

CAPRICORN DISTRICT MUNICIPALITY



EXTRACT FROM THE MINUTES OF COUNCIL MEETING HELD ON 30 July
2019

ITEM

OC 01/2019-2020/7.2.1 Audit Committee and Internal Audit Charters
2019/2020

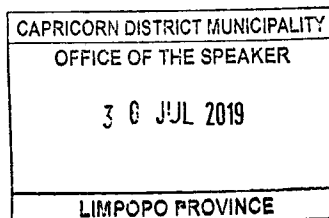
RESOLUTION

Resolved, That the Audit Committee and Internal Audit Charters 2019/2020 be approved.

CERTIFIED AS A TRUE EXTRACT
FROM THE MINUTES.

MM MOHALE
COUNCIL SPEAKER

30-07-2019
DATE





CAPRICORN DISTRICT MUNICIPALITY

SUBMISSION

Date: 25 July 2019

Memo Ref: 2/13/1

TO : COUNCIL

DATE : 30 JULY 2019

FROM : MAYORAL COMMITTEE

SUBJECT: AUDIT COMMITTEE AND INTERNAL AUDIT CHARTERS 2019/20

1. THE PURPOSE

The purpose of this submission is to request the Council approve the Audit Committee and Internal Audit Charters for 2019/20 financial year.

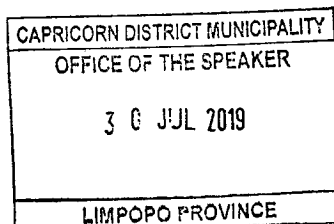
2. BACKGROUND

Section 166 Of the Local Government Municipal Finance Management Act 56 of 2003 states "that each municipality must have Audit Committee".

Section 2.3 of the Internal Audit Framework published by National Treasury states that "the purpose, roles, responsibilities and authority should be clearly documented in the charter. In relation to Municipalities the Accounting Officer in consultation with Council should approve the Audit Committee Charter".

The Charter serves as terms of reference for the Audit Committee, which clearly outlines their purpose, roles, responsibilities and authority as required by the Local Government Municipal Finance Management Act 56 of 2003.

Council in its seating of the 28th October 2016 resolved as per resolution OC02/2016-17/7.1.3 to appoint Audit Committee members in line with section 166 of the Local Government Municipal Finance Management Act 56 of 2003 to serve for a period of three (3) years.



It is against this background that we submit both the Audit Committee and Internal Audit Charter for the Audit Committee to review and recommend to the Municipal Council for approval.

3. CONSULTATIONS

References were made to the Internal Audit Framework issued by National Treasury. Further, both charters were discussed and reviewed during the Audit Committee hold on the 23 July 2019.

4. PERSONNEL IMPLICATION

None.

5. FINANCIAL IMPLICATION

A budget of R860 000 has been put aside to support the activities of the Audit committee for the current financial year 2019/20.

6. PROPOSED CHANGES

Mission and vision of internal Audit now included in the charter

7. LEGAL IMPLICATION

This submission is in line with **section 166(2)(a) of the Local Government Municipal Finance Management Act of 2003**, which states that "an Audit Committee is an independent advisory body which must advise the municipal Council and Political Office Bearers, Accounting Officer and Management staff of the municipality, on matters relating to internal financial controls, internal audit, risk management, accounting policies and performance management".

8. RECOMMENDATIONS

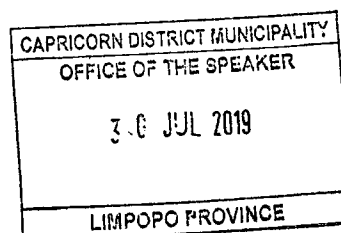
That Council approves both the Internal Audit and Audit Committee Charters for 2019/20.



 CLLR M.J. MPE
 EXECUTIVE MAYOR

26/07/2019

 DATE



CAPRICORN DISTRICT MUNICIPALITY



AUDIT COMMITTEE CHARTER 2019/20

CAPRICORN DISTRICT MUNICIPALITY OFFICE OF THE SPEAKER
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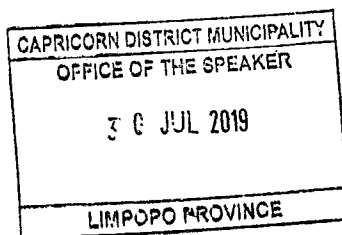
1. Introduction

The Audit Committee provides advice to Management and remains responsible to the Municipal council. The role of the Audit Committee is to consider the internal audit plans and activities of the Municipality and management's plans and processes with regard to risk management, control and good governance. The Committee takes a special interest in all matters that affect how a Municipality is audited and will therefore also take note of the external audit plans and activities. It provides one of the channels for communication between customers, management, Internal Auditors and the Auditor-General. Control by the Audit Committee of the Internal Audit Function positively influences the organisational status of the Internal Auditing Component and fosters an independent climate for their operation.

2. Purpose

Capricorn District Municipality has established an independent advisory committee known as the Audit Committee, in terms of the Municipal Finance Management Act no 56 of 2003 section 166 to advise the municipal council, the political office-bearers, the accounting officer and the management staff of the municipality on matters set here under on its terms of reference.

These terms of reference will guide the committee in discharging its duties and ensuring management exhibits and fosters a culture and environment that promotes good governance, appropriate risk management, reliable financial reporting, performance management and adequate, effective, and efficient internal control systems.



3. Authority

In terms of section 166 of the Municipal Finance Management Act, the Audit Committee shall:

- a) advise the Municipal Council, the political office bearers, the accounting officer and the management of the municipality, on matters relating to:
- i. internal financial control and internal audit
 - ii. risk management
 - iii. accounting policies
 - iv. the adequacy, reliability and accuracy of the financial reporting and information
 - v. performance management
 - vi. effective governance
 - vii. Compliance with the MFMA and any other applicable legislation.
 - viii. performance evaluation
 - ix. Any other issues referred to it by the municipality or municipal entity.
- b) Review the annual financial statements to provide the municipal council and the management with an authoritative and credible view of the financial position of the municipality, its overall level of compliance with MFMA or any other applicable legislation.
- c) Respond to council on any issues raised by the Auditor General in the audit report.
- d) Carry out such investigations into the financial affairs of the municipality as requested by the municipal council.
- e) Perform such other functions as may be prescribe

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In performing its function, the Audit Committee:

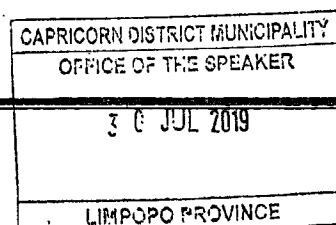
- a) shall have access to the financial records and other relevant information of the municipality
- b) shall liaise with the internal audit unit of the municipality and any person designated by the Auditor General to audit the financial statements of the municipality.
- c) the authority to seek any information it requires from employees and external parties or stakeholders of the municipality
- d) request any relevant person to attend any of its meetings, and if necessary, to provide information requested by the committee and;
- e) Initiate special investigations per MFMA section 166, in consultation with the MM.
- f) Obtain outside legal or other independent professional advice and to secure the attendance of outside professionals if deemed necessary in consultation with the Accounting Officer.
- g) Engage freely with Council, Executive Mayor and Accounting Officer against any matter requiring attention.

4. Responsibilities

4.1 Internal Audit:

The Audit Committee should ensure that the Internal Audit Function performs their responsibilities effectively and efficiently by:

- (I) Reviewing and approval of the internal audit charter
- (II) Review and make recommendations on the three (3) year strategic and annual audit plans, audit scope and audit approach of internal audit, satisfying itself that the plans makes provision for effectively addressing the critical risk areas



- (III) Review the effectiveness of internal audit function including, compliance with the IIA's International Standards for the Professional Practice of Internal Auditing
- (IV) Ensure that there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement, or dismissal of the Head of Internal Audit
- (V) Reviewing of the organizational structure, to ensure that its independence is not impaired and is correctly placed within the organization
- (VI) Review the internal audit activities, competence and qualifications and ensure that the unit is adequately resourced and properly staffed.
- (VII) Review and report on management's response to reported weaknesses in control, efficiencies in systems and recommendations for improvement, by internal and external auditors
- (VIII) Review of the results of quality assurance reviews
- (IX) Ensure that the internal audit work is coordinated with external audit to ensure no duplication of work
- (X) Provide support to internal audit

4.2 The role of Internal Audit in supporting Audit Committee

- The internal audit will provide secretariat support to the Audit Committee.
- Present to the committee any report which will assist the committee to discharge their responsibilities as set out in terms of the Section 166 of the MFMA,
- Coordination of Audit committee reporting to Municipal Council as set out in section 5.9 below.
- Internal Audit shall report to the Audit Committee on internal controls, risk management and governance processes in terms of section 165(2) (a) of the MFMA.

- In performing its functions, the internal audit will assist the committee to gain access to the financial records and other relevant information of the municipality.

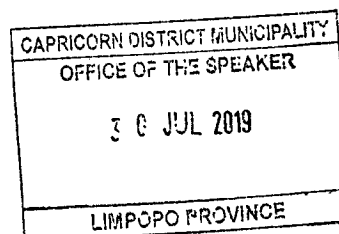
4.3 Financial management

- To review and assess the adequacy of line function management reporting to senior management in terms of the quantity, quality and timing of information necessary to understand and report internally and externally on the Council's risks, operations and financial condition.
- Review significant accounting and reporting issues and understand their impact on financial statements. This includes
 - a) Complex or unusual transactions and highly judgmental areas
 - b) Major issues regarding accounting principles and financial statements presentation, including any significant changes in the municipal operations and application of accounting principles
- Review and analyses prepared by management and/or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements.
- To review the Council's accounting policies and practices in the light of applicable statutory requirements and generally accepted accounting principles and assess the nature and impact of any such changes in accounting policies.

4.4 Internal Controls and Risk Management

The Audit Committee should understand the Council's major risk areas including the financial, legal, information technology and fiscal risks and the internal control environment, It should monitor the control process and the adequacy of the Council's system of internal control by reviewing Internal and External Audit reports and —

- Be constantly aware of the current areas of greater financial risk and ensure management is effectively managing the risks;
- Ensure that effective systems of accounting and internal control are established and maintained to manage financial risk;
- Satisfy itself as regards the integrity and prudence of management controls systems, including the review of policies and/or practices;
- Ensure that management is aware of any matters that might have a significant impact on the financial condition or affairs of the Council;
- Monitoring the accomplishment of established objectives through mission statement, business plan and the transformation process.
- Review policies on sensitive issues or practices.



4.5 Compliance with laws, regulations and ethics

The Audit Committee should ensure that the management of the Council has the necessary mechanism in place to ensure that there is compliance with pertinent laws and regulations, is conducting its affairs ethically, and is maintaining effective controls against conflicts of interest and fraud. The specific steps involved in carrying out this responsibility include:

- reviewing policy document which should incorporate
 - ✓ Compliance with laws, regulations, ethics, policies and rules regarding conflict of interest.
- reviewing the effectiveness of the system for monitoring compliance with the above laws and regulations and the results of management's investigations and follow-up of any instances of noncompliance.
- take note of significant cases of employee conflicts of interest, misconduct, or fraud and the resolution of the cases.
- reviewing the Internal Auditor's written report concerning the scope of reviews of compliance, any significant findings, and the resolution and follow-up on findings and recommendations.
- to monitor developments and changes in the law relating to the responsibilities and liabilities of management and to monitor and review the extent to which management is meeting its obligations.

- to monitor developments and changes in the various rules, regulations and laws which relate, generally to the Council's operations and to monitor and review the extent to which the municipality is complying with such laws.

Review the processes of communicating the code of conduct to municipal personnel, and for monitoring compliance therewith

Obtain regular updates from management and municipal legal counsel regarding compliance matters

4.6 Responsibilities related to the External Audit Function performed by the Auditor-General

The Audit Committee should —

- Review the external auditors' proposed audit scope and approach, including coordination of audit effort with internal audit
- ensure that there are no restrictions or limitations placed on the auditors
- review audit results, quality and contents of financial information and action plans of management;
- consider significant disagreements between External Auditors and management;
- consider material unsolved accounting and auditing problems;
- ensure direct access by the External Auditors either to the Audit Committee and the Chairperson of the Audit Committee or Municipal Manager.

4.7 Performance management

The audit committee should;

- a) review bi-annually reports on the audit of performance measurement of the municipality submitted to it by internal audit and performance management unit.
- b) review annually the municipality's performance management system focusing on economy, efficiency, effectiveness and impact in so far as the key performance indicators and performance targets set by the municipality are concerned and make recommendation in this regard to council.
- c) at least twice a year submit a report to municipal council
- d) evaluate the mid-year and annual performance of the municipal manager and managers directly accountable to the municipal manager i.e the chairperson of the audit committee should be a member of the evaluating team.

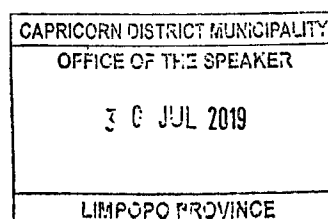
5. STRUCTURE OF THE AUDIT COMMITTEE

5.1 Composition of the Committee

- a) The Audit Committee shall consist of at least 3 (three) members with appropriate experience, of whom the majority may not be in the employment of Council.
- b) Must include persons with expertise in performance management, project and contract management and finance
- c) One of the members must be a financial expert.
- d) The Chairperson must be designated by the municipal Council and may not be a councilor or an employee of the municipality.
- e) Each member shall be both independent and financially literate.

5.2 Membership

- a) The Municipal Council shall appoint members of an Audit Committee.
- b) The Audit Committee shall comprise of at least three members with appropriate experience, of which all are not in the employments of the Council.
- c) No councilor may be a member of the committee.
- d) Each member shall be capable of making a valuable contribution to the committee
- e) All members shall be independent of management and Council.
- f) The chairperson of the committee shall be appointed by Municipal Council in line with the committee term of office.
- g) Members shall be appointed for a three **(3)** year term of office and renewable based on their performance.
- h) Members of the committee will not be contracted continuously for a period exceeding **(6)** six years.
- i) Membership shall not be granted to a person who is serving in more than three local government audit committee simultaneously.



5.3 Meetings

A minimum of four meetings shall be held during a financial year according to the approved institutional calendar (at least one meeting per quarter).

Special meetings of the Audit Committee may be convened as required. Audit Committee, Internal Audit, Office of the Auditor General and Accounting Officer may request a meeting if they consider it necessary.

All members are expected to attend each meeting. The committee will invite members of management, Auditor General or others to attend meetings to provide pertinent information, as and when necessary.

5.4 Quorum

The quorum for meetings will be 50% plus one of members of the Committee. The majority of those present shall consist of members of the Audit Committee and not persons holding management positions within the Council.

In the event of voting being required, the chairperson shall have a casting vote.

6 Secretariat functions

Internal Audit unit shall be responsible for making available the services of a secretary for drawing up the agendas and keeping the minutes of meetings.

7 Notice of Meetings

Notice shall be given in writing to all members of the Audit Committee and other interested parties, of each meeting to be held, at least within 07 working days prior to the date on which such meeting is to be held with exceptional on special meeting.

8 Agenda for Meetings

The agenda of the meeting shall be prepared and distributed at least within seven **(7) days** prior to the meeting date. Any person attending the meeting may add items to the agenda two **(2) days** before the agenda is finalized. Such items should be provided to the secretariat of the Audit Committee.

9 Minutes of Meetings

The proceedings of all meetings will be documented in minutes. The secretariat shall prepare minutes and circulate to members within **(7) seven working days** from the date of the meeting and keep records of of all meetings.

10 Reporting Procedure

(a) The Audit Committee shall report to the Municipal Council at least once every six months or as and when possible major shortcomings are observed. The report shall include:

- Progress on Audit committee activities
- Issues that arise in respect to the quality or integrity of the municipal's financial statements, compliance with legal or regulatory requirements etc,

- Recommendations made in the Audit Committee meetings.
- Possible shortcomings observed by the committee.

(b) Consider and advise the Accounting Officer and Council on differences of opinion between Management and Auditors.

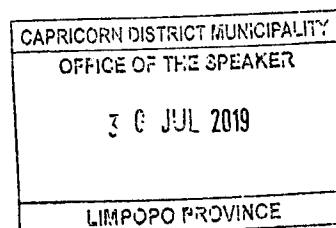
(c) Prepare and submit an annual report dealing with the activities of the Audit Committee, its composition, responsibilities and how they were discharged during the year.

(d) Consider and advise the Council on the quality, value and effectiveness of financial information presented by management.

(e) Review the external audit results and the quality and content of financial information presented prior to the issuing of the annual financial statements and submit a report to council in this regard for consideration at the meeting where the financial statements are to be approved.

11. Remuneration

Having regard to the functions performed by the members of the committee, members shall be paid such remuneration/ sitting allowance in respect of their appointment as shall be approved by the Municipal Council.



12. **Audit committee performance evaluation**

The committee will be evaluated on its performance in discharging its duties, in line with the Treasury Regulations and Guidelines. The evaluation will be conducted annually.

13. **Relationship with other related Committees**

The Audit Committee may, in terms of the National Treasury MFMA circular 32, provide assistance to the Municipal Public Accounts Committee (MPAC) in the review and development of an oversight report on the Annual Report of the Municipality.

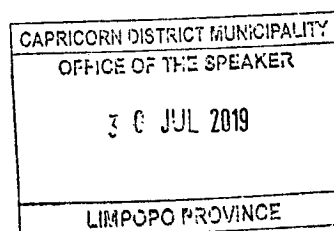
Consider and adopt reports from the Risk Management, Performance Audit Committee and IT Governance Committee and recommend such reports to Council.

Prepared by;

Mr. Gafane Tebogo
CHIEF AUDIT EXECUTIVE

Reviewed by;

Ms. Thuli Mazibuko
MUNICIPAL MANAGER



Recommended by;

Chairperson: Mr. T.A Ramawa
On behalf of Audit Committee

Approved by;

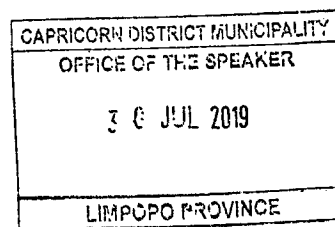
Madam Speaker: Cllr MM Mohale
On behalf of Municipal Council

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**CAPRICORN DISTRICT MUNICIPALITY
INTERNAL AUDIT CHARTER
2019/20**

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PREAMBLE

The Capricorn District Municipality fully supports the broader strategy of government to improve risk management, control and governance processes. The Charter is also in line with the key transformation priorities of Batho Pele, which are, among other things;

- ◆ Economic, efficient and effective use of resources;
- ◆ maintenance of a high standard of professional service ethos and
- ◆ transparency and accountability.

The Government, as the curator for public funds, pledged to take responsibility for these funds by passing legislation to ensure economic, efficient and effective utilisation of public resources. The Municipal Finance Management Act, Act 56 of 2003 is aimed at:

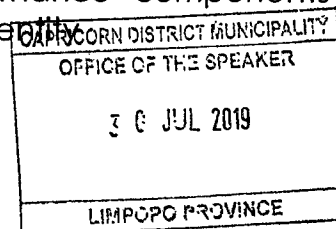
- Modernising the system of financial management;
- Enabling local authorities' managers to manage, but at the same be more accountable;
- Ensuring the timely provision of information;
- Eliminating waste and corruption in the use of public assets

Section 165 of the MFMA (Act 56 of 2003) provides for the maintenance of:

- an effective, efficient and transparent system of financial and risk management and internal control;
- a system of internal audit under the control and direction of the Audit Committee.

Section 166 of the Act provides for the establishment of the Audit Committee to direct the activities of the Internal Audit Function. The Charter is aimed at promoting risk management, control and governance processes.

Circular 65: A functional internal audit unit, systems of internal control and effective operation of an audit committee are all crucial components for sound corporate governance in municipalities. The MFMA requires that these financial governance components exist within all municipalities and every municipal entity.



VISION

To be the valued center of excellence in providing audit services and be the outstanding ambassadors of the profession.

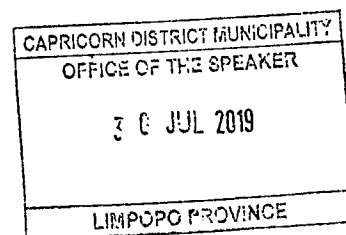
MISSION

Through continuously improving and enhancing the stability, integrity and good governance within the organization in order to strengthen accountability through proactive oversight and upholding the internal audit profession.

MANDATE

This charter derives its mandate from the following legislative prescripts:

- Municipal Finance Management Act, (Act 56 of 2003)
- Treasury Regulations
- King III Report on Corporate Governance
- Standards for the Professional Practice of Internal Auditing



SECTION A: INTERNAL AUDIT CHARTER

1. BACKGROUND TO THE AUDIT CHARTER

1.1 Role of the Accounting Officer and Executive Management

The Accounting Officer exercises overall authority over the affairs of the Capricorn District Municipality. The Accounting Officer is assisted by all senior members of the management with the administration of the Municipality. This group of persons is known as the Executive Management committee.

Management in the Municipality is responsible for the sustainability and accountability of the municipal actions, conduct and performance. The primary responsibility of management is:

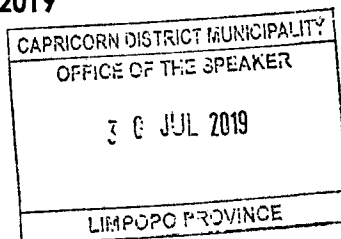
- To establish goals and objectives and develop as well as implement policies and programmes.
- The identification of risk exposures and implementation of effective strategies to mitigate them.
- The economic, effective and efficient utilisation of the Municipal resources.
- Ensuring compliance with legislation, regulations, ethical and business norms.
- Ensuring relevant, reliable and credible financial and operational information.
- Safeguarding of the Municipal assets.

The Audit Committee supports the Accounting Officer in the execution of his/her duties but is not responsible for the execution of any of the management's duties.

1.2 Objectives of the Charter

The objectives of the Internal Audit Charter are the following:

- To minimise the management risk that deficiencies could occur in the risk management process of the Municipality as a whole.



- To manage the audit risk of the Municipality to the advantage of Management.
- To set out broad audit objectives with regard to the duties and functioning of the Internal Audit Component.
- To set out respective functioning of the Internal Audit Component with regard to the management of the audit risk and how their activities should be co-ordinated with the activities of the Office of the Auditor-General.

2. **OVERALL AUDIT CHARTER**

The principle of objectivity and independence of the audit process is supported at all levels in the municipality and is reflected in the structuring and reporting lines of the Internal Audit Component as well as the establishment of the Audit Committee.

Executive Management supports the principle of "value-add-audit" auditing and the financial audit should also consider the economy, efficiency and effectiveness issues.

Executive Management is ultimately responsible for the internal controls within the Municipality but the day-to-day responsibility for setting up and maintaining effective systems of internal controls rests with the Accounting Officer.

3. **SCOPE OF THE AUDIT CHARTER**

3.1 **Contents of the Internal Audit Charter**

The Audit Charter covers the role, responsibilities and authority of the Internal Audit Component.

3.2 What the Charter does not cover

It is not the objective of the Internal Audit Charter to set standards, procedures or methods for the execution of audits. The responsibility for this rests with the Head of the Internal Audit Component with regard to internal audit strategies and procedures and with the responsible audit partners in the case of external audit strategies and procedures.

4. ACCOUNTING OFFICER'S RESPONSIBILITY FOR THE INTERNAL AUDIT CHARTER

The Accounting Officer and the Internal Audit Component should, prior to consideration by the Audit Committee, agree to future minor changes to the charter. In the case of major changes to the Audit Charter, approval of the Audit Committee should be obtained.

STATEMENT OF PURPOSE, AUTHORITY AND RESPONSIBILITY – INTERNAL AUDIT CHARTER

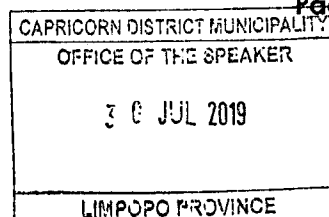
1. PURPOSE

The purpose of Internal Audit is to maintain an independent objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Internal Audit will therefore provide management and the Audit Committee with the analysis, appraisals, recommendations and information concerning the activities reviewed.

The objectives of Internal Audit are:

To identify and evaluate significant exposures to risk and contribute to the improvement of risk management, control and governance systems. This should include:

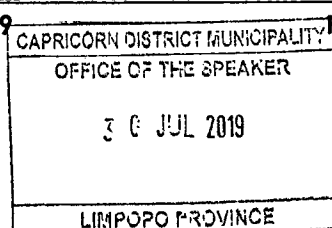
- Review the established systems to ensure compliance with those policies, procedures, laws and regulations that could have a significant impact on operations and reports and determine whether the Municipality is in compliance.
- Review operations and programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned.
- To promote an economic, efficient and effective administration by reviewing the prudent utilisation of resources and cost effective implementation of goals, objectives and programmes.
- Review the means of safeguarding assets and as appropriate and verify the existence of such assets.



- Evaluate the reliability and integrity of financial and operational information.

2. AUTHORITY

- The Internal Audit is authorised to prepare a broad risk-based coverage plan for internal auditing within the Municipality.
- In providing its assurance services, Internal Audit will examine and evaluate the adequacy and effectiveness of management controls implemented by the Municipality to direct its activities towards the accomplishment of its objectives in accordance with municipal policies and regulations.
- To provide effective and efficient assurance services with due professional care, the Internal Audit staff is authorised to have full, free and unrestricted access to all functions, records, information, Municipal property and personnel.
- Internal Audit has authority to provide consulting services to the Municipality, but does not have the authority or responsibility over activities reviewed, therefore Internal Audit will not be held responsible for systems of internal control. Designing, connecting, installing and operating systems of internal control are non-audit functions. Internal Audit can, however, provide advice on the designing and implementation of internal controls. Management is responsible for the design and the implementation of internal controls.
- No person shall obstruct or interfere with the work of Internal Auditors. All employees of the Capricorn District Municipality and contracted outside service providers shall give their full co-operation to the Internal Auditors.
- The Chief Audit Executive and Internal Audit staff shall have full, free and unrestricted access to the Accounting Officer, the Chairperson of the Audit Committee and Office of the Auditor-General.
- The Accounting Officer may direct Internal Audit to perform non-audit functions and offer special tasks with the understanding that they are not functioning as internal auditors. Care should, however, be taken to ensure that the effectiveness, independence and objectivity of Internal Audit is not compromised.



3. CHARTER STATEMENT

It is the policy of the Capricorn District Municipality to establish and support the Chief Audit Executive as an independent appraisal function to provide assurance and consulting services to the Municipality as a service to management and the Audit Committee.

4. RESPONSIBILITY OF INTERNAL AUDIT

The Chief Audit Executive has responsibility:

- 4.1 To establish policies and procedures to guide the internal auditing activity and direct its administrative functions.
- 4.2 To develop a three-year rolling internal audit plan as per the risk assessment report of the Municipality.
- 4.3 To execute an amendable one-year Internal Audit Coverage Plan approved by the Audit Committee. The plan should include any special tasks or projects as per the Audit Committee and management's requests.
- 4.4 To evaluate and assess significant changes in the services, policies, and operations within the Municipality and advise accordingly.
- 4.5 To issue quarterly reports to the Audit Committee and the Accounting Officer summarising results of audit activities.
- 4.6 To assist in the investigation of significant suspected fraudulent activities within the Municipality and report the results to the Audit Committee and the Accounting Officer.
- 4.7 To maintain a professional audit staff with sufficient knowledge, skills and professional certification to perform their audit responsibilities.

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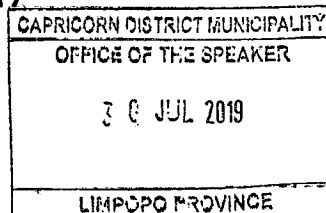
5. MANDATE AND REPORTING

- 5.1 The Chief Audit Executive obtains its mandate from the Audit Committee and is responsible for the total Internal Audit function.
- 5.2 The Chief Audit Executive will report administratively to the Accounting Officer and functionally to the Audit Committee.
- 5.3 The Chief Audit Executive will report at least quarterly to the Audit Committee on:
- 5.3.1 Identified significant audit findings and recommendations.
 - 5.3.2 Any significant deviations from the approved audit plan, staffing plans and financial budgets as well as reasons therefor.
 - 5.3.3 Appropriate management action taken to address deficiency findings.
 - 5.3.4 Whether audit activities have been directed towards the highest exposure to risk and towards increasing economy, efficiency and effectiveness of operations.
 - 5.3.5 Whether internal and external audit efforts are co-ordinated to avoid duplications.
 - 5.3.6 Any unwarranted restriction on the staffing and authority of the Internal Audit or on access by Internal Auditors to the Municipality's activities, records and personnel.

6. THE AUDIT APPROACH AND METHODOLOGY OF INTERNAL AUDIT

Internal Auditors shall at all times conduct the work or any other tasks assigned to them in accordance with the **Audit Methodology** and the Standards for the Professional Practice of Internal Auditing. Internal Audit shall further comply with the Code of Ethics of Internal Auditors, as published by the Institute of Internal Auditors.

Internal Audit follows an integrated approach which places emphasis on the identification of risks, the prioritising thereof and testing of controls over key risk areas. The integrated audit approach combines



two types of audit engagements, i.e. assurance and consulting services.

6.1 Assurance engagements

These refer to the evaluation of the adequacy, effectiveness and efficiency of the Municipality's risk management, control and governance processes. The purpose of this is to provide reasonable assurance that these processes are functioning as intended and will enable the Municipality to achieve its goals and objectives. As well as provide recommendations on improving the Municipality's operations. All business systems, processes, operations, functions and activities within the Municipality should be subjected to Internal Audit's evaluation. The following types of assurance engagements should be provided:

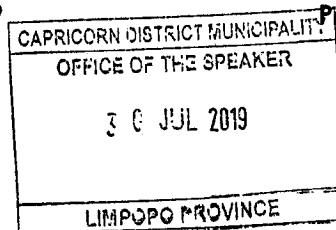
- Financial
- Performance
- Compliance
- IT Governance
- Forensic and
- Systems security

6.2 Consulting engagements

These refer to advisory and related engagements, the nature and scope of which should be agreed upon with the auditee management. The following categories of consulting engagements may be performed.

- Formal consulting engagements – planned and subject to written agreement.
- Informal consulting engagements – routine activities such as participating on standing committees, limited life projects, ad hoc meetings and routine information exchange.
- Special consulting engagements – participation on a merger and acquisition team or system conversion team.
- Emergency consulting engagements – participation on a team assembled to supply temporary help to meet a special request or tight deadline.

Internal Auditors should, however, maintain their objectivity when drawing conclusions and offering advice to management.



The following consulting services may be provided:

- Counsel / Advice
- Facilitation
- Process design and
- Training

The comprehensive scope of work of Internal Audit should provide reasonable assurance that the Municipality's risk management, control and governance systems are effective and efficient.

In areas where, in the opinion of the Chief Audit Executive, specialised audit skills are lacking within the Directorate, the services of outside Consultants may be employed through consultation with the Accounting Officer.

7. QUALITY CONTROL IN INTERNAL AUDIT

7.1 The Chief Audit Executive will establish and maintain a quality assurance programme to evaluate the operations of the internal auditing function. Quality control in Internal Audit should include the following:

7.1.1 The Chief Audit Executive should maintain an ongoing system to measure performance of Internal Audit staff.

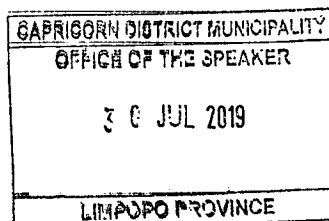
7.1.2 A structured training programme should be followed in order to develop the technical, conceptual and management abilities of the Internal Audit personnel.

7.1.3 The audit approach followed should be regularly evaluated to ensure that it conforms to the developments taking place within the internal audit field.

7.1.4 All Internal Auditors should be members of the Institute of Internal Auditors SA and Municipal Internal Auditors Forum or any forum established with an aim of sharing practical experience within the internal audit profession.

7.2 An external assessment of internal audit should be conducted every five years by an independent qualified reviewer or review team. Assessment of Internal Audit should include the evaluation of:

- Compliance with the IIA Standards and Code of Ethics.
- Adequacy of the Internal Audit Charter, policies and procedures.



- Contribution to the Municipality's risk management, governance and control processes.
- Compliance with audit charter, applicable laws, regulations and government standards.
- Whether Internal Audit adds value and improves the Municipality's operations.
- Internal Audit staff continuous development requirements achieved

8. **DISTRIBUTION OF INTERNAL AUDIT REPORTS**

8.1 Timing

A draft Internal Audit report should be given to the Head of the Unit audited within 14 days after the completion of the audit. The auditee Management should have 5 (five) working days to prepare comments on the accuracy of the draft report, which will be discussed at a meeting arranged for this purpose. Thereafter the report will be issued as a final report to the Auditee Management.

Where, in the opinion of the Chief Audit Executive, a critical aspect is identified during the audit, the matter should be discussed with the operational management and followed up in writing. The final report should be brought to the attention of the Accounting Officer and the Audit Committee.

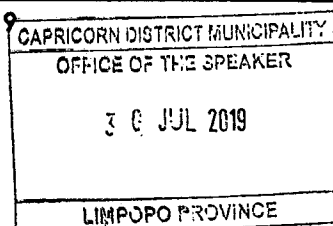
8.2 Distribution of reports

Detailed final reports should be distributed to the members of operational management who are responsible for the unit being audited via the auditee Management. Copies of all detailed reports should also be sent to the Office of the Auditor-General for information.

Summary reports should also be prepared, distributed and presented to the Audit Committee at every quarter.

8.3 Corrective action and differences of opinion with management.

The responsibility for corrective action lies with the relevant operational management. Where Internal Audit is of the opinion that operational management is not taking appropriate action with regard to previous recommendations, the matter should be reported to the Accounting Officer and the Audit Committee.



Should a disagreement arise between the Internal Audit and the relevant operational management regarding a specific finding or recommendation, the Chief Audit Executive should convene a meeting of interested parties in order to resolve the matter. Should the matter not be resolved at this level, it should be discussed with the Accounting Officer and the Audit Committee.

9. REQUESTS FOR SPECIAL PROJECTS

All requests for the assistance by Internal Audit in the execution of special projects must be submitted in writing to the Accounting Officer and approved by the Audit Committee.

10. CO-OPERATION WITH THE OFFICE OF THE AUDITOR-GENERAL

Internal Audit and the Office of the Auditor-General should have regular contact in order to maximise the benefits that the Municipality receives from the total audit process. During these meetings, emphasis must be placed on audit planning, possible deficiencies or duplication in the work and critical risk area.

11. ADOPTION OF CHARTER

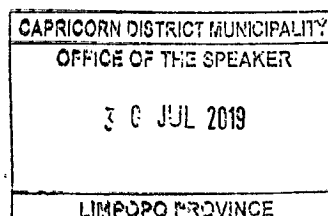
This charter was adopted on the -----day of ----- by:

Ms THULI MAZIBUKO
MUNICIPAL MANAGER
DATE:

T.A RAMAWA
CHAIRPERSON: AUDIT COMMITTEE
DATE:

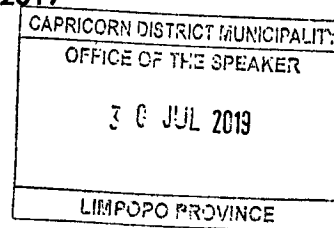
Approved by

Madam: Speaker
On behalf of Municipal Council
DATE:



GLOSSARY

Assurance Service:	An objective examination of evidence for the purpose of providing an independent assessment on risk management, control and governance process.
Audit programme:	A document that lists the procedures to be followed during an audit engagement.
Charter:	A formal written document that defines the activity's purpose, authority and responsibility.
Chief Audit Executive:	Top position within the municipality responsible for the internal audit function.
Consulting services:	Advisory and related services, the nature and scope of which are agreed with the auditee and which are intended to add value and improve the Municipality's operations.
Engagement:	A specific internal audit assignment, project, task or review activity such as fraud investigation or consultancy.
Office of the Auditor-General :	Officials of the Auditor-General responsible for the external audits of the Municipality.
Fraud:	Any illegal act characterised by deceit, concealment or violation of trust.
Governance process:	A process of ensuring that values are set and communicated, objectives are set and operations are transparent to ensure accountability.
Internal Auditors:	In-house staff members tasked with the responsibility to perform audit activities.
Management:	Members of the Management Service of the Municipality i.e. Municipal Manager, Manager Corporate Services, Chief Financial Officer, Manager Planning and Economic Development.



- Programme Managers:** All Executive managers responsible for programmes as per the Municipality's budget structure.
- Risk:** An uncertainty of an event occurring that could have an impact on the achievement of objectives.
- Accounting Officer:** A municipal official referred to in section 60 of the MFMA.
- Executive Management:** Municipal official referred to in section 77 of the MFMA.
- Audit Committee:** Person referred to in section 166 (4) (5) of the MFMA.