

DRAFT PROUDLY SOUTH AFRICAN'S INTERNAL AUDIT CHARTER

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1. PREAMBLE AND PURPOSE OF THIS CHARTER

- 1.1. Proudly South African is a non profit organisation incorporated under the Companies Act to promote (both domestically and globally) products and service produced originated or deliverable from South Africa in order to further economic development and job creation in South Africa .
- 1.2. The Board of directors of Proudly South African is ultimately accountable and responsible for the performance and affairs of the Campaign and regard good corporate governance as pivotal to the success of its business, its Stakeholder relations and the ability of the Campaign to deliver on its public awareness mandate.
- 1.3. This Charter aims to regulate the parameters within which the Board will operate and to ensure the application of the principles of good corporate governance in all dealings by, in respect and on behalf of the Campaign.
- 1.4. Whilst this Charter of necessity includes references to minimum acceptable standards of governance, in pursuit of its underlying ideals, it is critical that the substance prevails over form. The Board therefore reaffirms its intention to exceed these corporate governance standards wherever reasonable, having due consideration to recognised standards of governance best practice locally and internationally, the recommendations of the King Report on Corporate Governance for South Africa ("King III"), Memorandum of Incorporation in terms of the Companies Act)
- 1.5. The purpose of this charter is to set out the nature, role, responsibility, status and authority of the Internal Audit Department and to outline the scope of their work.

2. LEGISLATIVE AND GOVERNANCE FRAMEWORK

- 2.1. In addition to the provisions of the Companies Act 71 of 2008, Proudly South African is regulated in terms of its Memorandum of Incorporation and the provisions of the Shareholder Compact, the Public Finance Management Act ("PFMA") and the National Treasury Regulations, King III and all other applicable laws of the Republic of South Africa.

3. ROLE OF INTERNAL AUDIT

- 3.1. The role of the Internal Audit Department is to assist the Chief Executive Officer and the Executive Managers to meet their objectives and to discharge their responsibilities by providing an independent appraisal of the adequacy and effectiveness of the controls set up by management to help run their respective Departments
- 3.2. There are no restrictions placed upon the scope of the Internal Audit Department's work. Members of the internal audit function engaged on internal audit work are entitled to receive whatever information or explanations they consider necessary to fulfil their responsibilities to the Board.
- 3.3. Internal audit work will normally include but is not restricted to:

- 3.3.1. reviewing the systems established by Executive Management to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations, and determining whether Proudly SA is in compliance.
 - 3.3.2. reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets;
 - 3.3.3. 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.
 - 3.3.4. reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- 3.4. Internal Audit is aimed at promoting efficient, economical and effective management processes and evaluating the soundness, adequacy and effectiveness of internal controls by:
- 3.4.1. appraising the effective conduct of Proudly SA's operations;
 - 3.4.2. reviewing the reliability and integrity of financial, operating and management information;
 - 3.4.3. ascertaining the extent to which assets and departmental interests are being properly controlled and safeguarded from losses of any kind;
 - 3.4.4. appraising the economy and efficiency with which financial, human and other resources are employed and
 - 3.4.5. monitoring the accomplishment of established objectives and goals for programmes.

3.5. Evaluation of the internal control system

The main objectives of the internal control system are to:

- 3.5.1. ensure adherence to management policies and directives in order to achieve the objectives
 - 3.5.2. safeguard assets
 - 3.5.3. secure the relevance, reliability and integrity of information and as far as possible the completeness and accuracy of records
 - 3.5.4. ensure compliance with statutory requirements.
- 3.6. When evaluating internal control systems Internal Audit should consider the effect which all the controls have on each other and or related systems. The stages of a systems audit include:

- 3.6.1. identifying the system parameters
- 3.6.2. determining the control objectives
- 3.6.3. identifying the expected controls to meet control objectives
- 3.6.4. reviewing the system against expected controls
- 3.6.5. appraising the controls designed into the system against control objectives
- 3.6.7. testing the operation of controls in practice
- 3.6.8. giving an opinion based on audit objectives as to whether the system provides an adequate basis for effective control and whether it is properly operated in practice.

4. RESPONSIBILITIES OF MANAGEMENT

4.1. Internal Audit **[ideally should this should be the responsibility of the Head of Internal Audit]** is responsible for determining the scope of internal audit work, and for deciding the action to be taken on the outcome of or findings from their work.

4.2. The CEO is responsible for:

4.2.1. proposing the areas of investigation by internal audit

4.2.2. ensuring the internal audit function has:-

the support of Executive Management and

direct access and freedom to report Executive Management, including the Audit Committee.

maintaining internal control, including proper accounting records and other management information suitable for running their respective Departments.

reviewing internal audit reports within a period not exceeding two weeks and implementation of recommendations as considered appropriate.

4.3. Nothing set out above shall restrict the freedom of the Internal Audit Department to conduct its own independent investigation on any matter.

5. RESPONSIBILITIES OF INTERNAL AUDIT

5.1. Internal Audit is responsible for conducting its work in accordance with the standards for the Professional Practice of Internal Audit established by the Institute of Internal Auditors (IIA)

5.2. Internal audit is not responsible for any of the activities, subject to an audit process Members of the Internal Audit function will not assume responsibility for the operation or control of any procedures.

- 5.3. Internal Audit should be consulted on significant proposed changes in internal control systems and the implementation of new systems and should make recommendations on the standards of control to be applied. This is should be done without limiting the ability of internal audit to review the system.
- 5.4. Internal Audit will not prepare or document internal control procedures for [Departments](#).
- 5.5. Internal Audit will not undertake non-internal audit duties save with the express permission of the Board.

6. RELATIONSHIP WITH THE EXTERNAL AUDITORS

- 6.1. The Internal Audit [Department](#) will co-ordinate its work with the External Auditors.
- 6.2. The external auditors will be notified of the activities of internal audit in order to minimise duplication of audit effort. This will be done through:
 - 6.2.1. regular meetings between the Internal Audit [Department](#) and External Audit to discuss the annual internal and external audit plans;
 - 6.2.2. access by the external auditors to the internal audit documentation;
 - 6.2.3. exchange of management letters and
 - 6.2.4. access to systems documentation.

7. STATUS OF INTERNAL AUDIT IN THE ORGANISATION

- 7.1. The Internal Audit [Department](#) will remain independent of all line and functional management and will be answerable solely to the CEO and Audit and Risk Committee.
- 7.2. Independence of the Internal Audit Department will be ensured by:
 - 7.2.1. the clear policy that internal audit will have full access at all times to any records, properties and resources relevant to the subjects under review.
 - 7.2.2. access to the [Chairperson of the Audit and Risk Committee](#).
 - 7.2.3. not assuming any line management control
 - 7.2.4. the Internal Audit function being free of any undue influences which could restrict, over-rule or otherwise affect the judgement as to the content of a report or in any way require the [Department](#) to function under duress or which could affect the conduct of an investigation.

8. SCOPE AND REGULARITY OF INTERNAL AUDIT

8.1 Compliance and regularity Audit

Compliance Auditing is performed after the internal controls have been evaluated and is defined as a test of controls through:

- 8.1.1. auditing of financial transactions which includes the evaluation of compliance with applicable laws, regulations, policies and instructions.
- 8.1.2. audit of the policy and checking compliance with policies within the Departments; and
- 8.1.3. reporting of any other matter arising from or relating to the audit that the auditor considers should be disclosed.
- 8.1.4. promoting efficient, economical and effective management processes and evaluating the soundness, adequacy and effectiveness of internal controls by:
 - 8.1.4.1. appraising the effective conduct of Proudly SA's operations;
 - 8.1.4.2. reviewing the reliability and integrity of financial, operating and management information;
 - 8.1.4.3. ascertaining the extent to which assets and departmental interests are being properly controlled and safeguarded from losses of any kind;
 - 8.1.4.4. appraising the economy and efficiency with which financial, human and other resources are employed and
 - 8.1.4.5. monitoring the accomplishment of established objectives and goals for programmes.

8.2 Performance Auditing

Performance Auditing will include:-

- 8.2.1. The promotion of economy, efficiency and effectiveness depends on adequate overall management arrangements for planning, budgeting, authorisation, control and evaluation of the use of resources.
- 8.2.2. Executive Managers are responsible for the implementation and functioning of overall management arrangements.
- 8.2.3. The responsibility of a performance audit is to confirm independently that these measures do exist and are effective and to report to the Executive Management and the Audit Committee on these issues.
- 8.2.4. In the course of an investigation into overall management arrangements in a Department the following will receive attention:

- 8.2.4.1. systems planning, budgeting, authorisation, control and evaluation in respect of revenue, expenditure and the allocation of resources;
- 8.2.4.2. the effect of decisions beyond the control of the Department which have had an adverse influence on the Department;
- 8.4.2.2. measures ensuring the proper management of all the resources of the Department;
- 8.4.2.3. measures developed to derive benefit from economies of scale of expertise, especially in the provision of goods and services;
- 8.4.2.4. specific steps aimed at improving the economy, efficiency and effectiveness of the activities of the Department;
- 8.4.2.5. proper assignment of responsibilities, powers and accountability;
- 8.4.2.6. measures to monitor results against predetermined objectives, to ensure that unacceptable performance is corrected timeously;
- 8.4.2.7. whether policy objectives were set and policy decisions taken with the necessary authority;
- 8.4.2.8. the extent to which policy objectives were set and decisions taken on the basis of adequate, appropriate and reliable financial and other information and whether the critical underlying assumptions have been disclosed;
- 8.4.8.9. if satisfactory arrangements for the consideration of alternative possibilities were made;
- 8.4.8.10. whether established policy goals and objectives as well as decisions on the implementation of policy are clearly defined and in line with the priorities of the Campaign and in line with the Board Charter, and whether they were taken with proper authority at the appropriate level;
- 8.4.8.11. whether conflict exists between the various policy goals or objectives, or between the methods chosen to implement them;

8.3 Computer Reviews

- 8.3.1. A review of the Information Technology (IT) control to obtain an understanding of the control environment to support the audit risk assessment and to ensure that proper IT controls are in place.

8.3.2. Apart from the review referred to above it can also review specific computer and applications controls, control over changes in the computer systems, the methodology of systems development, internal controls and procedures, back-up and recovery procedures, disaster recovery plan and the physical control of the computer facilities.

8.3.3. Segregation of duties other than those enforced by manual procedures, like programmed procedures and passwords may be audited. Risk rating of all systems and functional areas as seen by management may be reviewed, and the management of these risks should be reported on.

8.4 Fraud Limitation

8.4.1. The identification and prevention of fraud is clearly a management responsibility.

8.4.2. Internal audit is well qualified to assist management to identify the main fraud risks facing the departments and could assist management in designing appropriate controls to minimise the risks.

9. PLANNING, CONTROLLING, RECORDING AND REPORTING

9.1 Strategic internal audit plan

9.1.1. The Internal Audit [Department](#) will in consultation with management present an annual internal audit plan to the Audit and Risk Committee for approval. The plan shall set out the recommended scope of internal audit work in the period.

9.1.2. The annual plan will be developed with reference to a long term strategic outlook for internal audit work, prepared in conjunction with the Executive Management and approved by the Audit and Risk Committee, and should have regard to the business plans and strategic outlook of the department as a whole.

9.2. Planning

9.2.1. The primary purpose of internal audit planning includes:

9.2.1.1. determination of priorities in order to establish the most cost-effective means of achieving audit objectives

9.2.1.2. assist in the direction and control of audit work

9.2.1.3. help ensure that attention is devoted to practical aspects of internal audit work

9.2.1.4. help ensure that work is completed in accordance with predetermined targets.

9.2.2. The stages of internal audit planning include:

9.2.2.1. defining internal audit objectives

9.2.2.2. taking account of relevant changes in legislation and other factors

9.2.2.3. obtaining a comprehensive understanding of the system, structure and operations

9.2.2.4. identifying, evaluate and rank risks to which the Department is exposed

9.2.2.5. taking account of changes in structures or major systems

9.2.2.6. taking account of the known strengths and weaknesses in the internal control system

9.2.2.7. taking account of management concerns and expectations

9.2.2.8. identifying audit areas by component and major systems

9.2.2.9. determining the type of audit;

9.2.2.10. taking account of the plans of external audit

9.2.3. Operational work plans will be prepared for each internal audit assignment, including:

9.2.3.1. objectives and scope of the audit

9.2.3.2. time budget and staff allocations

9.2.3.4. methods, procedures and reporting arrangements, including supervision and allocation of responsibilities

9.2.4. All internal audit plans should be sufficiently flexible to respond to changing priorities.

9.3. Controlling

9.3.1. Control of the individual assignments is needed to ensure that internal audit objectives are achieved and work is performed effectively. This is facilitated by an established internal audit approach and standard documentation. The Head of Internal Audit shall ensure that the necessary degree of control and supervision is exercised.

9.3.2. The Head of Internal Audit shall establish arrangements to:

9.3.2.1. allocate internal assignments according to the level and proficiency of internal audit staff

9.3.2.2. ensure that internal auditors clearly understand their responsibilities and internal audit objectives

- 9.3.2.3. communicate the scope of work to be performed and agree the programme of work with each internal auditor
- 9.3.2.4. provide and document evidence of adequate supervision, review and guidance during the internal audit assignment
- 9.3.2.5. ensure that adequate working papers are prepared to support internal audit findings and conclusions
- 9.3.2.6. ensure that internal audit's performance is in accordance with the internal audit plan or that any significant variations have been explained

9.4. Recording

9.4.1. Internal audit work shall be recorded because:

- 9.4.1.1. the Head of Internal Audit needs to be able to ensure that work delegated to staff has been properly performed. This will be done through reference to detailed working papers prepared by the internal audit staff who performed the work.
- 9.4.1.2. working papers provide, for future reference, evidence of work performed, details of problems encountered and conclusions drawn
- 9.4.1.3. the preparation of working papers should encourage each internal auditor to adopt a methodical approach to his work [we are yet to design the methodical approach that will best suite Proudly SA]
- 9.1.4.4. the Head of Internal Audit shall specify the required standard audit documentation and working papers and ensure those standards are maintained. Internal audit working papers should be sufficiently complete and detailed to enable an experienced internal auditor with no previous connection with the internal audit assignment to subsequently ascertain from them what work was performed to support the conclusions reached.

9.4.2. Working papers must be prepared as the internal audit assignment proceeds so that critical details are not omitted or problems overlooked.

9.5. Evidence

9.5.1. Internal audit evidence is information obtained by an internal auditor which enables conclusions to be formed on which recommendations can be based.

9.5.2. Internal Audit should determine what evidence will be necessary by exercising judgment in the light of the objectives of the internal audit assignment. This judgement will be influenced by

the scope of the assignment, the significance of the matters under review, their relevance and the reliability of available evidence and the cost and time involved in obtaining it.

9.5.3. The collection and assessment of internal audit evidence should be reviewed to provide reasonable assurance that conclusions are soundly based and internal audit objectives achieved.

9.5.4. The Internal Audit Department should obtain the evidence considered necessary for the achievement of the internal audit assignment objectives. This is influenced by the following:

9.5.6. the level of assurance required

9.5.7. the objectives and scope of the audit assignment

9.5.8. the scale of activity under review and the degree of risk involved

9.5.9. the cost/benefit involved in obtaining evidence

9.5.10. the reliability of the evidence

9.5.5. The relevance of the internal audit evidence should be considered in relation to the objectives of the internal audit assignment. Reliable evidence can be achieved through the use of appropriate internal audit techniques which would normally be selected in advance, but which may be expanded or altered as necessary during, the internal audit assignment.

9.5.6. In order to place reliance on evidence, the Internal Audit Department should be satisfied with its nature, extent, adequacy, consistency and relevance to the internal audit assignment and with the methods governing its collection.

9.6. Reporting

9.6.1. The primary purposes of internal audit reports are to provide Executive Management with an opinion on the adequacy of the internal control system, and to inform Executive Management of significant audit findings, conclusions and recommendations.

9.6.2. The aim of every internal audit report should be:

9.6.2.1. to prompt Executive Management to implement recommendations for change leading to improvement in performance and control

9.6.2.2 . to provide a formal record of points arising from the internal audit assignment and, where appropriate, of agreements reached with management

9.6.3. Reporting arrangements, including the format and distribution of internal audit reports, should be agreed with Executive Management. The Head of the Internal Audit Department should ensure that reports are sent to Executive Managers who have a direct responsibility for the unit being audited and who have the authority to take action on the internal audit recommendations. Internal audit reports are confidential

documents and their distribution should therefore be restricted to those Executive Managers who need to know, the Audit and Risk Committee and the External Auditors.

- 9.6.4. The Internal Audit Department should produce clear, constructive and concise written reports based on sufficient, relevant and reliable evidence, which:
- 9.6.4.1. state the scope, purpose, extent and conclusions of the internal audit assignment
 - 9.6.4.2. make recommendations which are appropriate and relevant, and which flow from the conclusions
 - 9.6.4.3. acknowledge the actions taken, or proposed, by Executive Management
- 9.6.5. The Internal Audit Department should prepare flash reports to alert Executive Management to the need to take control, or when there are reasonable grounds for suspicion of fraud or theft.
- 9.6.6. Consideration should 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 Executive Management of progress. Interim reporting should not diminish or eliminate the need for final reporting.
- 9.6.7. The Head of Internal Audit should meet with Executive Management to discuss the audit findings during, and at the completion of fieldwork for each internal audit assignment and the formal written report should be presented to Executive Management as soon as possible thereafter.
- 9.6.8. Before issuing the final report, the Internal Audit should discuss the content with appropriate levels of management, and submit a draft report to them, for confirmation of factual accuracy.
- 9.6.9. If the Head of Internal Audit and Executive Management disagree about the factual content of the draft audit report, internal audit should review the situation No Board member may alter the content of any report by the Head of Internal Audit to the Audit and Risk Committee, but may furnish comment on such a report.
- 9.6.10. It is Executive Management's responsibility to ensure that proper consideration is given to internal audit reports. Internal Audit should ensure that appropriate arrangements are made to determine whether action has been taken on internal audit recommendations or that Executive Management has understood and assumed the risk of not taking such action.

10. CONCLUSION

It is management's responsibility to maintain the internal control system and to ensure that resources are properly applied in the manner and to the activities intended. This includes responsibility for the prevention and detection of fraud and other illegal acts.

