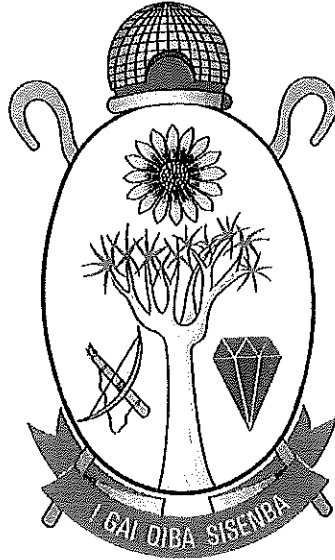


NAMA KHOI MUNICIPALITY



INTERNAL AUDIT CHARTER FOR 2017/2018

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PURPOSE

The purpose of this charter is to set out the nature, role, responsibilities and authority of the Internal Audit Function within Nama Khoi Municipality (“NKM”/”Municipality”). The charter outlines the scope of the internal audit work and has the approval of the Audit committee and the Municipal Manager. This charter will be reviewed annually.

1. MISSION

The mission of NKM’s internal audit unit is to provide independent, objective assurance and consulting services 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.

2. VISION

Internal Audit will strive to be an efficient and effective Internal audit service to the NKM’s management and staff, by adhering to the Standards for the Professional Practice of Internal Auditing (SPPIA) of the Institute of Internal Auditors (IIA) and the NKM’s guidelines and policies.

3. THE ROLE OF INTERNAL AUDIT

The NKM Internal Audit provides independent, objective assurance and consulting services designed to add value and improve the department’s operations. NKM Internal Audit is responsible for assessing whether the municipality’s risk management, control and governance processes, as designed and represented by management, are adequate and functioning to ensure that:

- Risks are appropriately identified and managed;
- Interaction with various governance groups occurs as needed;
- Significant financial, managerial and operating information is accurate, reliable and timely;

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- Employees comply with policies, standards, procedures and applicable laws and regulations;
- The department's resources are acquired economically, used efficiently and adequately developed;
- Programs, plans and objectives are achieved;
- Quality and continuous improvement are fostered in the department's control process;
- Significant legislative or regulatory issues impacting the organization are recognized and addressed appropriately.
- Corporate Governance processes are adequately managed.

4. INDEPENDENCE

To provide for the independence of the internal auditing unit, its personnel report to the Head: Internal Audit, who reports functionally to the Audit Committee and administratively to the Municipal Manager.

Administratively to the Municipal Manager involves:

- Approval of leave and other administrative matters for the Head: Internal Audit.
- Attending to all operational issues reported, along with the line functionaries.
- Attending to human resources and financial budgets of the Internal Audit Unit in accordance with the recommendations of the Audit committee.
- Attending to all related administrative issues affecting the Internal Audit Unit.

Functionally to the Audit Committee involves:

- Approve all decisions regarding the appointment or removal of the Head: Internal Audit in consultation with the Municipal Manager and relevant Nama Khoi municipality's Human Resources policies and procedures (in the case of a section 56 appointment, in consultation with the Council and Municipal Manager).
- Approve the overall charter of the Internal Audit Unit.
- Approve the Internal Audit plans.
- Receive communication from the Head: Internal Audit on the results of the Internal Audit activities or other matters that he/she determines necessary.
- Make appropriate enquiries of management and the Head: Internal Audit to determine whether there is scope or budgetary limitations that impede the ability of the Internal Audit Unit to execute its responsibilities.

In all matters relating to the audit work, Internal Auditing and the individual auditors should be free from personal and external impairments to independence, be organisationally independent, and maintain an independent attitude and appearance.

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Independence, in fact as well as in appearance, is necessary. The credibility of the auditor might be impaired by the existence of circumstances, which may be reasonably perceived to influence independence.

Such independence will be established by adhering to the following criteria:

- The Internal Auditing function will be organisationally located outside the staff or line management functions.
- Auditors should be sufficiently removed from political pressures to ensure they can conduct their audit objectively and can report their findings, opinions, and conclusions objectively without fear of repercussion.
- Internal auditors should avoid personal transactions or situations in which their personal interest will conflict, or appear to conflict with the interest of NKM. All situations involving a conflict of interest should be disclosed in an annual conflict of interest statement.
- Internal auditors shall complete and sign annually a conflict of interest statement, which attests to their independence or describes areas where their independence may be impaired. A copy of such statement will be kept on the individual personnel files of the employees.

Internal Auditors shall complete and sign an independence statement annually for performance of audit work. A copy of the completed independence statements of all audit team members will be kept on the individual personnel files.

5. AUTHORITY

The Head: Internal audit and staff of the internal audit unit are authorized to:

- Have unrestricted access to all functions, records, property, and personnel.
- Have full and free access to the Audit Committee.
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.

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- Obtain the necessary assistance of personnel in units of the organisation where they perform audits, as well as other specialised services from within or outside the organisation.

The Head: Internal Audit and staff of the internal audit unit are not authorised to:

- Perform any operational duties for the organisation or its affiliates.
- Initiate or approve accounting transactions external to the internal auditing unit.
- Direct the activities of any organisation employee not employed by the internal auditing unit, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

6. RESPONSIBILITIES OF INTERNAL AUDIT

The Head: Internal Audit and staff of the internal audit unit have responsibility to:

- The Head: Internal Audit shall attend all Audit committee meetings.
- Develop a flexible annual audit plan using an 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 as well as periodic updates.
- Implement the annual audit plan, as approved by the Audit Committee, including any special tasks or projects requested by management and the audit committee.
- Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter.
- Issue periodic reports to the audit committee and management summarising results of audit activities.
- Keep the audit committee informed of emerging trends and successful practices in internal auditing.
- Assist in the investigation of significant suspected fraudulent activities within the organisation and notify management and the audit committee of the results.

- Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the organisation at a reasonable overall cost.
- Where council funding do not allow for the appointment of personnel to conduct specialized audits, for example forensic and IT audits, specialized audits will be outsourced. Outsourcing should comply with the Supply Chain Management processes of council. Where audits are outsourced, oversight and responsibility cannot be outsourced. The Head Internal audit should manage the outsourced function.

7. RESPONSIBILITIES OF MANAGEMENT

The Audit Committee is responsible for determining the scope of Internal Audit work and for deciding the action to be taken on the outcome of or findings from their work.

Management of the municipality is responsible for the following:

- Establishing and maintaining an adequate system of internal control;
- The prevention and detection of fraud and irregularities, including the compilation of a Fraud Prevention Plan;
- Reviewing internal audit reports and implementation of recommendations as considered appropriate. Internal audit may recommend standards of control for systems or may review procedures before they are implemented without impairing objectivity. However, designing and installing operating systems and drafting of procedures for systems are not audit functions as they impair audit objectivity;
- Proposing the areas of audit and investigation by internal audit;
- Ensuring that the Internal Audit Function has full support of line- and support management and the Council; and
- Ensuring that internal audit has direct and unrestricted access to report to senior management, the Council and the Audit Committee.
- To decide on actions to be taken as a result of Internal Audit's findings.

8. REPORTING

Internal audit will report the findings and outcomes to management and make recommendations on actions to be taken.

Internal Audit reports will normally be in writing. These details, unless otherwise requested by management, will be copied to the relevant line management, who will already have been made fully aware of the details and whose co-operation in preparing the report will have been sought.

Timeframe

After completion of each audit, Internal Audit shall issue a draft audit report on issues/findings to the Head of the Department concerned within 7 calendar days after completion of the audit. Management's written comments and action plans should be received within 7 calendar days from issuing the draft audit report, which will be discussed at a meeting arranged for this purpose (Entry meeting). A written final audit report will be issued to the Municipal Manager within 7 calendar days of receiving management's written comments.

After the end of each audit a meeting should be held with the Municipal Manager and senior managers where feedback on audit reports and findings can be discussed (Exit meeting).

Management's comments will be incorporated in the final audit report and a copy of the report should be available for inspection by the external auditors.

Internal Audit will report on a quarterly basis to the Audit Committee on the:

- Status of the Internal Audit activities
- Significant findings and management action plans
- Follow-up on previously reported audit findings
- Internal Audit budgets and variances
- Internal Audit resources requirements
- Detailed final internal audit reports

9. SCOPE OF WORK

The scope of internal auditing encompasses the examination and evaluation of the adequacy and effectiveness of the organisation's system of internal control and the quality of performance in carrying out assigned responsibilities. The scope of internal auditing includes:

- 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 operations and reports, and determining whether the organisation is in compliance.
- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Reviewing established systems of internal control to ascertain whether they are functioning as designed.
- Reviewing and appraising the economy and efficiency with which resources are employed.
- Reviewing specific programs or initiatives to ascertain whether results are consistent with established objectives and goals and whether the programs or initiatives are being carried out as planned.
- Reviewing the performance indicators and the objectives of the respective departments.

10. CODE OF ETHICS

Internal Audit staff have a responsibility to conduct themselves so that their integrity, objectivity, confidentiality, and competency are not open to question. Standards of professional behavior are based upon the Code of Ethics issued by the Institute of Internal Auditors. Internal auditors will:

- Exercise honesty, objectivity, and diligence in the performance of their duties and responsibilities.
- Exhibit loyalty in all matters pertaining to the affairs of the municipality and not knowingly be a party to any illegal or improper activity.

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- Refrain from entering into any activity which may be in conflict with the interest of the municipality or which would prejudice their ability to objectively carry out their duties.
- Decline to accept anything that may impair or be presumed to impair their professional judgment.
- Be prudent in the use of information acquired in the course of their duties and not use confidential information for any personal gain or in a manner that knowingly would be detrimental to the welfare of the municipality.
- Use reasonable care to obtain sufficient, factual evidence to support the conclusions drawn and, in reporting, reveal such material facts known to them which, if not revealed, could distort the report of the results of operations under review or conceal an unlawful practice.
- Engage only in those projects which they have the necessary knowledge, skill, and experience.
- Continue to strive for improvement in the proficiency and effectiveness of their service.

11. COMPLIANCE WITH PROFESSIONAL STANDARDS

Internal audit seeks to provide an independent, professional service. This shall be achieved through compliance with:

- The Statement of Responsibilities of Internal Auditing;
- The Code of Ethics for Internal Auditing; and
- The Standards for the Professional Practice of Internal Auditing.

These are issued by the Institute of Internal Auditors.

The Standards for Internal Auditing govern the work of the auditing profession and form a basis for measuring the performance or quality of the Internal Audit Function.

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12. LIAISON WITH EXTERNAL AUDITORS


Internal audit will meet periodically with the external auditors to ensure:

- Internal and external audit activities are properly co-ordinated and planned;
- Audit work is not duplicated and full coverage is maintained;
- External audit can rely on the work carried out by internal audit;
- Access to each other's audit programmes, working papers and other documentation; and
- Exchange of audit reports and management letters;
- Sharing information of perceived risk areas.

13. APPROVAL


This revised charter was approved on this 01st day of June 2017:

Drafted by:


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Senior Internal Auditor
Ms AM Jansen

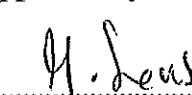
01-06-2017
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Accepted by:


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Municipal Manager
Ms SA Titus

01-06-2017
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DATE

Approved by:


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Chairperson Audit Committee
Mr G Seas

01/6/2017
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DATE