

**UMZIMVUBU LOCAL MUNICIPALITY  
INTERNAL AUDIT UNIT**



**UMZIMVUBU**  
— LOCAL MUNICIPALITY —

**INTERNAL AUDIT UNIT  
STRATEGIC THREE YEAR ROLLING INTERNAL AUDIT PLAN  
FOR YEARS ENDING JUNE 2022  
AND  
2019/2020 OPERATIONAL PLAN FOR THE PERIOD ENDING  
JUNE 2020**

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## **1. INTRODUCTION**

The institute of Internal Auditors defines internal auditing as follows “an independent, objective assurance and consulting activity designed to add value and improve organizations’ operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance process.”

## **2. PURPOSE**

This document sets out the Internal Audit Plan for the period 2019/20 to 2020/22 for consideration and approval by the Audit Committee. The Plan incorporates:

- Annual Internal Audit Plan for the financial year ending 30 June 2020
- Strategic three-year rolling Internal Audit Plan
- Risk Management Process Facilitation

The Internal Audit Plan was designed to provide an independent, objective assurance and advisory service, in an efficient and effective manner, to the following key stakeholders:

- Audit Committee
- Accounting Officer
- Top Management and
- Line Management

The overall approach was to formulate a risk-based plan to align the priorities of the Internal Audit Function with the strategic objectives and goals of Umzimvubu Local Municipality and the related strategic and major business risks as identified by the management.

## **3. ROLES AND RESPONSIBILITIES- INTERNAL AUDIT FUNCTION**

In terms of the Municipal Finance Management Act no 56 of 2003 Section 62 ( c ); 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 –

- c) 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; Municipal Finance Management Act no 56 of 2003 Section 165 (1) focuses on municipal internal audit functions, and stipulates that the Municipality must have an internal audit function which 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
- Municipal System Act 32 of 2000 Section 45 which states that the performance measurements must be audited as part of the municipality's internal auditing process.

#### **4. RISK ASSESSMENT**

The Accounting Officer is required to ensure that a risk assessment is conducted regularly to identify emerging risks for the municipality. The Risk Management Strategy, which includes a Fraud Prevention Plan, must be used to direct Internal Audit effort and priorities. Risk management should be clearly communicated to all officials to ensure that it is incorporated into the language and culture of the municipality.

#### **5. RISK BASED AUDITS**

The direction of the Internal Audit Function ought to be directed by the risk exposure of the municipality. These risks are generally identified through an annual risk assessment exercise. Risk assessment has been conducted in the municipality for the 2019/2020 financial year. All the proposed audits are emanating from the Risk Assessment Process.

#### **6. AD HOC REQUESTS**

Although no time has been set aside in this plan for ad-hoc engagements, such engagements would be considered should there be requests for them. Acceptance of requests would be weighed against planned audits of high-risk areas. It is also

important for the audit strategy to remain risk based, as this will ensure that resources are effectively and efficiently allocated.

## **7. DEVELOPMENT OF INTERNAL AUDIT PLAN**

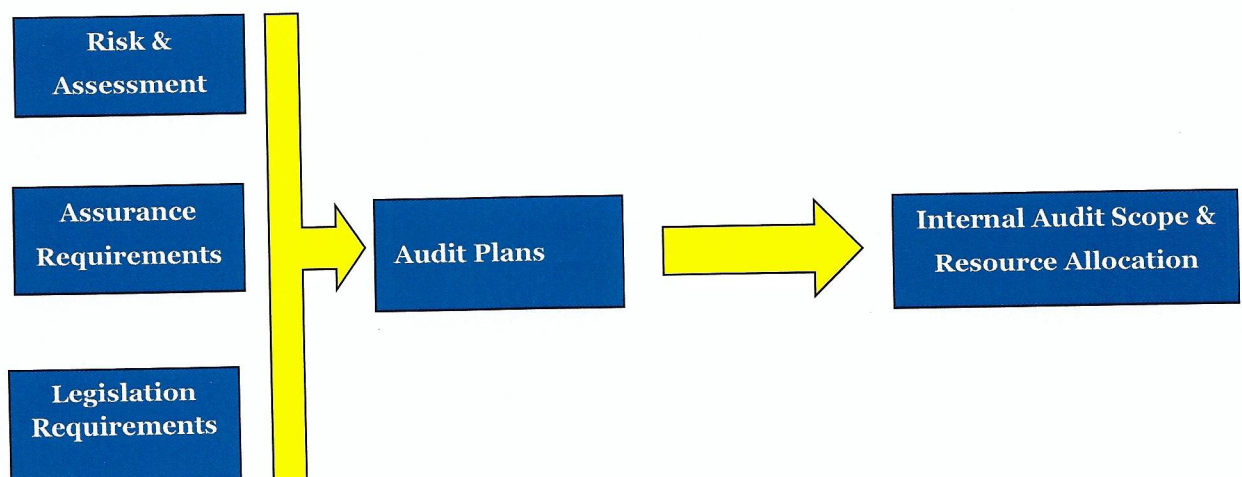
To facilitate effective communication and planning; we have prepared a draft risk-based internal audit plan for the financial year ending 30 June 2020.

The proposed internal audit plan described below has been prepared to direct the Internal Audit effort, based on available and envisaged resources.

A risk and control identification assessment report has previously been prepared, where management participated in identifying key risks facing the Municipality and key controls to mitigate identified risks including action owners. The risk assessment constitutes an integral phase in the preparation of the audit plans.

We wish to highlight that the identification and management of risks is the primary responsibility of Council and Management.

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



The Internal Audit Function will communicate its approved audit plan for 2019/2020 financial year to management, and report on its progress thereto to management and Audit Committee.

In the "risk and control assessment report" that took place in May, risks were identified and controls related to the risks were assessed by management. In that report, we

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noted the risks where their controls were asserted to be well managed, meaning that their current control effectiveness were: Satisfactory, Good or Very Good and these risks should ideally be the key focus of internal audit when applying the principal of risk-based approach.

The following is a list of risks that were asserted to be well managed; sorted by focus area/ risk category from the above mentioned "risk and control assessment report". In the list of risks below, we have also indicated next to each individual risk item our assessment of whether that particular risk item is auditable or not i.e. can that risk item be effectively reviewed by Internal Audit during its reviews.

For each auditable risk item, we have indicated above the area/process business cycle in which that risk items would be reviewed, as individual risk items are not normally stand – alone items, but form part of a business process / cycle.

#	Risks	Focus Area	Control Effectiveness	Auditable	Risk to be included in the Review of the following Process
1	Inadequate implementation of contracts management	Finance	Satisfactory	Yes	Supply Chain Management
	Occurrence of UIWF expenditure	Finance	Good	Yes	Supply Chain Management
2	Inadequate collection and slow payments of municipal tariffs	Finance	Good	Yes	Revenue Management
3	Non- alignment of budget and IDP	Finance	Very Good	Yes	Budget Process
4	Inadequate full implementation of and compliance with mSCOA	Finance	Satisfactory	Yes	mSCOA
5	Inadequate asset management controls and practices	Finance	Good	Yes	Asset Management
6	Ineffective IT system	Corporate Services	Very Good	Yes	ITGC
7	Inadequate compliance with the Human Resource plan	Corporate Services	Good	Yes	Human Resource
8	Unauthorised Development	Infrastructure and Planning	Satisfactory	Yes	Development and Planning
9	Inadequate monitoring of service providers / contractors	Infrastructure & Planning and Finance	Good	Yes	Project Management
10	Ineffective traffic and safety function	Community Services	Satisfactory	Yes	Traffic and Safety Management Services
11	Misalignment of IDP budget and SDBIP	Office of the Municipal Manager	Satisfactory	Yes	Performance Management System

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12	Ineffective Risk Management Process	Office of the Municipal Manager	Satisfactory	Yes	Risk Management
13	Land Disposal Management process	Budget and Treasury	Satisfactory	No	Land Disposal

However, as management and the Audit Committee can appreciate, if there is limited resources (budget) for internal audit services, internal audit may not be able to cover all the areas in year one. In the plan below, the timing and resources required to review the internal audit auditable areas should be discussed and agreed with management and the Audit Committee.

**We acknowledge that not all risks identified will be audited and/ or are auditable. Monitoring and management of risks is primarily a responsibility of management, and as such, management are responsible to ensure that risks of the Municipality are properly identified, managed and monitored**

## **8. 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.

## **9. LIAISON WITH EXTERNAL AUDIT**

In order to obtain efficiencies wherever possible, it is advised that the Internal Audit and Management 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.

## **10. 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.



**11. DETAILED INTERNAL AUDIT PLAN**

#	Project/ Details	Scope of Work	Anticipated Timing	Budgeted Hours
	<b>Risk-Based Projects</b>			
1	mSCOA	<ul style="list-style-type: none"> <li>• Compliance with mScoa checklist</li> <li>• Guideline from Treasury</li> </ul>	August 2019	80 hours
2	Information Technology General Controls	<ul style="list-style-type: none"> <li>• IT Policies</li> <li>• Security management</li> <li>• Information security</li> <li>• Computer operations</li> <li>• User account management</li> <li>• IT Disaster Recovery Plan</li> <li>• Physical Security and environmental control</li> </ul>	October 2019	120 hours
3	Supply Chain Management	<ul style="list-style-type: none"> <li>• Requisition and ordering process</li> <li>• Tender process</li> <li>• Receiving process</li> <li>• Payments process</li> <li>• Contract Management</li> <li>• Inventory Management ( stores)</li> <li>• Supply database maintenance</li> <li>• Declaration of interest</li> </ul>	December/ January 2019/2020	120 hours
4	Asset Management	<ul style="list-style-type: none"> <li>• Fixed asset recording and accounting treatment</li> <li>• Fixed asset register maintenance and control</li> <li>• Bar-coding/ tagging of assets</li> <li>• Asset verifications</li> <li>• Reconciliations (between the fixed asset register and the general ledger).</li> </ul>	February 2020	120 hours

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<b>5</b>	Interim Financial Statements	<ul style="list-style-type: none"> <li>To test whether the Annual Financial Statements has been disclosed according to the approved reporting standards, Working papers.</li> <li>Test the accuracy of the totals and balances of the statements (e.g. Statement of Financial Performance, Trial balance, Cash flow etc.)</li> </ul>	February 2020	120 hours
<b>6</b>	Budget Management Process	<ul style="list-style-type: none"> <li>Budget compilation process</li> <li>Budget approval</li> <li>Budget control, monitoring and reporting</li> <li>Management information on actual vs budget</li> <li>Budget virements</li> </ul>	March 2020  May 2020	80 hours  20 hours
<b>7</b>	Revenue Management	<ul style="list-style-type: none"> <li>Debtors Collection</li> <li>Billing Systems</li> <li>Indigent Register</li> <li>Controls over sundry debtors management</li> </ul> <p>Application processes for municipal services:</p> <ul style="list-style-type: none"> <li>Billings</li> <li>Receipts</li> </ul>	February 2020	120 hours
<b>8</b>	Planning and Development Management	<ul style="list-style-type: none"> <li>Applications</li> <li>Approval</li> <li>Monitoring</li> <li>Building guidelines</li> <li>Town Planning Scheme</li> <li>Occupational Health and Safety Act</li> </ul>	February 2020	80 hrs

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<b>9</b>	Traffic and Safety Management Services	<ul style="list-style-type: none"> <li>• Applications</li> <li>• Monitoring and Review</li> <li>• Issuing</li> <li>• Safeguarding</li> <li>• Compliance with policies and procedures (inform adjustment Budget in terms of budgeting for traffic fines )</li> </ul>	November 2019	120 hours
<b>10</b>	Project Management	<ul style="list-style-type: none"> <li>• SLA/ Project agreement compliance monitoring</li> <li>• Project reporting to funder</li> <li>• Project budgeting and planning</li> <li>• Project procurement</li> <li>• Project expenditure control/ monitoring</li> <li>• Project performance management and</li> </ul>	May 2020	120 hours
<b>11</b>	Human Resources	<ul style="list-style-type: none"> <li>• Recruitment and appointments</li> <li>• Terminations</li> <li>• Leave administration</li> <li>• Record keeping</li> <li>• Training and development</li> </ul>	April 2020	120 hours
<b>Legislative/ Compliance Projects</b>				
<b>12</b>	Performance Management System	<ul style="list-style-type: none"> <li>• Indicators in the IDP</li> <li>• Alignment between the IDP, SDBIP and PMS and SMART principles</li> <li>• Key Performance Indicators</li> <li>• Monitoring of performance</li> <li>• Performance Reporting</li> </ul>	Quarterly	120 hours
<b>13</b>	Annual Financial Statements Review	<ul style="list-style-type: none"> <li>• Review the Annual Financial Statements prior to submission to the Audit Committee and Auditor General</li> </ul>	August 2019	120 hours

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<b>14</b>	Annual Performance Information	<ul style="list-style-type: none"> <li>Review the Annual Performance Information prior to submission to the Audit Committee and Auditor General</li> </ul>	August 2019	120 hours
<b>15</b>	Annual Report	<ul style="list-style-type: none"> <li>Review that the annual report is factually correct and complies with all the requirements of MFMA and MFMA circulars issued by National Treasury.</li> </ul>	January 2020	120 hours
<b>16</b>	Compliance Review	<ul style="list-style-type: none"> <li>Evaluating adherence to key legislations.</li> </ul>	May 2020	120 hours
<b>17</b>	Division of Revenue	<ul style="list-style-type: none"> <li>Evaluation of conditional grants spending as gazetted in DoRa</li> </ul>	May 2020	80 hours
<b>18</b>	Internal Audit Follow-up and	<ul style="list-style-type: none"> <li>Follow-up of internal audit reports issued during the financial year to review the status of implementation of agreed action plan.</li> </ul>	As required	160 hours
<b>19</b>	Auditor General Action Plan	<ul style="list-style-type: none"> <li>Follow-up of management letter issued during the previous financial year to review the status of progress with regards to the implementation plan to address matters raised by AG to avoid</li> </ul>	Quarterly from the date the report was issued.	160 hours
<b>20</b>	Dashboard Report	<ul style="list-style-type: none"> <li>Assess the implementation of drivers of key internal controls; focusing mainly on Financial Statements Performance Information and Compliance with laws and regulations.</li> </ul>	Quarterly	40 hours
<b>General Management of Internal Audit Function</b>				

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<b>21</b>	Risk Assessment process facilitation	General Administration	As required	120 hours
	Review of Audit Committee and Internal Audit Charters			
	Annual Internal Audit Plan			
	Preparing For and attending Audit Committee meetings			

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**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						✓

### **13. 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>
Mr M.A Nkosi	Audit Committee Chairperson	082 806 6788
Mr G.P.T Nota	Municipal Manager	039 255 8500
Mr T. Fundira	Chief Financial Officer	039 255 8500
Ms. P.P.P Ndundum	Assistant Manager: Internal Audit	039 2558500
Co – Sourced Internal Auditors		

### **14. CONCLUSION**

The above plan is subject to change if there are any significant emerging risks that will need immediate attention. The Ad-hoc/ management request are not factored in the plan, but the Internal Audit will conduct those request through the approval of the Audit Committee. Internal Audit acknowledges that not all risks facing the municipality will be audited and/ or are auditable. Monitoring and management of risks is primarily a management matter, and as such, management is responsible to ensure that risks are properly identified, managed and monitored. The internal audit plan 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

### 15. 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.

Prepared and submitted by:

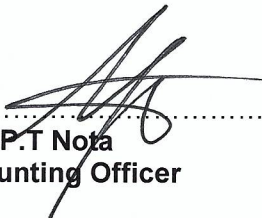
  
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**Ms. P Ndumndum**  
**Assistant Manager Internal Audit**

20/06/2019  
.....

**Date**

The three year rolling Audit Plan is acknowledged & supported by:

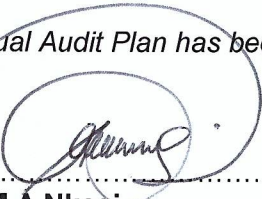
  
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**Mr G.P.T Nota**  
**Accounting Officer**

20/06/2019  
.....

**Date**

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

  
.....

**Mr M.A Nkosi**  
**Chairperson: Audit Committee**

20/06/2019  
.....

**Date**