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Internal audit charter

Introduction

The board is ultimately responsible for overseeing the establishment of effective systems of internal control in order to provide reasonable assurance that the company's financial and non-financial objectives are achieved. Executing this responsibility includes the establishment of an internal audit function in accordance with this document.

Internal control is understood to mean the processes aimed at achieving reasonable assurance about the realisation of the following objectives:

- i. the accomplishment of established objectives and goals for operations and programmes;
- ii. the economical and efficient use of resources;
- iii. the reliability and integrity of financial and non-financial information;
- iv. compliance with relevant policies, procedures, laws and regulations;
- v. safeguarding of assets.

This document defines the role, organisational status, authority, responsibilities and scope of activities of the internal audit function. It also includes the principles underlying the realisation of the objectives of the function and the translation thereof into operational activities.

Purpose of internal audit

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

Authority and independence

Status

The organisation status of internal audit should be sufficient to permit objectivity, and to assure the accomplishment of its audit responsibilities.

The internal audit function is established by the board and its responsibilities are defined by the audit committee of the board.

The audit committee decides on the chief audit executive's (CAE's) appointment and removal and is responsible for his performance appraisal. The audit committee ensures that the internal audit function is subjected to an independent quality review as and when the audit committee determines it appropriate as a measure to ensure that the function remains effective.

The CAE reports administratively to the chief executive officer (CEO) or his nominated deputy and reports functionally to the audit committee of the board.

The CAE has unlimited access to all officers of the company including the chairmen of the board and audit committee and the CEO.

The CAE has a standing invitation to attend meetings of the executive committee or other committees made up of a majority of senior executives, but is not a member of these committees in order to protect independence.

Organisational structure

The organisational structure must promote the independence of the internal audit function as a whole and allow internal audit to form its judgments objectively.

Internal audit has free and unrestricted access to management, employees, activities, physical locations and to all information considered necessary for the proper execution of internal audit's work, at the discretion of the CAE.

The internal audit function has full, free and unrestricted access to any of the organisation's financial and operational activities, records (either manual or electronic), physical properties and personnel relevant to a review, but subject to strict accountability for safekeeping and confidentiality thereof.

The CAE and staff of the internal audit function are not authorised to:

- i. Perform any operational duties for the organisation or its affiliates;
- ii. Initiate or approve accounting transactions external to the internal audit function; and
- iii. Direct the activities of any employee in the organisation not employed by the internal auditing function, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist internal audit.

Internal audit staff generally do not assume a role other than in an advisory capacity in the design, installation or operation of control procedures. Any staff transferred into the internal audit function from other departments should not review any aspects of their previous department's work until a reasonable interval of time has passed.

The CAE is ultimately responsible for the work performed by all staff members of the internal audit function. This includes, but is not limited to, the establishment of the scope of activities to be carried out in the different departments, the tools and methodologies to be followed, procedures and standards, headcounts of the function in the different departments, required skills, educational levels, experience etc. for

recruitment into the function, decisions on the possible outsourcing or co-sourcing of capacity, etc.

Limitation of scope

Any attempted scope limitation by management must be reported, preferably in writing, to the CEO and to the audit committee. The question of whether an action from management in fact constitutes a scope limitation is at the judgment of the CAE. Except in cases of suspected fraud, the CEO and the audit committee may decide to accept a limitation of scope. In such instances, the CAE 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 CEO and the audit committee for their renewed consideration.

Responsibilities

Internal audit assurance is provided through applying the Standards for the Professional Practice of Internal Auditing and the Code of Ethics of The Institute of Internal Auditors (IIA).

Internal audit provides assurance to the company's stakeholders that the company operates in a responsible manner by performing the following functions:

- i. evaluating the company's governance processes including ethics, especially the 'tone at the top';
- ii. performing an objective assessment of the effectiveness of risk management and the internal control framework;
- iii. systematically analysing and evaluating business processes and associated controls; and
- iv. providing a source of information, as appropriate, regarding instances of fraud, corruption, unethical behaviour and irregularities.

The scope of possible activities that the internal audit function can engage in includes:

- i. Monitoring the risk management infrastructure and practices;
- ii. Reviewing the reliability and integrity of financial and operational information and the means used to identify, measure, classify and report such information;
- iii. Reviewing the systems established by management to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports, and determining whether the company is in compliance;
- iv. Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets;
- v. Appraising the economy and efficiency with which resources are employed;

- vi. Reviewing 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;
- vii. Evaluating and assessing significant merging or consolidation of functions and new or changing services, processes, operations, and control processes that are coincidental with their development, implementation and/or expansion;
- viii. In accordance with the recommendation of the Report on Governance for South Africa - 2009 King Committee on Governance (King III), internal audit must provide a written assessment regarding the effectiveness of the system of internal controls and risk management to the board. This enables the board to report on the effectiveness of the system of internal controls in the integrated report; and
- ix. In accordance with the recommendation of King III, internal audit must conduct a documented review of the key financial reporting controls in identified financial systems and processes every year. This must be submitted to the audit committee to enable it to formulate its comment to be included in the annual financial statement in terms of section 94(7)(f)(iii) and to make a submission to the board in terms of section 94(7)(h) of the Companies Act, 2008.

The annual allocation of internal audit resources to the different possible activities is established on the basis of an approved internal audit plan. The audit committee is responsible for approving the plan based on the agreed scope of work that needs to be performed.

Relationships with the external auditors

Internal audit co-ordinates its work with that of the other assurance providers. The external auditors must be consulted in determining the activities of internal and external audit in order to minimise duplication of audit effort. This may involve:

- i. periodic meetings to discuss the planned activities;
- ii. the exchange of audit work papers including systems documentation;
- iii. the exchange of management letters;
- iv. the forming of joint teams where appropriate;
- v. internal audit carrying out certain (financial) audit work;
- vi. evaluating the quality of the services rendered to the company by the external auditors; and
- vii. other aspects of the relationship between the organisation and the external auditors.

Internal audit must make an assessment of the adequacy of the combined assurance approach adopted by the company. This assessment includes the adequacy of risks covered by the different assurance providers and the reliability of the assurance provided.

Operational planning

The parameters for the internal audit function's operations functioning must be set as follows:

- i. staffing - high-level issues relating to the staffing of the function (e.g. training ground for management, skill sets, educational backgrounds, previous experience etc.) are addressed. Also, the following matters are covered:
 - preparation of written job descriptions for the various levels;
 - methods of recruiting and selection;
 - providing training and appropriate continuing professional educational opportunities for staff;
 - evaluating performance at least on a periodic basis; and
 - counselling each member of the staff with respect to his performance and professional development;
- ii. budgeting systems;
- iii. tools and methodologies;
- iv. internal audit planning - the underlying principles and process of preparation and approval of the annual plan of activities, setting out the intended scope of the work during the upcoming period(s) are formalised in writing. Identification and prioritisation of audit areas is to be based on the assessment of risks pertaining to the achievement of the company's objectives and the related audit significance. Such a risk analysis and determination of audit significance is the basis for the formal assessment of audit needs and the strategic audit plan. The strategic audit plan should set out the frequency and the depth of coverage for each auditable area. For all major audit activities this would normally ensure that the most significant audit areas are audited frequently and all auditable areas are covered within the strategic planning period. A strategic audit plan, which ensures coverage of the company's operations as a whole, over a time frame of three to five years, is to be maintained and reviewed every year. An annual audit plan including priority, timing and resource requirements is to be prepared for each year. For each audit an individual plan is to be prepared and is to be approved by the CAE;
- v. performance metrics;
- vi. quality assurance;
- vii. communication strategy - the objectives are to secure that, within the company, all relevant entities and staff are aware of the purpose, organisational status and added value that internal audit brings. A deliberate communication strategy enhances the effectiveness of the function; and
- viii. reporting - internal audit should be supported by an appropriate reporting protocol. This protocol holds that all reports in terms of factual findings and proposed action only, are agreed with management of the company being audited, before they are submitted to higher management levels or the audit committee. The only possible exception is where management fraud is suspected. The

reporting frequency, style and distribution should be documented as follows in each report generated:

Reports	To	When	Content
Audit reports	Responsible (local) management Executive Committee Audit Committee cc: Responsible Regional / Divisional Manager cc: Local External Auditor cc: Group External Auditor	The end of each audit	<ul style="list-style-type: none"> • Audit objective • Audit scope • Executive summary of major findings and recommendations • Detailed recommendations • Management responses • Agreed actions
Annual Report	Executive committee Audit Committee cc: Group External Auditor	Annually	<ul style="list-style-type: none"> • Achievement of the annual audit plan, staffing plans and budgets • Summary of major findings and recommendations • Proposed annual audit plan • Amendments to strategic plan
Interim Status Reports	Executive committee Audit Committee cc: Group External Auditor	Quarterly	<ul style="list-style-type: none"> • Progress against, and significant amendments to, the current annual audit plan • Summary of major findings and recommendations

Assessment of effectiveness of internal audit function

The audit committee should annually assess the effectiveness of the internal audit function. Internal audit should be assessed against the following criteria:

- i. Achievement of the annual internal audit plan;
- ii. Compliance with IIA's professional standards inclusive of quality assurance assessments on the level of compliance achieved;
- iii. Achievement of reporting protocols through management to the audit committee;
- iv. Timeliness of reporting of findings and activities;
- v. Responsiveness to changing business/operational environment;
- vi. Management's acceptance of the internal audit findings;
- vii. Quality and relevance of the annual assessment reports;
- viii. Level of cooperation and interaction with other assurance providers within the agreed combined assurance approach;

- ix. Maintenance of adequate staffing/sourcing levels to achieve the required to meet the requirements of this charter; and
- x. Meeting the budget allocated to internal audit.

Review of charter

This charter must be updated at least once a year but more frequently as circumstances may necessitate. It should be approved by the board and endorsed by the audit committee, in order to formally establish the authority of the internal audit function.