



**AUDIT AND RISK ASSURANCE SERVICES
(INTERNAL AUDIT)**

15 MAY 2023

INTERNAL AUDIT CHARTER

FOR THE ATTENTION OF

**THE
AUDIT AND RISK COMMITTEE**

APRIL 2023

"WE ASSURE - WE CONSULT- WE ADD VALUE"



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Abbreviations and Definitions:

Abbreviations	
ARC	Audit and Risk Committee
AO / CM	Accounting Officer or City Manager
DCM'(s)	Deputy City Manager(s)
CAE	Chief Audit Executive /Head Internal Audit
IIASA	Institute Of Internal Auditors South Africa
MFMA	Municipal Finance Management Act, No. 56 of 2003
ISPPIA	International Standards for the Professional Practice of Internal Auditing
IPPF	International Professional Practices Framework
IRMSA	Institute of Risk Management South Africa
IT	Information Technology
SAICA	South African Institute of Chartered Accountants
NT	National Treasury
CFE	Certified Fraud Examiner
ISACA	Information Systems Audit and Control Association
AGA	Associated General Accountant
COGTA	Department of Cooperative Governance and Traditional Affairs
MSA	Municipal Systems Act 32 of 2000
EM	eThekweni Municipality
MOE's	Municipal Owned Entities
Definitions	
Audit and Risk Committee	An independent Council Committee of the Audit and Risk Committee established in terms of section 166 of the MFMA and referred to in 3.2 (f)
Accounting Officer	The Accounting Officer is the Accounting Officer, also sometimes referred to as the City Manager
the "Committee"	The Committee refers to the Audit and Risk Committee of the Municipality
COUNCIL	Council of a municipality as referred to in Section 18 of the Municipal Structures Act, as defined in Section 1 of the MFMA
Executive Committee	Council members who are appointed to the Executive Committee inclusive of the Mayor, and Deputy Mayor
Terms of Reference	Should be read as same as Audit and Risk Committee Charter
IIA Standards	Standards for the Professional Practice of Internal Auditing, by the Institute of Internal Audit
EMARAS	eThekweni Municipality Audit & Risk Assurance Services
MOE's	Municipal Owned entities, namely uShaka Marine World and the Durban International Convention Centre
External Auditor	The Auditor General of South Africa. This may include the representatives of the Office of the Auditor General, public audit firms appointed by the Auditor General to conduct audits on their behalf.

1. INTRODUCTION

Internal Auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of eThekweni Municipality. It assists eThekweni Municipality in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's governance, risk management, and internal control processes.

The Council is ultimately responsible for overseeing the establishment of effective systems of internal control in order to provide reasonable assurance that the Municipality's financial and non-financial objectives are achieved. Executing this responsibility includes the establishment of an internal audit function in accordance with the requirements of the Municipal Finance Management Act (MFMA) No.56 of 2003, the Municipal Systems Act No 32 of 2000, and the King IV Report on Corporate Governance.

eThekweni Municipality Audit and Risk Assurance Services herein after referred to as EMARAS, was set up as an assurance and consulting function, under the administration of the City Manager, direction of the Chief Audit Executive (CAE): Internal Audit and Risk Assurance Services and functional oversight of the Audit Committee, in terms of the MFMA, as further espoused by the International Standards for the Professional Practice of Internal Auditing (ISPPIA).

The purpose of the Internal Audit Charter is to provide the CAE and the management of eThekweni Municipality with a broad framework of the mandate, authority, roles and responsibilities (auditors/auditee's), independence and organizational status and scope of activities of Internal Audit. This also includes the principles underlying the realisation of the objectives of Internal Audit and the translation thereof into operational audit programs and activities.

Internal audit's approach and methodology is risk-based and internal auditors should furnish a written assessment to the Audit and Risk Committee (ARC) on the adequacy of internal financial controls, general and IT controls, and compliance with laws and regulations and effectiveness of operations. The ARC needs to report fully to Council in regard to its recommendations and conclusion arising from the internal audit assessment. This assessment provides comfort to the ARC and endorsement by Executive Management of the adequacy of internal controls in the organization.

Internal control is understood to mean the processes aimed at achieving reasonable assurance about the realization of the following control objectives:

- The accomplishment of established objectives and goals;
- The economical and efficient use of resources;
- The reliability and integrity of financial and non-financial information;
- Compliance with relevant policies, procedures, laws and regulations;
- Safeguarding of assets;
- Giving effect to sec.217 of the Constitution with regard to transparent, fair, competitive and equitable procurement in line with MFMA prescripts and structures; and
- Giving effect to performance management outcome validation in line with performance regulations.

This document defines the mandate, authority, and scope of engagement for Internal Audit. It also includes the principles enshrined in MFMA as further espoused in King IV report on Corporate Governance and the International Standards for the Professional Practice of Internal Auditing (ISPPIA).

2. AUTHORITY AND MANDATE

The Municipal Finance Management Act, no. 56 of 2003 specifically requires that every Municipality and its entities shall have an Internal Audit Function. This is further emphasized by the King IV Report on Corporate Governance.

2.1 The Municipal Finance Management Act (MFMA), no. 56 of 2003, section 165, provides that:

"(1) each municipality and each municipal entity must have an Internal Audit Unit, subject to subsection (3).

(2) The internal audit unit of a municipality or municipal entity must:

- (a) prepare a risk-based audit plan and an internal audit program for each financial year;*
- (b) advise the accounting officer and report to the audit committee on the implementation of the internal audit plan and matters relating to—*
 - (i) internal audit;*
 - (ii) internal controls;*



- (iii) accounting procedures and practices;*
- (iv) risk and risk management;*
- (v) performance management;*
- (vi) loss control; and*
- (vii) compliance with this Act, the annual Division of Revenue Act and any other applicable legislation; and*
- (c) perform such other duties as may be assigned to it by the Accounting Officer.*

(3) The Internal Audit function referred to in subsection (2) may be outsourced if the Municipality or Municipal Entity requires assistance to develop its internal capacity and the Council of the Municipality or the Board of Directors of the entity has determined that this is feasible or cost-effective."

2.2 Furthermore, Section 62(1) (c), provides that:

"The Accounting Officer of a Municipality is responsible for managing the financial administration of the Municipality, and must for this purpose take all reasonable steps to ensure that the Municipality has and maintains effective, efficient and transparent systems of-

- (i) financial and risk management and internal control; and*
- (ii) internal audit operating in accordance with any prescribed norms and standards"*

2.3 This Internal Audit Charter represents the general authorization from the ARC of eThekweni Municipality to conduct internal audit activities based on approved scope of work. The Charter confers the authority upon the CAE to review and determine any change to the approved scope of work coverage to the emergence of Business Risk or developments, any change to the approved scope of work by the CAE must be communicated to the ARC at its next quarterly meeting.

The specific authorisation and the scope of work is the Strategic Three Year Rolling Internal Audit Plan approved by the ARC, concurred by management; executed annually and broken down into quarters.

2.4 The CAE and Internal Auditors are authorised to review all areas of the Municipality's financial, operating; governance, risk management and information systems, and have access to required resources and staff, free and unrestricted access to all eThekweni's activities, records, property, personnel, various accounting officers, officials, and any other determined requirements by the CAE for effective functioning of Internal Audit in line with

the ISPPIA. Internal Audit is responsible for the overall preparation and execution of all audits and serve as one port of call on internal auditing within the City and any grant funded establishment in Entities in respect of section 67 of MFMA.

2.5 Audit of Performance Management System / predetermined objectives: Section 45 of the Local Government Municipal Systems Act, no. 32 of 2000 states that the results of performance measurements in terms of the Performance Management System (PMS) must be audited as part of the Municipality's internal auditing process. Further provision is made in Regulations.

2.6.1 Local Government Municipal Planning and Performance Management Regulations 2001 14 (1):

- (a) A Municipality must develop and implement mechanisms, systems and processes for auditing the result of performance measurements as part of its internal auditing processes.*
- (b) Any Audit in terms of paragraph (a) must include assessment of the following:*
 - (i) The functionality of the Municipality's Performance Management System;*
 - (ii) Whether the performance management system complies with the MSA; and*
 - (iii) The extent to which the Municipality's Performance measurements are reliable in measuring performance of the Municipality.*
- (c) A Municipality's Internal Auditors must:*
 - (i) On a continuous basis, audit the performance measurements of the Municipality; and*
 - (ii) Submit quarterly reports on their audits to the Municipal Manager and the Performance Audit Committee.*

2.7 The CAE is authorized to:

2.7.1 Allocate resources, set frequencies, select subjects, determine scope of work, and apply the techniques required to accomplish audit objectives.

2.7.2 Obtain the necessary assistance of personnel in Clusters, Units, Functions and Departments, or related Entities where they perform audits, as well as other specialized services from within or outside eThekweni.

2.8 The CAE and Internal Audit staff **do not** have any authority or responsibility for implementation of activities and / or decision making of the entities that they audit, i.e.

- They will not initiate or approve accounting transactions external to the internal auditing function.
- They will not direct the activities of any department or employee not employed by the internal audit function, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.
- They will not directly participate in the design, development and implementation of new financial or other controls and systems or policies within the organisation other than in advisory and consulting capacity.
- They will not perform line function operational duties for the organisation they serve or its entities.

2.9 The CAE and Internal Audit may however, review the new systems or policy and comment on the adequacy of control measures and the efficiency of the said systems and policy before they are implemented to enhance pro-activeness.

2.10 The CAE is ultimately responsible for the work performed by the audit team in Internal Audit. This includes, but not limited to:

2.10.1 The establishment of the scope of activities to be carried out in the different Units and / or Departments.

2.10.2 The tools and methodologies to be followed, procedures and standards.

2.10.3 Resource requirements (manpower requirements including headcount of the function).

2.10.4 Determination of the required skills, educational levels, experience for recruitment into the function, decisions on the possible temporary contract, co-sourcing and outsourcing of capacity required, in order to achieve the objectives of the Internal Audit. (Where **outsourcing** of a function (e.g., ICT Audit Unit) is required, specific approval is required from the Audit Committee).

2.10.5 The authorisation of all communication from EMARAS.

2.11 The responsibility of the eThekweni Municipality's Internal Audit function, therefore, shall include the Municipal Entities and Enterprises funded by the municipality including grant funded establishments.

3. PURPOSE AND MISSION

3.1 The eThekweni Municipality has established and maintains a system of internal audit, in accordance with section 165 of the Municipal Finance Management Act (MFMA), no 56 of 2003.

3.2 The primary purpose of Internal Audit, as defined by the ISPPA and the International Professional Practices Framework (IPPF) is to undertake;

"... 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".

With the mission: "To enhance and protect organizational value by providing effective risk management advisory; objective assurance, consulting service and insight thereby promoting a culture of accountability in eThekweni Municipality and delivery of services".

3.3 The vision of Internal Audit is "to be eThekweni Municipality's Centre of excellence and leaders in governance, risk and control, services that contributes towards the well-being of its citizens". Through its realization, EMARAS will make a discernible contribution to the achievement of eThekweni Municipality's strategic goals in ensuring that by 2030 eThekweni Municipality will enjoy the reputation of being Africa's most caring and livable city where all citizens live in harmony while subscribing to the core principles in the ISPPA.

4. INDEPENDENCE AND OBJECTIVITY

The independence of Internal Audit must be sufficient to permit internal auditors to render impartial and unbiased judgement essential to the proper conduct of audit work. Independence is achieved through organizational status and objectivity, thus:

- Internal Audit will remain free from interference by any element in the organization including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.
- Internal auditors will not initiate or approve accounting transactions external to the scope And will always avoid conflict of interest.

- Internal auditors will exhibit the highest level of professional objectivity and competence in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors will make a balanced assessment of all the relevant factors and not be duly influenced by their own interest or by others, in forming judgment.
- Each internal auditor will have an objective attitude and shall be in a sufficiently independent position to be able to exercise judgment, express opinions and present recommendations with impartiality.
- An internal auditor shall be free from any conflict of interest arising from professional or personal relationships or other interests which he/she may be subjected to audit;
- The CAE will confirm to the ARC, at least annually, the independence of the Internal Audit Activity, further complying with ISA 610 for AGSA reliance purposes.
- The Chief Audit Executive shall have direct communication with the Accounting Officers, ARC, Municipal Council, Boards of Municipal Entities, and other appropriate governing authorities.

4.1 Reporting

- 4.1.1 The CAE reports functionally to the ARC and administratively to the City Manager (CM).
- 4.1.2 The City Manager has the authority to decide on the CAE's appointment and removal, in compliance with organizational policies, laws and regulations.
- 4.1.3 The ARC is responsible for performance evaluation of the Audit Function.
- 4.1.4 The CAE has a standing invitation to attend meetings of the Executive Management Committee, Executive Committee or other committees made up of a majority of senior executives but may not be a member of these committees in order to protect independence.
- 4.1.5 The internal audit coverage plan should be submitted to the ARC for approval and reporting in line with the workplan should take place at each quarterly meeting of the ARC.

4.1.6 The ARC should ensure that the internal audit function is subjected to an independent external quality assurance review in terms of Internal Audit Standards every five years or shorter period as the Committee determines it appropriate as a measure to ensure that the function remains effective. Within the five-year period between external assessments, internal periodic self-assessments and peer reviews may also take place.

4.2 Limitation of scope

4.2.1 Any attempted scope limitation by management must be reported, preferably in writing, to the City Manager and to the ARC. The question of whether an action by management in fact constitutes a scope limitation is at the judgment of the CAE.

4.2.2 Except in cases of suspected fraud, the City Manager and the ARC may decide to accept a limitation of scope. In such instances, the CAE should evaluate from time to time whether the circumstances surrounding the scope limitation are still valid and whether the scope limitation needs to be reported again to the City Manager and the ARC for their renewed consideration.

4.3 Organisational Structure

4.3.1 The organisational structure must promote the independence of the Internal Audit Function as a whole and allow internal audit to perform its work objectively and independently.

4.3.2 Internal audit has free and unrestricted access to management, employees, activities, physical locations, systems and to all information considered necessary for the proper execution of internal audit's work, as determined by the CAE.

4.3.3 The CAE is ultimately responsible for the work performed by all internal audit staff throughout eThekweni Municipality and their appraisal. In order to deliver the maximum added value to eThekweni Municipality, operational management must be able to provide support and assistance without organisational influence on the deployment of audit resources.

4.3.4 Internal Audit remuneration, bonuses and benefits is to be considered appropriately based on eThekweni Municipality Human Resource policies.

5. SCOPE OF WORK

The scope of activities that Internal Audit will engage in includes:

- 5.1.1 Regulatory audit universe as predetermined by Local Government prescripts and structures.
- 5.1.2 Reviewing the reliability and integrity of financial (testing the internal financial control environment) and operational information and the means used to identify, measure, classify and report such information.
- 5.1.3 Reviewing the systems established by management to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports and determining whether the municipality is in compliance.
- 5.1.4 Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets.
- 5.1.5 Appraising the economy and efficiency with which resources are employed; and reviewing operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
- 5.1.6 Reviewing the systems and process for performance management and the results of performance measurement.
- 5.1.7 Facilitation and coordinating with other assurance providers involved in the combined assurance model. The combined assurance provided by internal and external assurance providers and management should be sufficient to satisfy the ARC that significant risk areas within the Municipality have been adequately addressed and suitable controls exist to mitigate and reduce risks. The internal assurance providers will report directly to the ARC or another subcommittee to ensure that these functions are carried out effectively and independently.
- 5.1.8 The audit scope will generally be based on Management's assessment of organizational risk and focus on residual risks and vulnerability assessments depicting high risk areas identified in consultation with the ARC and Executive Management, in which details of the audit coverage areas will be included in the Annual Audit Plan.
- 5.1.9 Opportunities for improving management control, sustainability and image of eThekweni Municipality may be identified during audits and communicated to the appropriate level of Management.

Consulting Services

5.1.10 Providing consulting and related client service activities, the nature and scope of which are agreed with Management, and which are intended to add value and improve eThekweni Municipality's governance, risk management, and control processes without the internal auditor assuming management responsibility. These activities include, amongst others, training, advice, awareness campaigns and facilitation. With respect to the nature of consulting activities, the following is examples:

5.1.10.1 Business Continuity Management, in the absence of capacity in the organisation for this specialist area, facilitation of the establishment of the policy and framework. Further engagement with line in the formulation of impact assessments and business continuity plans. It is widely communicated and understood that management remain the custodian and owners of the process and Internal Audit provides an advisory role to assist management in this area. In addition, an outsourced service provider will be engaged to review the effectiveness of the Business Continuity Management Process.

5.1.10.2 From the Internal Audit reports that are issued, gaps identified are passed onto the Internal Control Unit, which is a separate unit from Internal Audit that assists management in closing these gaps in control.

5.1.10.3 Internal Audit provides advisory service to management in Project Assurance and input into the establishment of policies and procedures with management remaining ultimately responsible for these documents.

5.1.11 As required by Circular 65 in terms of consulting services:

- Objectives, scope and limitations of the consulting assignment will be confirmed in writing in an engagement letter. The responsibilities of both management and internal audit will be defined and documented in the audit planning memorandum that should be signed by both parties.
- All working papers prepared during the execution of the consulting engagement will be kept as evidence of conducting the procedures.
- Internal Audit will communicate issues and preliminary results of the consulting engagement with line management during the conduct of the assignment.
- Internal Audit will report results of the consulting activity.

5.1.12 Acceptance of Consulting Activities

- The Chief Audit Executive shall request the ARC's approval for consulting activities that significantly affect the approved internal audit's annual operational plan;
- The Chief Audit Executive shall consider the impact of independence and objectivity on the Internal Audit activity before acceptance of the consulting activities;
- The Chief Audit Executive shall consider whether the internal auditors have the requisite skills, knowledge, time and competencies to perform the proposed consulting activities; and
- The Chief Audit Executive shall consider the risks associated with the proposed consulting activities.

6. RESPONSIBILITIES OF AUDIT AND RISK COMMITTEE

The Audit and Risk Committee will in relation to internal audit:

- 6.1 Approve the Internal Audit Charter.
- 6.2 Approve the risk based internal audit plan.
- 6.3 Receive communication from CAE on the internal audit activity's performance relative to its plan and other matters, at least each successive meeting of the Committee.
- 6.4 Make appropriate enquiries of management and the CAE to determine whether there is inappropriate scope and resource limitation.
- 6.5 Ensure that the charter, independence and activities of the internal audit function are clearly understood and respond to the objectives of the municipality and the legal framework.
- 6.6 Regularly review the functional and administrative reporting lines of the internal audit to ensure that the organizational structure is consistent with the principles of independence and accountability.
- 6.7 Confirm that the annual audit plan makes provision for critical risk areas in the Municipality and its Entities.
- 6.8 Advise the Municipality on resources allocated to give effect to the work outputs of the Internal Audit function.
- 6.9 Ensure that there is support for the Internal Audit unit and external auditors from senior management.

- 6.10 Confirm with management that internal audit findings are submitted to the ARC on a quarterly basis.
- 6.11 Confirm actions taken by management in relation to the audit plan;
- 6.12 Consider and review reports relating to difficulties encountered during the course of the audit engagement, including any scope limitation or access to information reported to the Accounting Officer that remain unresolved.
- 6.13 Evaluate the performance of internal audit activity in terms of the agreed goals and objectives as captured in the audit plan.
- 6.14 Ensure that the Chief Audit Executive of Internal Audit has reasonable access to the chairperson of the ARC.
- 6.15 Conduct a high-level review of internal audit on an annual basis, to ascertain whether the Internal Audit unit complies with the International Standards for the Professional Practice of Internal Auditing.
- 6.16 May concur with any appointment and termination of the services of the Chief Audit Executive, limited to prescribed terms of the MFMA No. 56 of 2006, MSA No 32 of 2000 and its Regulations, as well as the organization's approved Recruitment Policy.

7. RESPONSIBILITIES OF MANAGEMENT

The primary responsibilities of management are:

- 7.1 Management of the City are risk owners' and directly responsible for risk management, including:
 - Review and approval of the Organizations Risk Management Policy Framework and Strategy.
 - Setting the risk appetite, tolerances and imposing risk management process.
 - Manage risk by implementing and taking decisions on risk responses.
 - Take accountability for risks and controls.
 - Specifically designing, developing and implementing controls that mitigate risks.
 - Maintain an effective risk management system.
- 7.2 Specifying the elements of a control framework according to which the Municipality's control environment can be managed.
- 7.3 Maintaining a system of internal control, including proper accounting records; and other management information suitable for running the business.

- 7.4 Ensure that internal auditors have access to all records, systems and information required in the conduct of internal audit engagements.
- 7.5 Responsible for deciding on swift actions to be taken as a result of Internal Audit's findings, i.e. management response to audit findings must be provided within seven days from the date of receipt of the audit report, extended to fourteen days (14) under exceptional circumstances upon approval by the CAE.
- 7.6 Provide written feedback after each IA project as per Client's Satisfaction Survey questionnaire.

Management, as represented by the City Manager (CM), also needs to ensure that the internal auditors have direct access and freedom to undertake their work and report to the ARC.

8. RESPONSIBILITIES OF INTERNAL AUDIT

The CAE and audit staff are responsible for rendering Internal Audit Services to eThekweni Municipality and its Entities in accordance with the Institute of Internal Auditors code of conduct read in conjunction with City's code of conduct, accordingly it must:

- 8.1 Evaluate the Municipality's governance processes including ethics, especially the 'tone at the top'.
- 8.2 Performing an objective assessment of the effectiveness of risk management and the internal control framework.
- 8.3 Systematically analysing and evaluating business processes and associated controls.
- 8.4 In specific, internal audit must provide a written assessment of the effectiveness of the system of internal controls and risk management to ARC. An assessment, based on a written documented review of the internal financial controls, must be reported directly to the Council by ARC.
- 8.5 Assist eThekweni Municipality in maintaining efficient and effective controls by evaluating these controls to determine their adequacy and effectiveness and provide recommendations to mitigate risk. The controls subject to evaluation should, amongst others, encompass the following:
 - The information systems, environment, including the electronic information system and electronic banking services;

- The reliability, integrity, accuracy, completeness and timeliness of financial and management information;
 - The effectiveness, efficiency and economy of operations;
 - The application and effectiveness of eThekweni Municipality's risk management procedures and risk assessment methodologies;
 - Safeguarding of assets; and
 - Compliance with laws, regulations and controls.
- 8.6 Assist the City Manager in achieving the objectives of eThekweni Municipality by evaluating and developing recommendations for the enhancement or improvement of the processes through which:
- Objectives and values are established and communicated;
 - The accomplishment of objectives is monitored;
 - Accountability is ensured; and
 - Corporate values are preserved.
- 8.7 Issue periodic reports to City Manager and the Audit Committee and summarizing results of audit activities.
- 8.8 Keep the ARC and the City Manager informed of emerging trends and successful practices in internal auditing.
- 8.9 Consider the scope of the work performed by the external auditors and any other third party, as appropriate, for the purpose of providing optimal combined audit coverage to eThekweni Municipality at a reasonable overall cost.
- 8.10 Provide advisory services to eThekweni Municipality regarding the development or improvement of internal controls provided that the advisory or consulting services are ancillary to the basic function and primary responsibilities of Internal Audit. Internal Audit shall not be precluded from analyzing and criticizing the internal controls that have been put in place by or at the direction of senior management and the introduction, development or improvement of internal controls shall remain the responsibility of the management of the Municipality.
- 8.11 At least annually, submit to senior management and the ARC an Internal Audit plan consisting of the work schedule as well as budget and resource requirements for the next financial year. The Internal Audit plan will be developed based on prioritization of the audit universe using a risk-based methodology, including input from Senior Management,

and the ARC. The CAE will review and adjust the plan as necessary, in response to changes in the Municipality business, operations, programs, systems and controls. Any significant deviations from the Internal Audit plan will be communicated to Senior Management through quarterly audit reports.

8.12 A written report will be prepared and issued by the CAE or designee following the conclusion of each Internal Audit engagement and will be distributed as appropriate.

8.13 Auditing performance measurements in terms of section 45 of the Local Government: Municipal Systems Act and providing results to senior management and ARC.

8.14 Internal Audit unit shall remain functionally accountable to the ARC as follows:

- Maintain open and effective communication with the ARC;
- Develop a flexible annual audit plan using a risk-based methodology, addressing any weaknesses in risks or controls identified;
- Submit the audit plan to the ARC for review and approval;
- Report on the implementation and results of the annual audit plan including special tasks requested by management and the ARC;
- Assist in drafting the agenda and documentation, and facilitate the distribution thereof to the ARC in advance of meetings;
- Meet periodically with the chairperson of the ARC to discuss whether the material and information furnished meets the requirements of the ARC;
- Obtain advice from the ARC whether the frequency and time allocated to the ARC is sufficient to attend effectively to all matters;
- Cooperate with the ARC as they conduct annual reviews of the performance of the Internal Audit function; and
- Submit the Internal Audit charter to the ARC for review and approval on an annual basis and as necessary.

9. RESPONSIBILITIES RELATING TO RISK MANAGEMENT

9.1 Internal Audit's core assurance roles in terms of risk management include:

- Evaluating whether risk management processes are effective in identifying significant risks; and
- Evaluating the reporting of key risks and reviewing management of key risks.

9.2 The consulting roles that internal audit may undertake in relation to ERM, and the

safeguards that are required to ensure that its independence and objectivity are maintained; include amongst others, the following:

- Making available to management tools and techniques used by internal audit to analyze risks and controls;
- Being a champion for introducing ERM into the organization, leveraging its expertise in risk management and control and its overall knowledge of the organization;
- Providing advice, facilitating workshops, coaching the organization on risk and control and promoting the development of a common language, framework and understanding;
- Acting as the central point for coordinating, monitoring and reporting on risks;
- Supporting managers as they work to identify the best way to mitigate a risk; and
- Recommending best practice models in risk management processes.

9.3 Whilst assisting management in establishing and improving risk management processes, Internal Audit shall apply the following safeguards i.e.,

- Internal Audit shall refrain from assuming management responsibilities for risk management;
- Internal Audit shall not give assurance on any part of the ERM framework for which it is responsible for. Such assurance will be provided by other suitably qualified external parties; and
- Internal Audit shall not manage any of risks on behalf of management.

10. RESPONSIBILITIES WITH REGARD TO FRAUD AND CORRUPTION

10.1 Internal Audit should consider where fraud risk is present within the business and respond appropriately by auditing the controls of that area, evaluating the potential for the occurrence of fraud and how the organization manages fraud risk (Standard 2120.A2) through risk assessment, and audit planning. It is not internal audit's direct responsibility to prevent fraud happening within the business. This is the responsibility of management as the first line of defense. The Internal Auditor should not be expected to have the expertise of a person whose primary responsibility is to investigate fraud. Such investigations are best carried out by those experienced to undertake such assignments.

10.2 When an Internal Auditor suspect's wrongdoing, he or she shall apply the standards and determine the extent; report concerns to the ARC and recommend any investigation that may be considered necessary in the circumstances to the City Manager who shall in turn engage the relevant Executive. All identified incidents of fraud and corruption shall be reported to CIIU and noted in each successive meeting of the ARC.

10.3 Internal Audit must apply audit techniques, data mining and analytics in conducting continuous auditing and all incidents of fraud and corruption detected must be reported to ARC, City Manager and City Integrity and Investigations Unit.

11. RELATIONSHIP WITH EXTERNAL AUDITORS, REGULATORY & OVERSIGHT BODIES

Internal audit shall co-ordinate its work with other assurance providers. The external auditors will be engaged in audit liaison meetings in determining the audit scope of focus in order to best optimise costs, avoid duplication, and prevent assurance overload and assessment. This may involve:

- Sharing information on perceived risk areas;
- Periodic meetings to discuss the planned activities;
- The exchange of audit work papers including systems documentation;
- The exchange of management letters;
- The forming of joint teams, where appropriate;
- Internal audit carrying out certain complimentary assurance work;
- Other aspects of the relationship between the organization and the external auditors;
- Relationships with regulatory bodies will also be maintained by internal audit; and
- Participation in assurance roles of National Treasury / COGTA / SALGA and any other organs of state as prescribed.
- Through the ARC, present reports to MPAC on a regular basis.

12. COMPLIANCE WITH PROFESSIONAL PRACTICE FRAMEWORK (THE STANDARDS)

12.1 All Internal Audit staff will conduct themselves in accordance with the Internal Audit Standards set by IIA Inc. as adopted by IIASA. Internal Audit shall comply with the following professional standards issued:

- The Code of Ethics of the IIASA;
- Code of Ethics of eThekweni Municipality;
- Values of eThekweni Municipality;
- Various codes as applicable; and
- Preferably, membership of professional Institute must be in good standing.

12.2 The Internal Auditors shall be a member of one professional body relevant to Internal Audit professional remit (i.e., IIASA, ISACA, SAICA, CFE, IRMSA, AGA), in order to keep up to date with the professional developments and requirements of continuous professional development. Internal Audit shall actively participate in IIA activities to ensure the maintenance of professional proficiency and competencies.

- 12.3 Internal Audit shall in addition comply with any regulations or instructions issued by National Treasury concerning internal audit components and their functioning.

13. QUALITY ASSURANCE AND IMPROVEMENT PROGRAM (QAIP)

- 13.1 The internal audit activity will maintain a quality assurance and improvement program that covers all the aspects of the internal audit activity (including both periodic internal and external assessment).
- 13.2 The Chief Audit Executive (CAE) of Internal Audit Unit will communicate to senior management and ARC on the internal audit activity's quality assurance and improvement program, including results of ongoing internal assessment and external assessments.

Internal Assessment:

- 13.3 The Chief Audit Executive must ensure that internal assessments are performed. Internal assessments shall include ongoing reviews of the performance of the internal audit activity.
- 13.4 The Chief Audit Executive, at least annually, must report on the results of internal assessments.
- 13.5 The program will include an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the ISPPA 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.
- 13.6 Annual Evaluations using questionnaires will be performed by the ARC to assess the efficiency and effectiveness of Internal Audit in meeting the needs of its various stakeholders.

External Assessment:

- 13.7 External Quality Assurance reviews will be conducted at least once every five years by a qualified, independent reviewer or a qualified independent review team from the Institute of Internal Auditors South Africa/other appropriate consultant.
- 13.8 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.

14. APPROVAL

This document must be updated at least once a year but more frequently as circumstances may necessitate. It must be approved by the ARC, in order to formally establish the authority of the Internal Audit function.