GREATER TAUNG
LOCAL MUNICIPALITY

EXCELLENCE THROUGH COOPERATION

Tel: Administrative Office (053) 994 9400
Fax:Administrative Office (053) 994 3917
Tel: Political Office (053) 994 9600
Fax:Political Office (053) 994 9611
Website: www.gtlm.gov.za

Postal Address:
Private Bag X1048,
Taung Station, 8580

Physical Address:
Station Street,
Taung, 8580

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INTERNAL AUDIT CHARTER

2024/2025

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1. INTRODUCTION

The Council of an Audit and Performance Committee ("APC") is responsible for overseeing the establishment of effective systems of internal control in order to provide reasonable assurance that Greater Taung Local Municipality's ("GTLM") financial and non-financial objectives are achieved. Executing this responsibility includes the establishment of an internal audit function in accordance with this document. This document defines the Internal Audit Activity's purpose, responsibility and the authority.

2. PURPOSE OF INTERNAL AUDIT

Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve Greater Taung Local Municipality's operations. It helps GTLM to accomplish it's objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Internal Audit will provide the Council and management with analysis, appraisals and recommendations concerning the activities reviewed.

3. ROLE OF INTERNAL AUDIT

The role of internal audit in the municipality is to assist the Municipal Manager and the Council to meet their objectives and to discharge their responsibility by providing an independent evaluation of the adequacy and effectiveness of GTLM's network of risk management, control and governance processes.

Internal audit is a systematic, objective appraisal of the diverse operations and controls within Greater Taung Local Municipality to ensure the:

- The information systems environment.
- The reliability and integrity of financial and non-financial information.
- The effectiveness of operations.
- Safeguarding of assets
- Economical and efficient use of resources; and
- Compliance with all applicable legislations within the government environment

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4. RESPONSIBILITY OF INTERNAL AUDIT

Internal Audit assurance is provided through applying the Standards and Core Principles for the Professional Practice of Internal Auditing, the Definition of Internal Auditing, and the Code of Ethics of the Institute of Internal Auditors South Africa (IIASA).

The Audit Executive, in the discharge of her duties, shall be accountable to the Audit and Performance Committee to:

- Provide an assessment on the adequacy and effectiveness of processes of controlling it's activities.
- Report significant issues related to processes for controlling the activities of Greater Taung Local Municipality, including potential improvements to those processes, and provide information concerning such issues for further action by management.
- Provide information periodically on the status and results of the internal audit plan and the sufficient use of department resources; and
- To handle documents and information given to Internal Audit as part of a review in the same prudent and confidential manner than by those employees/officials normally accountable for it.

The Audit Executive and Internal Audit staff members have, amongst others, the following responsibilities:

- Develop a three-year strategic and flexible risk-based audit plan using appropriate risk-based methodology, including any risks or control concerns identified by management and submit that plan to the Audit and Performance Committee for review and approval:
- Prepare and implement an annual internal audit plan, as approved by APC, covering Section 165(2) of the Municipal Finance Management Act (MFMA) and,
- as appropriate, any special tasks or projects requested by management and the Audit and Performance Committee.
- Establish policies and procedures to guide the Internal Audit Unit and direct it's administrative functions.

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- Maintain a professional audit staff with sufficient knowledge, skills and experience and professional certifications to meet the requirements of this charter. Refer to standards 1200 of the Standards for the Professional Practice of Internal Auditing).
- Establish a quality assurance and improvement program (QAIP) by which the Audit Executive assures the operation of internal audit activities (Refer to standards 1300 of the Standards for the professional practice of internal auditing).
- Perform consulting services, beyond internal auditing assurance services, to assist management in meeting it's objectives. Examples may include facilitation, training, and advisory services. Informal consulting engagements include routine activities such as participating in Council and management meetings, ad hoc meetings, and routine information exchange (Refer to standards 1100 of the Standards for the professional practice of internal auditing);
- Issue at least quarterly reports to the Audit and Performance Committee and management summarizing results of audit activities.

5. RELATIONSHIP WITH OTHER ASSURANCE PROVIDERS

Internal Audit will co-ordinate their work with the other assurance providers as directed by management and the Audit and Performance Committee. The external auditors will be notified of the activities of internal audit to ensure proper coverage and minimize duplication of audit effort.

6. INDEPENDENCE

- To provide for the independence of the Internal Audit Activity (IAA), the Audit Executive and personnel report functionally to the Audit and Performance Committee and administratively to the Accounting Officer.
- The Internal Audit section shall have an independent status within the Municipality and will not be involved in the day-to-day internal validation systems of the Municipality.
- The Audit and Performance Committee must concur on the appointment or removal of the Audit Executive.
- The Audit Executive has a standing invitation to attend meetings of the executive committee or other committees made up of a majority of senior

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executives but is not a member of these committees in order to protect independence.

- All internal audit activities shall remain free of influence by any element in the organization, including matters of:
  - Audit selection
  - Scope
  - Procedures
  - Frequency
  - Timing; or
  - Report content to permit maintenance of an independence and objective attitude necessary in rendering reports.
- Internal Auditors shall have no direct operational responsibility or authority over any of the activities they review.
- When performing consulting engagements, the nature and scope of the engagement are agreed with the management prior to it's commencement.
- The internal auditors will not assume any management responsibilities during and after the engagement.
- The organizational structure must promote the independence of the internal audit function as a whole and allow internal audit to form its judgements objectively.

7. AUTHORITY

The Audit Executive and staff of the Internal Audit Unit are authorized amongst others to:

- Have full, free, and unrestricted access, at all reasonable times, to all premises, functions, records, property, and personnel relevant to any function under review.
- Have full and free access to Council and the Audit and Performance Audit Committee.
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives; and
- Obtain the necessary assistance of personnel of GTLM as well as other specialized services from within or outside the Municipality.

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8. COMBINED ASSURANCE

Internal audit must assess the adequacy of the combined assurance approach adopted by Greater Taung Local Municipality. This assessment includes the adequacy of risks covered by the different assurance providers and the reliability of the assurance provided.

9. LIMITATION OF SCOPE

Impairments of independence and/or any attempted scope limitation by management must be reported in writing to the Audit and Performance Committee and if necessary to Council. (Refer to standards 1130 of the Standards for the professional practice of internal auditing)

10. RESTRICTIONS

The Audit Executive and staff of the IAA are not authorized to:

- Perform any operational duties for the Municipality.
- Be involved in the implementation of internal control systems but may be consulted on the adequacy of controls when they are first implemented.
- Initiate or approve accounting transactions external to the internal auditing department; and
- Direct the activities of any of the municipality's employees not employed by the internal audit department, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

11. AUDIT SCOPE

11.1 Risk Management

Internal audit must assist the Council, Directors, and Managers in evaluating the municipality's risk management process to give an opinion on the adequacy and effectiveness of risk management and internal controls systems.

11.2 Controls

Internal Audit must assist the Council, Directors, and Managers in maintaining effective controls by evaluating those controls to determine their efficiency, and by developing recommendations for enhancement or improvement. Accounting

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controls are designed to safeguard assets and ensure the accuracy of financial records.

11.3 Governance

Internal Audit must assist the Council, Directors, and Managers in achieving the objectives of the municipality by evaluating and approving the process through which:

- Objectives and values are established and communicated.
- The accomplishment of objectives is monitored.
- Accountability is ensured; and
- Council's values are preserved.

11.4 Performance Management

Internal Audit must audit performance management according to legislation and the Performance Framework approved by Council.

11.5 Financial Audits

Financial audits address accounting and reporting of financial transaction, including authorizations, receipt, and disbursements of funds.

11.6 Operational Audits

Review operating information and the means used to identify, measure, classify and report such information; review the means for safeguarding of assets; provide analysis and evaluate operational results with comparison to established goals, objectives, policies, plans, laws, procedures, and resolutions.

11.7 Surprise audits

Internal Audit must perform surprise audits to be effective especially where money is involved. The section does not need to get permission from any directorate before proceeding with such audit but must immediately afterwards inform the relevant level of management of the outcome.

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11.8 Compliance Audit

Review the systems established by management to ascertain compliance with those policies, plans, procedures, law, and regulations which could have a significant impact on operations and reports and determining whether the Municipality is complying.

11.9 Fraud Limitations/Investigations

The identification and prevention of fraud is a management responsibility. Internal Audit is well qualified to assist management to identify the main fraud risks facing the Council and could assist management in designing appropriate controls that could minimize the effect of the risks.

11.10 Ad hoc assignment

Carry out ad hoc appraisals, inspections, investigations, examinations, or reviews requested by the Accounting Officer or APC [MFMA S165 (2) (c)], having due regard for the available resources.

Any instances of fraud or non-compliance with legislation which may come to Internal Audit's attention during its activities will be reported to the Audit and Performance Committee. After obtaining approval from the Chairperson of the Audit and Performance Committee, Internal Audit can assist management in performance of fraud investigations.

12. REPORTING

- Internal Audit will perform the internal audit procedures in line with the scope as set out.
- After every engagement, a written report will be prepared and issued by the auditors to the management. This report will contain the outcome and findings and any recommendations made.
- The Audit Executive should establish and maintain a system to monitor the disposition of results communicated to management.

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A follow up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not acting.

Internal Audit will submit a quarterly report to the Audit and Performance Committee on the:

- Status of Internal Audit activities.
- Significant findings and management action plans.
- Follow-up on previously reported internal audit findings.
- Any instance of fraud or non-compliance with legislation identified during the performance of the Internal Audit activities ; and
- Performance of Internal Audit against the annual Internal Audit plan to allow effective monitoring and possible intervention.

13. MANAGEMENT

APC is responsible for approval of the scope of internal audit work, and for recommending the action to be taken on the outcome of or findings from their work. Management, in conjunction with the Accounting Officer, is responsible for:

- Ensuring that a risk assessment is conducted regularly to identify emerging risks of the Council. A risk management strategy must be drawn up and used by management to direct Internal Audit effort and priority.
- Proposing the areas of investigation by Internal Audit.
- Ensuring the Internal Audit functions has –
  - The support of Directors.
  - Direct access and freedom to report to the Accounting Officer and APC.
  - Free access to books of account, records, cash, stores, property, and other sources of relevant information.

- Maintaining internal control, including proper accounting records and other management information suitable for running the Municipality; and
- Review Internal Audit reports and the timely implementation of recommendations as considered appropriate, in the light of Council's resources.

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14. STANDARDS AND CODE OF ETHICS

Internal audit will seek to meet or exceed the IIA Standards and abide by the Code of Ethics as outlined in the International Standards for the Professional Practice of Internal Auditing (ISPPIA).

15. QUALITY ASSURANCE AND IMPROVEMENT PROGRAM (QAIP)

The activities of the internal audit unit must be guided, monitored, and supervised at each level of operation to ensure that the unit is consistently performing in accordance with the International Standards for the Professional Practice of Internal Audit.

The quality assurance and improvement program 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.

a) **<u>Internal assessments</u>**

The Audit Executive must ensure that internal assessments are performed. Internal assessments should include on-going 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 practices and the IIA Standards. The 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 audit.
- IIA Standards.
- Internal audit charter.
- Code of ethics; and
- Internal audit methodology.
- APC should annually assess the effectiveness of the Internal Audit function also.

b) **<u>External assessments</u>**

The internal audit unit must be subjected to an external assessment at least once every five years, the results of which should be communicated to the Audit and Performance Committee and the Municipal Manager. An external assessment

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must be conducted by a qualified reviewer or a review team from outside the municipality.

On completion of the external assessment, the review team should issue a formal report containing an opinion.

The Audit Executive in consultation with the Municipal Manager should prepare a written action plan in response to comments and recommendations in the report.

16. EVALUATION OF THE INTERNAL AUDIT FUNCTION BY APC

According to Standards 2000 – Managing the Internal Audit Activity; the Audit Executive must effectively manage the internal audit activity to ensure it adds value to the organization.

Furthermore Standards 2100 – Nature of Work; states that the internal audit activity must evaluate and contribute to the improvement of governance, risk management, and control processes using a systematic disciplined approach.

King IV report on corporate governance further states that the Audit and Performance Committee should be responsible for overseeing internal audit, which includes evaluating the performance of the internal audit function every year to ensure that internal audit is fulfilling its responsibility to assist and advice the Audit and Performance Committee and Council.

In evaluating the effectiveness of internal audit, the Audit and Performance Committee needs to assess the effectiveness of internal audit against agreed performance criteria, including:

- Compliance by internal audit – be it in-house, outsourced, or co-sourced – with its agreed charter or plan/scope and level of performance.
- The overall comprehensiveness of the internal audit plan and its relationship with the strategic objectives of the business.
- Delivery of timely internal audit services in accordance with the plan; and
- Competency of internal audit staff and adequacy of resources to achieve the scope as outlined in the plan. This may require outsourcing certain specialist skills not available in the internal audit function.

The Audit and Performance Committee, should, on an annual basis, request a review of internal audit performance from various sources including management, the external auditor and through a self-assessment.

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17. REVIEW OF CHARTER

This charter will be reviewed on an annual basis and submitted to the Audit and Performance Committee for approval.

18. APPROVAL OF THE CHARTER

Greater Taung Local Municipality's Internal Audit Charter is hereby approved by the APC.

__________________________ ________________________

Audit Executive Date

Mr E.G. Mmokwa

__________________________ ________________________

APC Chairperson Date

Mr D. Matshoba