

# **éDUMBE LOCAL MUNICIPALITY**

**INTERNAL AUDIT SECTION**

**THREE YEAR ROLLING AUDIT PLAN  
FOR THE FINANCIAL YEARS  
2016/2017, 2017/2018, 2018/2019**

**éDUMBE LOCAL MUNICIPALITY  
INTERNAL AUDIT THREE YEAR ROLLING PLAN  
FOR THE FINANCIAL YEARS 2016/2017, 2017/2018 & 2018/2019**

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## 1. MANDATE

### 1.1 Legislative Requirements for Internal Audit Activity

#### 1.1.1 Municipal Finance Management Act, Act 53 of 2003

In terms of Section 62 (c) of the Municipal Finance Management Act no 56 of 2003 (MFMA), 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—

- that the municipality has and maintains effective, efficient and transparent systems—
  - (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 the 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, the 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'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 Municipal Manager and the Performance Audit Committee referred to in sub regulation (2).

## 1.2 Professional Requirements

éDumbe Local Municipality Internal Audit Unit subscribe to the statements and standards issued by the accountancy, auditing and internal auditing bodies and International Standards for the Professional Practice of Internal Audit (ISPPIA) issued by the Institute of Internal Auditors of South Africa (IIA) and Code of Ethics thereto.

## 2. OBJECTIVES AND SCOPE OF THE INTERNAL AUDIT PLAN

Internal Audit Unit's primary objective is to provide an independent and objective assurance and consulting services designed to add value and improve éDumbe Local Municipality's administration operations through a systematic, disciplined approach to evaluate and improve the effectiveness of the systems of internal control, risk management and governance processes.

The scope of work of the Internal Audit function is to determine whether the municipality's risk management, control and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- that risks are appropriately identified and managed;
- that interaction with the various governance groups occurs as needed;
- that significant financial, managerial, and operating information is accurate, reliable, and timely;
- that employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations;
- that resources are acquired economically, used efficiently, and adequately protected;

- that programs, plans, and objectives are achieved;
- that quality and continuous improvement is fostered in the Municipality's control process; and
- Those significant legislative or regulatory issues impacting the Municipality are recognised and addressed appropriately.

The scope of our audits for the acknowledgement and support by the Accounting Officer and approval by the Audit Committee is detailed on Appendix A and B as an attachment.

### **3. ACCOUNTABILITY**

Internal Audit Unit is directly accountable functionally to the Audit Committee, as established in terms of section 166 of the MFMA. This accountability applies despite the administrative location of the Internal Audit Unit which is under the Office of the Municipal Manager.

Internal Audit Unit is responsible to the Accounting Officer to ensure that it gives assurance as to the effectiveness and efficiency of the systems of internal controls, risk management and governance process employed in the municipality.

Internal audit as a philosophy is a management tool designed to apprise and advise the Council, Executive Committee, Accounting Officer and his Strategic Management Committee on governance, risk management and systems of internal control within the processes. This affirms the attitude of the internal auditor's role in internal audit activity which requires that reports be issued, discussed with management and management comments obtained incorporated into the reports before audit report to the Audit Committee is compiled and tabled before the Audit Committee.

### **4. ENGAGEMENT, CO-ORDINATION & CO-OPERATION**

It is accepted that the co-operation and availability of éDumbe Local Municipality management and personnel plays a significant role in impacting the effectiveness and efficiency of our internal audit activity to the business units. The Internal Audit Section undertakes to explain the purpose of internal audit, the objectives, scope and approach for each audit assignment and discuss risks as identified by either management or ourselves in order to obtain the complete co-operation of management and staff. The Unit will make every effort to obtain the complete cooperation of the departmental process management and site supervisors.

The Manager: Internal Audit Unit will play a co-ordination role on Municipality's internal audit activity and any concerns, suggestions and inputs should be directed to her. All internal audit assignments will be sanctioned by the Manager: Internal Audit Unit.

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Our key contacts within the Municipality are the Municipal Manager, Executive Managers, and Managers

## **5. REPORTING STRUCTURE**

The Internal Audit Section will carry out the work as agreed, report the outcome and findings to management, and will make recommendations on the actions to be taken.

Reports will clearly demonstrate the weaknesses in the system of internal control, risk management, governance and operating concerns arising from the audits. The structure will detail the standard, actual finding, root cause, the potential impact and reasoned recommendations for change.

The Internal Audit function will carry out the work as agreed, report the outcome and findings to management, and will make recommendations on the actions to be taken.

Internal audit's reports will be in writing. The details; unless otherwise requested by management, will be copied to the relevant line management, who will already have been made fully aware of the details and whose co-operation in preparation the report will be sought. The managers will be given a maximum period of five (5) working days to respond to Internal Audit Reports.

A follow -up report will be issued to the managers of the affected section three – six months after the main report enquiring about the progress made regarding the corrective measures taken as a result of the audit.

Quarterly progress reports on the annual audit plan will be submitted to the Municipal Manager and the Audit Committee.

An Audit Committee report will be compiled and submitted to the Audit Committee on quarterly basis or alternatively to suite the Audit Committee meetings calendar.

## **6. INTERNAL AUDIT EXPECTATIONS**

The Internal Audit Section will expect the following from Heads of departments and staff:

- Unrestricted access to all records of the Municipality and any other information and objects in the custody and control of any person employed by éDumbe Local Municipality which is necessary and critical for the performance of our duties.
- Timely submission of management comments and action plan to address the weaknesses identified during audits and ensure that this is

done within 5 working days from the date of receipt of the Internal Audit

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report. Should Internal Audit Unit not receive a response within the timeframe thereafter; the matter will be escalated to the Accounting Officer.

- Implementation of our recommendations and agreed action plan (follow up to verify implementation – 3 – 6 months after submission of the final report).
- Management takes responsibility for risk management and collapse of the system of internal control and governance.

## **7. APPROACH TO THE PREPARATION OF THE AUDIT PLAN**

Our approach to the preparation of the Three Year Rolling Audit Plan was informed by the following information:

- Risk and Control Identification and Assessment conducted by Management of eDumbe Local Municipality, in respect of the 2016/2017 financial year.
- Review of risks identified in the report of Auditor-General for the past two years.
- Risks identified in carrying out our Internal Audit Work

The audit coverage therefore covers the different departments, and various functions within each department. These are mostly support functions compared to core functions of the municipality in broad terms. However the support function have a major impact on core functions:

### **7.1. Annual Internal Audit Plan**

Internal audit will, in consultation with management, present an annual internal audit operational plan to the Audit Committee for approval. The plan should set out the recommended scope of their work in the year. If necessary, this plan should also identify the costs of resources necessary to fulfil the plan. Since this Internal Audit Plan includes a one year roll out based on the current risk Assessment, each subsequent year a risk assessment needs to be performed and the operational Internal Audit plan adjusted accordingly if new risks arise.

*Refer to Appendix A*

### **7.2. Three Year Rolling Internal Audit Plan**

Internal audit will in consultation with management, prepare a three year strategic internal audit plan to submit to the Audit Committee for approval. The plan should set out the recommended scope of work for the period.

*Refer to Appendix B*

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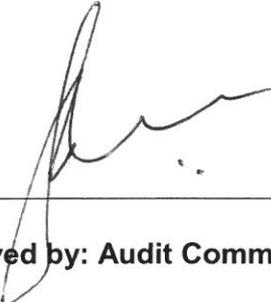
## 8. FINANCIAL IMPLICATIONS

The Internal Audit function is in house and not out-sourced to external services providers, and is fully funded from the municipality's operational budget.

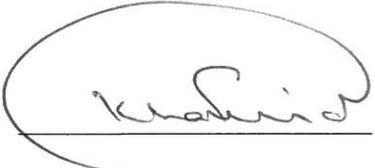
The structure of the unit is as follows:

Internal Auditor x 1

## 9. APPROVAL

  
\_\_\_\_\_  
**Approved by: Audit Committee Chairperson**

15/02/2018.  
**Date**

  
\_\_\_\_\_  
**Accepted by: Accounting Officer**

01/02/2018  
**Date**

  
\_\_\_\_\_  
**Compiled: Internal Auditor**

30/01/2018.  
**Date**

**Miss GT Magudulela**





**APPENDIX A  
ANNUAL AUDIT PLAN 2017/2018**

	PROJECT FOCUS AREA	RESOURCE	HOURS	RISK NO	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUNE	
<b>C</b>	<b>RISK BASED AUDITS AND STATUTORY AUDITS</b>																
	Review of Risk Management and Assessment	In-house	80														X
	2017/2018 Mid-term Financial Statement Review	In-house	60										X				
	Audit Asset Management	In-house	100												X		
	Audit Debtors and Revenue Management	In-house	80										X		X		
	Audit Cash, Bank and Bank Reconciliations	In-house	100							X				X			
	Audit of Grants and Project Management	In-house	100							X				X			
	Audit of Suspense Accounts & Processing of Journals	In-house	80												X		X
	Audit of Electricity Losses	In-house	100									X					
	Audit of Electricity Meter Reading function	In-house	100									X					
	Audit of Connections & Disconnections	In-house	100									X					
	Audit of Traffic Management	In-house	160											X		X	
	Audit of Licensing Processes	In-house	160											X		X	
	<b>D</b>	<b>ADHOC REVIEWS</b>															
Special Requests & Investigations		In-house	400														
<b>E</b>	<b>AUDITOR GENERAL</b>																
	Co-ordination of 2017/2018 external audit process	In-house										X					
	Follow-up on 2016/2017 Auditor General Queries	In-house	160									X		X		X	

**APPENDIX A  
ANNUAL AUDIT PLAN 2017/2018**

	<b>PROJECT FOCUS AREA</b>	<b>SCOPE</b>
<b>A</b>	<b>FOLLOW-UP AUDITS FOR 2015/2016 and 2016/2017</b>	<ul style="list-style-type: none"> <li>- To assess the extent of implementation of corrective and agreed upon actions following the internal audit performed</li> <li>- To Assess whether the implemented action addressed the original findings adequately</li> <li>- To Monitor the outcomes of Internal Audit Effort</li> </ul>
<b>B</b>	<b>AUDIT OF PERFORMANCE MANAGEMENT SYSTEMS, IDP, AND SDBIP</b>	<ul style="list-style-type: none"> <li>- Review compliance of the IDP, SDBIP and Performance Agreements in terms of activity, content and timeframes</li> <li>- Review compliance of the KPA's and KPI's in terms of the SMART principles</li> <li>- Review performance contracts (linked to IDP) for all Executive Directors and the Municipal Manager;</li> <li>- Review the link between PMS, IDP, SDBIP and Budgets;</li> <li>- Review credibility of POE files;</li> <li>- Conduct physical verification of projects.</li> </ul>
<b>C</b>	<b>RISK BASED AUDITS AND STATUTORY AUDITS</b>	
	Review of Risk Management and Assessment	<ul style="list-style-type: none"> <li>- Review of Risk and Control Identification and Assessment</li> <li>- Review of Risk Management Strategy</li> <li>- Review of Risk Management Methodology</li> </ul>
	2017/2018 Mid-term Financial Statement Review	<ul style="list-style-type: none"> <li>- Review Accounting Policies and compliance with GRAAP</li> <li>- Ensure that the AFS agrees to the Trial balance and General Ledger</li> <li>- Perform review of financial statements for validity, accuracy and completeness</li> <li>- Review working paper file and ensure that it agrees to information on the AFS, TB and GL</li> </ul>
	Audit Asset Management	<ul style="list-style-type: none"> <li>- Review monthly asset reconciliations</li> <li>- Ensure asset reconciliation balances to general ledger and trial balance</li> <li>- Review fixed asset register</li> <li>- Test for existence of assets</li> <li>- Review depreciation calculations</li> <li>- Review compliance with GRAAP</li> </ul>
	Audit Debtors and Revenue Management	<ul style="list-style-type: none"> <li>- Review debit raising processes for main services rendered (rates, electricity, refuse)</li> <li>- Review debit raising processes for sundry services rendered</li> <li>- Review Debtors Age Analysis</li> <li>- Review Indigent Database</li> </ul>
	Audit Cash, Bank and Bank Reconciliations	<ul style="list-style-type: none"> <li>- Review all cash and receipting processes</li> <li>- Review the bank reconciliations</li> <li>- Ensure that all reconciling items are valid and have adequate supporting documentation</li> <li>- Ensure that the bank reconciliation agrees to the bank statements, bank confirmations, and to the financial</li> </ul>

**APPENDIX A  
ANNUAL AUDIT PLAN 2017/2018**

		system
	Audit of Grants and Project Management	<ul style="list-style-type: none"> <li>- Review the Grants Register</li> <li>- Recalculate balances and ensure that it agree to the Financial System</li> <li>- Ensure compliance with the expenditure process and SCM policy and SCM Regulations</li> <li>- Ensure compliance with all grant conditions</li> </ul>
	Audit Suspense Accounts and Processing of Journals	<ul style="list-style-type: none"> <li>- Review all suspense accounts on the financial system and check the validity and accuracy thereof</li> <li>- Review Journal Register</li> <li>- Review the validity and approval of journals</li> <li>- Review that adequate supporting documentation are maintained</li> </ul>
	Audit of Electricity Losses	<ul style="list-style-type: none"> <li>- Verify, recalculate, validate and analyse the electricity losses reported by comparing the electricity purchased from the Eskom Accounts to the electricity sales</li> <li>- Review processes in place to reduce losses</li> <li>- Review process for new connections</li> <li>- Review process for disconnections</li> </ul>
<i>D</i>	Audit of Connections Disconnections <i>ADHOC REVIEWS</i>	
	Special Requests & Investigations	- At the request of the Municipal Manager, the Audit Committee, or MPAC certain special assignments / projects will be undertaken
<i>E</i>	<i>AUDITOR GENERAL</i>	
	Co-ordination of 2016/2017 external audit process	
	Follow-up on 2016/2017 Auditor General Queries	

**NOTE THAT THE TABLE SERVES AS A GUIDE IN TERMS OF THE TIMING OF THE AUDIT AND MAYBE SUBJECT TO CHANGE DEPENDING ON VARIOUS CIRCUMSTANCES SUCH AS REQUESTS FROM THE AUDIT COMMITTEE AND MUNICIPAL MANAGER, AND STAFF / CLIENT AVAILABILITY. ETC**



**APPENDIX B**  
**THREE YEAR ROLLING AUDIT PLAN 2016/2017; 2017/2018, & 2018/2019**

	<b>PROJECT FOCUS AREA</b>	<b>RESOURCE</b>	<b>2016/2017</b>	<b>2017/2018</b>	<b>2018/2019</b>
<b>A</b>	<b><i>FOLLOW-UP AUDITS</i></b>				
	- To assess the extent of implementation of corrective and agreed upon actions following the audit performed - To Assess whether the implemented action addressed the original findings adequately - To Monitor the outcomes of Internal Audit Effort	In-house	X	X	X
<b>B</b>	<b><i>AUDIT OF PERFORMANCE MANAGEMENT SYSTEMS, IDP, AND SDBIP</i></b>				
	Audit of Annual Report	In-house	X		X
	Audit of Quarterly SDBIP's	In-house	X	X	X
	Audit of SDBIP for forthcoming financial year	In-house	X	X	X
<b>C</b>	<b><i>RISK BASED AUDITS AND STATUTORY AUDITS</i></b>				
	Review of Risk Management and Assessment	In-house		X	X
	Mid-term and Annual Financial Statement Review	In-house	X	X	X
	Audit of the Mid-term and Annual budget	In-house	X		X
	Audit Supply Chain Management (Procurement, tenders, contracts)	In-house	X		X
	Audit Creditors and Expenditure Management	In-house	X		X
	Audit Debtors and Revenue Management	In-house	X	X	X
	Audit Asset Management	In-house	X	X	X
	Audit Payroll Management	In-house	X		X
	Audit Suspense Accounts and Processing of Journals	In-house		X	
	Audit Cash, Bank and Bank Reconciliations	In-house	X	X	X
	Audit of Grants and Project Management	In-house	X	X	X
	Audit Stores and Stock Management	In-house	X		X
	Audit of Electricity Losses	In-house	X	X	X
	Audit of Electricity Meter Reading Function	In-house		X	
	Audit Connections and Disconnections	In-house		X	
	Audit Building Control and Illegal Structures	In-house			
	Audit Waste Management / Land fill site	In-house			
	Audit of Human Resource Management	In-house	X		X
	Audit Housing Projects	In-house			
	Audit Fleet Management	In-house	X		
	Audit Traffic Management	In-house		X	
	Audit Licencing Processes	In-house		X	

**APPENDIX B**  
**THREE YEAR ROLLING AUDIT PLAN 2016/2017; 2017/2018, & 2018/2019**

	Audit Performance of Audit Committee and Municipal Public Accounts Committee	In-house			X
	Audit Community Participation and Strategies	In-house			X
	Audit Occupational Health and Safety Committee	In-house	X		X
	Audit Disaster Management	In-house	X		X
	Audit Legal Services	Outsource			X
	Audit Corporate Governance: Fraud & Corruption	In-house			X
	Audit Human Resources Management	In-house	X		X
	Audit Information Technology	Outsource	X		X
	Audit Waste Management	In-house			X
	Audit Cemeteries	In-house			X
	Audit Libraries	In-house			X
	Audit Fleet Management	In-house			X
	Audit Electricity Infrastructure	In-house			X
	Audit Roads and Maintenance	In-house			X
	Audit Capital Projects	In-house	X		X
	Audit LED: Job creation	In-house			X
	Audit LED: Informal trading	In-house			X
	Audit SMME Development	In-house			X
<b>D</b>	<b>ADHOC REVIEWS</b>				
	Special Requests & Investigations	In-house	X	X	X
<b>E</b>	<b>AUDITOR GENERAL</b>				
	Co-ordination of annual external audit process	In-house	X	X	X
	Follow-up on all prior year Auditor General Queries	In-house	X	X	X