



**INTERNAL AUDIT CHARTER  
WEST COAST DISTRICT MUNICIPALITY**

**2019/2020**

## TABLE OF CONTENTS

		<u>PAGE NO.</u>
	WEST COAST INTERNAL AUDIT CHARTER	
1.	DEFINITION	3
2.	INTRODUCTION	4
3.	THE DEFINITION OF INTERNAL AUDITING	4
4.	PURPOSE OF INTERNAL AUDIT	4
5.	SCOPE OF THE WORK	4-5
6.	CONSULTING AND ASSURANCE ACTIVITIES	5
6.1	CONSULTING ACTIVITIES	5
6.2	ASSURANCE ACTIVITIES	6
6.2.1	GOVERNANCE	6
6.2.2	RISK MANAGEMENT	6
6.2.3	CONTROLS	7
7.	INTERNAL AUDIT'S RESPONSIBILITY	7
8.	INDEPENDENCE	8
9.	AUTHORITY	9
10.	QUALITY STANDARDS AND PROFESSIONALISM OF INTERNAL AUDIT PRACTICES	10
11.	REVIEW PERIOD	10

## 1. DEFINITIONS

**CHIEF AUDIT EXECUTIVE (CAE)** - Refers to the Manager of Internal Audit

## **2. INTRODUCTION**

The Internal Audit function of the West Coast District Municipality must promote the achievement of Council objectives. In order to function effectively, economically and efficiently the Internal Audit Charter for the West Coast District Municipality must be established. The charter for the Internal Audit function is a formal written document that defines the function's purpose, authority and responsibility.

The charter should establish the internal audit's position within the organisation  
Authorize access to records, personnel, and physical properties relevant to the performance of engagements and define the scope of Internal Audit activities.

## **3. THE DEFINITION OF INTERNAL AUDITING**

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

## **4. PURPOSE OF INTERNAL AUDIT**

The purpose of West Coast District Municipality's internal audit is to provide independent, objective assurance and consulting services designed to add value and improve the municipal operations. The mission of internal audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. The internal audit department helps the municipality accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

## **5. SCOPE OF THE WORK**

The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the audit and performance audit committee, management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for West Coast District Municipality. Internal audit assessments include evaluating whether:

- a) Risks relating to the achievement of West Coast District Municipality's strategic objectives are appropriately identified and managed.
- b) The actions of West Coast District Municipality's officers, directors, employees, and contractors are in compliance with the municipality's policies, procedures, and applicable laws, regulations, and governance standards.
- c) The results of operations or programs are consistent with established goals and objectives.
- d) Operations or programs are being carried out effectively and efficiently.
- e) Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the municipality.
- f) Information and the means used to identify, measure, analyze, classify, and report such information are reliable and have integrity.
- g) Resources and assets are acquired economically, used efficiently, and protected adequately.

The chief audit executive will report to senior management and the audit and performance audit committee regarding:

- h) The internal audit departments' purpose, authority, and responsibility.
- i) The internal audit departments' plan and performance relative to its plan.
- j) The internal audit departments' conformance with The IIA's Code of Ethics and Standards, and action plans to address any significant **non-conformance** issues.
- k) Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the audit and performance audit committee.
- l) Results of audit engagements or other activities.
- m) Resource requirements.
- n) Any response to risk by management that may be unacceptable to the municipality.

The chief audit executive also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. The internal audit department may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided the internal audit department does not assume management responsibility.

Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

## **6. CONSULTING AND ASSURANCE ACTIVITIES**

In accordance with Standard 1000.C1 of the International Standards for the Professional Practice of Internal Audit (ISPPA) requires that the nature of consulting and assurance services must be defined within this charter:

### **6.1 CONSULTING ACTIVITIES**

Consulting services are advisory in nature, and are generally performed at the specific request of an engagement client (Business Unit). The nature and scope of the consulting engagement are subject to agreement with the engagement client. Consulting services generally involve two parties:

- i) The person or group offering the advice - the internal auditor, and
- ii) The person or group seeking and receiving the advice - the engagement client.

When performing consulting services, the internal auditor including the engagement team should maintain objectivity and not assume management responsibility. Examples of consulting activities may include:

Formal consulting activities - counsel, advisory services, facilitation, training, process design, research activities.

Informal consulting activities - participation on standing committees, limited life projects, ad hoc meetings and routine information exchange.

Special consulting activities – participation on system conversion team

Emergency consulting activities – participation on a team established for recovery or maintenance of operations after a disaster.

## **6.2 ASSURANCE ACTIVITIES**

Assurance engagements shall be those which are primarily undertaken to verify or validate the status of internal controls or other risk mitigations, to verify financial information, or to confirm the effective implementation of certain defined activities or arrangements. They include validations performed under audits or as mandated in project agreements. Internal audit will also normally make recommendations for improvements where the need for this is identified in the course of these engagements.

The key performance areas of the Internal Audit function can be divided into the following three categories:

### **6.2.1 GOVERNANCE**

The evaluation of the process through which:  
Goals and values are established and communicated  
The accomplishment of goals is monitored  
Accountability is ensured and corporate values are preserved.

### **6.2.2 RISK MANAGEMENT**

The assisting of management in identifying, evaluating and assessing significant organisational risks and provides assurance as to the effectiveness of related internal controls. Furthermore, Internal Audit evaluates the risk management process of the Council for efficiency and effectiveness.

### **6.2.3 CONTROLS**

The evaluation of the appropriateness and effectiveness and efficiency of controls, which management relies on to manage the risks down to acceptable levels and the development of recommendations for enhancement or improvement.

The internal audit function has a responsibility towards the community, councillors, management and personnel of the council. The Audit function can provide a substantial contribution to the quality of life of the community if it functions efficiently and effectively.

Service rendering focus areas of Internal Audit entails the key performance areas of the Council. Core business must be identified and the necessary risk evaluations must be performed. Internal Audit must prioritise investigations whilst considering the possible impact on the welfare of the community.

Opportunities for improving management control, service delivery and the council's image may be identified during audits. They will be communicated to the appropriate level of management.

## **7 INTERNAL AUDIT'S RESPONSIBILITY**

The chief audit executive has the responsibility to:

- a) Submit, at least annually, to senior management and the audit and performance audit committee a risk-based internal audit plan for review and approval.

- b) Communicate to senior management and the audit and performance audit committee the impact of resource limitations on the internal audit plan.
- c) Review and adjust the internal audit plan, as necessary, in response to changes in the municipality's business, risks, operations, programs, systems, and controls.
- d) Communicate to senior management and the audit and performance audit committee any significant interim changes to the internal audit plan.
- e) Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.
- f) Follow up on engagement findings and corrective actions, and report to senior management and the audit and performance audit committee any corrective actions not effectively implemented.
- g) Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- h) Ensure the internal audit department collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter.
- i) Ensure trends and emerging issues that could impact West Coast District Municipality are considered and communicated to senior management and the audit and performance audit committee as appropriate.
- j) Ensure emerging trends and successful practices in internal auditing are considered.
- k) Establish and ensure adherence to policies and procedures designed to guide the internal audit department.
- l) Ensure adherence to West Coast District Municipality's relevant policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to senior management and the audit and performance audit committee.

## **8. INDEPENDENCE**

The chief audit executive will ensure that the internal audit department remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the chief audit executive determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. 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:

- a) Assessing specific operations for which they had responsibility within the previous year.
- b) Performing any operational duties for West Coast District Municipality or its affiliates.
- c) Initiating or approving transactions external to the internal audit department
- d) Directing the activities of any West Coast district employee 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 internal auditors.

Where the chief audit executive 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.

Internal auditors will:

- e) Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
- f) Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- g) Make balanced assessments of all available and relevant facts and circumstances.
- h) Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

The chief audit executive will confirm to the audit and performance audit committee, at least annually, the organizational independence of the internal audit department.

The chief audit executive will disclose to the audit and performance audit committee any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

## **9. AUTHORITY**

The chief audit executive will report functionally to the audit and performance audit committee and administratively (i.e., day-to-day operations) to the municipal manager.

To establish, maintain, and assure that West Coast District Municipality's internal audit department has sufficient authority to fulfill its duties, the audit and performance audit committee will:

- a) Approve the internal audit charter.
- b) Approve the risk-based internal audit plan.
- c) ~~Approve~~ **Recommend** the internal audit departments' budget and resource plan **for approval**.
- d) Receive communications from the chief audit executive on the internal audit departments' performance relative to its plan and other matters.
- e) Approve decisions regarding the appointment and removal of the chief audit executive.



- f) Make appropriate inquiries of management and the chief audit executive to determine whether there is inappropriate scope or resource limitations.

The chief audit executive will have unrestricted access to, and communicate and interact directly with, the audit and performance audit committee, including in private meetings without management present.

The audit and performance audit committee authorises the internal audit department to:

- g) Have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.
- h) Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
- i) Obtain assistance from the necessary personnel of West Coast District Municipality, as well as other specialized services from within or outside the municipality, in order to complete the engagement.

## **10. QUALITY STANDARDS AND PROFESSIONALISM OF INTERNAL AUDIT PRACTICES**

### **Quality Assurance and Improvement Program**

The internal audit department will maintain a quality assurance and improvement program that covers all aspects of the internal audit department. The program will include an evaluation of the internal audit department's conformance with the Standards and an evaluation of whether internal auditors apply The IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the internal audit department and identify opportunities for improvement.

## **11. REVIEW PERIOD**

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