

HARRY GWALA DISTRICT MUNICIPALITY

OFFICE OF THE MUNICIPAL MANAGER

Internal Audit Unit

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“Together we deliver and grow”

**REVIEWED INTERNAL AUDIT CHARTER
FOR 2022/2023 FINANCIAL YEAR**

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1. Introduction and Definition

The purpose of the Internal Audit Charter is to formally document and define the purpose, authority and responsibility of Internal Audit Activity (IAA). This charter provides guidance to the Harry Gwala District Municipality Internal Audit Activity about main issues and procedures which it needs to consider as part of its work.

Harry Gwala District Municipality Internal Audit Activity should also have regard to the statements and standards issued by the accountancy and auditing (both internal and external) bodies and also to any requirements regarding internal audit set out in relevant statutes or regulations.

The Definition of Internal Auditing states the fundamental purpose, nature, and scope of internal auditing. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

2. Code of Ethics

The Code of Ethics states the principles and expectations governing the behaviour of individuals and organizations in the conduct of internal auditing. It describes the minimum requirements for conduct, and behavioural expectations rather than specific activities.

The purpose of The Institute's Code of Ethics is to promote an ethical culture in the profession of internal auditing.

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

A code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about governance, risk management, and control.

The Institute's Code of Ethics extends beyond the Definition of Internal Auditing to include two essential components:

- Principles that are relevant to the profession and practice of internal auditing.
- Rules of Conduct that describe behaviour norms expected of internal auditors. These rules are an aid to interpreting the Principles into practical applications and are intended to guide the ethical conduct of internal auditors.

"Internal auditors" refers to Institute members, recipients of or candidates for IIA professional certifications, and those who perform internal audit services within the Definition of Internal Auditing.

This Code of Ethics applies to both entities and individuals that perform internal audit services.

For IIA members and recipients of or candidates for IIA professional certifications, breaches of the Code of Ethics will be evaluated and administered according to The IIA's Bylaws, the Process for Disposition of Code of Ethics Violation, and the Process for Disposition of Certification Violation. The fact that a particular conduct is not mentioned in the Rules of Conduct does not prevent it from being unacceptable or discreditable, and therefore, the member, certification holder, or candidate can be liable for disciplinary action.

3. Internal Audit standards

Standards are principle-focused and provide a framework for performing and promoting internal auditing. The Standards are mandatory requirements consisting of:

- Statements of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of its performance.
- The requirements are internationally applicable at organizational and individual levels.
- Interpretations, which clarify terms or concepts within the statements.
- Glossary terms.

It is necessary to consider both the statements and their interpretations to understand and apply the *Standards* correctly. The *Standards* employ terms that have been given specific meanings as noted in the Glossary, which is also part of the *Standards*. All internal auditors are expected to comply and adhere to International Standards for the Professional Practice of Internal Auditing (Standards).

4. Purpose and Mission

The purpose of the internal audit function is to provide independent, objective assurance and consulting services designed to add value and improve organization's operations. The mission of internal audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice and insight. To help the organization in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The mission is also to transform a highly functioning internal audit function into a world-class collaborative function which positively impacts and influences the municipality's goals of Accountability & Responsibility, Service Excellence, Technical Proficiency, Reputational Credibility, and Integrity. The purpose of Internal Audit is to determine whether the municipality's control, risk management, and governance processes, as designed and implemented by management, are adequate and functioning.

5. Core Principles

The Core Principles, taken as a whole, articulate internal audit effectiveness. Internal auditors will possess and demonstrate the Core Principles for the Professional Practice of Internal Auditing:

- Demonstrates integrity
- Demonstrates competence and due professional care
- Is objective and free from undue influence (independent)
- Aligns with the strategies, objectives, and risks of the organization
- Is appropriately positioned and adequately resourced
- Demonstrates quality and continuous improvement
- Communicates effectively
- Provides risk-based assurance
- Is insightful, proactive, and future-focused
- Promotes organizational improvement

6. Legislation Governing the Internal Audit function

Harry Gwala District Municipality Internal Audit Activity is governed by section 165 of the Municipal Finance Management Act No. 56 of 2003 (MFMA) which provides for the establishment of the Internal Audit Activity within municipalities. The internal audit function will be subject to the requirements of the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

King III introduced the combined assurance model, but this concept needed to evolve to become more and effective. In King IV, the model assumes an understanding of assurance that goes beyond technical definitions of assurance. A combined assurance model incorporates and optimises all assurance services and functions so that, taken as a whole, these enable an effective control environment; support the integrity of information used for internal decision making by management, the governing body and its committees, and support the integrity of the organisations' external reports. The King IV code's recommendations do not prescribe the design of the model, but allow for the governing body to exercise its judgement in this regard.

Internal audit, as one of the assurance service providers to the organisation, remains pivotal to corporate governance. Its role has further evolved in recent years. It has become a trusted advisor that adds value by contributing insight into the activities of the organisation and, as a further enhancement, foresight. This is the ideal positioning that is envisaged for internal audit in King IV.

The King III Report recommends that all affected organizations establish an Internal Audit Activity, reporting at the highest level of authority, enabling it to achieve its function in terms of an appropriate charter (Internal Audit Charter). An effective Internal Audit Activity is an independent objective assurance and consulting activity to add value and improve the organizations operations.

7. Reporting and Accountability of Internal audit function

To provide for the independence of the Internal Audit Activity, the Senior Manager: Internal Audit/Head of Internal Audit and personnel report functionally to the Audit Committee, as formed in terms of section 166 of the MFMA, and administratively to the Accounting Officer.

8. Objectives and Scope of Internal Audit function

The scope of work of the internal audit function is to determine whether the governance, risk management and control processes of the Harry Gwala District Municipality, as designed and represented by management, are adequate and functioning in a manner to provide a reasonable level of confidence:

- Significant key risks are appropriately identified and managed.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Resources are acquired economically, used efficiently, and protected adequately.
- Programs, plans, and objectives are achieved.
- Quality and continuous improvement are fostered.
- Significant legislative or regulatory issues impacting the Harry Gwala District Municipality Internal audit unit are recognised and addressed properly.

The Internal Audit function will apply and uphold the principles of integrity, objectivity, confidentiality, and competence as required by the Institute of Internal Auditors Code of Ethics.

9. Internal Responsibility with Regard to Fraud and Corruption

- Harry Gwala District Municipality Internal Audit Activity shall exercise due professional care in performing its activities.
- Harry Gwala District Municipality Internal Audit Activity shall consider all possibilities of material irregularities or non-compliance when conducting its activities.
- When an internal auditor suspects wrongdoing he or she shall report to the Internal Audit Management who shall in turn report to the Audit Committee immediately and to the responsible Municipal Manager for the municipality concerned.
- Where suspicion is aroused or there are reasonable grounds for suspicion, Harry Gwala District Municipality Internal Audit Activity must go behind the documents and the numbers to track down improprieties.
- In addition to understanding control systems, internal auditors should be aware of the kind of fraud that could be practiced.
- In order for Harry Gwala District Municipality Internal Audit Activity to be more successful in detecting fraud, risk management unit should develop a greater awareness of how it occurs and why.
- Harry Gwala District Municipality Internal Audit Activity shall recommend whatever investigation is considered necessary in the circumstances.

- Deterrence of fraud is the responsibility of management, however, Harry Gwala District Municipality Internal Audit Activity is responsible for examination and evaluating the adequacy and effectiveness of actions taken by management to fulfill this obligation.
- Internal auditors should have sufficient knowledge of fraud to be able to identify indicators that fraud might have been committed.

10. Responsibility to Accounting Officers

Harry Gwala District Municipality Internal Audit Activity is responsible to the Accounting Officer to ensure that they give assurance as to the effectiveness and efficiency of the controls employed in the municipality which the function serves. This should not, however, be construed as channeling the Internal Audit's direct responsibility to the Accounting Officer as this function reports to the Audit Committee as laid out in Section 3 of this charter.

11. Powers and Duties of the Harry Gwala District Municipality Internal Audit Activity

- (1) Harry Gwala District Municipality Internal Audit Activity has access to all records of the municipality and any information in the custody and control of any person employed by the municipality that is necessary for the performance of its duties.
- (2) Harry Gwala District Municipality Internal Audit Activity must -
 - (a) examine and evaluate the business processes and related control systems of the municipality's and assist management in assessing risk;
 - (b) investigate any matter -
 - (i) it deems necessary;
 - (ii) Referred to it in writing by Council or Accounting Officer of a municipality or
 - (iii) Against an Accounting Officer which has been submitted directly to the relevant Councillor by a public servant for referral to Harry Gwala District Municipality Internal Audit Activity;
 - (c) Prepare on an annual basis an audit plan to be approved by the Audit Committee;
 - (d) Report to the Accounting Officer any irregularities or significant control weaknesses occurring in the municipality;
 - (e) make recommendations to the accounting officer to remedy any deficiencies occurring in the municipality;
 - (f) Report to the Audit Committee the results of all audits or other projects undertaken by the internal audit function, and the status of its completed work compared to the approved annual audit plan;
 - (g) Provide a secretariat function to the Audit Committee;
 - (h) Make any recommendations it deems fit for consideration by the Audit Committee; and
 - (i) Prepare an Audit Charter for Harry Gwala District Municipality Internal Audit Activity which must be approved by the Audit Committee.

12. Fundamental Principles Governing the Internal Audit Activity

Harry Gwala District Municipality Internal Audit Activity is guided by the principles as laid down in the following paragraphs. These principles are designed to ensure that the unit

demonstrates a high degree of independence, objectivity, professionalism and skills as reasonably expected from a body of this stature.

The essentials for effective internal auditing are:

12.1 Independence and Objectivity

Harry Gwala District Municipality Internal Audit Activity has the independence in terms of organisational status and personal objectivity which permits the proper performance of its duties. The internal audit activity must be independent, and internal auditors must be objective in performing their work.

Independence is achieved through the organisational status of the Harry Gwala District Municipality Internal Audit Activity and the objectivity of internal auditors.

The status of the Harry Gwala District Municipality Internal Audit Activity enables it to operate effectively. The support of management is essential. Harry Gwala District Municipality Internal Audit Activity should be involved in the determination of its own priorities, in consultation with management. Accordingly the Head of the Internal Audit Unit has direct access to, and freedom to report to, all senior management including the audit committee.

Each internal auditor has an objective attitude of mind and should be in a sufficiently independent position to be able to exercise judgment, express opinions and present recommendations with impartiality:

- Harry Gwala District Municipality Internal Audit Activity notwithstanding its employment by the municipalities within the district should be free from any conflict of interest arising either from professional or personal relationships or other interests in the municipalities within the district or activity which it subjects to audit.
- Harry Gwala District Municipality Internal Audit Activity should be free from undue influences which either restrict or modify the scope or conduct of its work or over-rule or significantly affect judgment as to the content of the internal audit report.
- Harry Gwala District Municipality Internal Audit Activity should not allow its objectivity to be impaired when auditing an activity for which it has authority or responsibility.
- Harry Gwala District Municipality Internal Audit Activity should be consulted about significant proposed changes in the internal control system and the implementation of new systems and should make recommendations on the standards of control to be applied. This need not prejudice Harry Gwala District Municipality Internal Audit Activity's objectivity in subsequently reviewing those systems.
- Harry Gwala District Municipality Internal Audit Activity should not undertake non-audit duties. However, should the internal auditors be required to do so, management should understand that they are not acting as an auditor but on exception on a non-audit basis.

Where any of the situations referred to above arise, this must be clearly declared by Harry Gwala District Municipality Internal Audit Activity so that consideration can be given to the need for alternative arrangements for the audit assignment.

12.2 Staff and Training

Harry Gwala District Municipality Internal Audit Activity should be appropriately staffed in terms of numbers, grades, qualifications and experience, having regard to its responsibilities

and objectives. Internal auditors are properly trained to fulfill all their responsibilities.

The effectiveness of Harry Gwala District Municipality Internal Audit Activity depends substantially on the quality, training and experience of its staff. Staff should be appointed with the appropriate background, personal qualities and potential. Steps should be taken to provide the necessary experience, training and continuing professional education.

Harry Gwala District Municipality Internal Audit Activity should be suitably qualified and possess a wide experience of internal audit.

The Head of Harry Gwala District Municipality Internal Audit Activity should participate in the recruitment and selection of his/her staff. New entrants to internal audit work should have time to familiarise themselves with the activities of the Harry Gwala District Municipality Internal Audit Activity and the local government, and be able to demonstrate their suitability for audit work.

The Head of Harry Gwala District Municipality Internal Audit Activity has a responsibility to ensure that the internal auditor receives the necessary training for the performance of the full range of duties.

Training should be tailored to the needs of the individual. It should include both the theoretical knowledge and its practical applications under the supervision of suitably competent and experienced internal auditors.

Account is taken of:

- internal audit objectives and priorities;
- the type of internal audit work;
- previous training, experience and qualifications; and
- Personal development in the light of the needs of the municipalities and Harry Gwala District Municipality Internal Audit Activity.

- Training is a planned and continuing process at all levels and covers:
 - basic training - providing the knowledge of basic auditing principles and practices which all internal auditors should possess;
 - development training - in general audit skills and techniques and inter-personal skills, to improve the effectiveness of those currently employed in internal audit; and
 - Specialized training - for those responsible for the internal audit activities which require skills or knowledge.
- The internal auditor should keep abreast of current developments, improvements, new techniques and practices in auditing.
- The internal auditor should maintain technical competence through professional development which includes:
 - private reading and study; and
 - Participation in professional activities such as attending meetings, courses and conferences, lecturing, writing articles and papers and contributions to research groups.

The Head of Harry Gwala District Municipality Internal Audit Activity should co-ordinate, and keep under review, the training requirements of internal auditors. He will be responsible for preparing training profiles which identify the training requirements for different grades of internal auditor, and should maintain personal training records for each individual.

12.3 Relationships

Harry Gwala District Municipality Internal Audit Activity should seek to foster constructive working relationships and mutual understanding with management, the Audit Committee and the external auditors. This relationship should not compromise or be seen to be compromising the internal auditor's independence and objectivity.

12.3.1 Relationship with Management

The Head of Harry Gwala District Municipality Internal Audit Activity should prepare the internal audit plan in consultation with senior management. The internal auditors should arrange the timing of internal audit assignments in consultation with the Head of Harry Gwala District Municipality Internal Audit Activity and management, except on those rare occasions where an unannounced visit is a necessary part of the audit approach. Consultation can lead to the identification of areas of concern or of other interest to management. Matters which may arise in the course of the audit are confidential and discussion is restricted to management directly responsible for the area being audited unless they give express agreement to broaden the discussion.

Discussion with management is necessary when preparing the audit report. This should be an essential feature of the good relationship between the auditor and management. The Three Year Rolling Audit Plan and Annual Audit Plan must be tabled to the accounting officer of municipality for information purposes.

12.3.2 Relationship with the Audit Committee

The Head of Harry Gwala District Municipality Internal Audit Activity should report and liaise with the Audit Committee on a regular basis on matters affecting and pertinent to Harry Gwala District Municipality Internal Audit Activity. Direction and guidance should be sought from the Audit Committee on a regular basis. Negative comments and recommendations not implemented by management should be tabled at the Audit Committee meetings for direction and resolution.

12.3.3 Relationship with External Audit

The aim should be to achieve mutual recognition and respect, leading to joint improvement in performance and the avoidance of unnecessary duplication of effort. External and internal audit rely on each other's work, subject to limits determined by their different responsibilities, respective strengths and special abilities. Consultations should be held and consideration given to whether any work of either auditor is adequate for the purpose of the other.

Since Harry Gwala District Municipality Internal Audit Activity evaluates the municipality's internal control system, the external auditor needs to be satisfied that Harry Gwala District Municipality Internal Audit Activity is being planned and performed effectively and efficiently. This review needs to be seen by both parties as a necessary part of the working relationship.

Regular meetings should be held between internal and external audit at which joint audit planning, priorities, scope and audit findings are discussed and information exchanged.

13. Confidentiality

Internal Auditors have an obligation to respect the confidentiality of information about the client's affairs. The duty of confidentiality continues even after the completion of the assignment. This duty must be observed by the internal auditors unless specific authority has been given to disclose information or there is a legal or professional duty to disclose.

Confidentiality is not only a matter of disclosure of information. It also requires that internal auditors acquiring information in the course of performing audit services shall neither use nor be seen to be using that information for personal advantage or for the advantage of a third party.

Internal Auditors should consult the Head of Internal Audit or the Audit Committee for guidance and advice if there is pressure to disclose information to parties other than management of Harry Gwala District Municipality Internal Audit Activity, the accounting officer of the municipality concerned or the Audit Committee.

14. Due Professional Care

Harry Gwala District Municipality Internal Audit Activity should exercise due care in fulfilling its responsibilities. In order to demonstrate that due care has been exercised, Harry Gwala District Municipality Internal Audit Activity should be able to show that its work has been performed in a way which is consistent with the standards for the professional practice of Internal Auditing of the Institute of Internal Auditors.

Harry Gwala District Municipality Internal Audit Activity should possess a thorough knowledge of the aims of the municipality and the internal control system. Harry Gwala District Municipality Internal Audit Activity must also be aware of the relevant law and the requirements of relevant professional and regulatory bodies. The standards and statements issued by the Institute of Internal Auditors are relevant to the work of Harry Gwala District Municipality Internal Audit Activity.

Harry Gwala District Municipality Internal Audit Activity should be impartial in discharging all its responsibilities; bias, prejudice or undue influence must not be allowed to limit or override objectivity. At all times, the integrity and conduct of each internal auditor must be above reproach. He must not place himself in a position where responsibilities and private interests' conflict and any personal interest should be declared. The Head of the Internal Audit Activity should promote and maintain adequate quality standards in the internal audit unit. He should establish methods of evaluating the work of his staff to ensure that the function fulfills its responsibilities and has proper regard to this statement.

15. Coordination of efforts with other assurance providers

Internal audit should share information and co-ordinate its activities with other assurance providers within the municipality or municipal entity. This is done to ensure appropriate coverage of risk areas and minimise duplication of efforts. There should be access to each other's audit plans and audit reports. There should be periodic meetings held between internal audit and external audit. At these meetings key risks, audit scope and audit findings should be discussed and priorities should be emphasized.

15.1 Governance

Internal audit activity must assess and make recommendations for improving governance process in its accomplishment of the following objectives:

- Promoting appropriate ethics and values within the municipality;
- Ensuring effective organizational performance management and accountability;
- Communicating risk and control information to appropriate areas of municipality; and
- Coordinating the activities of and communicating information among the audit committee, external, internal auditors and management.

15.2 Risk Management

Internal audit is responsible for providing assurance to management and the audit committee on the adequacy and effectiveness of the risk management process. Risk management is a key responsibility of the accounting officer and management. Management should ensure that adequate risk management processes are in place and functioning as intended. Internal audit must assist management and the audit committee by examining, evaluating, reporting and recommending improvements on the adequacy and effectiveness of management's risk processes.

Conducting assessments and reporting on the organisation's risk management process should be a high audit priority. Risks arising from business strategies and activities should be identified and prioritised. These risks should focus on the efficient, economic and effective use of resources, as well as any duplication of functions that might exist; Management should determine the level of risk acceptable to the municipality; Risk mitigation activities should be designed and implemented to reduce or manage risk to a level acceptable by the municipality, and Management should receive periodic reports of the results of risk management Processes.

15.3 Control

Based on the results of the risk assessment internal audit must evaluate the adequacy and effectiveness of controls encompassing the municipality's governance, operations, and information systems. The following aspects should be considered when assessing controls for adequacy:

- The control environment and management attitude towards controls;
- Standard control practices; and
- Compliance with other generally used control frameworks.

If the controls are adequate, the internal auditor should evaluate the controls for effectiveness. To ensure that the conclusions reached are correct and supported by acceptable evidence the auditors are required to analyse and evaluate the findings of the audit in order to determine whether the controls are effective or not. The auditor may reach one of the following conclusions when evaluating the controls for effectiveness

16. Responsibility of the internal audit function

The Chief Audit Executive will be responsible for ensuring internal audits and other agreed activities are conducted in compliance with this Charter. The Internal Audit unit has the responsibility to:

- Develop flexible annual and strategic audit plans using an appropriate risk-based methodology, including any risks or control concerns identified by management, and submit the plans to the Audit & Performance Committee for review and approval.
- Coordinate implementation of the approved annual audit plan including, as appropriate, any special tasks or projects requested by management and the Audit & Performance Committee.
- Establish a quality assurance & improvement program to assure the operation of internal audit activities.
- Coordinate consulting services, beyond internal auditing's assurance services, to assist management in meeting its objectives, which may include:
 - facilitation,
 - advice on process design,
 - training, and
 - Advisory services.
- Coordinate evaluation and assessment of significant changes to operations and control processes coincident with their development, implementation, and/or expansion. Coordinate management responses to internal audit reports.
- Follow up implementation of outstanding audit recommendations and report results to Audit & Performance Committee.
- Issue periodic reports to the Audit & Performance Committee and management summarizing results of audit activities.
 - Keep the Audit & Performance Committee informed of emerging trends and successful practices in internal auditing, risk or financial management.
 - Provide a list of significant measurement goals and results to the Audit & Performance Committee.
 - Assist in the investigation of significant suspected fraudulent activities within the municipality and notify management and the Audit & Performance 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.

17. Assurance services

Assurance services focuses on the risk based internal audit plan which also includes cyclical, legislative and adhoc audits.

Types of assurance services

○ Risk Based audits

Given the results from the risk assessments performed (which generally indicate only adequate-to-weak control environments) it may be appropriate for internal audit to focus its attention on the high risk areas, mostly concentrating on ensuring that key controls are in place and adhered to.

○ Cyclical audits

Internal audit may decide to focus its attention on certain medium to lower risk areas, in order to achieve general or specific improvements in the control environment or culture. These cyclical audits are normally conducted on a yearly basis with the aim of monitoring and maintaining (through the reports issued and actions taken) a sound internal control environment. This also includes legislated and follow up audits.

○ Ad hoc requests

Internal audit may consider ad-hoc requests from management, but such requests should flow from the written authorised charter and with the approval of the audit committee. However before accepting these requests the chief audit executive should assess the requests against the planned audits and prioritise them based on how much value can be added, prior to deciding whether or not to accept the requests.

18. Consulting services

Consulting services should focus on assisting management in problem solving activities, achieving the municipality's objectives, and add value to line and senior management.

Types of Consulting Engagements

Internal audit should obtain an understanding of the nature of the engagement to clearly articulate the terms of reference. Agreed upon procedures should be documented in the engagement letter and agreed upon with the client.

- The types of consulting work include the following:
- Formal consulting engagements – those that are planned and subject to written agreement;
- Informal consulting engagements – routine activities such as participation on standing committees, limited-life audit projects,
- ad-hoc meetings and routine information exchange;
- Special consulting engagements – participation on dedicated teams such as system conversion team; and
- Emergency consulting engagements – participation on a team established for recovery or maintenance of operations after a disaster or other extraordinary event, or a team assembled to supply temporary help to meet a special request or unusual deadline.

Objectives, scope and limitations of the consulting assignment should be confirmed in writing in an engagement letter. The responsibilities of both management and internal audit should be defined and documented in the engagement letter that should be signed by both parties. All working papers prepared during the execution of the consulting engagement should be

kept as evidence of conducting the procedures. Internal audit should communicate issues and preliminary results of the consulting engagement with line management during the conduct of the assignment. Report to management may either be oral by conducting a meeting session with line management or written updates can be provided to management. As agreed upon in the engagement letter, internal audit should report results of the consulting activity.

Acceptance of Consulting Activities

The following guidelines are provided for assisting the internal audit activity in accepting consulting activities:

- Some consulting activities are specifically identified in the approved internal audit annual plan; other consulting activities are initiated by managers communicating directly;
- The chief audit executive should request the audit committee's approval for consulting activities that significantly affect the approved internal audit's annual operational plan;
- The chief audit executive should consider the impact of independence and objectivity on the internal audit activity before acceptance of the consulting activities;
- The chief audit executive should consider whether the internal auditors have the requisite skills, knowledge, time and competencies to perform the proposed consulting activities and
- The chief audit executive should consider the risks associated with the proposed consulting activities.

19. Planning, Controlling and Recording

Internal audit work must be conducted in accordance with the standards set by the Institute of Internal Auditors (IIA) Incorporated. These are the standards referenced to in section 62(c) (ii) of the MFMA. The audit process includes engagement planning; performing the engagement; communicating results; and monitoring.

Internal audit work should be planned, controlled and recorded in order to determine priorities, establish and achieve objectives, and ensure the effective and efficient use of audit resources.

19.1 Planning

Harry Gwala District Municipality Internal Audit Activity should prepare strategies, periodic and operational work plans. The periodic plan, July to June, should schedule audit assignments to be carried out in the ensuing period. It should define the purpose and duration of each audit assignment and allocate staff and other resources accordingly and must be formally approved by the Audit Committee. All internal audit plans should be sufficiently flexible to respond to changing priorities. Internal audit unit should base Risk based internal audit plan (RBIA) plan on the approved Risk Registers concentrating on the risks which are rated as high and where their controls were asserted to be well managed, meaning that their current control effectiveness is (satisfactory, good or very good).

19.2 Controlling

Control of Harry Gwala District Municipality Internal Audit Activity and the individual assignments is needed to ensure that internal audit objectives are achieved and work is performed efficiently and effectively. The most important elements of control are the direction and supervision of the internal audit staff and review of their work. This is assisted by an established audit approach and standard documentation. The Head of Harry Gwala District Municipality Internal Audit Activity shall ensure that the necessary degree of control and supervision is exercised, which will depend on the complexity of the assignment and the experience of the auditor.

19.3 Recording

Internal audit work should be recorded at all times. The Head of Harry Gwala District Municipality Internal Audit Activity should specify the required standard audit documentation and working papers and should ensure those standards are maintained. Internal audit working papers should be sufficiently completed and detailed to enable an experienced internal auditor with no previous connection with the assignment to subsequently ascertain from them what work was performed to support the conclusions reached. Working papers must be prepared as the audit assignment proceeds so that the critical details are not omitted and problems not overlooked. These should then be reviewed by internal audit management. Harry Gwala District Municipality Internal Audit Activity should obtain sufficient, relevant and reliable evidence on which to base reasonable conclusions and recommendations.

19.4 Reporting and Follow-up

Harry Gwala District Municipality Internal Audit Activity should ensure that findings, conclusions and recommendations arising from each assignment are communicated promptly to the appropriate level of management and actively seek comments and proposed action plan. They should ensure that arrangements are made to follow-up audit recommendations in order to monitor what action has been taken on them.

The primary purpose of internal audit reports is to provide management with an opinion on the adequacy of design of the system of internal control as well as whether they are operating effectively.

Reporting arrangements, including the distribution of internal audit reports, should be agreed with management. Internal audit reports are confidential documents and their distribution should therefore be restricted to those managers who need to know, Accounting Officers, the Audit Committee and Auditor-General.

20. Quality Assurance and Improvement Program

The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. Interpretation: A quality assurance and improvement program is designed to enable an evaluation of the internal audit activity's conformance with the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. The chief audit executive should encourage board oversight in the quality assurance and improvement program.

Requirements of the Quality Assurance and Improvement Program The quality assurance and improvement program must include both internal and external assessments.

The activities of the internal audit must be guided, monitored and supervised at each level of operation to ensure that they are consistently performed in accordance with the International Standards for the Professional Practice of Internal Audit. The quality assurance and improvement programme should include periodic internal assessments within a short time prior to an external assessment which can facilitate and reduce the cost of the external assessment.

20.1 Internal Assessments

The chief audit executive must ensure that internal assessments are performed. Internal assessments should include ongoing reviews of the performance of the internal audit activity. These should be performed through self-assessment or by other persons within the municipality with knowledge of internal audit practices and the IIA Standards. The chief audit executive, at least annually, must report on the results of internal assessments. Internal assessments should appraise among others, compliance with the legislative framework, definition of internal auditing, standards, internal audit charter, code of ethics and methodology.

Internal assessments must include:

- Ongoing monitoring of the performance of the internal audit activity.
- Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices.

Ongoing monitoring is an integral part of the day-to-day supervision, review, and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools, and information considered necessary to evaluate conformance with the Code of Ethics and the Standards. Periodic assessments are conducted to evaluate conformance with the Code of Ethics and the Standards. Sufficient knowledge of internal audit practices requires at least an understanding of all elements of the International Professional Practices Framework.

20.2 External Assessments

The internal audit must be subjected to an external assessment at least once every five years, the results of which should be communicated to the audit committee and accounting officer. An external assessment must be conducted by a qualified reviewer or review team from outside the municipality.

On completion of the external assessment, the review team should issue a formal report containing an opinion. The chief audit executive in consultation with the accounting officer should prepare a written action plan in response to comments and recommendations in the report. The chief audit executive must discuss with the accounting officer:

- The form and frequency of external assessment.
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

External assessments may be accomplished through a full external assessment, or a self-assessment with independent external validation. The external assessor must conclude as to conformance with the Code of Ethics and the Standards; the external assessment may also include operational or strategic comments. A qualified assessor or assessment team

demonstrates competence in two areas: the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. Experience gained in organizations of similar size, complexity, sector or industry, and technical issues is more valuable than less relevant experience. In the case of an assessment team, not all members of the team need to have all the competencies; it is the team as a whole that is qualified. The chief audit executive uses professional judgment when assessing whether an assessor or assessment team demonstrates sufficient competence to be qualified. An independent assessor or assessment team means not having either an actual or a perceived conflict of interest and not being a part of, or under the control of, the organization to which the internal audit activity belongs. The chief audit executive should encourage board oversight in the external assessment to reduce perceived or potential conflicts of interest.

20.3 Reporting on the Quality Assurance and Improvement Program

The chief audit executive must communicate the results of the quality assurance and improvement program to senior management and the board. Disclosure should include: • The scope and frequency of both the internal and external assessments. • The qualifications and independence of the assessor(s) or assessment team, including potential conflicts of interest. • Conclusions of assessors. • Corrective action plans. Interpretation: The form, content, and frequency of communicating the results of the quality assurance and improvement program is established through discussions with senior management and the board and considers the responsibilities of the internal audit activity and chief audit executive as contained in the internal audit charter. To demonstrate conformance with the Code of Ethics and the Standards, the results of external and periodic internal assessments are communicated upon completion of such assessments, and the results of ongoing monitoring are communicated at least annually. The results include the assessor's or assessment team's evaluation with respect to the degree of conformance.

21. Support

Harry Gwala District Municipality Internal Audit Activity also extends support to the Harry Gwala Development Agency with regards to internal audit activities or functions. We are responsible for developing risk based internal audit plan and implementation of it thereof.

22. Conclusion

To achieve full effectiveness the scope of Harry Gwala District Municipality Internal Audit Activity should provide an unrestricted range of coverage of the municipalities within the district's operations, and Harry Gwala District Municipality Internal Audit Activity should have sufficient authority to allow access to such records, assets and personnel as are necessary for proper fulfillment of its responsibilities.

Harry Gwala District Municipality Internal Audit Activity, as a service to the municipalities within the district, should contribute to internal control by examining, evaluating and reporting to management on its adequacy and effectiveness. The internal audit activity should lead to the strengthening of internal control as a result of management response.

It is management's responsibility to maintain the internal control system and to ensure that the municipalities' resources are properly applied in the manner and to the activities intended. This includes responsibility for the prevention and detection of fraud and other illegal acts.

Harry Gwala District Municipality Internal Audit Activity has regard to the possibility of fraud or theft and should seek to identify serious defects in internal control which might permit the occurrence of such an event. When Harry Gwala District Municipality Internal Audit Activity discovers evidence of, or suspects' fraud or theft, they should report firm evidence, or reasonable suspicions, to the appropriate level of management.

23. Approval

The charter is reviewed on an annual basis and approved by Harry Gwala District Municipality's Audit Committee.