



Internal Audit Charter

REVIEWED: November 2024 for approval by the Audit and Performance Audit Committee during December 2024

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I. ABBREVIATIONS

Abbreviation	Explanation
APAC	Audit and Performance Audit Committee
CAE	Chief Audit Executive
MM	Municipal Manager
IA	Internal Audit/or
IAF	Internal Audit Function
IIA	Institute of Internal Auditors
MFMA	Municipal Finance Management Act No. 56 of 2003

II. REFERENCES

The following documents were considered in the development of the Charter:

- Global Internal Audit Standards
- Public Finance Management Act, Act No. 1 of 1999
- Treasury Regulations
- King IV on corporate governance
- IIA International Professional Practices Framework
- National Treasury Internal Audit Framework
- Local Government Municipal Finance Management Act, Act No 56 of 2003

1. INTRODUCTION

- 1.1. The purpose, authority and responsibility of the IAF must, in consultation with the APAC, be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework 2024 as prescribed by the Institute of Internal Auditors.
- 1.2. The IAF will govern itself by adhering to the Institute of Internal Auditors' International Professional Practices Framework's mandatory guidance, which includes the Global Internal Audit Standards, Topical Requirements, and Global Guidance. The mandatory guidance constitutes the fundamental requirements for the professional practice of internal auditing and the principles against which to evaluate the effectiveness of the IIA's performance.
- 1.3. Section 62(c) (ii) of the MFMA, as amended states that “that the municipality has and maintains effective, efficient and transparent systems – (ii) of internal audit operating in accordance with any prescribed norms and standards”

2. DEFINITION, PURPOSE AND MISSION

- 2.1 Internal auditing is an independent, objective assurance and advisory service designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
- 2.2 The purpose of the internal audit function is to strengthen Bitou Municipality’s ability to create, protect, and sustain value by providing the APAC and management with independent, risk-based, and objective assurance, advice, insight, and foresight.

The internal audit function enhances Bitou Municipality’s:

- 2.2.1 Successful achievement of its objectives.
- 2.2.2 Governance, risk management, and control processes.
- 2.2.3 Decision-making and oversight.
- 2.2.4 Reputation and credibility with its stakeholders.
- 2.2.5 Ability to serve the public interest.

2.3 Bitou Municipality's internal audit function is most effective when:

- 2.3.1 Internal auditing is performed by competent professionals in conformance with the IIA's Global Internal Audit Standards, which are set in the public interest.
- 2.3.2 The internal audit function is independently positioned with direct accountability to the Audit and Performance Audit Committee.
- 2.3.3 Internal auditors are free from undue influence and committed to making objective assessments.

3. COMMITMENT TO ADHERING TO THE GLOBAL INTERNAL AUDIT STANDARDS

The Bitou Municipality's internal audit function will adhere to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, which are the Global Internal Audit Standards and Topical Requirements. The chief audit executive will report periodically to the APAC and senior management regarding the internal audit function's conformance with the Standards, which will be assessed through a quality assurance and improvement program.

4. MANDATE

The Bitou Municipality's internal audit function mandate is found in section 165 of the MFMA, which states:

- (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 APAC of the entity has determined that this is feasible or cost-effective.

5. AUTHORITY, INDEPENDENCE, ORGANISATIONAL POSITION, AND REPORTING RELATIONSHIPS

5.1 The internal audit function's authority is created by its direct reporting relationship to the APAC. Such authority allows for unrestricted access to the APAC.

5.2 The APAC authorises the IAF to:

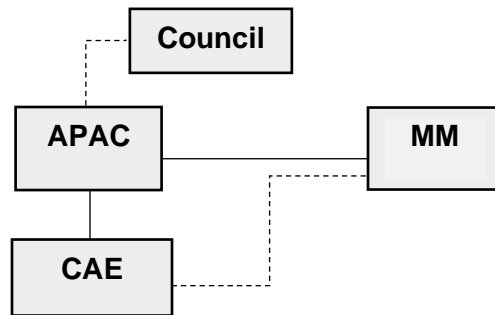
- 5.2.1 Have full, and unrestricted access to all functions, data, records, information, physical property, and personnel pertinent to carrying out internal audit responsibilities. Internal auditors are accountable for confidentiality and safeguarding records and information.
- 5.2.2 Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques, and issue communications to accomplish the function's objectives.
- 5.2.3 Obtain assistance from the necessary personnel of Bitou Municipality, as well as other specialized services from within or outside the Bitou Municipality, to complete the engagement.
- 5.2.4 Receive requests from the MM for ad hoc-assignments and special investigations. These requests should be communicated to the APAC. The APAC will not unduly refuse these requests and may augment the IA plan and ratify the amendment(s) to the IA plan at the following APAC meeting.

5.3 The CAE will be positioned at a level in the organisation that enables internal audit services and responsibilities to be performed without interference from management, thereby establishing the independence of the IAF. The CAE will report functionally to the APAC and administratively (i.e., day-to-day operations) to the MM. The positioning provides the organisational authority and status to bring matters directly to

senior management and escalate matters to the APAC, when necessary, without interference and supports the internal auditors’ ability to maintain objectivity.

5.4 The CAE will confirm to the APAC, at least annually, the organizational independence of the IAF. If the governance structure does not support organisational independence, the CAE will document the characteristics of the governance structure limiting independence and any safeguards employed to achieve the principle of independence. The CAE will disclose to the APAC any interference internal auditors encounter related to the scope, performance, or communication of internal audit work and results. The disclosure will include communicating the implications of such interference on the internal audit function’s effectiveness and ability to fulfill its mandate.

DUAL REPORTING LINE OF THE IAF TO ENHANCE INDEPENDENCE
Administratively Reporting Line:
 MM
Functional Reporting Line:
 APAC



6. AUDIT AND PERFORMANCE AUDIT COMMITTEE OVERSIGHT

6.1 To establish, maintain, and ensure that Bitou Municipality's Internal Audit Function has sufficient authority to fulfil its duties, the APAC will:

- 6.1.1 Discuss with the CAE and senior management the appropriate authority, role, responsibilities, scope, and services (assurance and/or advisory) of the internal audit function.
- 6.1.2 Ensure the CAE has unrestricted access to and communicates and interacts directly with the APAC, including in private meetings without senior management present. The CAE must ensure that any such meetings are held in accordance with laws and/or regulations applicable to public records.
- 6.1.3 Discuss with the CAE and senior management other topics that should be included in the internal audit charter.
- 6.1.4 Participate in discussions with the CAE and senior management about the "essential conditions," described in the Global Internal Audit Standards, which establish the foundation that enables an effective internal audit function.
- 6.1.5 Approve the IAF's charter, which includes the internal audit mandate and the scope and types of internal audit services.
- 6.1.6 Review the internal audit charter annually with the CAE to consider changes affecting the organization, such as the employment of a new CAE or changes in the type, severity, and interdependencies of risks to the organization; and approve the internal audit charter annually.
- 6.1.7 Approve the risk-based internal audit plan.
- 6.1.8 Provide input to the IAF's human resources administration and budgets.
- 6.1.9 Review the IAF's expenses.
- 6.1.10 Provide input to senior management on the appointment and removal of the CAE, ensuring adequate competencies and qualifications and conformance with the Global Internal Audit Standards.
- 6.1.11 Review and provide input to senior management on the CAE's performance.
- 6.1.12 Receive communications from the CAE about the IAF including its performance relative to its plan.
- 6.1.13 Ensure a quality assurance and improvement program has been established.
- 6.1.14 Review of the results of the quality assurance and improvement program annually.
- 6.1.15 Make appropriate inquiries of management and the CAE to determine whether scope or resource limitations are inappropriate.

7. CHIEF AUDIT EXECUTIVE ROLES AND RESPONSIBILITIES

7.1 Ethics and Professionalism

The Chief Audit Executive will ensure that internal auditors:

- 7.1.1 Conform with the Global Internal Audit Standards, including the principles of Ethics and Professionalism: integrity, objectivity, competency, due professional care, and confidentiality.
- 7.1.2 Understand, respect, meet, and contribute to the legitimate and ethical expectations of the organization and be able to recognize conduct that is contrary to those expectations.
- 7.1.3 Encourage and promote an ethics-based culture in the organization.
- 7.1.4 Report organisational behaviour that is inconsistent with the organisation's ethical expectations, as described in applicable policies and procedures.

7.2 Objectivity

- 7.2.1 The CAE will ensure that the internal audit function remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of engagement selection, scope, procedures, frequency, timing, and communication. If the CAE determines that objectivity may be impaired in fact or appearance, the details of the impairment will be disclosed to appropriate parties.
- 7.2.2 Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively such that they believe in their work product, do not compromise quality, and do not subordinate their judgment on audit matters to others, either in fact or appearance.
- 7.2.3 Internal auditors will have no direct operational responsibility or authority over any of the activities they review. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare

records, or engage in any other activity that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing operational duties for Bitou Municipality or its affiliates.
- Initiating or approving transactions external to the IAF.
- Directing the activities of any Bitou Municipality employee not employed in the IAF, except to the extent that such employees have been appropriately assigned to auditing teams or to assist internal auditors.

7.2.4 Where the CAE has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

7.2.5 Internal auditors will:

- Disclose impairments of independence or objectivity, in fact or appearance, to appropriate parties and at least annually, such as the CAE, APAC, management, or others.
- Exhibit professional objectivity in gathering, evaluating, and communicating information.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid conflicts of interest, bias, and undue influence.

7.3 Managing the Internal Audit Function

The CAE has the responsibility to:

7.3.1 At least annually, develop a risk-based internal audit plan that considers the input of the APAC and senior management. Discuss the plan with the APAC and senior management and submit the plan to the APAC for review and approval.

- 7.3.2 Communicate the impact of resource limitations on the internal audit plan to the APAC and senior management.
- 7.3.3 Review and adjust the internal audit plan, as necessary, in response to changes in Bitou Municipality's business, risks, operations, programs, systems, and controls.
- 7.3.4 Communicate with the APAC and senior management if there are significant interim changes to the internal audit plan.
- 7.3.5 Ensure internal audit engagements are performed, documented, and communicated in accordance with the Global Internal Audit Standards and laws and/or regulations.
- 7.3.6 Follow up on engagement findings and confirm the implementation of recommendations or action plans and communicate the results of internal audit services to the APAC and senior management periodically and for each engagement as appropriate.
- 7.3.7 Ensure the IAF collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the Global Internal Audit Standards and fulfil the internal audit mandate.
- 7.3.8 Identify and consider trends and emerging issues that could impact Bitou Municipality and communicate to the APAC and senior management as appropriate.
- 7.3.9 Consider emerging trends and successful practices in internal auditing.
- 7.3.10 Establish and ensure adherence to methodologies designed to guide the IAF.
- 7.3.11 Ensure adherence to Bitou Municipality's relevant policies and procedures unless such policies and procedures conflict with the internal audit charter or the Global Internal Audit Standards. Any such conflicts will be resolved or documented and communicated to the APAC and senior management.

- 7.3.12 Coordinate activities and consider relying upon the work of other internal and external providers of assurance and advisory services. If the CAE cannot achieve an appropriate level of coordination, the issue must be communicated to senior management and if necessary escalated to the APAC.

7.4 Communication with the APAC and Senior Management

The CAE will report periodically to the APAC and senior management regarding:

- 7.4.1 The IAF's mandate.
- 7.4.2 The internal audit plan and performance relative to its plan.
- 7.4.3 Internal audit budget.
- 7.4.4 Significant revisions to the internal audit plan and budget.
- 7.4.5 Potential impairments to independence, including relevant disclosures as applicable.
- 7.4.6 Results from the quality assurance and improvement program, which include the IAF's conformance with The IIA's Global Internal Audit Standards and action plans to address the internal audit function's deficiencies and opportunities for improvement.
- 7.4.7 Significant risk exposures and control issues, including fraud risks, governance issues, and other areas of focus for the APAC that could interfere with the achievement of Bitou Municipality's strategic objectives.
- 7.4.8 Results of assurance and advisory services.
- 7.4.9 Resource requirements.
- 7.4.10 Management's responses to risk that the IAF determines may be unacceptable or acceptance of a risk that is beyond Bitou Municipality's risk appetite.

8. SCOPE AND TYPES OF INTERNAL AUDIT SERVICES

- 8.1 The scope of internal audit services covers the entire breadth of the organization, including all of Bitou Municipality's activities, assets, and personnel. The scope of internal audit activities also encompasses but is not limited to objective examinations of evidence to provide independent assurance and advisory services to the APAC and management on the adequacy and effectiveness of governance, risk management, and control processes for Bitou Municipality.
- 8.2 The nature and scope of advisory services may be agreed with the party requesting the service, provided the IAF does not assume management responsibility. Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during advisory engagements. These opportunities will be communicated to the appropriate level of management.
- 8.3 Internal audit engagements may include evaluating whether:
- 8.3.1 Risks relating to the achievement of Bitou Municipality's strategic objectives are appropriately identified and managed.
 - 8.3.2 The actions Bitou Municipality's officers, directors, management, employees, and contractors or other relevant parties comply with Bitou Municipality's policies, procedures, and applicable laws, regulations, and governance standards.
 - 8.3.3 The results of operations or programs are consistent with established goals and objectives.
 - 8.3.4 Operations or programs are being carried out effectively, efficiently, ethically and equitably.
 - 8.3.5 Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the Bitou Municipality.
 - 8.3.6 The integrity of information and the means used to identify, measure, analyse, classify, and report such information is reliable.
 - 8.3.7 Resources and assets are acquired economically, used efficiently and sustainably, and protected adequately.

9. RESPONSIBILITIES OF MANAGEMENT

9.1 Management is responsible for:

- 9.1.1 Ensuring that a risk assessment is conducted regularly (as determined by applicable policy) to identify emerging risks of the Bitou Municipality.
- 9.1.2 Ensuring that the IAF has access to records and other sources of information.
- 9.1.3 Maintaining internal control, including proper accounting records and other management information suitable for the operations of the Bitou Municipality.
- 9.1.4 Providing the IAF with full support and cooperation at all levels of operations.
- 9.1.5 Ensuring the IAF has an adequate budget and staffing to perform its responsibilities.
- 9.1.6 Reviewing internal audit reports, and implementing the agreed actions necessary, taking into account the Bitou Municipality's resources.

10. QUALITY ASSURANCE AND IMPROVEMENT PLAN

10.1 The CAE will develop, implement, and maintain a quality assurance and improvement program that covers all aspects of the IAF. The program will include external and internal assessments of the IAF's conformance with the Global Internal Audit Standards, as well as performance measurement to assess the IAF's progress toward the achievement of its objectives and promotion of continuous improvement. The program also will assess, if applicable, compliance with laws and/or regulations relevant to internal auditing. Also, if applicable, the assessment will include plans to address the IAF's deficiencies and opportunities for improvement.

10.2 Annually, the CAE will communicate with the APAC and senior management about the IAF's quality assurance and improvement program, including the results of internal assessments (ongoing monitoring and periodic self-assessments) and external assessments. External assessments will be conducted at least once every five years by a qualified, independent assessor or assessment team from outside Bitou Municipality. Qualifications must include at least one assessor holding an active Certified Internal Auditor credential. Public sector competencies and knowledge as well as knowledge of the Global Internal Audit Standards should be considered when selecting external assessors.

11. EXTERNAL RELATIONSHIPS

11.1 Though the IAF shall have an independent status within the Municipality, the section shall interact with and complement the Departments and Sections to promote the objectives of the Municipality. In particular, the section shall:

- Coordinate its work with that of other assurance providers;
- Coordinate all review, evaluation and/or investigation activities within the Municipality, as may be requested and approved by the APAC;
- To facilitate effective combined assurance, liaise with the external auditors and:
- Verify, where necessary, data and information are given to external agencies;
- Comply with Standards, Codes of Conduct and Ethics that are promulgated from time to time by the relevant professional bodies.

11.2 Internal Audit must assess the adequacy of the combined assurance approach adopted by the Municipality. This assessment includes the adequacy of risks covered by the different assurance providers and the reliability of the assurance provided.

12. FRAUD

12.1 The identification and prevention of fraud is a management responsibility. Internal audit will report to management any red flags that might have come to their attention during the normal process of its activities.

13. CONSULTING ENGAGEMENTS

13.1 The CAE must decline the consulting engagement or obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

Internal auditors must exercise due professional care during a consulting engagement by considering the:

- Needs and expectations of clients, including the nature, timing, and communication of engagement results;
- Relative complexity and extent of work needed to achieve the engagement's objectives; and
- Cost of the consulting engagement to potential benefits.

13.2 When performing consulting engagements, the nature and scope of the engagement are agreed upon with the management before its commencement. The internal auditors will not assume any management responsibilities during and after the engagement.

14. CHANGES TO THE MANDATE AND CHARTER

14.1 Circumstances may justify a follow up discussion between the CAE, APAC and senior management on the internal audit mandate or other aspects of the internal audit charter. Such circumstances may include but are not limited to:

- A significant change in the Global Internal Audit Standards
- A significant reorganisation within the organisation.
- Significant changes in the CAE, APAC and/or senior management.
- Significant changes to the organisation's strategies, objectives, risk profile, or the environment in which the organisation operates.
- New laws or regulations that may affect the nature and/or scope of internal audit services.

15. APPROVAL

15.1 This charter may be amended as required and will be reviewed by the relevant stakeholders at least annually.

Adopted by:




Chief Audit Executive

05/12/2024

Date

Approved by:




R Shaw
APAC Chairperson

06/01/2025

Date

Endorsed by:



Municipal Manager

13/01/2025

Date