MAKANA LOCAL MUNICIPALITY

Internal Audit Three-year Strategic plan for the period ending 30 June 2016

Annual Internal Audit Operational plan for the year ending 30 June 2014

Document Reference   12/13 - 014

Report Date   10 June 2013

Report Prepared by   Kabuso

Financial Year   2012/2013

MAKANA LOCAL MUNICIPALITY
THREE-YEAR STRATEGIC INTERNAL AUDIT PLAN FOR THE PERIOD ENDING 30 JUNE 2016 AND ANNUAL INTERNAL AUDIT OPERATIONAL PLAN FOR THE YEAR ENDING 30 JUNE 2014

PREPARED BY:	**Date :**	**Signature**
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1 INTRODUCTION

The objectives of the audit planning process is to determine which audit activities will be scheduled for the year and help to ensure that qualified audit staff are assigned to the highest priority assignments. The principles and procedures discussed in this document have been developed to provide a process for fulfilling these objectives.

The internal audit process provides oversight to obtain reasonable assurance regarding Management's assertions that objectives are achieved for effectiveness and efficiency of operations, reliability of financial information, and compliance with laws and regulations. Internal audit will proactively partner with the Senior Management Team on the performance of financial, compliance, information technology, operational audits, as well as consulting reviews and special projects, to maximise value added contributions from the process.

The primary objective of the internal audit function is to provide a comprehensive service to ensure adequate measures and procedures are in place for sound economic, effective and efficient management as required by the Municipal Finance Management Act and King III. Internal Audit will conduct audits to assist management in determining the effectiveness of the organisation's system of internal controls and quality performance.

2 INTERNAL AUDIT MANDATE

Internal auditors evaluate risks relating to the:

- Information system environment;
- Reliability and integrity of financial and operating information;
- Effectiveness and efficiency of operations;
- Safeguarding of assets; and
- Compliance with laws, regulations, and contracts.

Should it be required, assistance with respect to special services such as forensic matters, computer security (application and environment), computer implementations, financial risk management and general accounting assistance will be co-sourced on an *ad-hoc* basis as and when requested.

3   STRATEGIC APPROACH

We have adopted a risk based strategic approach which takes into account the results of the risk assessment conducted by management and facilitated by the Internal Audit Unit during April 2013, the Auditor-General's report, as well as subsequent discussions with management. This approach involves a focus on understanding the work of each focus area and identifying risks associated with that focus area. It further includes a process of linking risk analysis to assigned planning and audit program development. The scope of the Internal Audit work is therefore focused on the risks as identified by Management in the areas selected for review and thus does not imply that all areas, controls and/or weaknesses are covered through the internal audit plan or work performed.

A risk identification assessment workshop was conducted over the period October 2012 to April 2013 and the results have been disclosed in a separate report.

3.1 Scope of internal audit

The scope of internal audit, based on paragraph 2 above and limited to the fact that only samples of transactions are selected, is to determine whether the Municipality's network of risk management, control, and governance processes, as designed and represented by Management, is adequate and functioning in a manner to determine whether management processes exists to ensure that:

- Risks are appropriately identified and managed;

- Interaction with the various governance groups occurs as needed;

- Significant financial, managerial, and operating information is accurate, reliable and timely;

- Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations;

- Resources are acquired economically, used efficiently and adequately protected;

- Programmes, plans and objectives are achieved;

- Quality and continuous improvement are fostered in the organisation's control process; and

- Significant legislative or regulatory issues impacting the organisation are recognised and addressed appropriately; and

- Assets are adequately and appropriately safeguarded.

The internal audit scope of work is not limited to the areas indicated in the 3-year strategic plan and annual operational plan. Additional hours will be allocated for management requests which may include internal audit assignments, consulting services and special investigations.

Although investigating fraud and other irregularities are not the primary focus of an internal audit approach, internal audit should maintain close liaison with management should any such issues be identified.

The current level of fraud in South Africa has reached unprecedented levels and is cause for concern. Internal audit work is planned with a reasonable expectation of detecting significant control weaknesses in the specific areas reviewed. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that errors, fraud or other irregularities will be detected. Accordingly, our reviews and investigations as internal auditors should not be relied upon solely to disclose fraud or other irregularities, which may exist. Management's attention is drawn to the fact that inherent limitations exist in the reliance on internal controls and procedures as errors and lapses in control can result from misunderstanding of instructions, collusion between individuals, mistakes in judgment, carelessness, or other personal factors as well as management's manipulation of controls.

It should be recognised that controls are designed to provide reasonable, but not absolute, assurance that errors and irregularities will not occur, and that procedures are performed in accordance with management's intentions. There are inherent limitations that should be recognised in the considering of the potential effectiveness of any system of controls. Control procedures can be circumvented intentionally by Management, either with respect to the estimates and judgments required in the processing of data.

Further, the projection of any evaluation of control to future periods is subject to the risk that the procedures may become inadequate due to changes in conditions and deterioration in the degree of compliance with procedures.

The Internal Audit Unit is **NOT** authorised to:

- Perform any operational duties for the Municipality;

- Initiate or approve accounting transactions external to the internal audit function;

- Direct the activities of any municipal official not employed by the internal audit function, except to the extent that such official has been appropriately assigned to

auditing teams or to otherwise assist the internal auditors in carrying out investigations.

3.2 Reporting and communications

Communication, orally and through reports, is an essential part of the internal audit process. The internal audit function will also communicate with management through a series of planned formal meetings.

Progress reports will be submitted to the Audit Committee on a quarterly basis. Reports will clearly demonstrate the control and operational concerns arising from the reviews, the potential impact and the practical reasoned recommendations for change. Any critical issues will be reported verbally to Management and the Audit Committee upon identification.

Management will be given 14 working days to respond to management reports and will have 60 days after the issuance of final reports to see that corrective action on reported weaknesses is either planned or taken.

Follow-up audits will be carried out to ensure that control weaknesses have been adequately rectified, or that appropriate action is being planned.

3.3 Quality Control

The quality of the internal audit assignments will be addressed by adhering to the International Standard for Professional Practice for Internal Auditing issued by the Institute of Internal Auditors ("the IIA International Standards").

4 CO-ORDINATION OF INTERNAL AUDIT

The co-ordination of internal audit will consist of:

4.1 Internal Audit Team:

Name	Position	Telephone No
Liezl Maree*	Internal Audit Manager	084 586 8033
Roland Pillay*	Risk Management and Consulting Services	083 798 8985
Nozuko Stuurman*	Senior Internal Auditor	073 798 4309
Phelisa Mbanya*	Internal Audit Trainee	073 585 4889
Akhona Ngcauzele (Municipal Official)	Internal Audit Trainee	083 974 5717

* KABUSO outsourced internal audit service provider contract ends 30 September 2013.

4.2 Contact with the External Auditors

Internal Audit should liaise closely with the external auditors to avoid unnecessary duplication of audit work. Liaison with the external auditors will include holding regular meetings between the external auditors and the internal audit function to ensure that there is proper co-ordination.

The contact persons are:

Name	Position	Telephone No
Christo van Dyk	Senior Manager (AG)	082 451 5902

5 INTERNAL AUDIT PLAN

5.1 Risk based plan

Section 165(2)(a) of the MFMA, states that "*The internal audit unit of a municipality or municipal entity must— prepare a risk-based audit plan and an internal audit program for each financial year".* The plan has been developed based on the risk assessment conducted in November 2010.

The table below details the **HIGH** Inherent Risks identified during the Strategic Risk Assessment process. Although, the mitigation and management of the said risks is the

responsibility of management, Internal Audit has used the results of the risk assessment to develop its risk based plan and accordingly focus its efforts on HIGH risk areas to determine whether actions taken by management to mitigate such risks has achieved the desired outcome.

No	Risk Description	Indicate if included in risk based IA plan (If not, Management
1	Inability to effectively utilise available resources (human and financial)	Quarterly Performance Information Audit
2	Ineffective utilisation of the budget	Quarterly Performance Information Audit
3	Non-achievement of revenue targets	Revenue Audit
4	Silo culture which inhibits communication, information sharing and a common vision (Lack of co-operation between directorates/departments)	Management
5	Lack of adequate investment attraction	Management
6	Lack of marketing strategy	Management
7	Lack of Performance Management throughout municipality	Quarterly Performance Information Audit
8	Lack of business continuity processes	Governance Audit
9	Inadequate communication of the existing and revised policies; **and** inadequate implementation of the existing and revised policies	Governance Audit
10	Inadequate management and control of confidential municipal information	Governance Audit
11	Inability to provide sufficient & safe drinking water	Technical Services Audit
12	The organisational culture does not promote service delivery	Governance Audit
13	Lack of implementation of the communication strategy	Governance Audit
14	Poor management if inter-governmental relations	Governance Audit
15	Theft, Fraud and Corruption	Governance Audit
16	Critical staff/skill shortages in key areas of responsibility	HR Audit
17	Not meeting the realistic expectations of stakeholders (Community dissatisfaction)	Quarterly Performance Information Audit
18	Lack of community awareness on environmental management	Management
19	Increasing crime in the municipal area	Management
20	Non-alignment of IDP, SDBIP and budget	Quarterly Performance Information Audit

5.2 Strategic Internal Audit Plan 2014 to 2016

The Strategic three year rolling Audit Plan will be maintained and updated according to the annual risk assessments:

Audit Area	Year 1 2013/2014	Year 2 2014/2015	Year 3 2015/2016
PERFORMANCE MANAGEMENT SYSTEM			
Quarterly internal audit review of PMS information;	✓	✓	✓
Review of entire PMS process for alignment to the Integrated Development Plan and SMART principles.	✓	✓	✓
REVENUE AND INCOME			
Rates;	✓		✓
Electricity;	✓	✓	
Refuse;	✓		✓
Traffic.	✓	✓	
GOVERNANCE			
Compliance with legislation;	✓	✓	✓
Code of ethics;	✓		✓
Business Continuity Management;	✓		✓
Delegation framework;	✓	✓	
Risk Management i.e. Policy, Plan and Implementation;	✓	✓	✓
Fraud Prevention i.e. Policy, Plan and Implementation.	✓	✓	✓
HUMAN RESOURCE			
Recruitment and appointments	✓		✓
Terminations	✓		✓
Leave Administration	✓		✓
Record keeping	✓		✓

Audit Area	Year 1	Year 2	Year 3
	2013/2014	2014/2015	2015/2016
Overtime Management	✓		✓
Training and development	✓		✓
ASSET MANAGEMENT			
Fixed Asset Register;	✓	✓	✓
Reconciliation;	✓	✓	✓
Fleet Management.	✓	✓	✓
SUPPLY CHAIN MANAGEMENT			
Ordering;	✓	✓	✓
Tender process;	✓	✓	✓
Receiving process;	✓	✓	✓
Invoicing and reconciliation;	✓	✓	✓
Contract Management;	✓	✓	✓
Creditor (including payments)	✓	✓	✓
Inventory Management (Stores);	✓	✓	✓
Declaration of interest.	✓	✓	✓
BANK AND CASH MANAGEMENT			
Investments;	✓	✓	✓
Bank and Cash Management;	✓	✓	✓
Bank Reconciliations;	✓	✓	✓
TECHNICAL SERVICES			
Electrical;	✓		✓
Roads and maintenance;		✓	
Mechanical Workshop;	✓		✓
Waste Management.		✓	
LOSS CONTROL			
Identification, recording, investigation and follow up of action plan.	✓	✓	✓

Audit Area	Year 1	Year 2	Year 3
	2013/2014	2014/2015	2015/2016
KEY CONTROL CHECKLIST			
Monitoring of the key control checklist to ensure that controls are in place.	✓	✓	✓
INFORMATION TECHNOLOGY (IT) GENERAL CONTROLS			
IT policies;	✓		✓
Security management;	✓		✓
Computer operations;	✓		✓
User account management;	✓		✓
IT Disaster recovery plan;	✓		✓
Physical security and environmental control;	✓		✓
Change management;	✓		✓
Information security.	✓		✓
ANNUAL FINANCIAL STATEMENTS			
Review of Annual Financial Statements prior to submission to the Audit Committee and Auditor-General	✓	✓	✓
AUDIT ACTION PLAN			
Review the implementation of the audit action plan.	✓	✓	✓
FOLLOW UP			
Follow up on previous Internal Audit Reports;	✓	✓	✓
GENERAL MANAGEMENT OF INTERNAL AUDIT FUNCTION			
Review of internal audit and audit committee charters;	✓	✓	✓
Preparing for and attending Audit Committee Meetings;	✓	✓	✓
Risk assessment process facilitation;	✓	✓	✓
Meetings with the Auditor General	✓	✓	✓

5.3 Annual internal audit operational plan for the period ending 30 June 2014

Audit Area	Scope of Work	No. of hours	Timing
PERFORMANCE MANAGEMENT SYSTEM			
Quarterly internal audit review of PMS information; Review of entire PMS process for alignment to the Integrated Development Plan and SMART principles.	Our approach will include: • Quarterly testing of PMS information; • Review of entire PMS process for alignment to the Integrated Development Plan and SMART principles.	320	Quarterly
REVENUE AND INCOME			
Rates; Electricity; Refuse; Traffic.	Our approach will include: • Document/update the systems description; • Perform a walkthrough of the system description using a sample of one to three; • Perform detailed testing for the period under review	160	January/February 2014
GOVERNANCE			
Compliance with legislation; Code of ethics; Business Continuity Management; Delegation framework;	Our approach will include: • Conduct interviews with officials; • Perform detailed testing for the period under review	160	August 2013

Risk Management i.e. Policy, Plan and Implementation;			
Fraud Prevention i.e. Policy, Plan and Implementation.			
HUMAN RESOURCES			
Recruitment and appointments	Our approach will include: • Document/update the systems description; • Perform a walkthrough of the system description using a sample of one to three; • Perform detailed testing for the period under review	240	November/December 2013
Terminations			
Leave Administration			
Record keeping			
Overtime Management			
Training and development			
ASSET MANAGEMENT			
Fixed Asset Register;	Our approach will include: • Document/update the systems description; • Perform a walkthrough of the system description using a sample of one to three; • Perform detailed testing for the period under review	160	March 2014
Reconciliation;			
Fleet Management.			
SUPPLY CHAIN MANAGEMENT			
Ordering;	Our approach will include: • Document/update the systems description;	240	January/February 2014
Tender process;			

Receiving process;	• Perform a walkthrough of the system description using a sample of one to three; • Perform detailed testing for the period under review		
Invoicing and reconciliation;			
Contract Management;			
Creditor (including payments)			
Inventory Management (Stores);			
Declaration of interest.			
BANK AND CASH MANAGEMENT			
Investments;	Our approach will include: • Document/update the systems description; • Perform a walkthrough of the system description using a sample of one to three; • Perform detailed testing for the period under review	80	February 2014
Bank and Cash Management;			
Bank Reconciliations;			
TECHNICAL SERVICES			
Electrical;	Our approach will include: • Document/update the systems description; • Perform a walkthrough of the system description using a sample of one to three; • Perform detailed testing for the period under review	160	March 2014
Roads and maintenance;			
Mechanical Workshop;			
Waste Management.			
LOSS CONTROL			
Identification, recording, investigation and	Our approach will include: • Document/update the systems description;		

follow up of action plan.	• Perform a walkthrough of the system description using a sample of one to three; • Perform detailed testing for the period under review		
KEY CONTROL CHECKLIST			
Monitoring of the key control checklist to ensure that controls are in place.	Our approach will include: • Monitoring the key control checklist to ensure that controls are in place.	64	Quarterly
INFORMATION TECHNOLOGY (IT) GENERAL CONTROLS			
IT policies; Security management; Computer operations; User account management; IT Disaster recovery plan; Physical security and environmental control; Change management; Information security.	Our approach will include: • Review of IT policies; • Review of the general controls (access, safeguarding, maintenance) over the computer environment; • Review of the IT Disaster Recovery Plan.	80	December 2013
ANNUAL FINANCIAL STATEMENTS			
Review of Annual Financial Statements prior to submission to the Audit	Our approach will include: • Review of Annual Financial Statements prior to submission to the Audit Committee and Auditor-General.	24	August 2013

Committee and Auditor-General			
AUDIT ACTION PLAN			
Review the implementation of the audit action plan.	Our approach will include: • Review of the progress in respect of the implementation of the audit action plan; • Perform detailed testing for the period under review.	160	April/May 2014
FOLLOW UP			
Follow up on previous Internal Audit Reports;	Our approach will include: • Follow up on previous Internal Audit Reports.	160	As required
GENERAL MANAGEMENT OF INTERNAL AUDIT FUNCTION			
Review of internal audit and audit committee charters;	General Administration	120	As required
Preparing for and attending Audit Committee Meetings;			
Risk assessment process facilitation;			
Meetings with the Auditor General			