national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Internal
Audit Framework

Internal Audit Framework

National Treasury

Republic of South Africa

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1　Introduction

1.1　Background

The National Treasury developed the Internal Audit (IA) Framework during the 2003/2004 financial year. The Framework derives its mandate from two legislations namely, the Public Finance Management Act, (Act No. 1 of 1999 as amended by Act 29 of 1999) (PFMA), and the Municipal Finance Management Act, (Act No. 56 of 2003) (MFMA). The OAG received requests from internal auditors in the Public Service for the framework to be updated. The update therefore is in view of the following:

- To increase its relevance and user friendliness in general;
- To reflect developments in the discipline of internal auditing;
- To be expanded such that it includes practical implementation that relate to the different spheres of government; and
- To include best practices and guidelines identified.

The reviewed Framework is intended to, amongst others:

- Be simple for users to understand;

- Be Public Service specific and meet the specific requirements of the various spheres of government; and
- Be well structured and easy to navigate.

1.2 Purpose

The purpose of this Framework is to establish a minimum guideline for the development and operation of internal auditing in the Public Service. It serves as a source of reference and is the pre-eminent guidance mechanism on internal auditing in the Public Service. It is intended to ensure that the Internal Audit Activities (IAA) comply with the requirements of:

- The Constitution of the Republic of South Africa;
- The Public Finance Management Act, (Act No. 1 of 1999, as amended by Act 29 of 1999 (PFMA);
- The Treasury Regulations (TR) issued in terms of the PFMA;
- The Municipal Finance Management Act 56 of 2003 (MFMA);
- The Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing (ISPPIA); and

- The COSO[1] framework on internal control, as well as the risk management framework[2].

Against this background, the Framework aims to provide a standard set of guidelines regarding internal auditing in Government. Research and findings of assessments conducted in the past indicated varied levels of internal auditing practices within all facets of Government. The OAG believes that the Framework will set the tone and create the necessary impetus for a sustainable and effective internal auditing mechanism in government. This framework is not meant to be prescriptive and should enhance the quality and standard of public sector auditing.

This document is a work-in-progress and stakeholders are welcome to provide input on an ongoing basis. The Framework can be customised to suit unique IAAs' environments.

1.3 Legislative Mandate

A number of pieces of legislations have been, or are in the process of being, enacted by

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[1] COSO framework, 1992

[2] COSO ERM framework, published 15 July 2003

government. It is important that both the organisation and the IAA have at least a basic understanding of the requirements of these legislations, provided in summary below.

1.3.1 The Constitution of the Republic of South Africa

Chapter 10, Section 195(1) & (2) of the Constitution states that:

"Democratic values and principles that include, amongst others, a high standard of professional ethics; efficient, economic and effective use of resources; accountability and transparency must govern public administration. The principles apply to administration in every sphere of government, organs of state, as well as public enterprises."

Chapter 13, Section 215(1) of the Constitution states that "National, provincial, and municipal budgets and budgetary processes must promote transparency, accountability, and the effective financial management of the economy, debt and Public Sector[3]."

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[3] RSA, The Constitution of the Republic of South Africa (Act 108 of 1996)

These principles are embedded in the responsibilities of IAA in terms of their responsibilities to evaluate controls, risk management and governance processes.

1.3.2   The PFMA and MFMA

1.3.2.1   Audit Committee (AC)

In terms of the above legislations, an AC is established to serve as an independent governance structure whose function is to provide an oversight role on the systems of internal control, risk management, and governance. The AC assists the Accounting Officer (AO) in the effective execution of his/her responsibilities with the ultimate aim of the achievement of the organisation's objectives. AC is discussed in detail in Chapter 2. Internal Audit Activity (IAA).

The ISPPIA defines internal auditing as "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."

Both the PFMA and MFMA make provision for the establishment of the IAA to assist the AO and the AC in the effective discharge of their responsibilities. The IAA provides an independent analysis, appraisals, recommendations, counsel and information concerning the activities reviewed, with a view to improving accountability and performance. IAA is discussed in detail in Chapter 3.

The concepts of governance processes, risk management and control processes are described below.

1.3.2.2 Internal Audit Activity (IAA)

The ISPPIA defines internal auditing as "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."

Both the PFMA and MFMA make provision for the establishment of the IAA to assist the AO and the AC in the effective discharge of their responsibilities. The IAA provides an independent analysis, appraisals, re-

commendations, counsel and information concerning the activities reviewed, with a view to improving accountability and performance. IAA is discussed in detail in Chapter 3.

The concepts of governance processes, risk management and control processes are described below.

1.3.2.3   Governance processes

The role of the IAA with respect to good governance should be to assist the organisation in achieving its goals, creating and maintaining particular values. It does so through the appropriate accountability and by evaluating processes that contribute to the achievement of these goals and values, specifically the communication of the goals and values and the processes used to monitor their respective achievement.

1.3.2.4   Risk management processes

Risk management is a key responsibility of management and the AO. Internal auditors should assist both management and the AC by examining, evaluating and reporting on the adequacy and effectiveness of the risk management process.

1.3.2.5 Internal control processes

The operation of internal control systems is the responsibility of the relevant line managers.

The IAA should evaluate the existing controls in terms of their adequacy and effectiveness, assessing the change in the likelihood of any risk materialising and develop re-commendations for their improvement. Re-commendations should always add value, and should be measured against the reduction of the likelihood that a risk can materialise.

The IAA is a key factor in ensuring that an organisation is effectively managed and that its resources are not misused or misappro-priated. Internal controls are not limited to financial matters but apply to operations as well. Essentially, it is a management system, culture and set of values designed to ensure that the organisation is managed efficiently and effectively, with the appropriate policies and procedures that promote the achievement of its overall goals and objectives.

1.4 Other International Guidance

1.4.1 ISPPIA and Code of Ethics

The IIA has developed ISPPIA which are prescribed for application to all its members and member organisations. These standards consist of three categories: the Attribute, Performance and Implementation Standards. The Standards should be applied in conjunction with the Code of Ethics[4].

1.4.2 The Committee of Sponsoring Organisations (COSO)[5] / Treadway Commission

COSO issued the Internal Control – Integrated Framework to help businesses and other organisations assess and enhance their internal control systems. This framework has since been incorporated into policies, rules and regulation, and used by thousands of enterprises to better control their activities in moving towards achievement of their established objectives.

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[4] IIA website – www.theiia.org

[5] The Committee of Sponsoring Entity's of the Commission on Fraudulent Financial Reporting (Treadway Commission)

1.4.3 Criteria of Control (CoCo)[6]

The CoCo was the initiative of the Canadian Institute of Charted Accountants to strengthen control and governance. According to CoCo the essence of control in any organisation is a combination of the organisation's purpose, commitment, capability, monitoring and learning.

In CoCo, controls are all the elements of an organisation that, taken together, support people in the achievement of the organisation's objectives. The elements include resources, systems, processes, culture, structure and tasks. Review of control means review of all these elements and how they are inter-related and aligned with objectives.

1.4.4 The Cadbury Committee[7]

The Cadbury Committee was set up in May 1991 by the Financial Reporting Council, the London Stock Exchange and the accountancy profession in the United Kingdom to address the financial aspects of corporate governance.

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[6] The Criteria of Control executive authority (CoCo) through the Canadian Institute of Chartered Accountants

[7] The Cadbury Report on Corporate Governance – December 1992

Its sponsors were concerned about the perceived low level of confidence both in financial reporting and in the ability of auditors to provide the safeguards which the users of company reports sought and expected.

In its report the commission recommended certain practices in board governance, audit committees, internal controls and external auditors that would improve organisational performance, governance and stakeholder confidence.

2 Audit Committee (AC)

2.1 Introduction

The AC is an independent governance structure whose function is to provide an oversight role on the system of internal control, risk management, and governance. Governance entails how an organisation is managed, which includes culture, policies and strategies and the way it deals with stakeholders such as the AC.

2.2 Legal Framework

Section 76(4) (d) of the PFMA states that "the National Treasury may make regulations or issue instructions concerning AC's, their appointment and their functioning."

Sections 77 of PFMA and 166 of MFMA provide for the establishment, composition and frequency of meetings.

2.3 The Audit Committee Charter

The purpose, roles, responsibilities and authority should be clearly documented in a charter. In the case of National and Provincial departments the charter should be accepted by the AC and approved by the AO in consultation with the Executive Authority (EA).

In relation to municipalities the Council should approve the AC charter. With regard to Public and Municipal Entities the AC charter should be approved by the Board of Directors.

See Annexure 1 for a specimen of an AC charter.

2.4   Roles and Responsibilities of the AC

2.4.1   Determining the roles and responsibilities

The roles and responsibilities of an AC should be determined by the AO in consultation with the EA taking into account the following:

- The organisation's size, complexity and nature of its business;
- Nature of governance structures;
- Maturity of organisation's risk and control environment;
- Skills, experience and personal qualities of potential members; and
- Mechanisms and processes which need to be established to enable the AC to meet its responsibilities.

2.4.2   Risk Management

Risk management is an essential part of effective corporate governance and whilst it is

a management responsibility, management expects the AC to oversee and provide advice on the organisation's risk management. The AC needs to review:

- Whether management has a comprehendsive risk management framework;
- Whether a sound and effective approach has been followed in developing strategic risk management plans;
- The impact of the organisation's risk management framework on the control environment; and
- The organisation's fraud prevention plan to be satisfied that the organisation has appropriate processes and systems in place to capture, monitor and effectively investigate fraudulent activities.

2.4.3 Control Framework

The AC members need to have a good understanding of the control framework. This understanding will enable the AC to evaluate the adequacy of the organisation's control environment and will be a basis from which reasonable assurance can be provided that the organisation's objectives and goals will be achieved efficiently and economically.

2.4.4   Internal Audit

IAA should be a major source of information to the AC on the performance of the organisation. To maximise the value of IAA, it is important that open lines of communication are established and maintained between the IAA and AC.

The AC's responsibilities in relation to IAA should be as follows:

- Act as a forum for communication between management, internal and external audit;
- Review the IA Strategic and Operational Plans, ensure that these plans are based on the organisation's risk assessment, and approve them;
- Advise the AO on the adequacy of IA resources needed to carry out auditing responsibilities, including the completion of the approved IA plan;
- Oversee the co-ordination of audit programs conducted by internal and external audit;
- Review all high risk audit reports and provide advice to the AO on significant issues identified in audit reports and action taken on issues raised;

- Monitor management's implementation of IAA recommendations;
- Review the IA Charter to ensure that appropriate organisational structure, authority, access and reporting arrangements are in place;
- Periodically review the performance of IAA; and
- Provide advice to AO on the appointment and dismissal of the CAE.

2.4.5   External Audit

The AC will have valuable insight into the effectiveness of the organisation's risk, control, financial reporting, operational reporting and legislative framework if a good relationship exists with external audit.

The AC's responsibilities in relation to external audit should be as follows:

- Provide input and feedback on the financial statements and audit coverage proposed by external audit and provide feedback on the audit services provided;
- Review all external audit plans and reports and monitor management's implementation of audit recommendations;

- Provide advice to the AO on action taken on significant issues raised in external audit reports; and
- Review external audit costs.

2.5 Composition and Membership

2.5.1 Composition

Section 77 of the PFMA and Section 166(4) of the MFMA state that an AC must consist of at least three persons of whom the majority may not be in the employ of the department or public entity or municipality. The majority of members should be financially literate and qualified. The appointment must be done by the AO in consultation with the EA. In relation to municipalities appointment must be done by Council. The appointed members should enter into a contract with the organisation. The size of the AC should be influenced by the nature and extent of its responsibilities as covered in the charter.

2.5.2 Qualities

In determining the composition of the AC, the AO should look for the following qualities:

- The ability to conduct responsibilities in the context of the organisation's

strategic objectives and overall corporate governance of the organisation;

- The ability to act independently and be proactive in advising the AO of issues that require further management attention;
- The ability to ask relevant questions, evaluate answers and continue to probe for information until completely satisfied with answers provided;
- Independence;
- A professional approach to duties, including commitment of time and effort;
- The ability to encourage openness and transparency; and
- The ability to work constructively with management.

2.5.3 Skills and Experience

Members should be selected from different areas of expertise to enhance the AC's overall knowledge of the organisation. The appointed members should collectively possess the following:

- Broad business, corporate governance and/or financial management experience;
- Public sector experience;

- An understanding of the business in which the organisation operates;
- Familiarity with risk management practices;
- An understanding of internal controls;
- An understanding of major accounting practices and public sector reporting formats;
- Familiarity with legislative requirements; and
- Understanding of the roles of internal and external audit.

2.5.4 Independence of Members

In order to be effective, the AC needs to operate independently of line management and it needs to bring objectivity to the deliberations. To enhance the AC's independence, it is recommended that:

- The majority of AC members should be independent of the organisation and should preferably not be in the public service;
- The appointment of AC members who exhibit an independence of mind in their deliberations; and

- AC members should not serve more than two consecutive terms and no more than 6 years.
- AC members should declare private and business interest in every meeting.

2.5.5 Appointment of Chairperson

One of the AC members should be appointed as the chairperson. The AO should appoint the chairperson in consultation with the EA. In relation to a municipality the chairperson must be appointed by Council. The chairperson should be an independent member not in the employ of the organisation. The following factors should be considered in appointing the chairperson:

- The personal qualities and abilities to lead discussions;
- Encouragement of other members to participate in AC meetings; and
- Conducting of meetings in a manner that demonstrates a desire to establish effective communications with all stakeholders.

2.5.6 Term of Office

The chairperson should be appointed for a minimum of between two and three years to

ensure that he/she contributes most effectively and provides stability to the AC. AC members should be recruited to introduce new perspectives and thinking to AC discussions. Rotation is encouraged as it enhances the independence of the AC. Members' should serve at least a minimum of three years with an option to renew the contract. Recruitment should be staggered to prevent a loss of knowledge and skills base of members at one time. Members should be encouraged not to terminate their contracts until they have shared their experiences with new members.

Members should not be contracted continuously for a period exceeding six years. After serving continuously for six years, a cooling period of two years should be allowed before appointing the same member to the same AC.

2.5.7   Induction of Members

A formal process of induction should be in place. This process should provide new members with sufficient briefings and information to understand their responsibilities and management expectation about their role and performance. The new members should meet and be briefed by the AO, and the chairperson of the AC should be introduced to

the CAE, EA and the external auditors. Information to be provided to new members should include:

- The organisation's governance structure and how the AC operates within this structure;
- A copy of the AC Charter and recent AC minutes including details of outstanding issues;
- Copies of the relevant legislation;
- Copies of the organisation's annual report, strategic plan, code of conduct and risk management plans;
- A briefing from management and IA on the risk, control and governance processes; and
- A copy of the IA Charter, annual work plan and recent audit reports.

The chairperson in consultation with the AO should identify opportunities for further education of the members in areas of risk management, financial reporting and corporate governance. This may take a number of forms:

- Attendance of seminars or courses;
- Provision of relevant written material;
- Presentation by senior management; and

- Discussion and presentations from internal and external audit.

An AC should have the following characteristics:

- A good understanding of the committee's position in the governance structure;
- Clearly defined roles and responsibilities;
- Members with relevant personal qualities, skills and experience;
- The ability to maintain effective relationships with key stakeholders;
- The ability and capacity to conduct its affairs efficiently and effectively; and
- A robust process of performance assessment.

2.5.8 Annual Reporting Requirements

The AC annual report should include the following:

- Membership of the AC, with details of:

  ‣ The number of meetings held by the AC;
  ‣ The number of meetings attended by the AC members;

- ‣ The effectiveness of the internal control systems;
- ‣ The risk areas of the entity's operations covered in the scope of internal and external audits;
- ‣ The adequacy, reliability and accuracy of financial information provided by management;
- ‣ Accounting and auditing concerns identified as a result of internal and external audits;
- ‣ The entity's compliance with legal and regulatory provisions;
- ‣ The effectiveness of IAA; and
- ‣ The activities of IAA, including its annual work programme, coordination with the external auditors, the results of significant investigations and response of management to specific recommendations.

3 Establishment of IAA

3.1 Background

Section 38 (1) (a) (ii) and 76 (4) (e) of the PFMA as well as Section 165 of the MFMA prescribe the establishment of the IAA.

IAA is an important component of internal control, risk management and corporate governance and provides the necessary assurance and advisory services to the organisation.

IAA is one of the most significant management tools and can provide value-added services to the organisation. When objectively and adequately resourced, an IAA should be in a position to provide management with much of the assurance it requires regarding the effectiveness of the system of internal control, risk management and governance processes. The IAA must be well planned, organised, staffed, trained, directed and monitored.

Internal audit must be conducted in accordance with the standards set by the IIA[8]. These standards, together with the various Practice Advisories issued by the IIA provide

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[8] PFMA Treasury Regulation3.2.6

much of the guidance required by IAA for conducting its work.

3.2 Planning the IAA

3.2.1 Identifying the CAE

- The CAE's role is to provide advice, counsel, and opinions regarding the organisation's efficiency and effectiveness in risk management, internal control and corporate governance and performance management. The CAE should be appointed at a senior management level. He/she should possess a high level of personal and professional ethics including an understanding of the risk management processes and practices.

The CAE should preferably possess any the following qualifications:

- Post graduate degree in Auditing and/or Accounting;
- Professional designation such as Certified Internal Auditor and other relevant professional designation.

The incumbent should preferably possess the following:

- At least five (5) years in internal audit management ; and
- Membership of the IIA.

3.2.2 Independence and Objectivity[9]

Independence

The CAE must report at a level within the organisation that allows the IAA to fulfil its responsibilities[10]. This level must have sufficient authority to promote independence and to ensure broad coverage, adequate consideration of engagement communication and appropriate action on engagement re-commendations. The CAE must report functionally to the AC, and administratively to the AO of the organisation.

Independence is achieved through the organisational status and the objectivity of IAA. IAA is independent when it can carry out its work freely and objectively.

IAA should have the support of senior management and of the AC so that it can gain

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[9] ISPPIA 1100

[10] ISPPIA 1110

the co-operation of the audit client and perform its work free from interference.

The CAE should have direct communication with the relevant EA, AO, AC, or other appropriate governing authorities. Direct communication occurs when the CAE regularly attends and participates in meetings of the relevant AO, AC and appropriate governing authorities which relate to its oversight responsibilities for auditing, financial reporting, corporate governance and control. The attendance and participation of CAE at these meetings provide an opportunity to exchange information concerning the plans and activities of the IAA.

Independence is enhanced when the AC concurs in the appointment or removal of the CAE[11].

Additionally, the IAA should:

- Have no direct operational responsibility or authority over any of the activities reviewed;
- Neither develop nor install systems or procedures, prepare records, or engage

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[11] Practice advisory 1110-1 number 6

in any other activity that would normally be audited;

- Not initiate or approve accounting transactions external to the IAA; and
- Avoid conflict of interest.

Objectivity

Each internal auditor should have an objective attitude and should be in a sufficiently independent position to be able to exercise judgement, express opinions and present recommendations with impartiality.

Specifically:

- An Internal Auditor should be free from any conflict of interest arising from professional or personal relationships or other interests which he/she may be subjected to audit[12]; and
- An Internal Auditor should be free from undue influence which restricts or modifies the scope or conduct of the audit work, or significantly affects judgement regarding the content of any audit report.

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[12] Practice advisory 1130-1

3.2.3   The IA Charter[13]

An IA charter serves as the IAA statement of purpose, authority and responsibility, and must be in writing (refer to Annexure 2).

It must address the following:

- The IAA's purpose, authority and responsibilities;
- The standards to be complied with;
- The scope of work to be undertaken;
- The position of the IAA within the organisation;
- A description of assurance and nature of consulting services;
- The period of review of the charter;
- The appointment and the dismissal of the CAE; and
- Access to information, properties and people.

The IA Charter must be approved by the AC and accepted by the AO.

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[13] PFMA Treasury regulation 3.2.5

3.3   Organising the IAA

3.3.1   Planning[14]

The CAE needs to direct, supervise and manage the activities of IAA. These include amongst others planning, resource management, implementation of operating policies and procedures, review of work, coordination of assurance activities and quality assurance.

3.3.2   The Audit Plan and Process

The operational IA plan should be based on an assessment of risks and exposures that may affect the organisation and should be done at least annually in order to reflect the most current strategies and direction of the organisation. Risk assessment should be evaluated, alignment of the operational plan to the overall objectives of the organisation should be ensured to add value. A risk based audit plan ensures that audit activities effectively focus on those areas where the risk of exposure is greatest.

The CAE must ensure that strategic and operational plans are developed annually, approved by the AC and accepted by the AO.

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[14] ISPPIA 2010

3.4 Developing an Internal Audit Strategic Plan

The CAE must establish risk-based plans to determine the priorities of the IAA, consistent with the organisation's goals[15]. The IAA's plan as well as the IAA fieldwork must focus on the risks to which the organisation is exposed.

Developing a strategic audit plan follows a logical process as described below.

3.4.1 Understanding the Environment (Step 1)

A top-down view of the organisation is taken, to better understand the business, operational risks and controls for managing those risks. This view depicts the environment within which each organisation operates.

3.4.2 Strategic Overview (Step 2)

In order to identify the risks to which the organisation is currently exposed, and those to which it is likely to be exposed in the future, an understanding of the strategic plan and objectives for the organisation must be

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[15] ISPPIA 2010

obtained. The strategic plan overview covers the following areas:

- Mission;
- Vision;
- Values; and
- Objectives.

Using the above information, a strategic risk workshop and/or interviews should be conducted where risks that threaten the attainment of the organisation's strategic objectives are identified and analysed. The controls put in place to manage the risks should be identified.

3.4.3 Detailed Analysis (Step 3)

The understanding of the strategic objective and functioning of the organisation is extended through consideration of management's breakdown of the strategic objectives into operational objectives. A detailed risk analysis of the organisation is conducted to identify those risks that impact on the achievement of objectives.

The analysis:

- Assesses the effect of each risk on the objectives;
- Considers the relevant risk management activities applied to the risk;
- Assesses the effectiveness of such activities; and
- Identifies any action needed to improve the risk management activities.

In considering the effectiveness of risk management activities' actual or perceived control, measures are identified and their effectiveness assessed with regard to the identified risk.

3.4.4 Consolidated Risk Reporting (Step 4)

The results provide detailed reports of the processes reviewed that allow for risk rating, evaluation of control effectiveness, detailed action plans and audit strategy determination.

Summary reports that set out the risk and risk management response per business process model or control criteria can be extracted (for example – severity of risk of external factors, how well these risks are managed using what control criteria for instance, commitment or measurement).

The data can be used to plan, direct a risk management approach and provide the basis for risk management activities.

3.4.5 Risk Management Activities (Step 5)

Management is responsible for ensuring the establishment of effective risk management in the organisation. The approach followed provides a mechanism of formalising the responsibility and establishing accountability for management activities. This is often achieved through the establishment of a "Risk Committee" function. Its efforts should identify further actions that may be needed to reduce risk to an acceptable level.

3.5 Operational Plan

The operational IA plan must be developed taking into account the results of the risk assessments and the associated strategic audit plan so as to:

- Determine focus areas for IA activities;
- Determine IA scope in relation to the scheduled assignments;
- Allocate resources to planned audit assignments;

- Establish the timing of performance of the audit assignments; and
- Determine the reporting requirements and deadlines.

Detailed information should be provided to the AO and management such that there is an enhancement of understanding the assignment's purpose and scope.

The operational IA plan should be submitted to management for review prior to approval by the AC.

In developing the operational IA plan the following key issues must be remembered:

- Availability (capacity) and skills of IA staff;
- Changes in the risk environment of the organisation – the risk environment should be assessed on an annual basis;
- Approval and acceptance of the operational plan by the AC; and
- The materiality of ad-hoc requests as this could have a significant impact on the normal audit planning and timing process.

The operational IA plan should be reviewed to identify any amendment needed to reflect

changing priorities and emerging audit needs. The AC should approve material changes to the operational IA plan.

3.5.1 Risk Based Planning

Risk based planning means finding the correct balance of risk based versus cyclical based audits. This balance depends on the maturity of an organisation's systems and processes, the extent to which policies and procedures and internal controls are entrenched and complied with, and the general strength of the wider control environment. Best practice is that the IAA spends most of its time on risk-based audits, and the rest on cyclical based audits, follow-up audits and ad hoc requests.

3.5.1.1 Risk based audits

Given the results from the risk assessments performed (which generally indicate only a satisfactory-to-weak control environment) it may be appropriate for the IAA to focus its attention on the high risk areas, mostly concentrating on ensuring that key controls are in place and adhered to.

3.5.1.2 Cyclical audits

IAA may decide to focus its attention on certain medium to lower risk areas, in order to achieve general or specific improvements in the control environment or culture. These cyclical audits are normally conducted on a yearly basis with the aim of monitoring and maintaining (through the reports issued and actions taken) a sound internal control environment. This also includes legislated and follow up audits.

3.5.1.3 Ad hoc requests

IAA might consider ad-hoc requests from management, but such requests should flow from the written authorised charter and with the approval of the AC. However before accepting these requests IAA should assess the requests against the planned audits and prioritise the requests based on how much value can be added, prior to deciding whether or not to accept the requests.

3.5.2 Budget of IA

It is the responsibility of the AO and the AC to ensure that the IAA is adequately resourced for effective functioning. The CAE should control and have responsibility over the IAA's budget.

The IAA's budget should at least cover the following items:

- Infrastructure including accommodation, personnel related expenditure;
- Capital expenditure and software;
- Training and development;
- IIA's membership fees; and
- Quality assurance programs.

3.6 Staffing

The CAE, in conjunction with the AO, should develop an IAA structure taking cognisance of the organisation's needs including risk and complexity of the operations. Provision should be made for levels of supervision and review of audit work in line with due professional care as provided for in the ISPPIA.

The CAE should develop a recruitment, placement, training and staff retention programme to ensure that appropriate skills are available. To achieve this, emphasis should be placed on qualifications, skill and experience.

To improve effectiveness of the IAA, staff at all levels should have well-documented job

descriptions, clear goal setting, performance evaluations and training programmes.

3.6.1 Outsource or Co-Source of IAA

The IAA may be outsourced where the organisation requires capacity to develop its internal capacity and is deemed to be cost effective. Outsourcing should comply with supply chain management process. Where the IAA is outsourced, oversight and responsibility for the IAA cannot be outsourced. The CAE should manage the outsourced function.

Consideration for evaluating sourcing alternatives:

- Available resources: the organisation may not have sufficient resources (financial, physical, human etc.) to establish an in-house IAA. Outsourcing should be considered when it is cost effective for the organisation;

- Size of the organisation: both large and small organisations may need to take advantage of outsourcing alternatives. Common reasons include temporary staff shortages, speciality skills, special audit project work and supplementary staff to meet deadlines; and

- Skills transfer: skills transfer implemen-
tation plan should be developed to
ensure that the IA staff members are
capacitated and their skills enhanced
throughout the process.

Types of sourcing alternatives:

- Outsourcing is where the internal audit is
conducted by an external service
provider;
- Co-sourcing is where the external
service provider works together with in-
house IAA resources; and
- Shared Services is where one IAA
provides services to multiple organi-
sations through a centralised IAA.
Implementation of the required work to
be undertaken is based on Service Level
Agreements with the organisations
serviced by the Shared Service.

3.7 Quality Assurance and Improvement

Program[16]

The activities of the IAA must be guided,
monitored and supervised at each level of

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[16] ISPPIA 1300

operation to ensure that they are consistently performed in accordance with the IIA's standards.

Internal Assessments[17]

The CAE must ensure that internal assessments are performed. These should ideally be conducted by senior officials who are experienced in the IA field. Internal assessments should appraise among others:

- Compliance with the IAA charter;
- Compliance with the IAA methodology; and
- Compliance with the IIA standards.

External Assessments[18]

The IAA must be subjected to an external assessment at least once every five years, the results of which should be communicated to the AC and AO.

An external assessment must be conducted by a qualified reviewer or review team from outside the organisation[19].

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[17] ISPPIA 1311

[18] ISPPIA 1312

[19] Practice Advisory note 1312-1

The scope of the external assessment will, among others, cover matters related to independence and objectives of the IAA, expectations of the IAA expressed by the senior management and AC, integration of the IAA into the organisation's governance processes, efficiency and effectiveness of internal audit approach, as well as audit strategy and plans.

On completion of the external assessment, the review team should issue a formal report containing an opinion on the level of the IAA's compliance with the ISPPIA[20]. The CAE and AO should prepare a written action plan in response to comments and recommendations in the report.

3.8   Relationship with the Office of the Auditor-General/External Auditors

In terms of the ISPPIA the IAA should share information and co-ordinate its activities with those of the internal and external providers of assurance and consulting services. This is done to ensure appropriate coverage of risk areas and minimise duplication of efforts.

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[20] Practice Advisory note 1320-1

There should be access to each other's audit plans and programs, as well as audit reports[21].

It is recommended that periodic meetings be held between the IAA and external audit. At these meetings key risks should be discussed, audit scopes should be shared, priorities should be emphasised and findings should be discussed.

The IAA can assist external auditors obtain an in-depth level of understanding of the audit client's business. The external auditors are mainly concerned with the fair presentation of the organisation's financial statements.

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[21] ISPPIA 2050

4 Nature of Work[22]

IAA must evaluate and contribute to the improvement of risk management, control and governance processes using a systematic and disciplined approach.

4.1 Risk Management[23]

IAA is responsible for providing assurance to management and the AC on the adequacy and effectiveness of the risk management process. Risk management is a key responsibility of the AO and management. Management should ensure that adequate risk management processes are in place and functioning as intended.

IAA must assist management and the AC by examining, evaluating, reporting and recommending improvements on the adequacy and effectiveness of management's risk processes. Conducting assessments and reporting on the organisation's risk management process should be a high audit priority.

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[22] ISPPIA 2100

[23] ISPPIA 2120

IAA must be satisfied that the organisation's risk management processes address five key objectives to formulate an opinion on the overall adequacy thereof. The five key objectives of risk management are:

- Risks arising from business strategies and activities should be identified and prioritised. These risks should focus on the efficient, economic and effective use of resources, as well as any duplications of functions that might exist;
- Management should determine the level of risk acceptable to the organisation;
- Risk mitigation activities should be designed and implemented to reduce or manage risk to a level acceptable by the organisation;
- Management should receive periodic reports of the results of risk management processes; and
- Ongoing activities should be conducted to periodically reassess risk and the effectiveness of controls to manage risk.

The IAA must evaluate risk exposures relating to the organisation's governance, operations, and information systems regarding:

- Reliability and integrity of financial and operational information;

- Effectiveness and efficiency of operations;
- Safeguarding of assets; and
- Compliance with laws, regulations, and contracts.

Users are referred to the Risk Management Framework developed by the National Treasury.

4.2 Control[24]

Management must determine the level of risk they are willing to accept in the area to be reviewed before controls can be evaluated. Controls in place can then be evaluated to determine how successful they are expected to be in reducing risk to a desired level.

4.2.1 Types of Internal Controls

Directive Controls

A directive control is intended to cause or encourage a desirable event to occur, for example orientation all new employees on organisational policies, and implementation of a delegation within the organisation.

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[24] ISPPIA 2130

Preventive Controls

A preventive control is designed to prevent undesirable events from occurring. Preventive controls include employment of trustworthy and competent people, segregation of duties, and physical control over assets to prevent improper conversion or use.

Detective Controls

Detective controls are designed to detect undesirable events that have occurred. Detective controls include reviews and comparisons, such as records of performance and independent checks on performance. They also include such control devices as bank reconciliations, confirmation of bank balances, cash counts, physical counts of inventories and analysis of variances, and computerised techniques such as transaction limits and passwords.

Corrective Controls

Corrective controls rectify an error or irregularity which has been detected. An example is causing an employee to pay back funds that were fraudulently acquired from the organisation.

4.2.2   Evaluation of Controls

Based on the results of the risk assessment the IAA must evaluate the adequacy and effectiveness of controls encompassing the organisation's governance, operations, and information systems. This should include:

- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations;
- Safeguarding of assets; and
- Compliance with laws, regulations and contracts.

IAA should perform sufficient audit work and gather information to form an opinion on the adequacy and effectiveness of the internal control process. The CAE must communicate the overall opinion on a timely basis.

The following aspects should be considered when assessing controls for adequacy:

- The control environment and management attitude towards controls;
- Standard control practices (generally accepted management practices); and

- Compliance with other generally used control frameworks.

After satisfying oneself that the controls are adequate, the internal auditor should evaluate the controls for effectiveness.

To ensure that the conclusions reached are correct and supported by acceptable evidence the auditors are required to analyse and evaluate the findings of the audit in order to determine whether the controls are effective or not.

The auditor may reach one of the following conclusions when evaluating the controls for effectiveness:

- **Effective**

The existing controls are effective, i.e. they provide reasonable assurance that the activity will achieve its performance objectives.

- **Ineffective**

The existing controls are ineffective, i.e. they do not provide reasonable assurance that the activity will achieve its performance objectives.

4.3   Governance[25]

The IAA must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- Promoting appropriate ethics and values within the organisation;
- Ensuring effective organisational performance management and accountability;
- Communicating risk and control information to appropriate areas of the organisation; and
- Coordinating the activities of and communicating information among the board, external and internal auditors, and management.

In promoting the ethics and values within an organisation IAA should evaluate whether:

- The organisation has a formal code of conduct and other policies communicating appropriate ethical and moral behavioural standards and addressing

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[25] ISPPIA 2110

acceptable operational practices and conflict of interest;

- An ethical tone has been developed at the top and communicated throughout the organisation;
- High ethical standards are in place when dealing with the public, EA, employees, suppliers, auditors, and others;
- Management cooperates with auditors and other evaluators, discloses known problems to them, and values their comments and recommendations;
- Appropriate disciplinary action is taken in response to departures from approved policies and procedures or violations of the code of conduct; and
- The types of disciplinary actions that are taken are widely communicated throughout the organisation so that others know that if they behave improperly, they will face similar consequences.

In ensuring efficient organisational performance and management accountability IAA should evaluate whether:

- Management has established overall organisation-wide objectives in the form of mission, goals, and objectives in strategic and annual performance plans;

- The organisation-wide objectives relate to and stem from program requirements established by legislation;
- The organisation-wide objectives are specific, measurable, achievable, realistic and timeous enough to clearly apply to the organisation;
- Strategic plans support the organisation-wide objectives; and
- The organisation-wide objectives are effectively communicated to all employees.

IAA should communicate effectively in its reports to line function, senior and executive management when making recommendations for improvement on risk and control processes.

5   Audit Process

The audit process includes:

- Engagement planning;
- Performing the engagement;
- Communicating results; and
- Monitoring.

5.1   Engagement Planning[26]

Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing and resource allocations.

Engagement planning involves consideration of objectives of the activities being reviewed, scope, resource allocation and the work program.

Engagement planning can be divided into the following:

- Planning considerations;
- Engagement objectives;
- Engagement scope;
- Engagement resource allocation; and
- Engagement work program.

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[26] ISPPIA 2200

5.1.1 Planning Considerations[27]

In planning the engagement, internal auditors must consider:

- Objectives of the activity being reviewed;
- Significant risks to the activity;
- Assurance or consulting engagement;
- Adequacy and effectiveness of the activity's risk management and control processes; and
- The opportunities for making significant improvements to the activity's risk management and control processes.

5.1.2 Engagement Objectives[28]

The engagement objectives must address the governance, risks and control processes associated with the activities under review.

Consulting engagement objectives should be agreed upon with the client, documented and should form part of the engagement contract.

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[27] ISPPIA 2201

[28] ISPPIA 2210

5.1.3 Engagement Scope[29]

The scope must be sufficient to satisfy the objectives of the engagement and should be documented.

The scope can be defined in terms of the following:

- A geographical area;
- Period under review;
- A business unit; and/or
- Relevant system.

Consulting engagement scope should be agreed upon with the client, documented and, should form part of the engagement contract.

5.1.4 Engagement Resource Allocation[30]

Internal auditors must determine appropriate and sufficient resources to achieve engagement objectives. Staffing should be based on an evaluation of the nature and complexity of each engagement, time constraints and available resources.

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[29] ISPPIA 2220

[30] ISPPIA 2230

In determining resources the following should be considered:

- Number and experience of internal auditors required;
- Consideration of the use of external resources;
- Geographical area to be covered;
- The number of localities to be visited;
- Number of languages;
- Foreign currency; and
- Cultural differences.

5.1.5 Engagement Work Program[31]

An audit program must include the objectives and procedures to be performed, an appropriate description of the auditable area, the preparer, the date of preparation, the reviewer and the review date. The program must be appropriately referenced and cross-referenced. Procedures must be designed to achieve the objectives of the audit. The sample size will be determined by the nature of controls. Procedures must clearly indicate the documents to be reviewed, specifying areas of significance.

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[31] ISPPIA 2240

The audit program must be compiled in a standard format to ensure consistency. The final audit program must be reviewed and approved by a supervisor. All changes to the program must be approved in writing by the supervisor and reasons for changes should be documented.

5.2 Performing the Engagement[32]

Performing the engagement involves conducting field work to ensure that the objectives of the audit are achieved. This includes review, analysis and verification of information contained in documents, physical items, and corroboration by officials.

Performing the engagement can include but is not limited to the following:

- Identifying information;
- Analysis and evaluation;
- Documenting information; and
- Engagement supervision.

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[32] ISPPIA 2300

5.2.1 Identifying Information[33]

Information should be collected on all matters related to the engagement objectives and scope of work.

Information must be sufficient, competent, relevant, and useful to provide a sound basis for engagement observations and recommendations. Sufficient information is factual, adequate, and convincing so that a prudent, informed person would reach the same conclusions as the auditor. Competent information is reliable and is best attainable through the use of appropriate engagement techniques. Relevant information supports engagement observations and recommendations and is consistent with the objectives for the engagement. Useful information helps the organisation meet its goals.

5.2.2 Obtain and Document System Descriptions

A detailed system description should be documented. Controls (manual and automated) that management has implemented to manage the risks in the process should be identified.

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[33] ISPPIA 2310

The IAA should document the information in either narrative and/or in a flow chart format. It is recommended that the IAA initially captures the system description in a narrative manner to identify all key controls in an auditable area. The flow chart can be designed to give a systematic process flow of the activities of the auditable area. Any changes in the system since the last audit should be clearly documented.

The auditor can obtain information from a number of sources, namely:

- Discussions with the client's staff involved in the process;
- Systems documents prepared by the client; and
- Other relevant sources within the organisation.

5.2.2.1 Verifying the System Description

Internal auditors should verify whether the documented system functions as described.

The systems description should be forwarded to line management for their confirmation of the process and inclusion of their comments.

5.2.3   Analysis and Evaluation[34]

Analytical audit procedures provide efficient and effective means of assessing and evaluating information collected during the engagement.   This procedure can assist in identifying:

- Unexpected differences;
- Absence of differences when expected; and
- Potential errors/irregularities/illegal acts.

Analytical procedures can be applied to monetary amounts, physical quantities, ratios and percentages. Unexplained differences resulting from analytical procedures should be subjected to additional procedures in order to achieve engagement objectives.

5.2.4   Documenting Information[35]

Internal auditors must document relevant information to support the conclusions and engagement results.   Information can be documented in any form determined by IAA.

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[34] ISPPIA 2320

[35] ISPPIA 2330

The design and content of the working papers will depend on the nature of the engagement and the policies and methodology adopted by the IAA. The CAE should establish working paper policies for different engagements.

Working papers are the property of the organisation and must be under control of IAA. Access to and retention of IAA's records should be addressed in the IA Charter.

Access to working papers should be restricted to authorised personnel. Access to personnel outside internal audit should be approved by the CAE, while access to parties outside the organisation should be with approval of senior management or legal counsel as appropriate.

A policy should be in place to address access requirements and procedures for granting access. The policy should also address retention of records in line with policies of the organisations.

The following audit procedures are normally performed in gathering audit evidence:

- **Inspection**

The inspection of documents and physical items is used to gather audit evidence. This is most persuasive audit test.

- **Re-performance**

Re-performance of the auditee's control processes and/or processes. An example of this is the re-calculating of the items on the invoice for accuracy, etc.

- **Confirmation**

Independent validation of information provided by the auditees or validations of the auditee control processes. Third party confirmations are more reliable than those obtained from the auditee.

- **Enquiry**

The internal auditor should carefully design appropriate questions to verify management information and processes.

- **Observation**

Observation means being present and observing the process being performed by the auditee.

5.2.5 Engagement Supervision[36]

Supervision is a process that continues throughout the engagement. The extent of supervision depends on the experience and proficiency of internal auditors assigned to the engagement and the complexity of the engagement.

Supervision includes:

- Assigning competent internal auditors to the engagement;
- Staff training and development;
- Approving the work program and ensuring that it is implemented; and
- Ensuring engagement objectives are achieved.

There should be documented evidence of appropriate supervision.

5.3 Communicating Results[37]

5.3.1 The Purpose of Communicating Results

The IAA communicates the results of the audit engagements to management by issuing an

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[36] ISSPIA 2340

[37] ISPPIA 2400

audit report. Findings should be included in the audit report and discussed with the client. It is important that agreement be reached regarding the facts of each matter included in the final report.

The IAA should consistently "add value" through proactively contributing by making practical, cost effective recommendations to management. Management should consider the cost-benefit of implementing the IAA's recommendations.

5.3.2   Criteria for Communicating[38]

The audit results should be communicated to the auditee and relevant senior and executive management.

Communications must include the engagement's objectives and scope as well as applicable conclusions, recommendations, and action plans.

Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications and where appropriate include the internal auditor's overall opinion

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[38] ISPPIA 2410

and/or conclusions. Recommendations may be general or specific and should address the root cause of the finding.

A finding should consist of:

- Criteria – What is expected;
- Condition – Actual condition;
- Cause – Reason for difference between what is expected and actual condition; and
- Effect – Impact of actual condition not being what is expected.

5.3.3 Quality of Communications[39]

The information communicated must be:

- Accurate – free from errors and distortions;
- Objective – fair, impartial and unbiased;
- Clear – easily understood and logical;
- Concise – to the point, without unnecessary elaboration, superfluous detail, redundancy and wordiness;
- Constructive – helpful to the engagement client and the organisation and lead to improvement where needed;

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[39] ISPPIA 2420

- Complete – include all the relevant facts; and
- Timely – well timed, opportune and expedient for careful consideration by those who may act on the recommendations.

If a final communication contains a significant error or omission, the CAE should communicate the corrected information to all parties who received the original communication.

5.3.4 Use of "Conducted in Conformance with the ISPPIA"[40]

When non-compliance with the Standards impacts a specific engagement, communication of the results must disclose the:[41]

- Standard(s) with which full compliance was not achieved;
- Reason(s) for non-compliance; and
- Impact of non-compliance on the engagement.

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[40] ISPPIA 2430

[41] ISPPIA 2431

5.3.5 Disseminating Results[42]

Engagement results must be disseminated to those who are in a position to take corrective action or ensure that corrective action is taken. This may be:

- The responsible unit manager;
- Senior management;
- Executive management (including. Accounting Officers and Heads of Departments);
- Audit Committees; and
- Other governance and oversight committees (where appropriate).

The internal auditors must solicit comments from management timeously. Management must provide comments in accordance with the terms agreed upon in the engagement letter. The IAA should record all attempts to obtain management comments.

The internal auditors should analyse the management comments received. The following should be considered:

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[42] ISPPIA 2440

- The adequacy and relevance of management's response to findings and recommendations;
- Any disagreements raised by management on the findings;
- Proposed actions by management; and
- The impact of management's actions on the report.

Dissemination of results is subject to the policies of the organisation and/or terms of engagement for a specific engagement. Prior to releasing results to parties outside the organisation, the CAE should:

- Assess the potential risk to the organisation;
- Consult with senior management and/or legal counsel as appropriate; and
- Control dissemination by restricting the use of the results.

5.4   Monitoring Progress[43]

The CAE must establish procedures to include:

- An evaluation of management response;

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[43] ISPPIA 2500

- Verification of the response; and
- A follow-up engagement.

Observations and recommendations requiring immediate action should be monitored by IAA until corrected. IAA should ensure that actions taken by management address the identified deficiencies. Responsibility for follow-up should be defined in the IA Charter.

Follow-up audits must be incorporated in the annual audit plans. Follow-up audits entail verification of implementation of management actions.

6 Consulting Activities[44]

Consulting services should focus on assisting management in problem solving activities, achieving the organisation's objectives, and add value to line and senior management. The charter should include the authority and responsibilities of consulting services.

6.1 Types of Consulting Engagements

The types of consulting work include the following:

- 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 merger and acquisition team or system conversion team; and

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[44] ISPPIA 1000

- Emergency consulting engagements – 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.

Objectives, scope and limitations of the consulting assignment should be confirmed in writing in an engagement letter. The responsibilities of both management and the IAA should be defined and documented in the engagement letter that should be signed by both parties.

The IAA should obtain an understanding of the nature of the engagement to clearly articulate the terms of reference. Agreed upon procedures should be documented in the engagement letter and agreed upon with the client.

In the conduct of the assignment, the IAA should perform the procedures as outlined in the engagement letter.

All working papers prepared during the execution of the consulting engagement should be kept as evidence of conducting the procedures.

The IAA should communicate issues and preliminary results of the consulting engagement with line management during the conduct of the assignment.

Report to management may either be oral by conducting a meeting session with line management or written updates can be provided to management.

As agreed upon in the engagement letter, the IAA should report results of the consulting activity.

6.2   Acceptance of Consulting Activities

The following guidelines are provided for assisting the IAAs in accepting consulting activities:

- Some consulting activities are specifically identified in the approved internal audit annual plan;
- Other consulting activities are initiated by managers communicating directly with the CAE as activities happen within the organisation;
- The CAE should request the Audit Committee's approval for consulting

activities that significantly affect the approved internal audit's annual plan;

- The CAE should consider the impact of independence and objectivity on the IAA before acceptance of the consulting activities;
- The CAE should consider whether the internal auditors have the requisite skills, knowledge, time and competencies to perform the proposed consulting activities; and
- The CAE should consider the risks associated with the proposed consulting activities.

Annexure 1

AUDIT
COMMITTEE CHARTER

Purpose

To assist the AC in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process, the process for monitoring compliance with laws and regulations and the code of conduct.

Authority

The AC has authority to conduct or authorise investigations into any matters within its scope of responsibility. It is empowered to, but not limited to the following:

- Resolve any disagreements between management and the auditor regarding financial reporting;
- Pre-approve all auditing and non-audit services;
- Retain independent counsel, accountants, or others in consultation with the AO, to advise the committee or assist in the conduct of an investigation;

- Seek any information it requires from all employees; and
- Meet with management, external auditors, or outside counsel, as necessary.

Composition

The AC will consist of at least three members of which the majority will not be employees of the entity to be served. The AO in consultation with the EA will appoint the committee members and the chair person. In relation to a municipality, Council must appoint members and the chairperson.

Meetings

The committee will meet at least four times a year, with authority to convene additional meetings as circumstances require. All committee members are expected to attend each meeting. The committee will invite members of management, auditors, or others to attend meetings and provide pertinent information as necessary. Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials. Minutes will be prepared.

Remuneration

AC members not holding executive office in the organisation or not being in the public service shall be remunerated for their services on the AC based on meetings attended. The Chairperson of the AC shall be

paid additional remuneration for such attendance and for services related to the AC. Remuneration shall be determined in line with guidelines issued by National Treasury.

Responsibilities

The committee will carry out amongst others the following responsibilities:

Financial Statements

- Review the annual financial statements and consider whether they are fairly presented, complete and reflect appropriate accounting principles;
- Review other sections of the annual report and related regulatory filings before release and consider the accuracy and completeness of the information;
- Review with management and the external auditors all matters required to be communicated to the committee under the standards or legislation; and
- Understand how management develops interim financial information, and the nature and extent of internal and external auditor involvement.

Internal Control

- Consider the effectiveness of the organisation's system of internal control, including information technology security and control; and
- Understand the scope of internal and external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.

Internal Audit

- Review with management and the CAE the charter, strategic and operational plans, internal audit activities, staffing and organisational structure of the IAA;
- Ensure there are no unjustified restrictions or limitations, review and concur on the appointment, replacement, or dismissal of the CAE;
- Review the effectiveness of IAA, including compliance with the IIA's International Standards for the Professional Practice of Internal Auditing; and
- On a regular basis, meet separately with the CAE to discuss any matters that the committee or internal audit believes should be discussed privately.

External Audit

- Review the external auditors' proposed audit scope and approach, including coordination of audit effort with internal audit; and

- On a regular basis, meet separately with the external auditors to discuss any matters that the committee or auditors believe should be discussed privately.

Compliance

- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of non-compliance;

- Review the findings of any examinations by regulatory agencies and any auditor observations; and

- Obtain regular updates from management and company legal counsel regarding compliance matters.

Reporting Responsibilities

- Regularly report to the AO about committee activities, issues, and related recommendations;

- Provide an open avenue of communication between IAA, the external auditors and management;

- Review any other reports that the entity issues relating to committee responsibilities;
- Perform other activities related to this charter as requested by the AO;
- Institute and oversee special investigations as needed;
- Review and assess the adequacy of the committee charter annually, requesting AO's approval for proposed changes and ensure appropriate disclosure as may be required by law or regulation;
- Confirm annually that all responsibilities outlined in this charter have been carried out; and
- Evaluate the committee's and individual members' performance on a regular basis.

Acknowledged by:
Accounting Officer   **Date**

Approved by:
Executive Authority   **Date**

Annexure 2

INTERNAL AUDIT
CHARTER

Purpose and Scope of Work

The purpose of the internal auditing activity is to provide an independent, objective assurance and consulting services designed to add value and improve the organisation's operations.

The scope of work of the IAA is to determine whether the organisation's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure amongst others that:

- Risks are appropriately identified and managed;
- Significant financial, managerial and operating information is accurate, reliable and timely;
- Resources are acquired economically, used efficiently, and adequately protected; and
- Programs, plans and objectives are achieved.

Opportunities for improving management control, service delivery, and the organisation's image may be

identified during audits and, communicated to the appropriate level of management.

Accountability

The CAE, in the discharge of his/her duties, shall be accountable to management and the AC to:

- Provide annually an assessment on the adequacy and effectiveness of the organisation's processes for controlling its activities and managing its risks in the areas set forth in this charter;
- Report significant issues related to the processes for controlling the activities of the organisation and its entities, 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 annual audit plan and the sufficiency of department resources; and
- Coordinate with and provide oversight of other control and monitoring functions (risk manage-ment, compliance, security, legal, ethics, environ-mental, external audit).

Independence

To provide for the independence of the IAA, the CAE and personnel report functionally to the AC and administratively to the AO. The AC must concur on the appointment or removal of the CAE.

Responsibility

The CAE and the IAA staff have amongst others the following responsibilities:

- Develop a strategic and flexible annual audit plan using appropriate risk-based methodology, including any risks or control concerns identified by management and submit that plan to the AC for review and approval;
- Implement the annual audit plan, as approved, including, and as appropriate, any special tasks or projects requested by management and the AC;
- Establish policies and procedures to guide the IAA and direct its administrative functions;
- Maintain a professional audit staff with sufficient knowledge, skills, experience and professional certifications to meet the requirements of this charter;
- Establish a quality assurance program by which the CAE assures the operation of internal auditing activities;
- Perform consulting services, beyond internal auditing's assurance services, to assist management in meeting its objectives. Examples may include facilitation, process design, training, and advisory services. Informal consulting engagements include routine activities such as participating on standing committees, limited life

projects, ad hoc meetings and routine information exchange; and

- Issue at least quarterly reports to the AC and management summarising results of audit activities.

Authority

The CAE and staff of the IAA are authorised amongst others to:

- Have unrestricted access to all functions, records, property and personnel;
- Have full and free access to the AC;
- 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 in units of the organisation where they perform audits, as well as other specialised services from within or outside the organisation.

The CAE and staff of the IAA are not authorised to:

- Perform any operational duties for the organisation or its affiliates;
- Initiate or approve accounting transactions external to the IAA; and
- Direct the activities of any of the organisation's employee's not employed by the IAA, except to the extent that such employees have been

appropriately assigned to auditing teams or to otherwise assist the internal auditors.

Standards and Code of Ethics

The IIA will meet or exceed the IIA Standards and abide by the Code of Ethics as outlined in the ISPPIA.

Review Period

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

Accepted by Accounting Officer   **Date**

Approved by Audit Committee   **Date**