

**2023-2024 FINANCIAL YEAR  
INTERNAL AUDIT CHARTER  
FINAL**



**WINNIE MADIKIZELA-MANDELA  
LOCAL MUNICIPALITY**

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**6. ROLE OF INTERNAL AUDIT**

a) The main role of an Internal Audit unit in the Municipality is to support the Municipal Manager and the Council to meet their set objectives and to discharge their

**5. INTERNATIONAL STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING**

a) The internal audit activity will govern itself by adherence to the mandatory elements of The IIA's International Professional Practices Framework (IPPF) including its Standards, Core Principles for the Professional Practice of Internal Auditing, Definition of Internal Auditing, and Code of Ethics.

**4. MISSION AND PURPOSE OF INTERNAL AUDIT**

a) Internal audit's mission is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.

b) Internal audit's purpose is to provide independent, objective assurance and consulting services designed to add value and improve the organization's operations.

**3. DEFINITION OF INTERNAL AUDITING**

a) The IIA defines "internal audit" as an independent, objective assurance and consulting activity designed to add value and improve the organization's operations. It assists the organization to accomplish its objectives by implementing a systematic, disciplined approach to the evaluation and effectiveness of risk management, control and governance processes.

**2. PURPOSE**

a) The rationale of this charter is to define the role, nature, responsibility, status and authority of the Internal Audit function within Winnie Madikizela Mandela Local Municipality. It also outlines the scope of internal audit work and relevant services. 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.

**1. INTRODUCTION**

a) Winnie Madikizela Mandela Local Municipality ("Municipality") is required to have an internal audit function in terms of section 165 (1) of the Municipal Finance Management Act no 56 of 2003 ("MFMA"). This requirement is re-enforced by the recommendations of the King IV Report on Corporate Governance.

b) This Internal Audit Charter is crucial to strengthening the independence and objectivity of the internal audit function of the Municipality, and is a requirement set out by the Institute of Internal Auditors. This charter represents the general authorisation from management for internal audit to conduct a certain scope of work as per the Internal Audit Coverage Plan approved by the Accounting Officer and the Audit Committee.

c) For the purpose of this charter, the functions of the Manager: Internal Audit as prescribed by the standards are performed by the Head of Internal Audit.





responsibilities by providing an independent appraisal of the adequacy and

effectiveness of the controls set up by management to help run the municipality.  
b) The controls subject to evaluation should encompass the following:

- Compliance with laws, regulations, council directives and controls
- The information systems environment;
- The effectiveness of operations;
- The reliability and integrity of financial and operational information; and
- Safeguarding of assets.

**7. AUTHORITY AND ACCESS**

a) Manager: Internal Audit and Internal Audit staff are authorised to:

- Have unrestricted access to examine all information, both paper-based documents and electronic information, and to inspect all physical assets authority of to the Municipality's. It is incumbent on all municipal officials that they shall render every assistance to the Internal Auditors in carrying out their duties
- Have full and free access to the Audit Committee, Senior Management, Council, Management, Staff, External auditors and Risk Management Committee or Fraud Prevention Committee (if constituted).
- Allocate resources, set frequencies, select subjects, determine scope of work, and apply the techniques required to accomplish audit objectives;
- 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 fulfill their responsibilities to management and Council.
- Implement a control to ensure that each project team member shall declare interest before commencement of an audit project
- The Internal Audit coverage may extend to all areas of Council and include financial, accounting, administrative, computing and other operational activities if relevant.

b) Internal audit is not authorised to:

- Perform any operational duties for departments except with the prior approval of the Audit Committee. Such approval shall only be granted in exceptional circumstances due to the potential for conflict of interest and its impact on the independence of the internal audit unit
- Initiate or approve accounting transactions external to the Internal Audit unit
- Direct the activities of any employees not employed by the Internal Audit unit, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors

**8. RESPONSIBILITIES OF MANAGEMENT**

a) Management together with the Municipal Manager are responsible for:

- Ensuring that a risk assessment is conducted on a continuous basis to identify emerging risks of the Council.
- Developing the risk management strategy to direct internal audit effort and priorities,
- Recommending the audit projects or investigations that do not form part of the annual internal auditing coverage plan.

- Ensuring that the internal audit function has:
  - Support of senior management;
  - Direct access and freedom to report to the Municipal Manager and the Audit Committee;
  - Support in quality improvement program;
  - Free and unlimited access to the Municipality's accounting records, property and other relevant sources of information.
- Maintaining internal controls, including proper accounting records and other management information suitable for running the Municipality; and
- Review internal audit reports and the timely implementation of recommendations as considered appropriate, in the light of Council's resources.

**9. RESPONSIBILITIES OF INTERNAL AUDIT**

- a) Providing internal audit assurance through application of the Standards for the Professional Practice of Internal Auditing and the Code of Ethics of The Institute of Internal Auditors (IIA);
- b) Providing a written assessment regarding the effectiveness of the system of internal controls and risk management to enable the Council to report on the effectiveness of the system of internal controls in the annual report; in accordance with the recommendation of the Report on Governance for South Africa – 2009 King Committee on Governance (King IV);
- c) Develop an internal audit strategic plan and an annual internal audit coverage plan using appropriate risk-based methodology, including any risks or control issues identified by management, and submit that plan to the Audit Committee for review and approval;
- d) 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 complying;
- e) Maintain a professional audit staff with sufficient knowledge, skills, experience, and appropriate professional certifications to meet the requirements of this charter;
- f) Review the means of safeguarding assets and as appropriate verifying the existence of such assets;
- g) Following up on findings and recommendations of previous audits that have not received appropriate action;
- h) Provide ongoing workshops to the staff of various departments on internal controls, risk management and governance processes.
- i) The internal audit must make practical recommendations and thereby assist management to mitigate risk. The internal audit does not relieve management of their responsibilities for risk management and internal controls implementation.

**10. ACCOUNTABILITY**

- a) The internal audit unit, in the discharge of their duties, shall:
  - Provide an ongoing assessment on the adequacy and effectiveness of the Municipality's processes for controlling its activities and managing risks;
  - Report significant issues related to the process for controlling the activities of the municipality, including recommendations for improvements to those processes; and



a) Engagements shall be performed with proficiency and due professional care. Internal auditors must possess the knowledge, skills and other competencies needed to perform their individual responsibilities.

b) Internal audit unit collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities. Internal auditors are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud but shall have enough knowledge to identify the indicators of fraud.

**12. PROFICIENCY**

• Report quarterly on the status and results of the annual internal audit plan and the sufficiency of internal audit resources.

a) Internal audit unit must be independent and internal auditors must be objective in performing their work. The internal audit unit will remain free from interference by an element in the organization, including matters of audit selection, scope, procedures, frequency, timing or report content to permit maintenance of a necessary independent and objective mental attitude.

b) Internal audit unit 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 judgment.

c) To ensure its independence, the internal audit function will interact administratively with senior management (report administratively to the Municipal Manager) and report functionally to the Audit Committee. Internal audit will have the right to refer any matters, where its independence may be compromised, to the Audit Committee for their review and resolution thereof.

d) As described above, internal audit will not have authority over, or responsibility for, any operational activities other than the actual audit process performed.

e) The internal audit 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 the Municipality;
- will only undertake non-audit services as permitted by the Audit Committee. Non-audit services will be agreed with the management, separately budgeted for and approved by the Audit Committee; and
- 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.

**11. INDEPENDENCE AND OBJECTIVITY**

• Report quarterly on the status and results of the annual internal audit plan and the sufficiency of internal audit resources.



(c) A risk assessment is performed, which highlights the significant risks facing the Municipality. These risks are determined through a risk assessment process, whereby relevant Municipality officials identify and rank significant risks. Internal audit will agree on the role and scope of their involvement in this risk assessment process with management and the Audit Committee.

(a) Internal audit is an independent appraisal function established within the Municipality to examine and evaluate the organisation's processes as a service to the Municipality in the effective discharge of its responsibilities.  
 (b) The audit objective includes promoting effective risk management, governance processes and operational efficiency at reasonable cost in order to add value to the activities of all areas of the Municipalities. This is achieved through identifying opportunities during audits for improving management control, profitability and the reputation of the Municipality.

**18. INTERNAL AUDIT METHODOLOGY**

(a) The Winnie Madikizela Mandela Local Municipality's Internal Audit function is governed by the Municipal Finance Management Act No. 56 of 2003, the Standards for the Professional Practice of Internal Auditing (IIA Standards), the latest King Report on Corporate Governance and the National Treasury Regulations.

**17. LEGISLATION AND REGULATIONS GOVERNING INTERNAL AUDIT**

(a) Special investigation requested by Municipal Manager may be undertaken with the approval of the Municipal Manager and the Audit Committee.

**16. INVESTIGATION**

(a) Management is responsible for ensuring that internal audit has:  
 • Management support;  
 • Direct access and freedom to report to top management including Municipal Manager and the Audit Committee; and  
 • Adequate resource for carrying out its annual audit plan.  
 (b) Proposing areas of review for consideration by the Audit Committee.  
 (c) Providing management comments to internal audit reports within a period not exceeding 5 working days upon presentation of reports.

**15. RELATIONSHIP WITH MANAGEMENT**

(a) Internal auditors are expected to enhance their knowledge, skills, and other competencies through continuing professional development.

**14. CONTINUING PROFESSIONAL DEVELOPMENT (IIA STANDARD 1230)**

(a) Internal auditors shall apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

**13. DUE PROFESSIONAL CARE (IIA STANDARD 1220)**

(c) Internal auditors are not expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing but shall have knowledge of key information technology risks and controls to enable them perform their assigned work.





- (d) From the risk assessment, a three-year internal audit rolling plan is developed. From the three-year rolling plan which is derived from the risk assessment results, an annual internal audit plan is prepared. This includes the scope and timing of internal audit projects. In this way, internal audit provides feedback that significant risk areas are being adequately monitored. The internal audit coverage plan shall be approved by the Audit Committee.
  - (e) As part of its service, internal audit will recommend what action should be taken to correct deficiencies identified, obtain management's comment to take corrective action and follow up to ascertain whether effective action has been taken.
  - (f) Where necessary and upon agreement with the management of the Municipality and approval by the Audit Committee, internal audit will be involved in providing advisory and related services to the Municipality, the nature and scope of which will be agreed with the Municipality management, and will be intended to add value and improve the Municipality's governance, risk management, and control processes without the internal audit function assuming management responsibility.
- 19. DESCRIPTION OF ASSURANCE ACTIVITIES**
- (a) The scope of assurance as issued by the Institute of Internal Auditors encompasses the examination and evaluation of the adequacy and effectiveness of Winnie Madikizela Mandela Local Municipality system of internal control and the quality of the performance in carrying out assigned responsibilities.
  - (b) The assurance activity includes the following:
    - i. **Financial Auditing**
      - Auditing of financial transactions, including the evaluation of compliance with applicable laws, regulations and policies;
      - Reviewing the reliability and integrity of financial and operational information and the means used to identify, measure and report such information; and
      - Reviewing the compliance of the Municipality to accounting standards, (GRAP).
    - ii. **Performance Auditing**
      - Assessment and evaluation of the basis for the performance indicators for each municipal directorate;
      - Reviewing of the monitoring system to ensure that Winnie Madikizela Mandela Local Municipality is achieving the set performance targets; and
      - Reviewing the overall municipal performance management system.
    - iii. **Information Systems (IT) Auditing**
      - Review of the Information System 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 to ensure that the information system support the objectives of the council
      - Internal audit can also be expected (on an ad hoc basis) to review specific computer and applications controls, controls over changes in the computer system, backup and recovery procedures and the physical controls of the computer facilities.



- a) Internal audit consulting engagements focus on assisting management in problem solving activities, achieving the municipality's objectives and add value to line and senior management.
- b) Internal audit should therefore understand clearly the nature of the engagement and articulate a term of reference. Agreed upon procedures should be documented in the engagement letter and agreed upon with the client.
- c) The types of consulting work included the following:

**20. NATURE OF CONSULTING SERVICES**

- By its regular presence at the Municipality's operations, act as a deterrent to would-be fraudsters.
  - Assist management by evaluating the potential for the occurrence of fraud and how the organization manages fraud risk and by increasing their awareness of the threat by evaluating the adequacy and effectiveness of internal controls and, during consulting engagements, internal auditors will address risk consistent with the engagement's objectives and be alert to the existence of other significant risks and where appropriate, by obtaining agreement from management to take corrective action where deficiencies are found to exist.
  - Increase the probability of detecting incidences of fraud during audit projects.

- Specifically, internal audit will:
  - By its regular presence at the Municipality's operations, act as a deterrent to would-be fraudsters.
  - Assist management by evaluating the potential for the occurrence of fraud and how the organization manages fraud risk and by increasing their awareness of the threat by evaluating the adequacy and effectiveness of internal controls and, during consulting engagements, internal auditors will address risk consistent with the engagement's objectives and be alert to the existence of other significant risks and where appropriate, by obtaining agreement from management to take corrective action where deficiencies are found to exist.
  - Increase the probability of detecting incidences of fraud during audit projects.

**Fraud**

- Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the municipality but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud. Internal audit will play an important role in fraud prevention and detection within the Municipality.
- **Governance Auditing**
  - Ensures that the internal audit unit operates in terms of the policy, council directives, the IIA Standards and the provisions of the National Treasury Circular 65;
  - Report to the Audit Committee on the advancements made by the Municipality on ethical standards and on the compliance thereto;
  - Assist management and the Council in achieving the goals of the municipality by evaluating the approved processes through which:
    - Goals and values are established and communicated;
    - Monitoring of the accomplished goals; and
    - Accountability.

**Risk Management**

- Assisting management and the council in identifying and evaluating the municipality's risk management processes without taking ownership of the process.



- a) Internal audit will discuss its findings with appropriate management.
- b) Internal audit will then circulate, via reports, the results of internal audits to appropriate management, the Municipal Manager, the Audit Committee and the external auditors.
- c) The Internal Audit Unit must report quarterly to the Audit Committee.
- d) Internal audit will also report-back on progress of audit projects, difficulties encountered, issues needing management's urgent attention and project priorities at Audit Committee meetings. Manager: Internal has the authority to attend and report at Audit Committee meetings.
- e) Escalate issues from Internal Audit to Audit Committee, Audit Committee to the Council and Council to the Management.
- f) Final reports shall be communicated to the following parties:
  - **The Municipal Manager**
  - **Senior Management**
  - **The Auditor General of South Africa and**
  - **The Audit Committee**
- g) The internal audit unit will produce clear, constructive and concise written reports based on sufficient, relevant and reliable evidence.
- h) The internal audit unit may prepare "flash reports" to alert management to significant control lapses, or where there are reasonable grounds for suspicion of fraud or theft.
- i) Internal audit will provide management with written audit findings during an internal audit assignment. The purpose of the findings is to gather further information, gain confirmation of factual accuracy and to obtain line management's comments for inclusion in the draft report.
- j) It is the responsibility of management to ensure that proper consideration is given to draft internal audit findings and to provide comment thereon within no later than 5 working days. Findings may be amended on receipt of line management's comments. If line management disagrees on the factual content of any findings, the disagreement will be included in the draft report and Manager: Internal Audit may provide further auditor's comment thereon in the final report.
- k) It is the responsibility of management to ensure that proper consideration is given to internal audit reports. Where recommendations are not implemented, management is deemed to have understood and assumed the risks of not taking appropriate action.

**21. REPORTING**

- **Formal consulting engagements** are planned and subject to written agreement;
- **Informal consulting engagements** refers to routine activities such as participation on standing committees, limited-life audit projects, ad-hoc meetings and routine information exchange;
- **Special consulting engagements** consists of participation on dedicated teams such as system conversion team; and
- **Emergency consulting engagements** caters for participation on a team established for recovery or maintenance of operations after a disaster or other extraordinary event, or a team assembled to supply temporary help to meet a special request or unusual deadline.



- a) The Audit Committee should be part of the final decision on appointments and dismissal of the Manager: Internal Audit.
- b) Manager: Internal Audit is liable to disciplinary action but only with the concurrence of the Audit Committee.

**26. APPOINTMENT AND DISMISSAL OF THE INTERNAL AUDIT MANAGER**

- Internal and external audit activities are properly co-ordinated and planned.
  - Audit work is not duplicated.
  - External audit can rely on the work of internal audit.
  - Issues of mutual concern are resolved.
  - External audit receives copies of internal audit reports and are timeously informed of significant issues emanating from internal audits.
- a) Internal audit will have unlimited access and communicate regularly with the external auditors to ensure that:

**25. LIAISON WITH EXTERNAL AUDIT**

- Infrastructure including accommodation, personnel related expenditure;
  - Capital expenditure;
  - Training and development;
  - IA's membership fees, conference fees; and
  - Quality assurance programs.
- c) The Internal Audit Unit budget should at least cover the following items:

- a) It is the responsibility of the Municipal Manager and the Audit Committee to ensure that the Internal Audit Unit is adequately resourced for effective functioning.
- b) Manager: Internal Audit should control and have responsibility over the Internal Audit Unit's budget.
- c) The Internal Audit Unit budget should at least cover the following items:

**24. BUDGET OF INTERNAL AUDIT UNIT**

- a) The internal auditor must engage the auditee with substantiated evidence of the audit finding. The auditee will then be afforded 2 days to respond the facts of the audit finding.
- b) The internal auditor will assess the response and review the new evidence. An auditor's conclusion will then be submitted to the auditee. Should the auditee dispute persist the final arbitrator will be the Audit Committee. This dispute will be submitted to the Audit Committee in writing by the auditee, stating merits and the nature of the dispute.

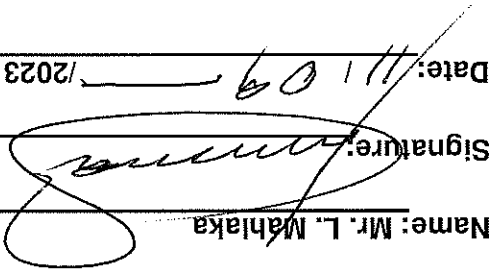
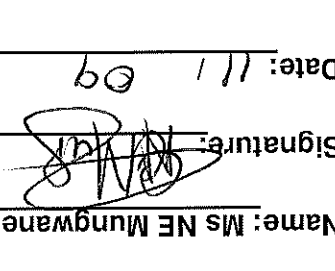
**FINDINGS**

**23. DISPUTES BY MANAGEMENT ON THE FACTUALITY OF INTERNAL AUDIT**

- a) Failure by management to adhere to internal audit timetables, and/or a scope limitation by management, will be reported, in writing to the Municipal Manager and to the Audit Committee.
- b) The question of whether an action from management in fact constitutes a scope limitation is at the judgment of the Internal Auditor.

**22. LIMITATION OF SCOPE**



Date: 11/09/2023 Signature:  Name: Mr. L. Mahlaka <b>Municipal Manager:</b>	Date: 11/09/2023 Signature:  Name: Ms NE Mungwane CA(SA) <b>Chairperson of the Audit Committee:</b>
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**29. APPROVAL OF INTERNAL AUDIT CHARTER:**

- The Audit Committee, on an annual basis, needs to assess the effectiveness of internal audit against agreed performance criteria, including:
  - compliance by internal audit – be it in-house, outsourced or co-sourced – with its agreed charter or plan/scope and level of performance;
  - the overall comprehensiveness of the internal audit plan and its relationship with the strategic objectives of the business;
  - delivery of timely internal audit services in accordance with the plan; and
  - competency of internal audit staff and adequacy of resources to achieve the scope as outlined in the plan. This may require outsourcing certain specialist skills not available in the internal audit function.

**28. EVALUATING INTERNAL AUDIT EFFECTIVENESS**

- a) In line with the requirements of the IIA, the unit has a quality assurance improvement programme to enable an evaluation of its conformance with the IIA standards and code of ethics.
- b) Internal assessment shall include:
  - Ongoing monitoring of the performance of the Internal Audit Unit
  - Periodic self-assessments or assessment by other persons within the organisation with enough knowledge of internal audit practices
  - This internal assurance is instituted through the co source function with the service provider's methodology.
- c) In terms of the IIA standards, external assessments must be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organisation.
- d) An external quality assurance review will be instituted in this current financial year by external sources (i.e. SALGA, National Treasury).

**27. QUALITY ASSURANCE**

