

BUFFALO CITY METROPOLITAN MUNICIPALITY



Internal Audit Charter 2020/21

This document must be read in conjunction with:

- The International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors, as well as the Code of Conduct adopted by this Institute.
- The Buffalo City Metropolitan Municipality Audit Committee Charter;
- The Buffalo City Metropolitan Municipality Internal Audit Methodology; and,
- The Buffalo City Metropolitan Municipality Fraud Mitigation Strategy.

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1. Introduction

- 1.1. The Internal Audit Unit has been established in terms of section 165(1) of the Local Government: Municipal Finance Management Act (MFMA). MFMA Circular 65 then provides information to assist municipalities and municipal entities to improve the effectiveness of internal audit and audit committees.
- 1.2. This Internal Audit Charter represents the general authorisation from the City Manager and the Audit Committee 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.
- 1.3. Risk based auditing is a central focus as espoused in the MFMA and enacted in the Internal Auditors' audit programmes. The repositioned risk based internal audits direct internal audit to address strategic, operational, financial and sustainability issues in the quest to deliver value to the municipality.

2. Purpose of the Charter

- 2.1. The Internal Audit Charter profiles the purpose, authority and responsibility of the Internal Audit Unit, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the Definition of internal Auditing).
- 2.2. The charter will be reviewed at least annually by the Head: Governance and Internal Audit and presented to Top Management for inputs and the Audit Committee for approval.

3. Professionalism

- 3.1. The Internal Audit Unit will govern itself by adherence to the mandatory elements of the Institute of Internal Auditor's (IIA) International Professional Practices Framework (IPPF), including the Core Principles for the Professional Practice of Internal Auditing, the Definition of Internal Auditing, the Code of

Ethics, and the International Standards for the Professional Practice of Internal Auditing (IIA Standards).

- 3.2. The Institute of Internal Auditors' Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations. In addition, the internal audit unit will adhere to Buffalo City Metropolitan Municipality's ("the City") relevant policies and procedures and the internal audit unit's internal audit methodology.

4. Vision

- 4.1. The vision of the Internal Audit Unit is to contribute positively and protect the organizational values of the City by striving to be a world class internal audit unit of professionals helping to shape the future of the City.

5. Mission

- 5.1. The mission of Internal Audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. The purpose of the Internal Audit Unit is to provide independent, objective assurance and consulting services, designed to add value and improve the operations of the Buffalo City Metropolitan Municipality. This mission is in accordance with the Institute of Internal Auditors' Definition of Internal Auditing.

6. Mandate

- 6.1. The mandate of the Internal Audit Unit is to assist the City to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and the governance processes (Institute of Internal Auditors Inc).

7. Authority

- 7.1. The Internal Audit Unit is authorised to:
- 7.1.1 Have unrestricted access to all functions, records, property, and personnel of the City.

- 7.1.2 All information given to or obtained by the Internal Audit unit will be handled in a prudent manner.
 - 7.1.3. Have full and free access to the City Manager and the Audit Committee.
 - 7.1.4. Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.
 - 7.1.5. Obtain the necessary assistance of personnel in the operating Directorates and departments where they perform audits, as well as other specialised services from within or outside the City. Where external service providers are engaged, they shall be procured through the Supply Chain Management system of the Municipality.
- 7.2. The Internal Audit Unit is not authorised to:
- 7.2.1. Perform any operational duties for Directorates or Departments except with the prior approval of the Audit Committee. Such approval shall only be granted in exceptional circumstances due to the potential for a conflict of interest and its impact on the independence of the Internal Audit unit.
 - 7.2.2. Initiate or approve accounting transactions external to the Internal Audit unit.
 - 7.2.3. Direct the activities of any employee not employed by the Internal Audit unit, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.
- 7.3. Internal audit is not responsible for any of the activities, which they audit. Members of the Internal Audit unit will not assume responsibility for the operation or control of any procedures.

8. Responsibility

- 8.1. The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the City's governance, risk management, and internal controls, as well as the quality of performance in carrying out assigned responsibilities to achieve the City's stated goals and objectives.

- 8.2. This includes:
- 8.2.1. Evaluating the governance processes including ethics, especially the tone at the top;
 - 8.2.2. Evaluating risk exposure relating to the achievement of the City's strategic objectives;
 - 8.2.3. Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information;
 - 8.2.4. Determining that the actions of the City's officers, managers, employees, and contractors follow the City's policies, procedures, and applicable laws, regulations, and governance standards;
 - 8.2.5. The results of operations or programmes are consistent with established goals and objectives;
 - 8.2.6. Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the City;
 - 8.2.7. Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
 - 8.2.8. Evaluating the effectiveness and efficiency with which resources are employed;
 - 8.2.9. Evaluating operations or programmes to ascertain whether results are consistent with established objectives and goals, and whether the operations or programmes are being carried out as planned;
 - 8.2.10. Monitoring and evaluating governance processes;
 - 8.2.11. Monitoring and evaluating the effectiveness of the City's risk management processes;
 - 8.2.12. Evaluating the degree of coordination of External Audit with Internal Audit;
 - 8.2.13. Performing consulting and advisory services related to governance, risk management and control as appropriate for the City;
 - 8.2.14. Providing special services as and when required by the Audit Committee;
 - 8.2.15. Conducting its work in accordance with the IIA Standards and Code of Ethics;
 - 8.2.16. Reporting periodically on the Internal Audit Unit's purpose, authority, responsibility, and performance relative to its plan;

- 8.2.17. Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Council;
- 8.2.18. Evaluating specific operations at the request of the Council or management, as appropriate;
- 8.2.19. Evaluating operations or programmes are being carried out effectively and efficiently;
- 8.2.20. Evaluating established processes and systems to enable compliance with the policies, procedures, laws, and regulations that could have a significant impact on the City;
- 8.2.21. Evaluating Information and the means used to identify, measure, analyse, classify, and report that such information is reliable and has integrity;
- 8.2.22. Evaluating that resources and assets are acquired economically, used efficiently, and protected adequately; and,
- 8.2.23. Maintaining professional audit staff with enough knowledge, skills, experience, and professional certifications to meet the requirements of this Charter within the resource base provided.

In this regard the Head: Internal Audit shall, within the financial limitations and labour relations imposed, take reasonable measures to maintain a core of staff with appropriate knowledge, experience and qualifications. Nothing contained herein shall prohibit the outsourcing or co-sourcing of audit resources.

- 8.3. The roles and responsibilities of the Internal Audit Unit are set out in Section 165 of the Municipal Finance Management Act, Act No 56 of 2003 as follows:

(2) The internal audit unit must:

- (a) Prepare a risk-based internal audit program for each financial year;*
- (b) Advise the City Manager 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.*

9. Accountability

- 9.1. The Internal Audit Unit, in the discharge of their duties, shall:
 - 9.1.1. Provide an ongoing assessment on the adequacy and effectiveness of the Municipality's processes for controlling its activities and managing risks.
 - 9.1.2. Report significant issues related to the process for controlling the activities of the Municipality, including recommendations for improvements to those processes.
 - 9.1.3. Report quarterly on the status and results of the annual internal audit plan and the sufficiency of internal audit resources.
 - 9.1.4. Co-ordinate with and provide oversight over other activities such as risk management, compliance, security, legal, ethics, environmental and safety, etc.

10. Independence and Objectivity

- 10.1. The Internal Audit Unit must be independent, and internal auditors must be objective in performing their work. The Internal Audit Unit 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.
- 10.2. The Internal Audit Unit will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair judgment.
- 10.3. The Internal Audit Unit will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. The Internal Audit Unit will make an unbiased

assessment of all the relevant circumstances and not be duly influenced by their personal interest or by others in forming judgements.

- 10.4. The Head: Governance and Internal Audit must report to a level within the organization that allows the internal audit unit to fulfil its responsibilities. The Head: Governance and Internal Audit must confirm to the Council, at least annually, the organizational independence of the Internal Audit Unit.
- 10.5. Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest. If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

11. Proficiency

- 11.1. Engagements shall be performed with proficiency and due professional care. Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities.
- 11.2. The Internal Audit Unit collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities. Internal auditors are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud but shall have enough knowledge to identify the indicators of fraud.
- 11.3. Internal auditors are not expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing but shall have knowledge of key information technology risks and controls to enable them to perform their assigned work.

12. Due Professional Care (IIA Standard 1220)

- 12.1. Internal auditors shall apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

13. Continuing Professional Development (IIA Standard 1230)

- 13.1. Internal auditors are expected to enhance their knowledge, skills, and other competencies through continuing professional development.

14. Relationship with Management

- 14.1. Management is responsible for

- 14.1.1. Ensuring that internal audit has:

- a) Management support;
- b) Direct access and freedom to report to top management including the City Manager and the Audit Committee; and
- c) Adequate resources for carrying out its annual audit plan.

- 14.1.2. Proposing areas of review for consideration by the Audit Committee.

- 14.1.3. Providing management comments to internal audit reports within a period not exceeding ten (10) working days upon presentation and implementing recommendations as considered appropriate. (Note that where management elects not to implement recommendations contained in internal audit reports all the risks associated therewith pass to management.)

- 14.1.4. Participating with the annual risk assessment process to determine proposed areas of review by internal audit.

- 14.1.5. Maintaining internal control, including proper accounting records and other management information suitable for running the Directorates.

15. Relationship with the External Auditors

- 15.1. Internal Audit Unit will co-ordinate their work, as far as possible, with that of other assurance providers.

- 15.2. This will be accomplished through:
- 15.2.1. Meetings between Internal Audit Unit and the Auditor General South Africa to discuss the annual internal audit plans;
 - 15.2.2. The exchange of audit work papers including systems documentations;
 - 15.2.3. The exchange of management letters;
 - 15.2.4. Other aspects of the relationship between the Municipality and the external auditors;
 - 15.2.5. Sharing information on actual and perceived risk areas; and,
 - 15.2.6. Ensuring attendance by the Auditor General South Africa at Audit Committee meetings.
- 15.3. The Internal Audit Unit may be asked to assess the adequacy and effectiveness of the combined assurance approach adopted by the Municipality. This assessment includes the completeness of risks covered by the different assurance providers and the reliability of the assurance provided.

16. Investigations

- 16.1. Special investigations requested by the City Manager may be undertaken with the approval of the City Manager and the Audit Committee.

17. Consulting Activities

- 17.1. The Internal Audit Unit may be consulted on significant proposed changes in internal control systems and the implementation of new systems and may make recommendations on the standards of control to be applied.
- 17.2. This consultancy service extends to advise only, and Internal Auditors will not design or implement internal control or other systems for or on behalf of the management nor will they give any assurances relating to the integrity, functionality or reliability of the system the subject of the consultation. The consultancy service is without prejudice to their ability to review such systems.

Acceptance of Consulting Activities

- 17.3. The following guidelines are provided for assisting the Internal Audit Unit in accepting consulting activities:
- 17.3.1. Some consulting activities are specifically identified in the approved Internal Audit Annual Plan;
 - 17.3.2. Other consulting activities are initiated by management through communicating directly with the Head: Governance and Internal Audit as activities happen within the organisation;
 - 17.3.3. The Head: Governance and Internal Audit should request the Audit Committee's approval for consulting activities that significantly affect the approved internal audit's annual plan;
 - 17.3.4. The Head: Governance and Internal Audit should consider the impact of independence and objectivity on the Internal Audit Unit before acceptance of the consulting activities;
 - 17.3.5. The Head: Governance and Internal Audit should consider the risks associated with the proposed consulting
- 17.4. The Head: Governance and Internal Audit will decline consulting engagements if in his/her opinion the internal audit staff lacks the knowledge, skills, or other competencies needed to perform all or part of the engagement. Where this is not practical, the limitation shall be disclosed in the report.

17.5. The following categories of consulting engagements are envisaged:

Type of consulting engagement	Description of consulting engagement
Formal consulting engagements	Those that are planned and subject to written agreement
Informal consulting engagements	Routine activities such as participation on standing committees, limited-life audit projects, ad-hoc meetings, and routine information exchange
Special consulting engagements	Participation on dedicated teams such as a system conversion team
Emergency consulting engagements	<p>Participation on a team established for recovery or maintenance of operations after a disaster or other extraordinary business event or a team assembled to supply temporary help to meet a special request or unusual deadline.</p> <p>Participation on a team to supply temporary help to meet a special request or unusual deadline will be performed only after the prior permission of the Audit Committee has been obtained.</p>

17.6. The nature and scope of consulting engagements will be agreed with the specific directorate, provided the Internal Audit Unit does not assume management responsibility.

17.7. Objectives, scope and limitations of the consulting assignment should be confirmed in writing in an engagement letter/ scoping memorandum. The responsibilities of both management and the Internal Audit Unit should be defined and documented in the engagement letter/scoping memorandum that should be signed by both parties.

17.8. Consulting and other advisory-related services should focus on assisting management in problem-solving activities, in achieving the Municipality's objectives, and in adding value to line and top management.

17.9. 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.

18. Reporting and Monitoring

18.1. The Head: Governance and Internal Audit is responsible for communicating the results of the various engagements.

18.2. The aim of internal audit reports is to:

18.2.1. Inform management of the status of the controls in place to manage the area being audited;

18.2.2. Prompt management to implement recommendations with the objective of improving performance and control;

18.2.3. Record management comments and timeframes for proposed action; and,

18.2.4. Provide a formal record of points arising from the internal audit assignment and agreement or disagreement with management.

18.3. Reporting arrangements, including the format and distribution of internal audit reports, shall be in accordance with the approved Internal Audit Methodology and as set out in the Planning Memorandum/letter or terms of reference. Internal audit reports are confidential documents and their distribution shall therefore be restricted.

18.4. Final reports shall be communicated to the following parties:

18.4.1. The City Manager;

18.4.2. The responsible Heads of Directorate;

18.4.3. The Auditor General of South Africa; and

18.4.4. The Audit Committee Chairperson and members.

18.5. The responsible Head of Directorate shall be responsible for the further distribution of the internal audit report as appropriate.

18.6. In certain cases, such as with the reports relating to the Performance Management System, circulation shall include the Portfolio leader as well as the Executive Mayor.

- 18.7. The Internal Audit Unit will produce clear, constructive and concise written reports based on sufficient, relevant and reliable evidence, which:
 - 18.7.1. State the scope, purpose, extent and conclusions of the internal audit assignment;
 - 18.7.2. Make recommendations which are appropriate and relevant, and which flow from the conclusions; and,
 - 18.7.3. Acknowledge the actions taken, or proposed, by management.
- 18.8. The Internal Audit Unit may prepare “flash reports” to alert management to significant control lapses, or where there are reasonable grounds for suspicion of fraud or theft.
- 18.9. Consideration will also be given to reporting where there is a significant change in the scope of the internal audit assignment or where it is desirable to inform management of progress. Interim reporting shall not diminish or eliminate the need for final reporting.
- 18.10. The Head: Governance and Internal Audit will provide management with written audit findings during an internal audit assignment. The purpose of the findings is to gather further information, gain confirmation of factual accuracy and to obtain line management’s comments for inclusion in the draft report.
- 18.11. It is the responsibility of management to ensure that proper consideration is given to draft internal audit findings and to provide comment thereon within no later than three (3) working days.
- 18.12. Findings may be amended on receipt of line management’s comments. If line management disagrees on the factual content of any findings, the disagreement will be included in the draft report, and the Head: Governance and Internal Audit may provide further comment thereon in the final report.
- 18.13. It is the responsibility of management to ensure that proper consideration is given to internal audit reports. Where recommendations are not implemented management is deemed to have understood and assumed the risks of not taking appropriate action.

18.14. While the Internal Audit Unit will endeavour to follow up on key or material findings after expiry of the agreed timeframes for action, the Unit is not obliged to do so due to its limited resources.

19. Limitation of scope

- 19.1. Failure by management to adhere to internal audit timeframes, and/or a scope limitation by management, must be reported, in writing to the City Manager and to the Audit Committee.
- 19.2. The question of whether an action from management in fact constitutes a scope limitation is at the judgment of the Internal Auditor.
- 19.3. Except in cases of suspected fraud, the City Manager and the Audit Committee may decide to accept a limitation of scope.
- 19.4. In such instances, the Internal Auditor 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 Audit Committee for their renewed consideration.

20. Disputes by management on the factuality of Internal Audit findings

- 20.1. The internal auditor must engage the auditee with substantiated evidence of the audit finding. The auditee will then be afforded three (3) days to respond to the facts of the audit finding.
- 20.2. The internal auditor will assess the response and review the new evidence. An auditor's conclusion will then be submitted to the auditee. Should the audit dispute persist the final arbitrator will be the Audit Committee. This dispute will be submitted to the Audit Committee in writing by the auditee, stating merits and the nature of the dispute.

21. Reporting to the Audit Committee

- 21.1. The Head: Governance and Internal Audit will report periodically to the Audit Committee on the internal audit unit's performance relative to its plan. Reporting will also include significant risk exposure, control and, corporate governance issues, etc.
- 21.2. No official may alter the content of any report by the Head: Governance and Internal Audit to the Audit Committee but may furnish comment thereon.
- 21.3. All final internal audit reports issued will be reported to the Audit Committee in summary of significant findings. The City Manager will be made aware of such significant deficiencies by means of a report to Top Management.

22. Budget of Internal Audit Unit

- 22.1. It is the responsibility of the City Manager and the Audit Committee to ensure that the Internal Audit Unit is adequately resourced for effective functioning.
- 22.2. The Head: Governance and Internal Audit should control and have responsibility over the Internal Audit Unit's budget.
- 22.3. The Internal Audit Unit's budget should at least cover the following items:
 - 22.3.1. Infrastructure including accommodation, personnel related expenditure;
 - 22.3.2. Capital expenditure and software;
 - 22.3.3. Training and development;
 - 22.3.4. IIA membership fees; and,
 - 22.3.5. Quality assurance programs.

23. Staffing

- 23.1. The Head: Governance and Internal Audit in conjunction with the City Manager, should develop an Internal Audit Unit structure taking cognisance of the organisation's needs including risk and complexity of the operations.

- 23.2. Provision should be made for levels of supervision and review of audit work in line with due professional care as provided for in the International Standards for the Professional Practice of Internal Auditing (ISPPIA).
- 23.3. In developing the operational internal audit plan the following key issues must be considered:
- 23.1. Availability (capacity) and skills of internal audit staff;
 - 23.2. Changes in the risk environment of the organisation – the risk environment should be assessed on an annual basis;
 - 23.3. Approval and acceptance of the operational plan by the Audit Committee; and,
 - 23.4. The materiality of ad-hoc requests as this could have a significant impact on the normal audit planning and timing process.
- 23.4. The operational Internal Audit plan should be reviewed to identify any amendment needed to reflect changing priorities and emerging audit needs. The Audit Committee should approve material changes to the annual plan.

24. Quality Assurance and Improvement Program

- 24.1. The Head: Governance and Internal Audit must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit unit.
- 24.2. The programme will include an evaluation of the internal audit unit's conformance with the definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics.
- 24.3. The programme shall also assess the efficiency and effectiveness of the Internal Audit Unit and identify opportunities for improvement.
- 24.4. The quality assurance and improvement program must include both internal and external assessments.

- 24.5. Internal assessment must include;
 - 24.5.1. Ongoing monitoring of the performance of the Internal Audit Unit
 - 24.5.2. Periodic self-assessments or assessments by other persons within the organization with enough knowledge of internal audit practices.

- 24.6. External assessments must be conducted at least once every five (5) years by a qualified, independent assessor or assessment team from outside the organization.

- 24.7. The Head: Governance and Internal Audit must discuss with the Audit Committee:
 - 24.7.1. The form and frequency of external assessment.
 - 24.7.2. The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

- 24.8. The scope of the external assessment will, among others, cover matters related to:
 - 24.8.1. Independence and objectives of the Internal Audit Unit;
 - 24.8.2. Expectations of the Internal Audit Unit expressed by management and Audit Committee;
 - 24.8.3. Integration of the Internal Audit Unit into the organization's governance processes; and,
 - 24.8.4. Efficiency and effectiveness of internal audit approach, as well as audit strategy and plans.

- 24.9. On completion of the external assessment, the review team should issue a formal report containing an opinion on the level of the Internal Audit Unit's compliance with the ISPPA.

- 24.10. The Head: Governance and Internal Audit and City Manager should prepare a written action plan in response to comments and recommendations in the report.

25. Mandate and Approval

25.1. The Head: Governance and Internal Audit should periodically assess whether the purpose, authority and responsibility, as defined in this charter, continue to be adequate to enable the internal auditing activity to accomplish its objectives.

25.2. The result of this periodic assessment should be communicated to Top Management for noting and input, as well as to the Audit Committee for subsequent approval.

Description	Name	Designation	Signature	Date
Prepared By	C. Dali	Head: Governance and Internal Audit		12 th NOV 2020
Accepted By	A. Sihlahla	City Manager		17/11/2020
Approved By	S. Ngqwala	Audit Committee Chairperson		19/11/2020

Glossary

Add Value – Value is provided by improving opportunities to achieve organizational objectives, identifying operational improvement, and/or reducing risk exposure through both assurance and consulting services.

Adequate Control – Present if management has planned and organized (designed) in a manner that provides reasonable assurance that the Municipality's risks have been managed effectively and that the Municipality's goals and objectives will be achieved efficiently and economically.

Assurance Services – An objective examination of evidence for the purpose of providing an independent assessment on risk management, control, or governance processes for the organization. Examples may include financial, performance, compliance, system security, and, due diligence engagements.

Charter – The charter of the Internal Audit Unit is a formal written document that defines the activity's purpose, authority, and responsibility. The charter should (a) establish the Internal Audit Unit's position within the organization; (b) authorize access to records, personnel, and physical properties relevant to the performance of engagements; and, (c) define the scope of the Internal Audit Unit.

Council – A Council is a Municipality's governing body.

Code of Ethics – The Code of Ethics of The Institute of Internal Auditors (IIA) are principles relevant to the profession and practice of internal auditing, as well as Rules of Conduct that describe behaviour expected of internal auditors. The Code of Ethics applies to both parties and entities that provide internal audit services. The purpose of the Code of Ethics is to promote an ethical culture in the global profession of internal auditing.

Compliance – Conformity and adherence to policies, plans, procedures, laws, regulations, contracts, or other requirements.

Conflict of Interest – Any relationship that is or appears to be not in the best interest of the organization. A conflict of interest would prejudice an individual's ability to perform his or her duties and responsibilities objectively.

Consulting Services – Advisory and related client service activities, the nature and scope of which are agreed with the client and which are intended to add value and

improve a Municipality's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training.

Control – Any action taken by management, the Council, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of enough actions to provide reasonable assurance that objectives and goals will be achieved.

Control Environment – The attitude and actions of the Council and management regarding the significance of control within the organization. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:

- Integrity and ethical values.
- Management's philosophy and operating style.
- Organizational structure.
- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.

Control Processes – The policies, procedures, and activities that are part of a control framework, designed to ensure that risks are contained within the risk tolerances established by the risk management process.

Engagement – A specific internal audit assignment, task, or review activity, such as an internal audit, Control Self-Assessment review, fraud examination, or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.

Engagement Objectives – Broad statements developed by internal auditors that define intended engagement accomplishments.

Engagement Work Program – A document that lists the procedures to be followed during an engagement, designed to achieve the engagement plan.

External Service Provider – A person or firm, outside of the organization, who has special knowledge, skill, and experience in a particular discipline.

Fraud – Any illegal acts characterized by deceit, concealment or violation of trust. These acts are not dependent upon the application of threat of violence or of

physical force. Frauds are perpetrated by parties and organizations to obtain money, property or services; to avoid payment or loss of services; or to secure personal or business advantage.

Governance – The combination of processes and structures implemented by the Council and Management in order to inform, direct, manage and monitor the activities of the organization toward the achievement of its objectives.

Impairments – Impairments to individual objectivity and organizational independence may include personal conflicts of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations (e.g. funding).

Independence – The freedom from conditions that threaten objectivity or the appearance of objectivity. Such threats to objectivity must be managed at the individual auditor, engagement, functional and organizational levels.

Internal Audit Unit – An activity, division, team of consultants, or other practitioner(s) that provides independent, objective assurance and consulting services designed to add value and improve a Municipality's operations. The Internal Audit Unit 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.

Head: Governance and Internal Audit – Top position within the organization responsible for internal audit activities. Normally, this would be the internal audit director. In the case where internal audit activities are obtained from outside service providers, the Head: Governance and Internal Audit is the person responsible for overseeing the service contract and the overall quality assurance of these activities, reporting to Top Management and the Audit Committee regarding internal audit activities, and follow-up of engagement results. The term also includes such titles as Chief Audit Executive, Chief Internal Auditor, etc.

Must – The Standards use the word “must” to specify an unconditional requirement.

Objectivity – An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they have an honest belief in their work product and that no significant quality compromises are made. Objectivity requires internal auditors not to subordinate their judgment on audit matters to that of others.

Residual Risks – The risk remaining after management takes action to reduce the impact and likelihood of an adverse event, including control activities in responding to a risk.

Risk – The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

Risk Management – A process to identify, assess, manage, and control potential events or situations, to provide reasonable assurance regarding the achievement of the Municipality’s objectives.

Should – The use of the word “should” in the Standards represents a mandatory obligation.

Standard – A professional pronouncement promulgated by the Internal Auditing Standards Board that delineates the requirements for performing a broad range of internal audit activities, and for evaluating internal audit performance.

