

# **UMZIMVUBU LOCAL MUNICIPALITY INTERNAL AUDIT UNIT**



**UMZIMVUBU**  
LOCAL MUNICIPALITY

**THREE YEAR ROLLING AUDIT PLAN  
FOR 2017/2018; 2018/2019 & 2019/2020 FINANCIAL YEARS**

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## **1. MANDATE**

### **1.1 Legislative requirements for Internal Audit Activity**

#### **1.1.1 *Municipal Finance Management Act 56 of 2003***

In terms of Section 62 ( c ) of the Municipal Finance Management Act no 56 of 2003; the Accounting Officer of a municipality is responsible for managing the financial administration of the municipality; and must for this purpose take all reasonable steps to ensure –

- a) that the municipality has and maintains effective; efficient and transparent system
  - (i) of financial and risk management and internal control and
  - (ii) of internal audit operating in accordance with any prescribed norms and standards.

Furthermore; Section 165 (1) of the MFMA states that each municipality must have an internal audit unit.

Section 165 (2) states that the internal audit unit of a municipality must –

- a) Prepare a risk based audit plan and an internal audit program for each financial year;
- b) Advise the accounting officer and report to the audit committee on the implementation of the internal audit plan and matters relating to –
  - (i) Internal audit;
  - (ii) Internal controls;
  - (iii) Accounting procedures and practices;
  - (iv) Risk and risk management;
  - (v) Performance management;
  - (vi) Loss control and
  - (vii) Compliance with this Act; annual Division of Revenue Act and any other applicable legislation and
  - (viii) Perform such other duties as may be assigned to it by the Accounting Officer

#### **1.1.2 *Local Government: Municipal Planning & Performance Management Regulations***

Regulation 14 (1) (a) of the Local Government: Municipal Planning & Performance Management Regulations of 2001; prescribe that a municipality must develop and implement mechanisms; systems and processes for auditing the results of performance measurements as part of its internal auditing processes.

Sub – regulation (b) of Regulation 14 states that any auditing in terms of paragraph (a) must include assessments of the following:

- (i) The functionality of the municipality of the municipality's performance management system;
- (ii) Whether the municipality's performance management system complies with the Act and
- (iii) The extent to which the municipality's performance measurements are reliable in measuring performance of municipalities on indicators referred to in regulation 9 and 10

Sub – regulation (c) states that a municipality's internal auditors must –

- (i) On a continuous basis audit the performance measurements of the municipality and
- (ii) Submit quarterly reports on their audits to the Accounting officer and the Performance Audit Committee referred to in sub regulation (2)

#### **1.2 Professional requirements**

Umzimvubu Local Municipality Internal Audit Unit subscribe to the International Standards for the Professional Practice of Internal Audit Standards and Code of Ethics thereto issued by the Institute of Internal Auditors of South Africa (IIASA).

## **2. OBJECTIVES AND SCOPE OF THE THREE YEAR ROLLING AUDIT PLAN**

The primary objective is to provide an independent and objective assurance and consulting activity designed to add value and improve Umzimvubu Local Municipality's administration operations through a systematic, disciplined approach to evaluate and improve the effectiveness of the system of internal control, risk management and governance processes.

## **3. APPROACH TO THE PREPARATION OF THE THREE YEAR ROLLING PLAN**

### **3.1 Background**

Our approach to the preparation of the annual audit plan was informed by the following:

Risk Control and Identification Assessment at Umzimvubu Local Municipality was conducted in April 2017 by Internal Audit. We engaged with the business units

with a view to addressing the municipality's critical areas; we considered the prior year internal audit reports; annual internal audit plan of prior year; key findings from the Auditor General report of the prior years; consultations with Management Committee.

The audit coverage covers vast areas in the municipality which are support and core functions; compliance with legislation; regulations and policies and procedures and regularity review as required by the Section 166 of the MFMA

### **3.2 Our Approach**

Risk based auditing implies risk based planning. We want to handle the significant exposure to risk in the municipality. We want to make an impact as an internal auditors. In terms of the definition which is encapsulated in our internal Audit Charter; we articulate our role as providers of **assurance** and **consulting** activity. This is the point where we believe we should bring to surface.

If one were to guess a typical risk profile, or at least its parameters, it would resemble the one figure 1.

**Figure 1:**

<b><i>Risk Element</i></b>	<b><i>Inherent Risk</i></b>	<b><i>Control Assessment</i></b>	<b><i>Residual Risk</i></b>
One	High	Strong	Low
Two	High	Weak	High
Three	Low	Strong	Low
Four	Low	Weak	Low

There would be risks and controls that the auditor/management may be for better judgement would assess as medium. For the purpose of this discussion I have ignored them, are inclusive in our plan.

#### **Risk Element One: High Risk- Strong Controls**

These are the areas where according to the assessment by management, have put in place adequate controls against high risks exposures. Our reaction here is testing those controls for effective operation and provides management **assurance** that

controls they have put in place are operating and designed. Where the controls are not operating effectively we would give management advice through our recommendations on what they can do to strengthen the effectiveness of these controls.

Our plan therefore has identified these areas and developed a road map of the controls that we intend testing. Our individual engagement planning memorandum which will be discussed with management and audit programs that will be prepared before commencement of each audit will focus more on how those controls will best be tested.

**Risk Element Two: High Risk Weak Control**

In this area we have assessed that there are no identified controls or weak controls identified for high risks exposures. In these areas we need to be mindful that management probably was not aware or did not appreciate that they are exposed to risks that they are not adequately mitigating, or due to lack of knowledge and skills did not know how to mitigate against such risks. A very clear understanding of why the risk is not controlled would have to be obtained during the Risk and Control Self-Assessment stage. As we move forward in institutionalising risk management within the municipality, we will ensure that management put action plan in place to develop intervention that will develop controls to mitigate against those risks.

**Risk Element Three: Low Risk –Strong Control**

We must never lose sight of the fact that management also assessed the risk as low or medium in the first place, and that our approach is risk-based, therefore we should be focussing on our attention on high risk exposure.

Before we make that conclusion and move on we need to thoroughly understand these "strong controls". Are they strong because they adequately address the risk or are they a potential over-investment in controls? If these controls are adequate for the risk we should, in fact, ignore these elements. If, however, the controls are too strong for the risk we need to play a role in advising management to cut down on certain controls that do not add value but simply stifling efficiency in the operations. This will be done with great caution, as it is extremely risky to cut down on controls.

**Risk Element Four: Low Risk – Weak Controls**

We need to be mindful that the resources of the municipality are limited and cannot afford the budget for auditing everything. If we are comfortable with the management assessments of risks and controls, we have nothing to audit in this area.

Audit areas have been prioritized based on their nature and inherent risk rating and residual risk rating. Areas with inherent risk that is above 3 which we have deemed high but have controls that are sufficient (where no further action is required in terms of the assessment by management) have been given a high priority. Areas with inherent risk that is above 3 but no controls in place or have weak controls and further action has been identified have been given less priority in order to afford management time to implement action plan. It does not add value to audit areas

which we as auditors are well aware that there are either no controls or there are weak controls. What is critical is to test the effectiveness of the controls that management believe are adequate against high risks.

#### **Questions used for the Evaluation of the Plan**

What do we believe as the stakeholders' perspective on the Internal Audit function and its plan?

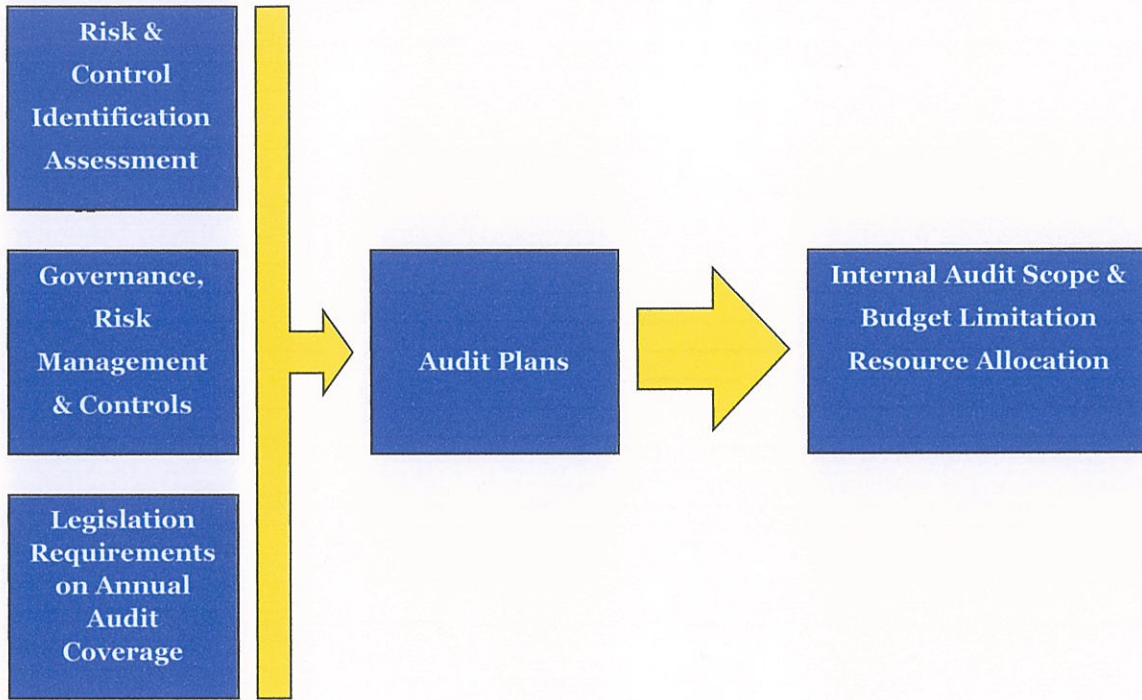
- a) Internal Audit focus should evolve to align with emerging/changing risks
- b) Internal Audit should balance its focus on all key elements in the risk domain
- c) The portfolio of stakeholders will expand to include business unit management and other key executives, as other committees of Council.
- d) Internal Audit should enhance its understanding of (and focus on) risk management in general and ERM in particular. Internal Audit should become a key source of insight on the risks facing the municipality
- e) Internal Audit needs to enhance its communications with management and the Strategic Management Committee & Executive Committee. Communications need to become more impactful and timely.

#### **Moving Internal Audit Activity to the Next Level**

Whilst the unit has been praised for its competence, it is critical that the unit strives for continuous improvement by:

- a) Considering how previously unaudited areas might be audited, and then align auditable risks to the audit plan.
- b) Eliminate routine, low-value audits.
- c) Based on the updated audit plan, consider transformational idea to reduce cost.
- d) Identify inefficient processes
- e) Develop implementation plans for transformational concepts as well as anticipated process efficiencies.
- f) Review the updated internal audit plan, along with cost-reduction ideas, with key stakeholders to gain support.
- g) Implement (add measurement, feedback and adjustment processes for continuous improvement)

The following is a diagrammatical overview of the process by which the proposed internal audit plans were formulated:





#### **4. ENGAGEMENT SCOPING, COMMUNICATION AND REPORTING**

The scope of work to be performed for each internal audit engagement, as set out below, will be confirmed with management prior to the commencement of the assignment. The scope of work will be included in a formal scoping document which sets out the key controls to be tested and the reporting lines through which issues will be reported and cleared within the business unit prior to finalisation.

Communication, particularly through reports, is an essential element of the internal audit process. Reporting will take place on a continuous basis as work is finalised, and will be addressed to the Municipal Manager, Chief Financial Officer and the Chairperson of the Audit Committee.

Our approach to communication and reporting recognises the need to keep the Municipality's management informed of significant issues as they arise.

This is accomplished by:

- Active pre-planning meetings/ communication;
- Frequent communication during the audit; and
- Immediate communication of significant findings to appropriate levels of management.

Formal reporting will take place at the end of each review and internal audit reports will be addressed to the Audit Committee and Municipal Manager. Internal audit will also report on its work at scheduled Audit Committee meetings.

#### **5. QUALITY AND CONTINUOUS IMPROVEMENT PLAN**

It is important for us to monitor both the extent and quality of the internal audit service provided to the Municipality on an ongoing basis. We continually measure the quality of our work and our performance to ensure the achievement of the audit objectives, the timeliness of our deliverables and client satisfaction. Internal audit work is reviewed internally both on a local level (by the engagement team in the field and by core engagement team management), and nationally or internationally (on an unannounced basis). We formally measure and monitor the satisfaction of our clients via questionnaires designed to facilitate continuous improvement of our internal audits and client service.

Our global methodology ensures consistency in our delivery of internal audit services to our clients, and our rigorous quality standards and attention to client service and satisfaction provides efficient and effective audits worldwide. The quality of the internal audit assignments will also be addressed by adherence to standard PricewaterhouseCoopers internal audit procedures, including partner and manager involvement in planning and the formal ongoing review of the work performed by field staff.

## **6. CO-ORDINATION AND CO-OPERATION**

It is accepted that the co-operation and availability of the Municipality's personnel plays a significant role in impacting the effectiveness and efficiency of the internal audit service. Every effort must be made to explain the purpose of internal audit to obtain the complete co-operation of departmental management and staff.

## **7. LIAISON WITH EXTERNAL AUDIT**

In order to obtain efficiencies wherever possible, we will meet with external audit to allow them to consider and conclude on the level of reliance that they wish to place on our internal audit work. We will also ensure that our internal audit reports are distributed to the external auditors, so that they are timeously made aware of internal audit's work and findings.

## **8. ENGAGEMENT MANAGEMENT**

We understand that the Municipality values continuity of senior level staff and we will attempt to maintain this continuity to the best of our ability.

The key contacts on this engagement are as follows:

<b>NAME</b>	<b>DESIGNATION</b>	<b>CONTACT NUMBER</b>
<b>Municipality</b>		
Mr GPT Nota	Municipal Manager	039 255 8500
Mrs X Venn	Chief Financial Officer	039 255 8500
Mr M. Nkosi	Audit Committee Chairperson	082 806 6788
Ms. P. Ndumndum	Assistant Manager: Internal Audit	039 2558500
<b>PwC</b>		
Mr N Pershad	Engagement Director	043 707 9600
Mr B Kwetana	Engagement Manager	043 707 9600

## **9. CLIENT EXPECTATIONS**

We have taken cognisance of the need for:

- Timely issue of reports.
- Efficient and effective audits which react and report promptly.
- Reports to be discussed with management prior to being released to the Audit Committee.
- Liaison with external auditors.
- Attendance at Audit Committee meetings.

## **10. CONCLUSION**

The internal audit plan below should be timeously reviewed and approved, so that internal audit work can commence as scheduled. Internal audit will report on its progress thereto to management and the Audit Committee, at Audit Committee meetings.

**Umzimvubu Municipality  
Internal Audit Plan: June 2018**

**11. SUMMARY OF THE INTERNAL AUDIT PLAN: 2017/2018**

#	Project Focus Area	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	HRS
<b>A</b>	<b>Risk Management</b>													<b>84</b>
1	Risk & Control Identification & Assessment									X				24
2	Review Risk Management Strategy		X											24
3	Review Risk Management Methodology		X											24
4	Risk Register Monitoring	X		X		X		X		X		X		12
<b>B</b>	<b>Risk Based Audits &amp; Statutory Audits</b>													<b>420</b>
5	Annual Report								X					40
6	Annual Performance Bonus										X			40
7	IT General Controls			X										60
8	Supply Chain Management							X						80
9	Asset Management													120
10	Revenue Management								X					80
<b>C</b>	<b>Legislative / Compliance Audits</b>													<b>620</b>
11	2016/2017 Annual Performance Information Review	X												120
12	Performance Information Review - Mid term							X						80
13	Performance Information Review - Q3										X			80
14	IDP; SDBIP Alignment & Smart Principle											X		120
15	Analysis of Financial Statements		X											80
16	Division of Revenue Act							X						60
17	Compliance Review ( Legislations)										X			100
<b>D</b>	<b>Follow-up Audits</b>													<b>40</b>
18	Subsistence and Claim Review				X									60
19	Human Resource Review					X								108
<b>E</b>	<b>Special Assignments (as per request of</b>													<b>108</b>



12. SUMMARY OF THE THREE YEAR ROLLING AUDIT PLAN

#	Project/ Details	Completed plan YE 30 June 2015	Completed plan YE 30 June 2016	Completed plan YE 30 June 2017	Operational plan YE 30 June 2018	Strategic plan YE 30 June 2019	Strategic plan YE 30 June 2020
	<b>Proposed Areas of Coverage:</b>						
1	Risk Assessment	✓	✓	✓	✓	✓	✓
2	Performance Information	✓	✓	✓	✓	✓	✓
3	Revenue	✓	✓	✓	✓	✓	✓
4	Charters (update)	✓	✓	✓	✓	✓	✓
5	Audit Committee meetings	✓	✓	✓	✓	✓	✓
6	Follow-up Reviews	✓	✓	✓	✓	✓	✓
7	Project Management	✓	✓	✓	✓	✓	✓
8	Supply Chain	✓	✓	✓	✓	✓	✓
9	Human Resources	✓	✓	✓	✓	✓	✓
10	Asset Management	✓	✓	✓	✓	✓	✓
11	Financial Reporting	✓	✓	✓	✓	✓	✓
12	IT Audit	✓	✓	✓	✓	✓	✓
13	Municipal Expenditure						
14	Municipal Resources						
15	Grants Funding	✓			✓	✓	
16	Financial Statements Review	✓	✓	✓	✓	✓	✓
17	Electrification Review				✓		
18	Housing Review					✓	
19	Subsistence and Claims				✓		
20	Solid Waste Review						✓
21	Traffic Safety						✓
22	Risk Management					✓	

**Note: The scope of work and the risks to be addressed by internal audit will be determined prior to the start of the 2018 and 2019 financial years respectively, and the operational/annual internal audit plans for these financial years will need to be approved by the Audit Committee.**

**Notes to Internal Audit Plans:**

- The above proposed Internal Audit Plans are based on the areas which were agreed with management and the Audit Committee.
- The above proposed internal audit plans are prepared on the following assumptions:
  - Items such as additional/ special requests, fraud investigations, ad hoc assignments etc have been excluded – however, internal audit will be responsive to such requests. The impact of such work on the approved internal audit plan and internal audit's independence will, if necessary, be discussed and agreed with management and/ or the Audit Committee.
  - Any additional fees for internal audit or other services will also be properly discussed, agreed with management and/ or the Audit Committee, and properly approval thereof obtained.
  - Internal audit will have timely access to management and staff, and documents (manual and electronic) and records as will be required for the execution of internal audit work.
- The following are suggestions/ recommendations of ad-hoc projects that management may want Internal Audit to perform during the current financial year:
  - ✓ Data Management services
  - ✓ Finance Function Effectiveness
- The following services are being offered at no cost as an investment in our relationship with the Municipality. These services will be offered at management's request:
  - ✓ King IV workshops/ updates

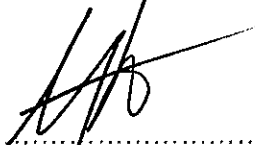
**13. APPROVAL OF THE INTERNAL AUDIT PLAN**

As Internal Audit Unit we have formulated a plan of approach for the ensuing financial years. We have evaluated the plan for adequacy and appropriateness before finalisation and approval.

  
.....  
**P Ndumndum**  
**Internal Audit Manager**


Date 11/05/2017

*The three year rolling Audit Plan is acknowledged & supported by the Accounting Officer of Umzimvubu Local Municipality.*

  
.....  
**Mr GPT Nota**  
**Accounting Officer**

Date 11/05/2017

*Annual Audit Plan has been reviewed by the audit committee and is approved*

  
.....  
**Mr MA Nkosi**  
**Chairperson: Audit Committee**

Date 11/05/2017