

SOL PLAATJE MUNICIPALITY



POLICY ON INTERNAL AUDIT

As Per Resolution CR 500 dd Approved 17-11-2005

POLICY REGARDING THE ROLE AND RESPONSIBILITY OF THE INTERNAL
AUDIT DEPARTMENT (THE CHARTER)

1. LEGISLATIVE FRAMEWORK AND INTRODUCTION

Per Section 165 of the Municipal Finance Management Act, No. 56 of 2003, each municipality must have an internal audit unit. The internal audit unit is responsible for the following:

- Preparing a risk based audit plan for each financial year
- Preparing an internal audit program for each financial year
- Advising the Municipal Manager and reporting to the audit committee on the following:
 - The implementation of the audit plan; as well as any matters on:
 - Internal audit;
 - Internal controls;
 - Accounting procedures and practices;
 - Risk and risk management;
 - Performance management;
 - Loss control;
 - Compliance with the Municipal Finance Management Act No 56 of 2003; and
 - Any other applicable legislation.
- Perform any other such duties as may be assigned to the unit by the Municipal Manager.

The municipality may determine that it is cost effective to outsource the auditing function. The municipality may also require assistance to develop its internal capacity.

2. INTERNAL AUDIT OBJECTIVE

The primary objective of internal audit is to provide an independent, objective assurance and consulting in terms of an integrated audit approach and to provide advice and information to management and the Audit Committee in a cost-effective manner. Internal audit will help the organization accomplish its objectives by

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providing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance process. It is an extension of Management's and the Audit Committee's control process, in ensuring the implementation of policy.

Internal audits could be conducted so as to promote and independently examine and evaluate the adequacy and effectiveness of the internal control system/s purposed to ensure:

- That the actions of councilors, officers and employees are in compliance with the organisation's policies, standards, plans and procedures and all relevant laws and regulations;
- the safeguarding and control of the assets and resources of the municipality;
- the economical use of resources of the municipality and the effective performance of the functions of the organization;
- that data and information published either internally or externally are accurate, reliable and timely;
- that the organisation's plans, programs, goals and objectives are achieved; and
- that quality business processes and continuous improvement are fostered in the organization's control process.

3. ROLE OF INTERNAL AUDIT

The role of internal audit is summarised as follows:

- Internal audit should monitor the risk management process of the Sol Plaatje Municipality and make such recommendation as considered necessary to Management and the Audit Committee.
- Internal Audit should adopt a risk based, integrated audit approach, which should support the risk management approach of Sol Plaatje Municipality. Internal Audit should create the necessary culture and image in order to attract suitable qualified personnel. Staff should be further developed and trained and properly remunerated in order that an internal audit service of the highest level can be achieved.

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- The staff of Internal Audit should have a professional image and the Department should have a thorough knowledge of the business and should have the status to recruit top people in its own right.
- Internal Audit should have unrestricted access to the audit committee, Municipal Manager and any information, which it deems necessary to carry out its duties properly.
- There should be no restriction on the scope of the audit work carried out by Internal Audit unless this has been agreed by the Audit Committee.
- Internal audit should co-operate closely with the External Auditors of Sol Plaatje Municipality but should guard against becoming an extension of the External Audit function.

4. MANDATE AND REPORTING LINES

Internal Audit obtains its mandates from the Municipal Manager and is responsible for the total internal audit function of the Sol Plaatje Municipality. This mandate is accepted by the Audit Committee.

The Department reports to the Municipal Manager. However, should it be considered necessary that the head of Internal Audit has direct access to the Chairperson of the Audit Committee.

The Head of Internal Audit function shall annually submit a summary of the intended work schedule of the function to the Audit Committee. The Municipal Manager, in consultation with the Audit Committee, shall annually approve such work schedule.

In order to enhance the independence of internal Audit, the Audit Committee must concur in the appointment or removal of the head of Internal Audit department.

5. THE AUDIT APPROACH

Internal Auditors shall at all times conduct the audit work or any other task assigned to them in accordance with the Internal Audit Standards set by The Institute of Internal Auditors and shall further comply with the professional

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standards of conduct as set out in the Code of Ethics by the Institute of Internal Auditors, as applicable from time to time.

Internal Audit follows an integrated audit approach which places emphasis on the identification of risks, the prioritization thereof and the testing of controls over key risk areas. The integrated audit approach combines the following different types of audits in a logical way and these are therefore not seen as separate functions:

- The traditional audit for adequacy and effectiveness on the systems of internal controls
- The operational audit on the efficiency and effectiveness of activities.
- The management audit on the effectiveness of management processes.

Although each internal audit undertaken will differ from other audits due to the specialised nature of the activities being audited, the following general phases should normally be observed:

- Communication with senior Management in the section being audited.
- A preliminary investigation phase which focuses on the objectives of the audit and the preparation of formal documents as well as discussions with the External Auditors.
- The identification and prioritizing of activities for further investigation.
- The execution of the various audit tests.
- The evaluation and documentation of the audit findings.
- The preparation of a report to be distributed to the Senior Manager responsible for the section being audited.
- A follow- up audit to ensure that corrective actions have been taken, where necessary.

In areas where, specialist, audit skills are lacking within the Section, the services of the External Auditors or outside Consultant may be employed within the bounds of the Delegation of Authorities.

Internal Audit adopts a risk based framework and risk assessment methodology to be used in planning audit coverage. This is clearly linked to a long term (3-5 years) and annual audit coverage plan. The focus and audit approach should be driven by exposure to potential loss or impact not by business risk remains after taking into

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account controls (which limit the likelihood of the risk materializing), as this can only be determined after an evaluation of the controlling processes has been performed.

Broadly the Internal Audit function is underpinned by the following:

- The accounting officer must ensure that a risk assessment is conducted regularly to identify emerging risks of the institution. A risk management strategy, which must include a fraud prevention plan, must be used to direct internal audit effort and priority, and to determine the skills required of managers and staff to improve controls and to manage these risks. The strategy must be clearly communicated to all officials to ensure that the risk management strategy is incorporated into the language and culture of the institution.
- An internal audit function may be partly or wholly contracted to an external organization with specialist audit expertise, provided that its selection is in accordance with the relevant government's competitive tendering procedures.
- The purpose, authority and responsibility of the internal audit function must, in consultation with the audit committee, be formally defined in an audit charter and be consistent with the Institute of Internal Auditors ("IIA") definition of internal auditing.
- Internal audit must be conducted in accordance with the standards set by the Institute of Internal Auditors.
- An internal audit function must prepare, in consultation with and for approval by the audit committee:
 - * A rolling three-year strategic internal audit plan based on its assessment of key areas of risk for the institution, having regard to its current operations, those proposed in its strategic plan and its risk management strategy;
 - * An annual internal audit plan for the first year of the rolling three year strategic internal audit plan;

- * Plans indicating the proposed scope of each audit in the annual internal audit plan; and
 - * A quarterly report to the audit committee detailing its performance against the annual internal audit plan, to allow effective monitoring and possible intervention.
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- An internal audit function must assess the operational procedure and monitoring mechanisms over all transfers made and received, including transfers in terms of the annual Division of Revenue Act.
 - An internal audit function must report directly to the accounting officer and shall report at all audit committee meetings. The function must be independent of activities that are audited, with no limitation on its access to information.
 - The internal audit function must co-ordinate with other internal and external providers of assurance to ensure proper coverage and to minimise duplication of effort.
 - The internal audit function must assist the accounting officer in maintaining efficient and effective controls by evaluating those controls to determine their effectiveness and efficiency, and by developing recommendations for enhancement or improvement. The controls subject to evaluation should encompass the following:
 - * The information systems environment;
 - * The reliability and integrity of financial and operational information;
 - * The effectiveness of operations;
 - * Safeguarding of assets; and
 - * Compliance with laws, regulations and controls.

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- The internal audit function must assist the accounting officer in achieving the objectives of the institution by evaluating and developing recommendations for the enhancement or improvement of the processes through which:
 - * Objectives and values are established and communicated;
 - * The accomplishment of objectives is monitored;
 - * Accountability is ensured; and
 - * Corporate values are preserved.

6. QUALITY CONTROL.

Quality control with Internal Audit should be included at least the following:

- All reports should be reviewed by the Audit Manager prior to the release thereof.
- Audit files should be reviewed prior to finalisation of the audit report.
- The quality of the Internal Audit personnel should be monitored on a regular basis.
- A structured training policy should be followed in order to develop the technical, conceptual and management abilities of the personnel of the Section.
- The audit approach being used should be regularly evaluated and benchmarked against best practice in order to ensure that it complies with the highest standards.
- As far as possible, all staff in the Division Internal Audit should be members of the Institute of Internal Auditors.
- An independent and appropriately qualified party should conduct a quality assurance review of the activities of the Internal Audit Division at least every three years. Their detailed findings must be submitted to the Municipal Manager as well as to the Audit Committee.

7. DISTRIBUTION OF INTERNAL AUDIT REPORTS.

7.1 Timing

A draft Audit report must be given to the section being audited within 2 days after the completion of the audit. This level of operational management will have 2 days to prepare their comments on the findings and recommendations contained in the report, which will be discussed at a meeting arranged for this purpose. Thereafter the report will be issued as a final report to Senior Manager responsible for the sections being audited. This level of Senior Management will have 3 days to submit their comments on the findings and recommendations contained in the report.

Where, a critical aspect is identified during the audit, this matter should be discussed immediately with the relevant member of operational management and follow-up in writing. If considered necessary, the matter should be brought to the attention of the Municipal Manager or the Chairman of the Audit Committee.

7.2 Distribution of reports

Detailed final reports should be distributed to the members of the Operational Management who are responsible for the section being audited. Copied of all detailed reports should also be sent to the External Auditors.

Regular meetings should be held with the Municipal Manager and Senior Manager where feedback on the audit reports and findings can be discussed.

7.3 Responsibility for corrective actions and handling of differences of opinion with management

Should a significant disagreement arise between Internal Audit and the relevant Operations Management regarding a specific finding or recommendation, the Municipal Manager should convene a meeting of the interested parties in order to resolve the matter.

The responsibility for corrective actions lies with the relevant operational management.

8. REQUEST FOR SPECIAL PROJECTS.

All requests for the assistance of Internal Audit, i.e the execution of special projects must be submitted in writing to the Head of Internal Audit. Where a dispute arises as to whether or not Internal Audit should delay other planned work in order to carry out special projects, the counsel of the Municipal Manager should be sought.

9. CO-OPERATION WITH EXTERNAL AUDITORS

Internal Auditors and External Auditors are encouraged to have regular contact in order to maximize the benefit that the Municipality receives from the total audit processes. During these meetings emphasis must be placed on audit planning, deficiencies or duplication in the audit work and critical risk areas.