

QUALITY MANAGEMENT SYSTEM

<p>TR-006A-CCT Internal Audit Activity Terms of reference</p>
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Purpose of Document: To delineate the purpose, authority, responsibility and scope of the Internal Audit Activity so as to ensure that the internal audit and risk management systems are not inferior to those of the PFMA.	Commencement date	7 April 2016
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TR-001A-CCT

INTERNAL AUDIT ACTIVITY

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1. LEGISLATIVE FRAMEWORK AND BEST PRACTICE REGULATION

Key principles contained in the following legislation were applied to develop this Terms of Reference:

- a) CET Act No.16 of 2006 (as amended) (the “Act”) (formerly the FET Colleges Act);
- b) Public Finance Management Act, 1999 (Act No 1 of 1999 as amended by Act 29 of 1999) (PFMA);
- c) National Treasury Regulations of March 2005;
- d) Draft Treasury Regulations (White Paper) published 30 November 2012; and
- e) King III Code of Governance Principles of 2009.

2. PURPOSE

In terms of section 25(1) of the Continuing Education and Training Act, 2006, the Council of a public College must, in the manner determined by the Minister implement internal audit and risk management systems which are not inferior to the standards contained in the Public Finance Management Act, 1999 (Act No. 1 of 1999).

In terms of section 3.2.5 of the Treasury Regulations of March 2005 for purposes of best practice within the College, the purpose, authority and responsibility of the internal audit function must, in consultation with the audit committee, be formally defined in an audit Terms of Reference and be consistent with the Institute of Internal Auditors ("IIA") definition of internal auditing.

The purpose of this Terms of Reference is to address the purpose, authority, responsibility and scope of the Internal Audit Activity (IAA).

3. SCOPE

This Terms of Reference is issued under the authority of the College Council and is applicable to the Internal Audit Activity.

4. DEFINITIONS, ACRONYMS AND ABBREVIATIONS

For the purpose of this Terms of Reference Terms of Reference, unless the context indicates otherwise, the following definitions, acronyms and abbreviations are set out for the terms indicated:

- a) **"Accounting Officer"** – is the College Principal.
- b) **"Act"** – is the CET Act No.16 of 2006, as amended.
- c) **"College"** – is the College of Cape Town.
- d) **"Council"** - is the body of persons determined by the Act as Councillors who collectively govern the College.
- e) **"Days"** - shall be construed as calendar days unless qualified by the word "business", in which instance a "business day" will be any day other than a Saturday, Sunday or public holiday as gazetted by the government of the Republic of South Africa from time to time.
- f) **"DHET"** – is the Department of Higher Education and Training.
- g) **"IAA"** – is Internal Audit Activity.
- h) **"Minister"** – is the Minister of the Department of Higher Education and Training.
- i) **"PFMA"** – is the Public Finance Management Act, 1999 (Act No 1 of 1999 as amended by Act 29 of 1999).
- j) **"TVET"** – Is Technical and Vocational Education and Training.

5. MISSION OF IAA

The mission of the IAA is to provide an independent, objective assurance and consulting service designed to add value and improve the College's operations. It helps the College accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes.

6. SCOPE OF WORK

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

- a) Risks are appropriately identified and managed;
- b) Significant financial, managerial and operating information is accurate, reliable and timely;
- c) Resources are acquired economically, used efficiently and adequately protected;
- d) Programmes, plans and objectives are achieved;
- e) Quality and continuous improvements are fostered in the College's control process; and
- f) Significant legislative or regulatory issues impacting the College are recognised and addressed appropriately.
- g) Opportunities for improving management control, service delivery and the College's image may be identified during audits and communicated to the appropriate level of management.

6.1 Composition

- 6.1.1 The internal audit function may, in accordance with preferred tendering procedures, be contracted out to an external institution with specialist internal audit expertise, provided that the external auditors may not perform the internal audit function.
- 6.1.2 Alternatively, the internal audit function may comprise of a combination of staff employed by the College and outsourced staff.

6.2 Authority

- 6.2.1 The Audit Partner shall report administratively to the Accounting Officer and functionally to the Audit Committee.
- 6.2.2 The IAA, with strict accountability for confidentiality and safeguarding records and information, is authorized full, free, and unrestricted access to any and all of College records, physical properties and personnel pertinent to carrying out any engagement.
- 6.2.3 The IAA will obtain cooperation of personnel from all divisions of the College where they perform their duties, as well as other specialized services from within or outside the College. If for example, the IT support function is outsourced, the IAA will have the same co-operation from the outsource partner as he/she would from the internal divisions.
- 6.2.4 The Audit Partner will have free and unrestricted access to the Audit Committee and the Chairperson of the Council.
- 6.2.5 The IAA is not authorized to:
 - a) Perform any operational duties for the College;
 - b) Initiate or approve accounting transactions external to the IAA (in the case of an internal function);
 - c) Develop or install systems or procedures, prepare records or engage in any other activity which would normally be audited;
 - d) Engage in day to day operations at the College and must be seen to be independent in all respects.
 - e) Direct the activities of any of the employees of the College, not employed by the IAA, except to the extent that such employee has been appropriately assigned to auditing teams or to assist the internal auditors.

6.3 Accountability

The Audit Partner, in the discharge of his/her responsibilities, shall be accountable to the Accounting Officer and the Audit Committee to:

- 6.3.1 Provide annually an assessment on the adequacy and effectiveness of the College's processes for controlling its activities (internal control systems) and managing its risks set in the areas defined in the annual internal audit plan;
- 6.3.2 Report significant issues related to the processes for controlling the activities of the College, including potential improvements to those processes, and provide information concerning such issues for further action by management;
- 6.3.3 Provide information, on a quarterly basis, on the status and results of the Annual Internal Audit Plan, ad hoc requests by the Audit Committee and the Accounting officer, and the sufficiency of resources; and
- 6.3.4 Coordinate with and provide oversight of other control and monitoring functions (risk management, compliance, security, legal, ethics, environmental, external audit).

6.4 Independence

6.4.1 Treasury draft regulations states that: "The internal audit function must report functionally to the Audit Committee and administratively to the Accounting Officer and must report at all Audit Committee meetings. The function must be independent of activities that are audited, with no limitation on its access to information."

6.4.2 In order to achieve independence, the IAA shall:

- a) Act independently and be able to exercise judgment;
- b) Express opinion and present recommendations with impartiality;
- c) Avoid conflict of interest situations ;
- d) Be free from undue influence which either restricts or modifies the scope of work;
- e) Have no direct or indirect interest over any activities of the College;
- f) Not initiate or approve accounting transactions external to the internal audit division; and
- g) Confirm annually to the Audit Committee on their status of independence.

6.5 Responsibilities

The Audit Partner and IAA staff have, amongst others, the following responsibilities:

- 6.5.1 Prepare a three year rolling strategic plan and annual internal audit plan using an appropriate risk based audit methodology, taking into account concerns from management and the external auditors, current operations, those proposed in its strategic plan and its risk management strategies.
- 6.5.2 An internal audit plan for the first year of the rolling plan.
- 6.5.3 Plans indicating the scope of each audit in the annual internal audit plan.
- 6.5.4 A quarterly report to the Audit Committee detailing it does perform plan, to allow effective monitoring and intervention when necessary. The report should include the adequacy of the College resources for the Internal Audit function.
- 6.6.5 Implement the annual internal audit plan, as approved, including, and as appropriate, any special tasks or projects requested by management and the Audit Committee.

- 6.5.6 Assist the Accounting Officer in maintaining efficient and effective controls by evaluating those controls to determine their effectiveness and efficiency, and by developing recommendations for enhancement or improvement. The controls subject to evaluation should encompass the following:
- a) The information systems environment;
 - b) The reliability, integrity, accuracy, completeness and timeliness of financial and management information;
 - c) The application and effectiveness of the College's risk management procedures and assessment methodology;
 - d) The effectiveness of operations;
 - e) Review operations or programmes to ascertain whether or not the results are consistent with established objectives and goals according to the strategic plan; and whether or not the operations are carried out as planned;
 - f) The effectiveness and efficiency with which resources are employed;
 - g) Safeguarding of assets; and
 - h) Compliance with policies, plans, procedures laws and regulations.
- 6.5.7 Monitor and evaluate governance processes
- 6.5.8 Consider the scope of work of the external auditors for the purpose of providing optimal audit coverage to the College to minimize duplication of effort.
- 6.5.9 Perform consulting and advisory services related to governance, risk management and control as appropriate for the College.
- 6.5.10 Report significant risk exposures and control issues, including, fraud risks, governance issues and any other matters needed or requested by the Accounting Officer or the Audit Committee.
- 6.5.11 Evaluate specific operations at the request of the Accounting Officer or the Audit Committee, as appropriate.
- 6.5.12 Evaluate and assess significant merging/consolidating functions and new or changing services, processes, operations, and control processes coinciding with their development, implementation and/or expansion.
- 6.5.13 Perform periodic tracking and follow-up of internal audit findings to ensure satisfactory corrective actions are completed.
- 6.5.14 The Audit Partner will provide the following to the Audit Committee:
- a) The rolling three-year strategic internal audit plan, for approval by the Accounting Officer and the Audit Committee;
 - b) Prepare an annual internal audit plan for approval by the Accounting Officer and the Audit Committee for the first year of the rolling three- year strategic internal audit plan,
 - c) Prepare plans indicating the proposed scope of each audit in the annual internal audit plan;
 - d) Prepare written quarterly reports to the Audit Committee detailing its performance against the annual internal audit plan, and results of audit activities;
 - e) Keep the Audit Committee informed of emerging trends and successful practices in internal auditing;
 - f) Provide a list of significant measurement goals and results to the Audit Committee; and
 - g) Make any recommendations it deems fit for consideration by the Audit Committee.
- 6.5.15 The IAA must also:
- a) Develop and maintain a quality assurance and improvement programme for the College's internal controls; and

- b) Conduct their work in accordance with the Standard for the Professional Practice of Internal Auditing and the Code of Ethics of the Institute of Internal Auditors.

6.6 Relationships

6.6.1 Relationship with Management

- a) The Audit Partner should prepare the internal audit plan in consultation with senior management.
- b) The Audit Partner should arrange the timing of internal audit assignments in consultation with management, except on those rare occasions where an unannounced visit is a necessary part of the audit approach. Consultation can lead to the identification of areas of concern or of other interest to management.
- c) The Audit Partner will report all audit findings to the relevant senior line manager and obtain their comments within 5 working days of issuing the report.
- d) Copies of the final reports with management comments and actions will be sent to the Accounting Officer as well as the Chairperson of the Audit Committee for distribution to members of the Audit Committee.
- e) In cases where management comments are not obtained within the required period, the report will be escalated to the Accounting Officer who will be given 5 working days to provide commentary on the report, failing which the report will be finalized without management comments and reported as such to the Audit Committee.

6.6.2 Relationship with External Audit

- a) External Audit and Internal Audit may rely on each other's work, subject to their respective audit methodologies.
- b) Consultations should be held and consideration given to whether any work of either auditor is adequate for the purpose of the other.
- c) Periodic meetings should be held between Internal Audit and External Audit at which joint audit planning, priorities, scope and audit findings are discussed and information exchanged.

6.6.3 Relationship with the Audit Committee

- a) The Audit Partner should report and liaise with the Audit Committee on a regular basis on matters affecting and pertinent to the IAA. Direction and guidance should be sought from the Audit Committee on a regular basis.
- b) The Audit Partner shall have free and unrestricted access to the Accounting Officer and Audit Committee chairperson.
- c) Any recommendations not implemented by management should be tabled at the Audit Committee meetings for direction and resolution.

6.7 Quality assurance reviews

The Audit Partner should establish and maintain a quality assurance programme to evaluate the work performed by the IAA, specifically:

- a) The Audit Partner should conduct periodic internal quality assurance reviews on the work performed by internal audit.
- b) The Audit Partner should ensure that an external quality assurance review on the internal audit function is conducted at least every 5 years.

- c) Report the outcome of the external quality assurance review to the Accounting Officer and Audit Committee.
- d) Implement corrective actions based on the outcome of the external quality assurance review.

7. ADOPTION AND REVIEW

7.1 Adoption of policy

This policy is effective from the date on which it is adopted by the Council.

7.2 Availability of conflict of interest declaration policy

A copy of this policy and other relevant documentation should be made available on the College website.

7.3 Annual review of policy

This policy will be subject to an annual review by College management to ensure its relevance. Colleges should forward any inputs and recommendations to the TVET Branch of DHET for possible consideration during the annual review process.

Any recommended changes to the Conflict of Interest Declaration policy should be presented to the College Council for adoption.