



finance

Department:
Finance

MPUMALANGA PROVINCIAL GOVERNMENT



INTERNAL AUDIT CHARTER



MPUMALANGA
A Pioneering Spirit

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1 Introduction

The Internal Audit Function has been established in terms of section 38 of the Public Finance Management Act, 1999 (Act 1 of 1999) and the prevailing Treasury Regulations.

This Internal Audit Charter represents the general authorisation from the Accounting Officer to conduct a certain scope of work. The specific authorisation to do the work is the Three Year Rolling Strategic Internal Audit Plan and the Annual Internal Audit Plan, which is approved by the Audit Committee.

Risk based auditing is a central focus of King III. The repositioned risk based internal audits directs internal audit to address strategic, operational, financial and sustainability issues in the quest to deliver value to the department.

2 Mission

“To provide an innovative, responsive and effective value-added internal audit function by assisting management in controlling risks, monitoring compliance and improving the efficiency and effectiveness of internal control systems.”

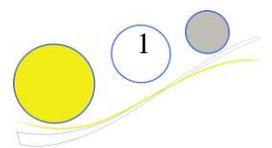
3 Definition of Internal Audit

Treasury Regulation 3.2.5 requires: *“The purpose, authority and responsibility of the internal audit function must, in consultation with the audit committee, be formally defined in an audit charter and be consistent with the Institute of Internal Auditors’ definition of internal auditing.”*

The Institute of Internal Auditors defines internal auditing as follows:

“... 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.”

Internal Audit therefore evaluates and contributes to the improvement of risk management, internal control and governance systems.



4 Scope of Work

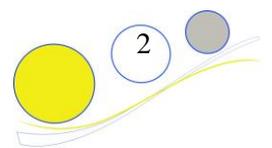
The audit scope will generally be based on management's assessment of organisational risk. The audit coverage should generally focus on high-risk areas identified in consultation with the Audit Committee and Executive Management. Details of the coverage will be included in the Annual Internal Audit Plan.

The scope of work of the Internal Audit Function is to determine whether the departments risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed;
- Interaction with the various governance groups within the organisation occurs as appropriate;
- Significant financial, managerial, and operating information is accurate, reliable, and timely;
- Employees' actions are in compliance with policies, standards, procedures and applicable laws and regulations;
- Resources are acquired economically, used efficiently, and adequately protected;
- Programmes, plans and objectives are achieved;
- Quality and continuous improvement are fostered in the organisation's control processes; and
- Significant legislative or regulatory issues impacting the organisation are recognised and addressed appropriately.

Opportunities for improving management control, profitability, and the department image may be identified during audits. These will be communicated to the appropriate level of management.

Internal Audit may conduct consulting services as part of their normal or routine activities as well as in response to requests by management. This includes performance auditing, IT reviews, compliance auditing, forensic auditing as well as informal



consulting engagements such as participation on standing committees, limited-life projects, ad-hoc meetings, and routine information exchange.

5 Accountability

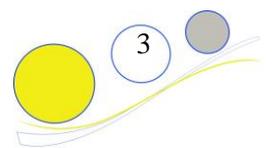
The Chief Audit Executive (CAE), in the discharge of his/her duties, shall be accountable to the Audit Committee functionally and the Accounting Officer administratively to:

- Provide annually an assessment on the adequacy and effectiveness of the organisation's processes for controlling its activities and managing its risks set forth under the mission and scope of work;
- Report significant issues related to the processes for controlling the activities of the department, including potential improvements to those processes, and provide information concerning such issues through active and constructive resolution;
- Periodically provide information on the status and results of projects conducted in terms of the Annual Internal Audit Plan, ad hoc requests by the Audit Committee and Executive Management, as well as the sufficiency of resources; and
- Coordinate with other control and monitoring functions (risk management, compliance, security, legal, ethics, and external audit).

6 Independence

Treasury regulation (T.R) 3.2.9 requires: *“An internal audit function must report directly to the accounting officer and shall report at all audit committee meetings. The function must be independent of activities that are audited, with no limitation on its access to information.”*

To provide for the independence of the Internal Audit Function, the Chief Audit Executive (CAE) and personnel report to the Audit Committee and the Accounting Officer in a manner outlined under Accountability above. The CAE and personnel report to the Accounting Officer for administrative purposes.

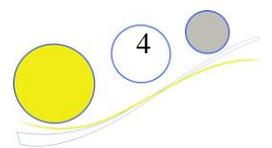


7 Responsibility

The CAE and staff are responsible for rendering Internal Audit Services to the department.

The CAE and staff must:

- Prepare in consultation with and for approval by the audit committee a three-year Rolling Strategic Internal Audit Plan and an Annual Internal Audit Plan based on the assessment of key risks having regard for the current operations, those proposed in the strategic plan and the risk management strategy (T.R 3.2.7);
- Assess the operational procedure and monitoring mechanisms over all transfers made and received, including transfers in terms of the annual Division of Revenue Act (T.R 3.2.8);
- Co-ordinate with other internal and external providers of assurance to ensure proper coverage and to minimise duplication of effort (T.R 3.2.10);
- Assist the Accounting Officer in maintaining efficient and effective controls by evaluating those controls to determine their effectiveness and efficiency, and by developing recommendations for enhancement or improvement. The controls subject to evaluation should encompass the following:
 - (a) the information systems environment;
 - (b) the reliability and integrity of financial and operational information;
 - (c) the effectiveness of operations;
 - (d) safeguarding of assets; and
 - (e) compliance with laws, regulations and controls (T.R.3.2.11 & T.R. 3.2.12);
- Assist the Accounting Officer in achieving the objectives of the institution by evaluating and developing recommendations for the enhancement or improvement of the processes through which:
 - (a) objectives and values are established and communicated;



- (b) the accomplishment of objectives is monitored;
- (c) accountability is ensured; and
- (d) corporate values are preserved (T.R 3.2.11 & 3.2.12).

The CAE and staff, has the responsibility to:

- Implement the Annual Internal Audit Plan for the first year of the Rolling Three-year Strategic Internal Audit Plan, as approved, including as appropriate any special tasks or projects requested by the Audit Committee and Executive Management. The terms of reference for those assignments, which may involve some measure of line responsibility, will however be agreed upon beforehand (T.R 3.2.7);
- Provide professional internal audit staff with sufficient knowledge, skills, experience to meet the requirements of this Charter;
- Evaluate and assess significant merging/consolidating functions and new or changing services, processes, operations, and control processes coincident with their development, implementation, and/or expansion. The terms of reference for those assignments, which may involve some measure of line responsibility, will however be agreed upon beforehand;
- Issue periodic reports to the Audit Committee and the Accounting Officer summarising results of audit activities;
- Keep the Audit Committee and the Accounting Officer informed of emerging trends and successful practices in internal auditing;
- Provide a list of significant measurement goals and results to the Audit Committee;
- Assist in the investigation of significant suspected fraudulent activities within the organisation, and notify management and the Audit Committee of the results. The terms of reference for those assignments, which may involve some measure of line responsibility, will however be agreed upon beforehand after approval by the Audit Committee;

- 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 at a reasonable overall cost;
- Prepare plans indicating the proposed scope of each audit in the Annual Internal Audit Plan (T.R 3.2.7);
- Prepare a quarterly report to the Audit Committee detailing its performance against the Annual Internal Audit Plan, to allow effective monitoring and possible intervention (T.R 3.2.7); and
- Ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved annual internal audit plan.

8 Authority

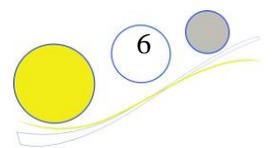
The CAE reports functionally to the Audit Committee and administratively to the Accounting Officer and has unrestricted access to the Chairperson of Audit Committee, the Accounting Officer and Executive Management.

Internal Audit is authorised to:

- Have unrestricted access to all relevant functions, records, property and personnel;
- Have full and uninhibited access to the Audit Committee and the Accounting Officer;
- Allocate its own resources; determine frequencies, subjects, scope of work to be performed; and apply the techniques required to accomplish its audit objectives;
- Obtain the necessary assistance of personnel in the various sections and units of the department where they perform internal audit reviews, as well as other specialised services from within or outside the organisation; and
- Meet with the Audit Committee in the absence of management.

Internal Audit is not authorised to:

- Perform any operational duties for the department;



- Initiate or approve accounting transactions external to the internal auditing function; and
- Direct the activities of any employee except to the extent that such employees have been appropriately assigned to the internal auditing teams or to otherwise assist the internal auditors in carrying out investigations.

9 Compliance to Standards of Internal Audit practice and Code of Ethics

The Internal Audit Activity will endeavour to meet, the Standard for the Professional Practice of Internal Auditing of the Institute of Internal Auditors. The Internal Audit Activity and Internal Audit staff will abide by code of ethics of the Institute of Internal Auditors.

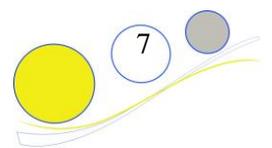
10 Quality Assurance Reviews

Annual internal reviews will be performed to assess compliance with the Internal Audit Function's Charter, the Internal Audit Manual, *the Standards for the Professional Practice of Internal Auditing and the Code of Ethics*.

The CAE develops and maintains a quality assurance and improvement programme that covers all aspects of the internal audit activity.

A qualified, independent reviewer or a review team from outside the Department will conduct an external Quality Assurance reviews at least once every five years. The next review is required within five years of 1 November 2009, by 1 November 2014.

The Audit Committee Charter furthermore requires the Audit Committee to evaluate the effectiveness and efficiency of the Internal Audit Function.



11 Approval

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

This charter was approved by:

| Designation | Signature | Date |
|--------------------------------|------------------|-------------|
| Chief Audit Executive | | |
| Accounting Officer | | |
| Chairperson of Audit Committee | | |