

OVERBERG DISTRICT MUNICIPALITY INTERNAL AUDIT CHARTER

Updated: October 2021



Chairperson:
Date:
Municipal Manager:
Reference No:

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I. References

The following documents were considered in the development of the charter:

- Municipal Finance Management Act, Act No. 56 of 2003
- Treasury Regulations
- King IV on corporate governance
- IIA International Professional Practices Framework
- National Treasury Internal Audit Framework

II. Abbreviations

Abbreviation	Explanation
APAC	Audit and Performance Audit Committee
CAE	Chief Audit Executive
MPAC	Municipal Public Accounts Committee
ODM	Overberg District Municipality
MM	Municipal Manager
IA	Internal Audit/or
IAA	Internal Audit Activity
IIA	Institute of Internal Auditors
MFMA	Municipal Finance Management Act



Introduction

- 1.1. The purpose, authority and responsibility of the IAA must, in consultation with the APAC, be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework as prescribed by the Institute of Internal Auditors.
- 1.2. The IAA will govern itself by adherence to the Institute of Internal Auditors' International Professional Practices Framework's mandatory guidance, which includes the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the Definition of Internal Auditing. The mandatory guidance constitutes the fundamental requirements for the professional practice of internal auditing and the principles against which to evaluate the effectiveness of the IAA's performance.

1. Purpose and Mission

- 1.1 The purpose of the ODM's internal audit activity is to provide independent, objective assurance and consulting services designed to add value and improve the ODM's operations.
- 1.2 The mission of internal audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice and insight. The IAA assists the ODM to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.

2. Core Principles

- 2.1 The core principles for the professional practice of internal auditing, taken as a whole, articulate internal audit effectiveness. For an internal audit function to be considered effective, the following principles should be present and operating effectively:
 - 2.1.1 Demonstrates integrity
 - 2.1.2 Demonstrates competence and due professional care
 - 2.1.3 Is objective and free from undue influence (independence)
 - 2.1.4 Aligns with the strategies, objectives, and risk of the organization
 - 2.1.5 Is appropriately positioned and adequately resourced
 - 2.1.6 Demonstrates quality and continuous improvement
 - 2.1.7 Communicates effectively
 - 2.1.8 Provide risk-based assurance
 - 2.1.9 Is insightful, proactive and future focused



2.1.10 Promotes organizational improvement.

3. Authority

3.1 The CAE will report functionally to the APAC and administratively to the MM. To establish, maintain and assure that ODM's internal audit activity has sufficient authority to fulfill its duties, the APAC will:

3.1.1 Approve the IAA's charter

3.1.2 Approve the risk-based internal audit plan

3.1.3 Receive communications from the CAE on the IAA's performance relative to its plan and other matters

3.1.4 Make appropriate inquiries of management and the CAE to determine whether there are scope or resource limitations

3.2 In consideration of government remuneration policies, practices and procedures, the APAC should recommend the positioning and the remuneration levels of the CAE. The annual performance appraisal which impacts on the remuneration, level progression and bonuses of the CAE, should be performed jointly by the MM, as the administrative reporting line, and the APAC chairperson in respect of the functional reporting line.

3.3 The CAE will have unrestricted access to, and communicate and interact directly with, the APAC, including private meetings without management present.

3.4 The IAA is authorized to:

3.4.1 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.

3.4.2 Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives and issue reports.

3.4.3 Obtain assistance from the necessary personnel of ODM, as well as other specialized services from within or outside the ODM, in order to complete the engagement.

4. Independence and Objectivity

4.1 The CAE will ensure that the IAA remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing and report content. If the



CAE determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

- 4.2 Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.
- 4.3 Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:
 - 4.3.1 Assessing specific operations for which they had responsibility within the previous year.
 - 4.3.2 Performing any operational duties for the ODM (unless properly channeled and approved).
 - 4.3.3 Initiating or approving transactions external to the IAA.
 - 4.3.4 Directing the activities of any ODM employee not employed in the IAA, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.
- 4.4 Where the CAE has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.
- 4.5 Internal auditors will:
 - 4.5.1 Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
 - 4.5.2 Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
 - 4.5.3 Make balanced assessments of all available and relevant facts and circumstances.
 - 4.5.4 Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.
- 4.6 The CAE will confirm to the APAC, at least annually, the organisational independence of the IAA.
- 4.7 The CAE will disclose to the APAC any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.



5. Scope of Internal Audit Activities

- 5.1 The scope of internal activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the AC and management on the adequacy and effectiveness of risk management, control and governance processes of the ODM Internal audit assessments, including whether:
- 5.1.1 Risks relating to the achievement of the ODM's strategic objectives are appropriately identified and managed.
 - 5.1.2 The actions of the ODM's employees and contractors are in compliance with the ODM's policies, procedures and applicable laws, regulations and governance standards.
 - 5.1.3 The results of operations or programs are consistent with established goals and objectives.
 - 5.1.4 Operations or programs are being carried out effectively and efficiently.
 - 5.1.5 Established processes and systems enable compliance with the policies, procedures, laws and regulations that could significantly impact the ODM
 - 5.1.6 Information and the means used to identify, measure, analyze, classify and report such information, are reliable and have integrity.
 - 5.1.7 Resources and assets are acquired economically, utilized efficiently and adequately safeguarded.
- 5.2 The CAE will report annually to senior management and the APAC regarding:
- 5.2.1 The IAA's purpose, authority and responsibility.
 - 5.2.2 The IAA's plan and performance relative to the plan.
 - 5.2.3 The IAA's conformance with the IIA's Code of Ethics and Standards as well as action plans to address any significant conformance issues.
 - 5.2.4 Significant risk exposures and controls issues, including fraud risks, governance issues and other matters requiring attention of, or requested by the AC.
 - 5.2.5 Results of audit engagements or other activities.
 - 5.2.6 Resource requirements.
 - 5.2.7 Any response to risk by management that may be unacceptable to the ODM
- 5.3 The CAE also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. The IAA may perform advisory and related service activities, the nature and scope of which will be agreed with management, provided the IAA does not assume management responsibility.



5.4 Opportunities for improving the efficiency of governance, risk management and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

6. Role and Responsibility of the IAA

6.1 The CAE has the responsibility to:

- 6.1.1 Submit, at least annually, to senior management, for review, and the APAC a risk-based internal audit plan for review and approval.
- 6.1.2 Communicate to senior management and the APAC the impact of resource limitations on the internal audit plan.
- 6.1.3 Review and adjust the internal audit plan, as necessary, in response to changes in the ODM's risks, operations, programs, systems and controls.
- 6.1.4 Communicate to senior management and the APAC any significant interim changes to the internal audit plan.
- 6.1.5 Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, as well as the communication of engagement results with applicable conclusions and recommendations to appropriate parties.
- 6.1.6 Follow up on engagement findings and corrective actions, and report periodically to senior management and the APAC any corrective actions not effectively implemented.
- 6.1.7 Ensure the principles of integrity, objectivity, confidentiality and competency are applied and upheld.
- 6.1.8 Ensure the IAA collectively possesses or obtains the knowledge, skills and other competencies needed to meet the requirements of the internal audit charter.
- 6.1.9 Ensure trends and emerging issues that could impact the ODM are considered and communicated to senior management and the APAC as appropriate.
- 6.1.10 Ensure emerging trends and successful practices in internal auditing are considered.
- 6.1.11 Establish and ensure adherence to policies and procedures designed to guide the IAA.
- 6.1.12 Ensure adherence to the ODM's relevant policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to senior management and the AC.

6.1.13 Report to the MPAC on Internal Audit Reports issued and recommendations issued.

7. Responsibilities of Management

7.1 Management is responsible for:

- 7.1.1 Ensuring that a risk assessment is conducted on a regular basis (as determined by applicable policy) to identify emerging risks of the ODM.



- 7.1.2 Maintaining internal control, including proper accounting records and other management information suitable for the operations of the ODM.
- 7.1.3 Providing the IAA with full support and co-operation at all levels of operations.
- 7.1.4 Ensuring the IAA has an adequate budget and staffing to perform its responsibilities.
- 7.1.5 Ensuring that the IAA has access to records and other sources of information.
- 7.1.6 Reviewing internal audit reports, as well as implementing the agreed actions necessary, taking into account the ODM's resources.

8. Quality Assurance and Improvement Plan

- 8.1 The IAA will maintain a quality assurance and improvement program that covers key aspects of the IAA. The program will include an evaluation of the IAA's conformance with the Standards and an evaluation of whether internal auditors apply The IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the IAA and identify opportunities for improvement.
- 8.2 The CAE will communicate to senior management and the AC on the IAA's quality assurance and improvement program, including results of internal assessments (both ongoing and periodic) at least annually and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside the ODM.

9. Approval

- 9.1 This charter may be amended as required, and will be reviewed by the relevant stakeholders at least annually.



OVERBERG DISTRICT MUNICIPALITY INTERNAL AUDIT CHARTER

Adopted/Not adopted

Chief Audit Executive

Date

Adopted/Not adopted

Chairperson APAC

Date

