

CAPE WINELANDS DISTRICT MUNICIPALITY

INTERNAL AUDIT CHARTER

2023 - 2024



Stellenbosch • Langeberg • Breede Valley • Witzenberg • Drakenstein

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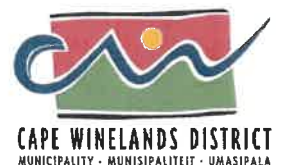


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LIST OF ACRONYMS

ACRONYM	FULL NAME
AG	Auditor-General of South Africa
AO	Accounting Officer
APC	Audit & Performance Committee
CAE	Chief Audit Executive
Council	The Council of the Cape Winelands District Municipality
IA	Internal Audit
CWDM	Cape Winelands District Municipality
IAA	Internal Audit Activity
IIA	Institute of Internal Auditors
ISACA	Information Systems Audit and Control Association
IT	Information Systems
MFMA	Local Government: Municipal Finance Management Act, 2003 (Act No 56 of 2003)
MSA	Local Government: Municipal Systems Act, 2000 (Act No 32 of 2000)

1. INTRODUCTION

The purpose of the Internal Audit Charter is to set out the nature, role, responsibilities, status and authority of the Internal Audit (IA) function in the Cape Winelands District Municipality (CWDM) and to outline the scope of the IA work.

2. LEGISLATIVE FRAMEWORK

2.1 Municipal Finance Management Act

2.1.1 Section 62 of the Local Government: Municipal Finance Management Act, 2003 (Act No 56 of 2003) (MFMA) determines that the Accounting Officer (AO) of a municipality must take all reasonable steps to ensure that it has and maintains:

- (a) Effective, efficient and transparent systems of financial and risk management and internal control; and
- (b) An IA function, operating in accordance with prescribed norms and standards.

2.1.2 Section 165 of the MFMA determines that each municipality must have an independent IA unit that must:

- (a) Prepare a risk-based audit plan and an internal audit programme for each financial year; and
- (b) Advise the AO and report to the Audit and Performance Committee (APC) on the implementation of the IA Plan.

2.2 Municipal Systems Act

Section 45 of the Local Government: Municipal Systems Act, 2000 (Act No 32 of 2000) (MSA) determines that the results of performance measurements must be audited as part of the municipality's internal audit processes.

2.3 International Standards for the Professional Practice of Internal Auditing

The core principles for the Professional Practice of Internal Auditing, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing (Standards) are mandatory.

3. MISSION OF INTERNAL AUDIT

The mission of IA is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

4. PURPOSE OF INTERNAL AUDIT

4.1 IA is an independent, objective assurance and consulting activity, designed to add value and improve the organisation's operations.

4.2 It helps the organisation to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, controls and governance processes – Institute of Internal Audit (IIA).

5. STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING

- 5.1 The IAA will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the core principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the definition of Internal Auditing.
- 5.2 The CAE will report annually to senior management and the Audit and Performance Committee (APC) regarding the IAA's conformance to the Code of Ethics, Core Principles and the Standards.

6. RESPONSIBILITIES OF MANAGEMENT

Management, in conjunction with the AO, is responsible for:

- 6.1 Ensuring that a risk assessment is conducted on a regular basis to identify emerging risks of the Council.
- 6.2 Providing input into the process of prioritising audit focus areas
- 6.3 Ensuring that the Internal Audit activity (IAA) has:
- 6.3.1 The support of executive management.
 - 6.3.2 Direct access and freedom to report to the office of the AO and the APC.
 - 6.3.3 Access to the books of accounts, records, cash, stores, property and other sources of information.
- 6.4 Maintaining internal control, including proper accounting records and other management information suitable for the operations of the Municipality.

- 6.5 Ensuring that data and information provided are correct, reliable, in-time and easily accessible.
- 6.6 Reviewing and adequately responding to IA reports within the agreed response times and for implementing the recommendations as considered necessary within the agreed timeframes, considering Council's resources.

7. RESPONSIBILITIES OF INTERNAL AUDIT

- 7.1 The purpose of the IA function of the CWDM is to act as an independent appraisal function to assist management in maintaining the required standard of internal control within the Council.
- 7.2 The emphasis is to assist the operational units to prevent any control problems from becoming significant in nature.
- 7.3 All functions must be carried out in an economic, efficient, effective and in the most ethical manner possible.
- 7.4 To enhance the system of internal control, the internal auditor must assist management to identify risk areas and suggest ways of mitigating risks.
- 7.5 Identification of risks will contribute to the effectiveness of the IA function and help to add value to the Municipality.
- 7.6 The IA function has, inter alia, the following key responsibilities:
 - 7.6.1 Develop a flexible, strategic audit plan and a flexible annual audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by management and submit that plan as well as periodic updates to the APC for review and approval.

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- 7.6.2 Implement the annual audit plan, as approved, including (as appropriate) any special tasks or projects requested by management and the APC.
 - 7.6.3 Maintain professional audit staff with sufficient knowledge, skills, experience and appropriate professional certifications to meet the requirements of this charter.
 - 7.6.4 Review the systems established to ensure compliance with those policies, plans, procedures, laws, regulations and contracts that could have a significant impact on operations and reports, and determining whether the Municipality complies.
 - 7.6.5 Review the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
 - 7.6.6 Appraise the economic use, efficiency and effectiveness with which resources are employed.
 - 7.6.7 Review operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned.
 - 7.6.8 Observe risk areas with a view to advise management in order for them to reduce or eliminate losses that could occur in the future.
 - 7.6.9 Report any response to risk by management that may be unacceptable to CWDM, including accepting a risk due to circumstances outside of their control.
 - 7.6.10 Advise management on correcting material weaknesses in the system of internal control on a consultancy basis to avoid re-occurrences in the future.

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- 7.6.11 Evaluate the Municipality's governance processes, including ethics.
 - 7.6.12 Keep the APC informed of emerging trends and successful practices in IA.
 - 7.6.13 Administratively report to the Office of the AO and to the Executive Directors, where appropriate, on audit findings.
 - 7.6.14 Follow up on the implementation of all action plans in response to previously reported findings.
 - 7.6.15 The CAE will disclose to the APC any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.
 - 7.6.16 Conduct induction programmes for both IA and non-IA staff and for the APC.
 - 7.6.17 Provide ongoing workshops to the staff of various departments on internal controls, risk management and governance processes.
- 7.7 IA should make practical recommendations and thereby assist management to mitigate or reduce risk.
- 7.8 The IAA does not relieve management of their responsibilities for risk management and the implementation of internal controls, but IA supports management by making objective and independent recommendations that will provide management with assurance on internal controls, risk management and governance processes.
- 7.9 The APC is ultimately responsible for the approval of the scope of internal audit work and for recommending the action to be taken on IA reports.

8. AUTHORITY OF INTERNAL AUDIT

- 8.1 Authority is granted by the AO to IA for timely and unrestricted access to all the Municipality's records, personnel and physical property relevant to the performance of an audit or special investigation.
- 8.2 This privilege carries with it the responsibility on the IAA to maintain the confidentiality of information to which they have access.
- 8.3 The Chief Audit Executive (CAE) shall have free and unrestricted access to the AO and the Chairperson of the APC or any other member of the APC.

9. ORGANISATIONAL STATUS

- 9.1 The IA Department reports administratively to the AO and functionally to the APC.
- 9.2 The IA Department will also have unrestricted access to all levels of Executive Management.
- 9.3 The CAE shall be a permanent invitee at the Strategic Management Team meetings but shall remain objective and independent of line functions.
- 9.4 The CAE shall further have access to the Office of the Executive Mayor.

10. ACCOUNTABILITY

- 10.1 The CAE, in discharging his/her duties, shall be accountable to the AO and the APC. The IA function should serve the Municipality in a manner that is consistent with:
- 10.1.1 The MFMA, specifically section 165 and section 166.
- 10.1.2 The King IV report on Corporate Governance for South Africa.

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- 10.1.3 The Council delegations as amended from time to time.
 - 10.1.4 The IIA Standards and Statements for the Professional Practice of Internal Auditing.
 - 10.1.5 The Core Principles for the Professional Practice of Internal Auditing, and the Code of Ethics stipulated by the IIA.
 - 10.1.6 The Information Systems Audit and Control Association (ISACA) Standards for Computer Information System Auditors.
- 10.2 The CAE, in the discharge of his/her duties, shall be accountable to the AO and the APC to:
- 10.2.1 Provide an annual assessment on the adequacy and effectiveness of the Municipality's processes for managing risks and controlling its activities.
 - 10.2.2 Provide information (at least on a quarterly basis) with regard to the status and progress made with the execution of the annual audit plan.
 - 10.2.3 Provide information (at least on a quarterly basis) with regard to all consultancy assignments and ad-hoc requests and progress made with the execution thereof (in summary format).
 - 10.2.4 Ensure the sufficiency of the department's resources.
 - 10.2.5 Coordinate, facilitate and oversee control and monitoring functions such as risk management, compliance initiatives and advice, security, legal compliance, ethics, the environment and participation in meetings with external audit/Office of the Auditor-General (AG).

11. INDEPENDENCE AND OBJECTIVITY

- 11.1 The CAE will ensure that the IAA remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the CAE determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.
- 11.2 The IA function needs to be professional in its approach and well qualified to be able to add value to the municipality's operations.
- 11.3 The IA function should be objective and exercise due professional care in its approach, always maintaining the best interest of the municipality.
- 11.4 Independence is essential to internal auditing. The IA unit should be positioned as an independent unit to enable it to have a separate identity with its own budget, staff structures and designations.
- 11.5 The IA function should administratively function as a separate unit.
- 11.6 The IA function must be independent from the activities it is auditing and should assert no direct responsibility or authority over the activities being reviewed.
- 11.7 The CAE issues reports in his/her own name without third-party editing, to all appropriate officials, as well as the AG, AO or the Chairperson of the APC.
- 11.8 Without adversely affecting its objectivity, the IA activity may make recommendations regarding weaknesses identified.
- 11.9 The IA function should act as an advisory body and avoid trying to develop, install and maintain systems and controls or engage in other activities that could be considered management responsibility.

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- 11.10 The CAE must disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
 - 11.11 Internal auditors must exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
 - 11.12 The IA function should make balanced assessments of all available and relevant facts and circumstances.
 - 11.13 Internal auditors should take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.
 - 11.14 The CAE will confirm to the APC, at least annually, of the organizational independence of the internal audit activity.

12. SCOPE AND ROLE OF INTERNAL AUDITING

The unrestricted scope of internal auditing, as issued by the IIA, encompasses the examination and evaluation of the adequacy and effectiveness of CWDM's system of internal control and the quality of the performance in carrying out assigned responsibilities. The responsibility of IA includes, inter alia, the following:

12.1 Operational Auditing

Reviewing of key processes, procedures, systems and internal controls to ensure the effectiveness and efficiency of operations. The following internal control objective will be used for the documentation of processes and defining the objectives of the audit:

- 12.1.1 Safeguarding of assets and information.
- 12.1.2 Compliance with laws and regulations.

- 12.1.3 Accomplishment of objectives.
- 12.1.4 Reliability and integrity of information.
- 12.1.5 Efficiency, effectiveness and economic use of resources.

12.2 Financial Auditing

- 12.2.1 Auditing of financial transactions, including the evaluation of compliance with applicable laws, regulations, policies and instructions.
- 12.2.2 Reviewing the reliability and integrity of financial and operational information and the means used to identify, measure, classify and report such information.
- 12.2.3 Reviewing the compliance of the Municipality to accounting standards, i.e. Generally Recognised Accounting Practice.

12.3 Performance Auditing

- 12.3.1 Assessing and evaluating the basis for the performance indicators for each business unit.
- 12.3.2 Reviewing the monitoring system to provide reasonable assurance that the Municipality is achieving the set performance targets.
- 12.3.3 Auditing the performance of business units against the set performance indicators.
- 12.3.4 Reviewing the overall municipal performance management system.
- 12.3.5 Compiling and tabling audit results to the APC on a quarterly basis.

12.4 Information System Auditing

- 12.4.1 Reviewing the Information System (IT) controls to obtain an understanding of the control environment to support the audit risk assessment and to ensure that proper IT controls are in place to ensure that the information systems support the business objectives of the Council; and
- 12.4.2 Reviewing specific computer and application controls, controls over changes in the computer system, IT internal controls and procedures, backup and recovery procedures and the physical controls of the computer facilities.

12.5 Risk Management

- 12.5.1 IA is required to assist management and the Council in identifying and evaluating the Municipality's risk management processes to give an opinion on the adequacy and effectiveness of risk management.
- 12.5.2 IA can take on a facilitation/consultancy role without taking ownership thereof or managing the process.

12.6 Governance Auditing

- 12.6.1 IA must ensure that its functions operate in terms of the policy, procedures and directives of Council, the IIA standards, provisions of National Treasury Circular 65 and related professional associations.
- 12.6.2 IA will review statutory compliance, common law and other requirements that cover the ethical behaviour of management, officials and Councillors of the Municipality.

12.6.3 IA will report to the APC on the advancements made by the Municipality on ethical standards and on compliance therewith.

12.6.4 IA must assist management and the Council in achieving the goals of the Municipality by evaluating the approved processes through which:

- (a) Goals and values are established and communicated;
- (b) The accomplishment of goals is monitored; and
- (c) Accountability is ensured.

12.7 Fraud

12.7.1 Fraudulent activities identified during internal audits will be highlighted in the audit reports and reported as outlined in the Municipality's Fraud and Risk Management Policy.

12.8 Combined Assurance

12.8.1 The CAE should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of efforts.

12.8.2 The internal audit activity (IAA) will provide reasonable assurance over the following:

- (a) Development, implementation and annual review of a Combined Assurance Model/Framework;
- (b) Design and adequacy of the assurance management processes;

- (c) Adequacy of implemented controls;
 - (d) Whether management has implemented the recommendations made by Internal Audit, Auditor-General and other assurance providers or accepted the risk of not taking action; and
 - (e) Formal annual review of all the different assurance providers to determine the level of reliance that can be placed on their work and report the outcome of this formal review to APC.
- 12.8.3 Internal and external assurance providers should rely on the work of each other to increase efficiencies. Sufficient information should be provided to enable the other party to understand the techniques, methods and terminology to facilitate reliance on the work performed.
- 12.8.4 Planned audit activities of internal and external auditors need to be discussed to ensure that audit coverage is coordinated and duplicate efforts are minimised. Sufficient meetings are to be scheduled during the audit process to ensure coordination of audit work and efficient and timely completion of audit activities and to determine whether observations and recommendations from work performed to date require that the scope of planned work be adjusted.

13. CONSULTING AUDIT ENGAGEMENTS

- 13.1 IA can provide consulting services that will contribute to the improved management of the Municipality's significant risks, without assuming management responsibilities.
- 13.2 The CAE will assess the consulting services' impact on the objective assurance services and reach a formal agreement with the AO. The required services will be presented to the APC for approval.

13.3 The following consulting services on issues relating to the governance, risk management and control processes could be rendered:

13.3.1 Provide Executive Management with advice on the identification and assessment of significant risk exposures, with a view to improve the Municipality's control environment.

13.3.2 Participate in steering committees as risk and control specialists making recommendations relating to process design.

13.3.3 Facilitate training that contributes to good corporate governance in the Municipality.

13.3.4 Evaluate and assess new or changing services, processes, operations and control processes and coincide with their development, implementation and/or expansion.

14. RELATIONSHIPS WITH EXTERNAL AUDITORS – AUDITOR-GENERAL

IA coordinates its work with that of the external auditors (AG). IA must liaise with the AG in determining the audit activities to minimise duplication of audit effort.

15. APPOINTMENT/ DISMISSAL AND PERFORMANCE ASSESSMENT OF THE CHIEF AUDIT EXECUTIVE

15.1 The APC should be part of the final decision on the appointment and dismissal of the CAE.

15.2 The CAE is liable to disciplinary action, but can only be dismissed with the concurrence of the APC.

15.3 The APC should nominate a representative to participate in the performance assessment of the CAE.

16. ASSESSMENT OF EFFECTIVENESS OF THE INTERNAL AUDIT FUNCTION

- 16.1 The APC should annually assess the effectiveness of the IA function, based on the results of the Quality Assurance Improvement Programme (QAIP) as reported by IA.
- 16.2 IA should be assessed against the following criteria:
- 16.2.1 Achievement of the annual Internal Audit Plan.
 - 16.2.2 Compliance with the IIA professional standards, inclusive of quality assurance assessments on the level of conformance achieved.
 - 16.2.3 Ensure that the IA function is subject to an independent quality review every five year.
 - 16.2.4 Compilation and implementation of a skills matrix that considers the future strategies of the Municipality and ensures that the IAA is considering suitable competencies to audit proficiently in all areas including any new areas that is planned.
 - 16.2.5 Achievement of reporting protocols through management to the APC.
 - 16.2.6 Timelines of reporting of findings and activities.
 - 16.2.7 Management's acceptance of internal audit findings.

17. ADMINISTRATIVE

The charter should be reviewed at least once per annum.

18. ACT / LEGISLATION TO BE READ IN CONJUNCTION WITH THE CHARTER

- “A”** The International Professional Practices Framework (IPPF) is the conceptual framework that organises authoritative guidance promulgated by The Institute of Internal Auditors
- “B”** IIA Code of Ethics
- “C”** King IV Report on Corporate Governance
- “D”** The Local Government: Municipal Finance Management Act
- “E”** The Local Government: Municipal Systems Act

19. APPROVAL OF THE CHARTER

19.1 In terms of National Treasury Municipal Circular 65, the Internal Audit Charter should be accepted by the Accounting Officer and approved by the Audit and Performance Committee.

19.2 This charter was considered and approved at the Audit and Performance Committee meeting held on **03 May 2023**, item number: AC.8.4.6.



ACCEPTED BY: ACCOUNTING OFFICER

H F PRINS

DATE: 23 May 2023

APPROVED BY: CHAIRPERSON OF AUDIT AND PERFORMANCE COMMITTEE

M GROBLER

DATE: 23 May 2023