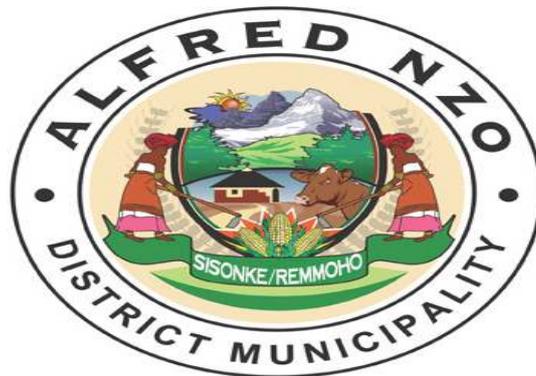


ALFRED NZO DISTRICT MUNICIPALITY

PROVINCE OF THE EASTERN CAPE



INTERNAL AUDIT CHARTER

2011-12 FINANCIAL YEAR

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1 Introduction

The ANDM Internal Audit Function is an independent, objective assurance and consulting activity designed to add value and improve the ANDM's operations. The Internal Audit Function assists the ANDM in accomplishing its objectives by bringing a systematic disciplined approach to the evaluation and improvement of effectiveness of risk management, internal control and governance processes.

2 Mission statement

To provide an innovative, responsive and effective value — added internal audit service by assisting management in controlling risks, monitoring compliance, improving the efficiency and effectiveness of internal control systems, risk management and governance processes.

3 Independence

The Internal Audit Function must be independent, with no limitation on its access to information".

Independence is achieved through the organizational status of the Internal Audit Function and the objectivity of the internal auditors.

In achieving its independent organizational status, internal audit shall report to the audit committee. The relationship between the Audit Committee and the Internal Audit Function encompasses reporting and oversight relationships.

Each internal auditor shall have an objective attitude and will be in a sufficiently independent position to be able to exercise judgment, express opinions and present recommendations with impartiality. Specifically:

- The Internal Audit Function, notwithstanding its employment by the ANDM, should be free from any conflict of interest arising either from professional or personal relationships or other interests in the ANDM or related activity, which it may subject to audit.
- The Internal Audit Function should be free from undue influence, which either restricts or modifies the scope or conduct of its work or over-rules or significantly affects its judgement as to the content of any internal audit reports.

In the interests of independence the Internal Audit Function will have no direct responsibility for, or authority over, any of the ANDM's activities and will have direct access to all members of the audit committee.

4 Authority

The internal audit functions authority is defined in the Treasury Regulations, which states that:

- Internal audit assignments must be conducted in accordance with the standards set by the Institute of Internal Auditors.
- The Internal Audit Function must be independent, with no limitation on its access to all ANDM's activities, records, personnel and property (including intellectual and electronic properties) required in the performance of audit assignments.

In addition the Accounting Officer of the ANDM prohibits all staff in the ANDM from providing Internal Audit with any form of misleading statements or false representation.

The services performed by the internal audit are advisory in nature only and in no way absolve line personnel of operating responsibilities assigned to them.

The Accounting Officer supports and authorizes the Internal Audit Function to operate independently of management and free of any organizational impairment.

5 Scope and responsibilities

To achieve full effectiveness, the scope of the work to be performed by the Internal Audit function will be based on its assessment of risk (with management input) and as approved by the Audit Committee. Audit coverage will focus primarily on high — risk areas and any other areas as directed by the Audit Committee.

The Internal Audit Function will be responsible for rendering internal audit services to the ANDM. Specifically the responsibilities of the Internal Audit Function, and as authorized by the Audit Committee, will include;

- Evaluating the effectiveness of controls over the reliability and integrity of information for management purposes;
- Ascertaining the appropriateness and level of compliance with policies, plans and procedures;
- Ensuring compliance with the laws and regulations governing the activities of the ANDM;
- Assessing the adequacy of controls to safeguard assets;
- Appraising the economy and efficiency with which resources are employed;
- Reviewing operations to ascertain whether established goals and objectives are being achieved as planned, and
- Advising management in identifying business risks and assessing the adequacy of their risk management process.

In order to fulfil its responsibilities the Internal Audit Function shall attend to the following:

Risk Assessments

- Advise management in performing periodic risk assessments, to determine the material risks to which the ANDM may be exposed and to evaluate the strategy for managing those risks.
- Establishing and maintaining a record and understanding of the risks for management.
- Use the risk assessment outputs to prioritize and direct the audit effort.

Internal Control

Understand the entity's key risk areas and the internal control structure. Review the ANDM's internal control structure and the quality of performance in carrying out assigned responsibilities. This also includes the review of the extent to which resources are utilized in an efficient and economical manner and that entity's programs are carried out as planned.

Organizational Relationships

The Head of the Internal Audit Function should prepare the internal audit plan in consultation with senior management. The Internal Audit Function should arrange the timing of internal assignments in consultation with the audit committee 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 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, the Accounting Officer and the audit committee unless express agreement is given to broaden the discussion. Discussion with management is necessary prior to the finalization and distribution of the audit report. This is an essential feature of a good relationship between the auditor and management.

6 Relationship with the Auditor General

The relationship between Internal Audit and Auditor General should take account of their different roles and responsibilities. Internal audit is an independent appraisal function within the ANDM. The Auditor General has a statutory responsibility to express an independent opinion on the financial statements and stewardship of the ANDM.

The aim should be to achieve mutual recognition and respect. The Internal Audit Function should co-ordinate its activities with those of the external auditors to obtain maximum assurance and to avoid duplication of audit effort. The Auditor General and internal audit may 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. Periodic meetings should be held between internal audit and the Auditor General at which joint audit planning, priorities, scope and audit findings are discussed and information exchanged.

7 Strategic and Annual Internal Audit Plans

- Internal Audit shall prepare (and regularly update) a rolling three-year strategic internal audit plan, in consultation with management and for approval by the audit committee, based on the key areas of risk of for the institution, having regard to its current operations, those proposed in its strategic plan and its risk management strategy,
- Annually, internal audit shall prepare an annual internal plan for the first year of the rolling plan, in consultation with and for approval by the audit committee. The annual internal audit plan shall also indicate the proposed scope of each audit.

The aforementioned audit plans are requirements in terms of the Treasury Regulations.

8 Due Professional Care

The Code of Ethics and Standards of the Professional Practice of Internal Auditing, as laid down by the Institute of Internal Auditors, are relevant to the work of the Internal Audit Function.

The Head of the Internal Audit Function should promote and maintain adequate quality standards within the internal audit Function. He should establish methods of evaluating the work of staff, to ensure that the function fulfils its responsibilities and has proper regard to the standards set by the Institute of Internal Auditors.

In order to demonstrate that due care has been exercised, the Internal Audit Function should be able to indicate that its work has been performed in a way that is consistent with the standards set by the Institute of Internal Auditors.

The Internal Audit Function should be impartial in discharging all its responsibilities, bias, prejudice or undue influence must not be allowed to limit or override objectivity. The integrity and conduct of each internal auditor must be above reproach, at all times. He must not place himself in a position where responsibilities and private interests' conflict and any personal interest should be declared timeously.

The internal auditor must not improperly disclose any information obtained during the course of his work.

9 Quality Assurance and Improvement Program

Statement 1300 of the IIA on Quality Assurance and Improvement Program states that, the Internal Audit Activity should adopt a process to monitor and assess the overall effectiveness of the quality program. The process should include both Internal and External assessment.

The internal assessment should include:

Ongoing review of the performance of the Internal Audit activity; and

Periodic reviews performed through self-assessment or by other persons within the organisation, with knowledge of internal auditing practice and the standards.

The Head of Internal Audit should establish and maintain a quality assurance program to evaluate the work performed by the operations of the internal audit Function, specifically:

- The Internal Audit Manager should conduct periodic internal quality assurance reviews on the work performed by internal audit.
- The Head of Internal Audit should ensure that issues identified are followed up and corrective action taken where necessary.

10 Reporting

■ The Internal Audit Function must report on and make relevant recommendations to the relevant Accounting Officer/management and audit committee based on the work performed in terms of its coverage plan. The responsibility for implementing such recommendations remains with the management. Specifically:

- Detailed written reports will be prepared and issued to management and the audit committee following the completion of each audit. The contents will be discussed with relevant management, and their responses taken into account, before the report is finalised and distributed.
- Regular reports highlighting significant audit findings and recommendations as well as other findings that came to internal audits attention shall be provided to the chairman of the audit committee and reported on at audit committee meetings.
- The Internal Audit Function should report, its actual performance or activities against the annual internal audit plan, to the audit committee on a quarterly basis. (This is a requirement of the Treasury Regulations).

11 Management responsibilities

Although the role of Internal Audit is to review controls, systems, procedures, risk etc, management and ultimately the Accounting Officers, retains full responsibility for ensuring that the ANDM maintains an appropriate framework of controls to reduce business risks to an acceptable level.

Management remains accountable and responsible for addressing weaknesses and inefficiencies, which have been identified by both the Auditor General and Internal Audit, and for taking the necessary corrective action.

Other management responsibilities include:

- To play an active and contributory role in establishing a risk profile and audit coverage plan for the ANDM and to accept co — ownership of the continuous maintenance and update thereof.
- To inform the Head Internal Audit of any significant internal control problems, thefts, fraud, defalcations, unauthorized transactions and accounting breakdowns. Significant matters will be reported to the Audit Committee.

12 Management of the internal audit function

The Internal Audit Manager is responsible for the proper management of the Function so that:

- Internal Audit as a consulting function, assists management in its task of achieving institutional strategic goals;
- Resources of the Internal Audit Function are efficiently and effectively employed;
- All audit work done conforms to the Standards for the Professional Practice of Internal Auditing, published by the Institute of Internal Auditors (IIA).
- Auditors comply with the IIA "Code of Ethics" and the "Statement of Responsibilities".

The Internal Audit Manager will establish plans to carry out the responsibilities of the Function. The planning process shall involve the establishment of:

- Annual audit work schedules and activity reports;
- Staffing plans and financial budgets.

The Internal Audit Manager will also:

- Provide written Internal Audit policies and procedures to guide audit staff
- Establish a program for selecting and developing the human resources of the Internal Audit function
- Co — ordinate Internal Audit and Auditor General efforts to ensure adequate audit coverage and to minimize duplication of effort. This co — ordination shall involve:
 - Periodic meetings to discuss matters of mutual interest
 - Access to each other's audit programmes and working papers
 - Exchange of audit reports and management letters and

- Common understanding of audit techniques, methodology and terminology.

13 Staff and training

The effectiveness of the Internal Audit Function depends substantially on the quality, training and experience of its staff. Staff should be appointed with the appropriate qualifications and experience, personal qualities and potential. The Internal Audit Function should be suitably staffed with qualified individuals who possess the appropriate experience in order to ensure adequate coverage of the audit environment.

The Internal Audit Manager has a responsibility to ensure that the internal audit team receives the necessary training for the performance of the full range of duties. A structured staff development plan should be developed and implemented to ensure that the audit team is provided with the necessary experience, training and continuing professional education.

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 auditors.

The Internal Audit Manager shall co-ordinate the training requirements of internal audit staff. This includes the preparation and maintenance of training profiles, which identify the training requirements for different levels of internal auditors, and the maintenance of personal training records for each individual.

14 Standards for the professional practice of internal auditing ???

The practice of internal auditing might be affected by different environments within the organization. However, with a view to meet their responsibilities, it is essential that internal auditors comply with the Standards for the Professional Practice of Internal Auditing. These standards delineate basic principles of the practice of internal auditing; it provides a framework for performing internal audit activities establishes a basis for measuring internal audit performance and fosters improved organizational operations. The following is a summary of the standards ["Guidance for the Professional Practice Framework", issued by the Institute of Internal Auditors.

Number	Title
1	Purpose, authority and responsibility
1100	Independence and objectivity
1200	Proficiency and due professional care
1300	Quality assurance and improvement program
2000	Managing the internal audit activity
2100	Nature of work
2200	Engagement planning
2300	Preparing the engagement
2400	Communication results
2500	Monitoring progress
2600	Management's acceptance of risk

5 Approval of the charter

Audit Committee Chairman _____
.. **Signature**

Date: