

PRACTICENOTES

Internal audit charter

Internal audit charter and operational plan**Introduction**

The board is ultimately responsible to oversee 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.

Internal audit's mission

Internal audit is an independent appraisal function established within the company to examine and evaluate the company's processes as a service to the company in the effective discharge of its responsibilities. The audit objective includes promoting effective risk management and operational efficiency at reasonable cost.

Annual assessment and approval

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

Responsibilities of management

The primary responsibilities of management are: specifying the elements of a control framework according to which the company's control environment can be managed; maintaining a system of internal control, including proper accounting records; and other management information suitable for running the business. Management is also responsible for deciding on actions to be taken as a result of internal audit's findings. Management (as represented by the chief executive officer (CEO)) also needs to ensure that the internal auditors have direct access and freedom to report to senior management, including the audit committee.

Responsibilities of internal audit

Internal audit performs the following functions:



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

In specific, internal audit provides a written assessment of the effectiveness of the system of internal controls and risk management to the board. An assessment, based on a written documented review of the internal financial controls, is reported directly to the audit committee.

The responsibility of internal audit includes conducting activities in accordance with the IIA's Internal Audit Standards. Also, internal audit must establish service level agreements and other protocols in providing its services to the company.

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

Relationships with the external auditors and regulatory bodies

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

- x. periodic meetings to discuss the planned activities;
- xi. the exchange of audit workpapers including systems documentation;
- xii. the exchange of management letters;
- xiii. the forming of joint teams where appropriate;
- xiv. internal audit carrying out certain (financial) audit work;
- xv. evaluating the quality of the services rendered to the company, by the external auditors; and
- xvi. other aspects of the relationship between the organisation and the external auditors.

To the extent that it is necessary, relationships with regulatory bodies must be maintained by internal audit.

Organisational status and independence

General

The Chief Audit Executive ('CAE') reports functionally to the chairman of the audit committee. The audit committee decides on the CAE's appointment and removal and is responsible for his performance appraisal.

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 be a member of these committees in order to protect independence



The internal audit plan is submitted with the audit committee for its approval and internal audit reports at all audit committee meetings.

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.

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.

Organisational structure

The organisational structure must promote the independence of the function as a whole and allow internal auditor 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 CAE is ultimately responsible for the work performed by all internal audit staff throughout the company. At the same time, in order to deliver the maximum added value to the company, operational management must be able to exert a certain amount of influence on the deployment of audit resources and not be inhibited in calling upon those resources under the appropriate circumstances. Accordingly, a matrix organisation structure is most appropriate for the department.

Mirroring the organisational structure of the entity, the internal audit function must be organised geographically, within each territory a complement of internal audit staff, depending on the size, complexity and quality of risk management of the operations in the territory. In territories where the entity is organised differently, the internal audit function should be modified accordingly. By territory then, the most appropriate structure must be established, in dialogue with management.

The CAE is responsible for the overall direction, review and supervision of the audit staff throughout the company. This includes, but is not limited to, the establishment of the scope of activities to be carried out by individual territory, the tools and methodologies to be followed, procedures and standards, headcounts of the function in the individual territories, required skills, educational levels, experience etc. for recruitment into the function, decisions on the possible outsourcing or co-sourcing of capacity, etc.

Reporting protocol

In order to promote the effective operation of this organisation structure, internal audit should be supported by an appropriate reporting protocol. This protocol holds that all reports in terms of factual findings and proposed action are agreed with management of the entity being audited, before they are submitted to higher management levels. The only possible exception is where management fraud is suspected.



Agreement on findings as to whether internal controls are effective need not be reached with management and the finding of internal audit in this respect is final and to be reported on.

Internal audit scope of activities

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

- xvii. facilitating and monitoring the risk management infrastructure and practices;
- xviii. reviewing the reliability and integrity of financial (testing the internal financial control environment) and operational information and the means used to identify, measure, classify and report such information;
- xix. 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;
- xx. reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets;
- xxi. appraising the economy and efficiency with which resources are employed;
- xxii. reviewing operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned; and
- xxiii. playing an integral role in the combined assurance model.

The annual allocation of audit resources to audit activities is established on the basis of a risk assessment and with a longer-term view. A certain amount of capacity is reserved in the planning to allow for one-off projects, special investigations, requests from management and the audit committee, and the like.

Execution; i.e. the parameters for the department's actual functioning are 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.) must be addressed. Also, the following matters must be 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
- ii. counselling each member of the staff with respect to his or her performance and professional development;
- iii. budgeting systems;
- iv. tools and methodologies;
- v. 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 are 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 must 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;

- vi. performance metrics;
- vii. quality assurance;
- viii. 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
- ix. reporting - 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

