



# MUNISIPALITEIT DAWID KRUIPER MUNICIPALITY

## POLICY 003/2023 RAADSBELEID

SUBJECT/ONDERWERP: INTERNAL AUDIT CHARTER

REFERENCE/VERWYSING: 5.14.1.2.1

RESOLUTION NR/BESLUIT NO: 19.4/05/2023 (CM)

DATE/DATUM: 30 MAY 2023

### 1. DEFINITIONS AS APPLICABLE IN THE CHARTER

Council: Shall be the Municipal Council of Dawid Kruiper Municipality

CAE: Chief Audit Executive is hereby referred to as the Senior Manager Internal Audit.

Accounting officer: Shall be the Municipal Manager of the Dawid Kruiper Municipality

Chairperson: Shall be the person appointed by the Council of Dawid Kruiper Municipality to preside over meetings as outlined in the MFMA, No 56 of 2003

The Committee herein shall be referred to as the Audit Committee

Senior Management – Municipal Manager and Directors

King report on Good Governance

### 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 organization. This charter is intended to:

2.2.1 Provide a written record of formally approved policies of the internal audit function,

2.2.2 Provide a basis for the evaluation of the performance of the Internal Audit Department by the Audit Committee of Dawid Kruiper Municipality (DKM),

### 3. LEGISLATION AND REGULATIONS GOVERNING INTERNAL AUDIT

a) The Dawid Kruiper Municipality (DKM) Internal Audit Department is governed by the Municipal Finance Management Act, No. 56 of 2003 (“MFMA”), the Municipal Systems Act, No. 32 of 2000 (“MSA”), the Standards for the Professional Practice of Internal Auditing (“IIA Standards”), and the King Report (IV) on Corporate Governance.

b) Internal Audit is an appraisal function established within the organization in compliance with the requirements of the MFMA and MSA and independently evaluates the activities of the municipality as a service to the Council management.

- c) DKM supports Internal Audit as an independent appraisal function to evaluate the activities as a service to Council and management. The objectives of Internal Audit are to assist Council and Senior Management in the effective discharge of their responsibilities by providing an independent evaluation on the achievement of objectives, compliance with legislation as well as adequacy and effectiveness of internal controls.

### **3.1 Mission Statement**

- a) The mission of the Internal Audit function is to provide independent, objective Assurance and Consulting Services designed to add value and improve the operations of Dawid Kruiper Municipality. Internal Audit assist the Dawid Kruiper Municipality accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
- b) The Internal Audit function of DKM has been established in terms of Section 165 of the Municipal Finance Management Act, 56 of 2003.

### **3.2 Related Institute of Internal Auditors (IIA) Standard**

- a) 1000 Purpose, Authority and Responsibility  
The Purpose, Authority and Responsibility of the Internal Audit should be formally defined in a Charter, consistent with the IIA Standards, and approved by the Council.

## **4. PURPOSE OF THE CHARTER**

The purpose of this charter is to set out the nature, role, responsibility, status and authority of Internal Auditing within the Dawid Kruiper Municipality, and to outline the scope of the Internal Audit's work. This document should be seen as the policy governing the Internal Audit Department.

## **5. OBJECTIVES OF INTERNAL AUDIT**

The Internal Audit should provide independent, objective assurance and consulting services that is intended to add value and improve the municipality's operations. It helps the municipality achieve its objectives by bringing efficient and well-organized methods to evaluate and improve the effectiveness of risk management and control.

## **6. STATUS OF THE CAE AND INTERNAL AUDIT**

6.1 To enhance independence of Internal Audit, will the CAE will report functionally to the Audit Committee and administratively to the Municipal Manager and will remain independent of all line and functional management. Independence of Internal Audit will be further ensured by:

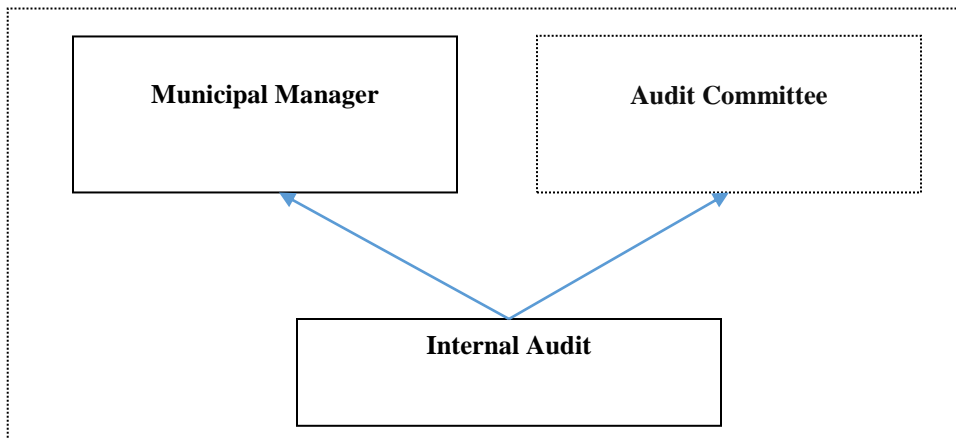
- Having unrestricted access to the Municipal Manager and to the Chairperson of the Audit Committee.
- Having unrestricted access at all times to any records, properties, resources and personnel relevant to the subject under review.

6.2 Internal Audit will not assume any line management functions.

6.3 Internal Auditors shall have no direct operational responsibility or authority over any of the activities they review. Accordingly, Internal Audit shall not develop nor install systems or procedures, prepare records, or engage in any other activity which would normally be audited.

6.4 The appointment or removal of the Chief Audit Executive shall only be done in concurrence with the Audit Committee as prescribed by the IIA standards.

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



**7. RESPONSIBILITIES**

The Senior Manager Internal Audit (CAE) and the Internal Audit staff have amongst others the following responsibilities:

- 7.1 Develop a strategic and flexible annual audit plan using appropriate risk-based methodology, including any risks or control concerns identified by management and submit that plan to the Audit Committee for review and approval.
- 7.2 Implement the annual audit plan, as approved, including, and as appropriate, any special tasks or projects requested by management and the Audit Committee.
- 7.3 Establish policies and procedures to guide Internal Audit and direct its administrative functions.
- 7.4 Maintain a professional audit staff with sufficient knowledge, skills, and experience and professional certifications to meet the requirements of this charter.
- 7.5 Establish a quality assurance program by which the Senior Manager Internal Audit (CAE) assures the operation of internal auditing activities.
- 7.6 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; and
- 7.7 Issue at least quarterly reports to the Audit Committee and management summarising results of audit activities.

**8. ROLE OF INTERNAL AUDIT**

The role of Internal Audit in the Municipality is to assist the Municipal Manager and Council to meet its objectives and to discharge its responsibilities by providing independent assessments of the competence and effectiveness of controls set up in managing the municipality. Controls to evaluation should include the following:

- Compliance with laws, regulations, council instructions and controls.
- The information systems environment;
- The reliability and integrity of financial and operational information;
- The efficiency of procedures; and
- The protection and safeguarding of assets;

## **9. STANDARDS AND CODE OF ETHICS**

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:

- a) Exercise honesty, objectivity, and diligence in the performance of their duties and responsibilities.
- b) Exhibit loyalty in all matters pertaining to the affairs of DKM Municipality and not knowingly be a party to any illegal or improper activity.
- c) Refrain from entering into activity which may be in conflict with the interest of DKM or which would prejudice their ability to objectively carry out their duties.
- d) Declare details of any private or business interest that may be in conflict with interest of DKM.
- e) Decline to accept fees or gifts from DKM or related parties or its related parties or from internal sources.
- f) Declare details of any rewards, gift, favour, hospitality or other benefit promised, offered or granted in a register.
- g) Be prudent in the use of information for any personal gain or in a manner that knowingly would be detrimental to the welfare of DKM.
- h) 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.
- i) Continue to strive for improvement in the proficiency and effectiveness of their service.
- j) Use care in returning documentation required in the performance of their duties.

## **10. LIMITATION OF SCOPE**

The question of whether an action from management, does in fact constitute a scope limitation, is at the judgment of the CAE. 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 CAE should evaluate from time to time whether the circumstances surrounding the scope limitation are still valid and whether the scope limitation needs to be reported to the Municipal Manager and the audit committee for a renewed consideration.

## **11. RESPONSIBILITIES OF THE AUDIT COMMITTEE AND MUNICIPAL MANAGER**

- a) The Audit Committee is responsible for approval of the scope of the work by Internal Audit, and for recommending the action to be taken on the outcome or findings from their work.
- b) The Audit Committee, in conjunction with the Municipal Manager is responsible for:
  - Ensuring that a risk assessment is conducted regularly to identify potential risks of the Council. A risk management strategy is then drawn up and used by management to direct internal audit efforts and priorities;
  - Propose areas of investigation by Internal Audit;
  - Ensure Internal Audit, which is led by the Chief Audit Executive (CAE) has–
    - The support of senior management;
    - Direct access and freedom to report to the Municipal Manager and the Audit Committee;

- Free access to the books of accounts, records, cash, stores, property and other sources of relevant information in the municipality.
- c) Review internal audit reports and implement recommendations as considered appropriate, in light of Council's mandate.
- d) Review and approve the Three Year Strategic Risk-Based Internal Audit Plan and the Operational Internal Audit Plan.
- e) Approve the Audit Committee Charter and Internal Audit Charter.

## 12. RESPONSIBILITIES OF MANAGEMENT

Although the role of the Internal Audit Unit is to review internal controls, systems, procedures, risks etc., ultimately management retains full responsibility for ensuring that the Municipality maintains an appropriate framework of controls to reduce risks to an acceptable level.

Management also has the responsibility and accountability for addressing weaknesses and inefficiencies that have been identified in both External and Internal Audit Reports, and for taking the necessary corrective action. Management is further responsible for:

- a) Support the Internal Audit Department.
- b) Maintaining internal control, including proper accounting records and other management information system.
- c) Responding to Internal Audit queries submitted to line management.
- d) Reviewing Internal Audit reports and implementing recommendations as considered appropriate.
- e) Informing the Internal Auditor Department of any significant internal control problems, thefts, fraud, unauthorised transactions, accounting breakdowns, major bad debts, etc. Significant matters will be reported to the Audit Committee.

## 13. PLANNING AND REPORTING

### 13.1 Planning

- Internal Audit shall submit an Operational Internal Audit Plan for approval to the Audit Committee. It will set out the recommended scope of work. The plan shall be based on the results of the risk assessment process and allocate Internal Audit resources to the areas where the greatest risks are present. In addition, it should identify the costs and resources necessary to fulfill the plan. The plan shall also indicate the timeframes and frequency of all audit activities of directorates.
- The CAE will issue a Request of Information as part of the planning process to management where after the requested information must be submitted to Internal Audit within 3 working days.
- The Informal as well as Formal Audit Report issued by the CAE must be commended on by management within 5 working days.

### 13.2 Reporting

Internal Audit will carry out the work as agreed in its Operational Internal Audit Plan, report the outcome and findings immediately to management, and make recommendations on any actions to be taken.

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

- Status of the Internal Audit Activities;
- Significant findings and management action plans;
- Follow-up on previous reported internal audit findings;
- Any instances of fraud or non-compliance with legislation identified during the performance of the Internal Audit Activities;
- Performance of Internal Audit against the annual Internal Audit plan to allow effective monitoring and possible intervention.
- 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.

**14. REVIEW AND APPROVAL**

The charter will be reviewed at least annually by the Audit Committee and approved by the Council.