proposed course(s) of action and timeline(s) associated therewith.
- 9.5 The Internal Audit function shall also meet with the Audit Committee before the commencement of each annual audit cycle to agree on the annual internal audit coverage plan and the internal audit cycle and all matters pertaining thereto.
- 96 The Internal Audit function shall also meet with the City Manger and/or his/her designate to be informed of and schedule additional internal audit requirements of the MFMA and related Treasury Regulations as issued from time to time.
- 9.7 On an annual basis the Internal Audit function shall issue a report to the Chairperson of the Audit Committee concluding on the control environment within the EMM.
- 9.8 Report any irregularities identified during the conduction of internal audit reviews to the Municipal Public Accounts Committee.

## **10. QUALITY REVIEWS**

10.1 Internal quality reviews will be performed on internal audit work on an ongoing basis and should at a minimum appraise the following:

- Compliance with the Internal Audit Services Charter.
- Compliance with the Internal Audit Methodology.
- Compliance with the Standards for the Professional Practice of Internal Auditing.

10.2 An external quality review will be performed on the Internal Audit Function at least once every five years, as envisaged by the Standards for the Professional Practice of Internal Auditing.

10.3 Results of the external quality reviews will be communicated by the CAE to the Audit Committee and the Municipal Manager.

## **11. AUDIT COMMITTEE**

11.1 The audit committee is responsible to:

- Review the audit charter, audit plans, audit staff and the internal audit function organisational structure;
- Review and ensure that the internal audit function operates in an environment that is free of restrictions, limitations and total independence of the internal audit function;
- Regularly updated about audit reports and other activities of the internal audit function;
- Decide on the action to be taken on the outcome of or findings from their work.

## **12. RELATIONSHIP WITH THE EXTERNAL AUDITORS**

12.1 The Internal Audit function shall be responsible for coordinating the internal audit efforts with the external auditors (Auditor General or his appointee). This coordination shall be part of setting the scope of scheduled audits so that the work of all auditing groups provides complementary, comprehensive, and cost effective audits.

12.2 In particular, the Internal Audit function shall:

- Discuss the annual Internal Audit coverage plan with the EMM Chief Financial Officer, and the Auditor General to facilitate audit planning;
- Gain knowledge of the external audit program and methodology.

12.3 Ekurhuleni management shall keep the Internal Audit function informed on all external audits so that it can effectively coordinate its activities with the external auditors. Ekurhuleni's management shall provide the Internal Audit function with copies of all the external audits reports and the replies thereto.

### **13. CODE OF ETHICS**

13.1 The staff of the Internal Audit function 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 Ekurhuleni 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 Ekurhuleni or which would prejudice their ability to objectively carry out their duties.
- Declare details of any private or business interest that may be in conflict with interest of Ekurhuleni.
- Decline to accept fees or gifts from Ekurhuleni or its related party or from internal sources.
- Declare details 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 Ekurhuleni.
- 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.

### **14. SKILLS, QUALIFICATIONS AND EXPERIENCE**

14.1 Council must ensure that it recruits and retains internal audit staff with the appropriate skills, qualifications and experience to complete the tasks required of them. Such skills are closely aligned to the requirements of the position, the level of complexity, and also the municipality's ability to pay for the service.

14.2 All internal audit professionals should be expert in particular techniques of risk assessment and risk management, they should be able to understand and utilize analytical and strategic thinking and be competent in evaluation and assessment of a range of business activities and measures.

14.3 Internal auditing standards shall be consistent with the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

## **15. CONSULTATIONS PROCESS**

- 15.1 Prior to the commencement of the internal audits, the Internal Audit function shall arrange with the City Manager and/or his/her designate as well as with the Executive Director or Director of the area under review to be advised as to the purpose, scope and expected timing of work.
- 15.2 Prior to the commencement of internal audits pertaining to financial matters, the Internal Audit function shall arrange with the CFO and the Ekurhuleni Finance Directors to be advised as to the purpose, scope and expected timing of work.
- 15.3 During the conduct of the reviews: internal audit staff is to consult, orally and/or in writing the relevant officers to:
- Ensure information gathered is accurate and properly interpreted;
  - Allow management to put their case to ensure the formation of a balanced judgment;
  - Ensure recommendations are cost effective and practicable; and
  - Keep management informed on the progress of the audit.

## **16. AMENDMENT AND REVIEW OF THIS CHARTER**

- 16.1 The charter will be reviewed annually and amendments will be recommended by the Audit Committee and approved by Council.

## 17. APPROVAL

The Internal Audit Services Charter was approved for and on behalf of the Ekurhuleni Metropolitan Municipality:

\_\_\_\_\_  
Ekurhuleni Metropolitan Municipality  
Municipal Manager

\_\_\_\_\_  
Date:

\_\_\_\_\_  
Ekurhuleni Metropolitan Municipality Chief  
Financial Officer

\_\_\_\_\_  
Date:

\_\_\_\_\_  
Ekurhuleni Metropolitan Municipality Audit  
Committee Chairman

\_\_\_\_\_  
Date:

\_\_\_\_\_  
Ekurhuleni Metropolitan Municipality Chief  
Audit Executive

\_\_\_\_\_  
Date: