JOHN TAOLO GAETSEWE DISTRICT
INTERNAL AUDIT SHARED SERVICE

INTERNAL AUDIT STRATEGY

2026/2028

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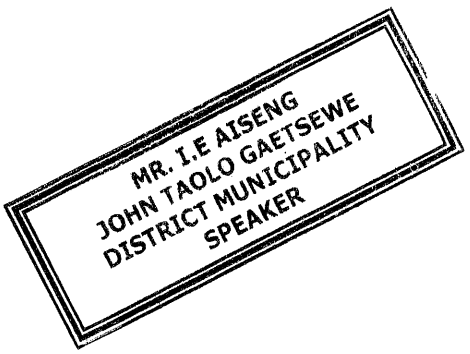

PREAMBLE

The Internal Audit Strategy is a plan of action designed to achieve a long-term or overall objective. The strategy includes a vision, strategic objectives and supporting initiatives for the function. An internal audit strategy helps guide the internal audit function toward the fulfilment of the internal audit mandate.

1. VISION

To build a team of excellence, who cultivate ethical and professional values in local government; and **are** committed to the empowerment and prosperity of the local community.

2. STRATEGIC OBJECTIVES

2.1. Introduction

The Global Internal Audit Standards and John Taolo Gaetsewe District Internal Audit Shared Services' Charter requires the CAE to establish a risk-based approach to determine the priorities for internal audit activities. The strategic planning is a process that involves research and analysis of both internal and external environmental factors, consideration of organizational successes and failures, and the impact of the organization's past and present abilities to reach its goals.

2.2. Identifying strategic objectives

The strategic objectives are driven by Internal Audit Function's recognition of the needs and opportunities to improve the audit activities based on the mandate to support management in achieving its objectives.

In this step the Internal Audit Function will address the identified weaknesses and threats and take advantage of opportunities and strengths to improve on their ability to deliver on its mandate.

The strategic objectives/initiatives for the next three to five years

- IAF obtaining and maintain professional designations from the IIA.
- IAF obtaining ICT expertise (internal or external).
- Fully resourced IAF, with tools of trade including machines, software and CAATs.
- External QAR with General Conformance outcome.

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2.3 The Strategic Plan

SDBIP Objective	Strategic initiatives	2025/26	2026/27	2027/28
To promote achievement of a clean annual audit outcome for all the Municipalities in the District	IAF obtaining and maintain professional designations from the IIA.	Two Internal Auditors.	All qualifying Internal Auditors.	All qualifying Internal Auditors.
	IAF obtaining ICT expertise (internal or external).	External	Internal	Internal
	Fully resourced IAF, with tools of trade including machines, software and CAATs.	-	Upgrade of machines.	Upgrade of Software.
	External QAR with General Conformance outcome.	Completed State of readiness review.	Completed External QAR	-

2.4 SWOT Analysis

Strengths

- Two Internal Auditors have completed the IAT designation.
- One Internal Auditor is finalizing OC IAM designation.
- Provincial Treasury Internal Audit support can assist with ICT audit engagement, after formal request is issued and accepted.
- Early implementation of, and alignment to GIAS.

Weaknesses

- Financial resources for Continued Professional Development are not available, or is not sufficient for all interested officials.
- Four of the Internal Auditors are in need of new machines (laptops).
- Financial resources to procure services of an External Assessor is not available, due to high charges.

Opportunities

- Professionalizing the IAF and providing quality services to the organization.
- Supporting local municipalities and increasing services available.
- Increased revenue collection for Internal Audit shared services.

Threats

- Budget allocation not sufficient to not address IAF needs.
- Termination of Service level agreements by local municipalities.
- Inability to retain or obtain officials with professional qualifications and designations.

3. FINANCIAL ANALYSIS

The collected revenue for the Shared Services disclosed in the audited AFS for 30 June 2024 amounted to R2 689 186.00. Revenue collected for period ending 31 December 2024, amounted to R1 475 889.00.

The Shared Services expenditure can be offset from the collection of billed debtors. This requires the further strengthening of relations between the parties to the Shared Services, to enhanced and enable timely and complete revenue collection.

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4. REVIEWAL PERIOD

The CAE will review this Internal Audit Strategy with the Audit, Risk and Performance Committee in consultation with the Senior Management every three years, unless changes in requirements or significant contextual factors warrant an earlier review.

Factors that should be considered during the review of this Strategy, and in considering whether an earlier review may be warranted, include:

- changes in the organisational strategy, or significant changes in the maturity of its governance, risk management, and control processes
- changes in key policies and legislation that relate to internal audit and risk management, or other relevant laws and/or regulations
- changes in the internal audit team or the CAE
- results of internal and external assessments of the internal audit function.

Approval and acceptance

The John Taolo Gaetsewe District Municipality Internal Audit Strategy is hereby duly approved and accepted by the following signatories.

Duly accepted by:

Municipal Manager Date 19/06/2025

Duly approved by:

ARPC Chairperson Date 19/06/2025

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JOHN TAOLO GAETSEWE DISTRICT
INTERNAL AUDIT SHARED SERVICE

INTERNAL AUDIT METHODOLOGY
2025/2026

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1. INTRODUCTION

1.1 Introduction to the Audit Methodology

The internal audit function's methodology is established, to guide the internal auditor in a systematic and disciplined manner to implement the internal audit strategy, develop the internal audit plan, and conform with the Standards. The internal audit methodology supplements the Standards by providing specific instructions and criteria that help internal auditors implement the Standards and perform services with quality.

The Internal Auditor shall conform with the mandatory International Professional Practices Framework (IPPF), at all times. The IPPF comprise of

- ❖ Mandatory
  - Global Internal Audit Standards (GIAS)
  - Topical Requirements

- ❖ Supplemental
  - Global Guidance

1.2. Ethics and Professionalism

The principles and standards in the Ethics and Professionalism domain outline the behavioral expectations for professional internal auditors; including the chief audit executive, individuals and entities that provide internal audit services. Conformance with these principles and standards instills trust in the profession of internal auditing, creates an ethical culture within the internal audit function, and provides the basis for reliance on internal auditors' work and judgement.

All internal auditors are required to conform with the standards of ethics and professionalism.

Principle 1 Demonstrate Integrity
Internal Auditors demonstrate integrity in their work and behavior.
Standard 1.1 Honesty and Professional Courage
Standard 1.2 Organization's Ethical Expectations
Standard 1.3 Legal and Ethical Behavior

Principle 2 Maintain Objectivity
Internal auditors maintain an impartial and unbiased attitude when performing internal audit services and making decisions.
Standard 2.1 Individual Objectivity
Standard 2.2 Safeguarding Objectivity

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Standard 2.3 Disclosing Impairments to Objectivity

Principle 3 Demonstrate Competency
Internal auditors apply the knowledge, skills and abilities to fulfill their roles and responsibilities successfully.
Standard 3.1 Competency
Standard 3.2 Continuing Professional Development

Principle 4 Exercise Due Professional Care
Internal auditors apply due professional care in planning and performing internal audit services.
Standard 4.1 Conformance with Global Internal Audit Standards
Standard 4.2 Due Professional Care
Standard 4.3 Professional Skepticism

Principle 5 Maintain Confidentiality
Internal auditors use and protect information appropriately.
Standard 5.1 Use of Information
Standard 5.2 Protection of Information

2. Managing the Internal Audit Function

2.1. Plan Strategically

The GIAS and John Taolo Gaetsewe District Internal Audit Shared Services' Charter require the CAE to establish a risk-based approach to determine the priorities for internal audit activities. The strategic planning is a process that involves research and analysis of both internal and external environmental factors, consideration of organizational successes and failures, and the impact of the organization's past and present abilities to reach its goals.

Strategic Planning sets out the scope, conduct and timing of internal audit work over the three - year period.

The purpose of the Three-Year Audit Plan is to:

- Identify all the areas of municipal activity that require auditing over the three-year period.
- State how the municipality's key internal control systems, corporate governance arrangements and risk management processes will be reviewed.
- State how the Internal audit service will be provided, and establish the resources and skills required to meet audit objectives.
- Set out the relative allocation of resources between the work to obtain assurance on the internal control systems and any work to provide advice.

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- Assist the overall control and direction of the work.

The three-year plan objectives are driven by Internal Audit Function's recognition of the needs and opportunities to improve the audit function based on the mandate to support management in achieving its objectives.

The strategic audit planning process includes the following major audit planning activities:

- Defining the scope of work through the audit universe.
- Conducting an environmental analysis
- Identifying of the strategic objectives
- Developing the annual plan

2.2 Defining the Audit Universe

An audit universe is the list of identifiable areas of audit interest. These may include activities, projects, systems and processes. In determining the audit universe, a process based approached will be used.

A process is a list of activities carried out by the municipality with the purpose of achieving the common goal. Processes are measures implemented by management in order to achieve its objectives. In focusing on processes selected by management to deliver its mandate, Internal Audit Function will ensure that its resources are aligned with management objectives.

The audit universe will be reviewed annually and amended as new activities and programs are identified, together with changes in the existing organization. In addition to the changes within the operating units, we also consider changes in the overall environment within which the municipality exists. These environmental changes include such circumstances as new regulatory developments, new business processes, and new institutional priorities.

2.3 Conducting an environmental analysis

This step entails identification of factors that may impact on the Internal Audit Function's ability to deliver its mandate. The analysis will include review of the performance of the Internal Audit Function in executing the previous year's operational plan.

Resources required for the execution of the Internal Audit Three-year plan are analysed. The analysis will include identification of training required in order to ensure that sufficient skills and capabilities are available for the execution of the strategy.

A number of techniques that may be used to conduct the environmental analysis include:

a. PEST analysis - Considering Political, Economic, Social and technological issues that may impact on the internal audit's ability to achieve its objectives.

b. SWOT analysis – Consideration of Strengths, Weaknesses, Opportunities and Threats that may impact on the internal audit's ability to deliver its mandate.

2.4 Identifying of the strategic objectives

The identification of strategic objectives and development of strategies that must be implemented within the three-year period, in order to ensure that the Internal Audit Function is geared towards delivering its mandate of assisting management in achieving its objectives.
In this step the internal audit function will address the identified weaknesses and threats and take advantage of opportunities and strengths to improve on the unit's ability to deliver on its mandate.

The strategies developed must be in line with the vision, mission and values of the internal audit function; and aligned to the strategic objectives of the municipality.

The Three-Year plan must be approved by management and the audit, risk and performance committee. The Three-Year Audit Plan is reviewed each year so that it can be amended to reflect changing priorities and meet the emerging needs of the municipality.

2.5 Developing the annual plan

The development of the annual plan which entails the allocation of responsibilities and setting of target dates. The operational plan includes the actions that will be carried out in order to achieve the identified strategies.

2.5.1 The annual audit plan

The Internal Auditor prepares an Annual Audit Plan and Risk Assessment to help identify, measure, and prioritize potential audits based on the level of risk to Municipalities. The Risk Assessment results and input from Municipalities Leadership Team (management) is utilized in preparing the Annual Audit Plan. The purpose of the Annual Audit Plan is to outline the work to be performed and is designed to cover extreme and high-risk activities while limiting the scope of work to what can realistically be accomplished during the upcoming fiscal year.

The annual audit planning process includes the following major audit planning activities:

- Preparing the Audit Plan
- Presenting the Audit Plan

2.5.2 Preparing the Audit Plan

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In prioritizing auditable areas in the audit universe, the risk assessment is applied to all auditable areas of the audit universe and categorized as high risk, medium risk or low risk.

The auditable areas are allocated over a three-year audit cycle as follows:

- High risk areas are audited every year
- Medium risk areas are audited once every other year
- Low risk areas are audited once in a three-year cycle.

The annual audit plan lists auditable areas included in a particular year of the three-year cycle.

An annual audit plan will also include outstanding audits that could not be completed in the previous year.

The annual plan includes analysis of resources available in terms of man-hours. Any discrepancy must be discussed with management and the audit, risk and performance committee.

2.5.3 Presenting the Audit Plan

The final draft of the plan is discussed with the Audit, Risk and Performance Committee and Management Team. The final audit plan is presented to the Audit, Risk and Performance Committee for review and approval.

3. AUDIT PROCESS

3.1. Introduction

The John Taolo Gaetsewe District Internal Audit Shared Services will focus on all areas of the Municipality's operations which includes:

3.1.1. **Effectiveness of operations and controls** – Activities are performed adequately to produce the desired or intended results, and controls to mitigate risk are adequate and operating as intended.

3.1.2. **Efficiency of operations** – Activities are performed economically with minimum wasted effort or expense.

3.1.3. **Safeguarding of (assets) resources and information** – Prevention of loss of assets or resources, whether through theft, waste, or inefficiency, and protection of confidential information.

3.1.4. **Reliability of reported information and data** – Reports provide management with accurate and complete information appropriate for its intended purpose. It supports

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management's decision making and monitoring of the institution's activities and performance.

3.1.5. **Compliance with applicable policies, procedures, laws, and regulations** – Activities are conducted in accordance with relevant policies, procedures, laws and regulations.

The audit process encompasses the following three stages:

3.1.5.1. Plan engagements effectively (*Refer to Standards 13.1 to 13.6*)
3.1.5.2. Conduct engagement work (*Refer to Standards 14.1 to 14.6*)
3.1.5.3. Communicate Engagement Results and Monitor Action Plans (*Refer to Standards 15.1 to 15.2*)

3.2. Plan engagements effectively

The audit work begins with planning how an audit is to be executed. The Internal Auditor determines the appropriate and sufficient resources to achieve the engagements objectives based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources. Planning consists of researching the area or activity to be examined and identifying areas of intended audit focus.

In planning an audit, items that must be considered include:

- The objectives of the area/activity and the means by which the area/activity controls its performance;
- The criteria established by management to determine whether objectives and goals have been accomplished;
- The significant risks to the area/activity, its objectives, resources and operations and the means by which the potential impact of risk is kept to an acceptable level;
- The adequacy and effectiveness of the governance, risk management and controls processes compared to a relevant framework or model (best practices);
- The opportunities for making significant improvements to the governance, risk and control processes.

As required by GIAS, the Internal Auditor will apply the care and skills expected a reasonably prudent and competent auditor. Due professional care will be applied during each engagement by considering the:

- Extent of work needed to achieve the engagement's objectives;
- Relative complexity, materiality, or significance of matters to which assurance procedures are applied;
- Adequacy and effectiveness of governance, risk management, and control processes;
- Probability of significant errors, fraud, or noncompliance;

- ❖ Cost of assurance in relation to potential benefits;
- ❖ Using technology-based audit and other data analysis techniques;
- ❖ Significant risks that might affect objective, operation or resources.

Any deficiency in the necessary knowledge, skills or competency will be obtained prior to performing an engagement including evaluating the risk of fraud, key information technology risk and controls, and available technology-based audit techniques.

During audit planning, a detailed internal planning document should be prepared to include the results of the initial research of an area or auditable activity, and it should describe any specific issues or areas of focus.

The relevant systems, records, personnel, and physical properties should be considered when planning the scope of the audit. The detailed planning document should identify key risks, controls and related audit procedures and provide background information relating to the auditable area or activity that will assist the auditor during the audit.

- **Output**

The outputs of this phase are the project assignment(monthly plan), preliminary survey, and engagement letter and time budget, minutes of meetings.

3.2.1 System description

Prior to the start of fieldwork, the Internal Auditor will meet with representatives of the area under examination to communicate the details of the scope document and to discuss any questions or concerns, or any specific areas that they would like to have examined. This meeting also provides the Internal Auditor with a greater understanding of the area or activity to be audited.

A risks and controls matrix will be prepared to identify the relevant risks exposures (including the risk of fraud) and the corresponding controls used to mitigate those risks for the area/activity being audited. The controls reviewed may include those used to achieve strategic objectives, reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets, and compliance with laws, regulations, policies, procedures, and contracts. This analysis assists the Internal Auditor to focus audit work on organizational risks.

At the completion of this phase, the risks and controls matrix should be reviewed with the Municipal Manager or members of management and staff responsible for the area/activity being audited. This review validates the accuracy and completeness of the identified risks and mitigating key controls.

- **Output**

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The output of this phase is the signed system description.

3.2.2 Control adequacy assessment

A. Perform the Control Adequacy Assessment

Establish the Objective and Scope

- Confirm the significant risks from the objective and scope statement produced by the previous phase.
- Confirm the control strategies followed by the auditee for these significant risks.
- Establish the objective and scope of the control adequacy assessment.

Assess the Adequacy of the Existing Controls

- Determine the most appropriate controls for each significant risk.
- Identify and document the existing controls for each significant risk.
- Assess the adequacy of the existing controls for each significant risk. To do this, the internal auditor should consider whether the controls, if effective, would reduce the potential impact of the risk to a tolerable level for both the auditee and the internal auditor.

B. Develop and Confirm the Findings (if any)

Confirm an opinion on the adequacy of the existing controls based on the exceptions arising from the control adequacy assessment, by either:

- confirming the objective of the control adequacy assessment;
- agreeing with the auditee what will constitute adequate and efficient controls; or
- formulating a mutual opinion with the auditee, based on the finding.

C. Agree on an Opinion on the Adequacy of Control

The wording of the opinion should be as follows:

1) The existing controls are ***adequate*** to provide reasonable assurance that the activity will achieve its performance objectives (because risks that could have a significant impact on the activity achieving its objectives are now unlikely to have a significant impact) and are the most efficient. Proceed with control effectiveness assessment.

a) The existing controls are ***partially adequate*** to provide reasonable assurance that the activity will achieve its performance objectives (because some risks that could have a

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significant impact on the activity achieving its objectives are still likely to have a significant impact), but the controls in place are the most efficient. Proceed with control effectiveness assessment.

c) The existing controls are ***inadequate*** to provide reasonable assurance that the activity will achieve its performance objectives (because risks that could have a significant impact on the activity achieving its objectives are still likely to have a significant impact). Conclude at this stage of the audit.

d) The auditee ***has no controls to provide reasonable assurance*** that the activity will achieve its performance objectives. Conduct advisory audit engagement.

D. Report on Findings

After discussion with the key personnel or manager, all significant findings must be conveyed to the Departmental Head. If the scope of the audit project was to audit the system for adequacy only and not effectiveness, a report on the adequacy of the system must be prepared. *Refer to chapter on reporting.*

- **Output**

The output of this phase is an opinion on the adequacy of existing internal controls documented in the control adequacy working paper.

3.3 Conduct engagement work

A. Design an Audit Program

The designing of an audit program entails:

- indicating the process that is the subject of the evaluation;
- The list of audit procedures to be followed; and detailing the sample sizes, items to select, and the timing of the tests.

B. Decide on the Sample Size

Once the internal auditor has decided what information is needed to form an opinion and what method to be used in obtaining the required information, the internal auditor should then decide how many items to look at. The number of items is a matter of professional judgment.

Audit sampling consists of the following steps:

- Determine the population; and
- Decide on the appropriate strategy.

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C. Determine the Population

The internal auditor first needs to determine the information from which to select items for examination commonly referred to as the population. The internal auditor would have done this when establishing the audit test objectives and scope.

D. Decide the Appropriate Strategy

By definition, the option of testing all items in a population does not involve sampling because each item in the population is examined. Similarly, where no items in the population are examined, no sampling is involved. The overriding factor in deciding on a selection strategy is that the internal auditor must be satisfied that the results obtained give sufficient, competent, relevant and useful information for the audit assignment, and should convince any reasonable person that the opinion of the internal auditor is substantiated.

E. Audit Sampling

This is the application of a procedure to less than 100% of the population, to enable the internal auditor to evaluate evidence of a characteristic of the population and to form a conclusion about the characteristic of the population as a whole. Sampling can be either statistical or non-statistical. The choice between the two methods will depend on the internal auditor's professional judgment and the specific circumstances that exist.

F. Determine the Sample Size

In determining the required sample size, the internal auditor must decide on the assurance required, the tolerable error and the expected error. The sample size is determined by the sample risk, namely: the lower the risk has to be, the greater the sample size has to be. The **minimum** number is 50 items for the sample. If the population is less than 50 items, the whole 100% population should be audited.

G. Sample Selection Methods

For the auditor to form a valid conclusion, the sample must represent the whole population. In applying sampling techniques, there are four selection methods available:

- Random
- Systematic
- Value-weighted
- Haphazard

H. Evaluate the Results

Once the tests have been concluded, the internal auditor needs to evaluate the results by comparing the actual errors found with the tolerable error. If the actual error is less than the tolerable error, the internal auditor can conclude that the test objective was met. If the actual error exceeds the tolerable error, he should evaluate further.

- **Output**

The output of this phase is the audit program and sample size/selection.

3.3.1 Audit Execution and Effectiveness Assessment

The objective of this phase is to formulate and agree on an opinion on the effectiveness of the existing key controls. This phase is achieved by evaluating the effectiveness of existing key controls for the significant threats identified.

- ***Steps to be followed during this Phase:***

A. Establish and Agree the Objective and Scope

- Confirm the audit area for the control effectiveness assessment.
- Confirm the key controls that must be assessed from the objective and scope statement produced by the control adequacy assessment.
- Agree the objective and scope of the control effectiveness assessment with the auditee.

B. Assess the Effectiveness of the Existing Controls

- Determine the required level of effectiveness for each existing key control.
- Determine the actual level of effectiveness for each existing key control.
  Assess the level of effectiveness for each key control by comparing the actual level with the required level.
- Evaluate the sample results.

C. Develop and Confirm the Findings

Confirm an opinion on the adequacy and effectiveness of the existing controls based on the exceptions arising from the control effectiveness assessment, by either:

- confirming the objective of the control effectiveness assessment;
- agreeing with the auditee what will constitute effective, partially effective and not effective controls;
- formulating a mutual opinion with the auditee, based on the finding.

D. Possible Audit Opinions:

1. *The existing controls are effective*, i.e. they provide reasonable assurance that the activity will achieve its strategic objectives (because risks that could have a significant impact on the activity achieving its objectives are now unlikely to have a significant impact).
2. *The existing controls are partially effective*, i.e. they partially provide reasonable assurance that the activity will achieve its strategic objectives (because some risks that could have a significant impact on the activity achieving its objectives are still likely to have a significant impact).
3. *The existing controls are not effective*, i.e. they do not provide reasonable assurance that the activity will achieve its strategic objectives.

Remember that the internal auditor is providing an opinion on the **effectiveness of the controls** and not on the achievement of the strategic performance objectives themselves. The internal auditor will only give an opinion on the achievement of the audit area's performance objectives after carrying out an assessment on the quality of performance. The difference may appear subtle, but it is fundamental. To form an opinion on the controls requires an **examination of the risks and controls**. However, to determine if an audit area has achieved its objectives would require an examination of the activities, transactions and data that the audit area uses on a daily basis.

E. Audit Findings Report (Informal Exceptions**)**

An audit findings report must be completed after the performance of each audit program step. The following should be documented in this report:

- objective of the audit step conducted;
- finding of the audit step conducted;
- impact of the finding;
- Feasible and practical recommendations; and
- Conclusion concerning the objective of the audit step and findings.
- Acceptance or non-acceptance of risks by management

Findings can arise from any phase of the audit assignment; each finding should have:

- the (standard)Criteria
- the actual finding
- Route cause from management
- the effect or impact; and
- the recommended corrective action.

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F. Report on Findings

After discussion with the Manager, all significant findings must be conveyed to the engagement client's management. *Refer to Phase 6 on reporting.*

G. Decide the next Phase

- Decide what further audit work should be undertaken.
- Difference of opinion to be communicated to the audit, risk and performance committee and/or executive managers.

H. Update the Risk universe and the Long-term coverage Plan

The Head of Internal Audit must review all significant findings and where necessary, update the risk database and long-term plan.

- **Output**

The output of this phase is the executed audit program(completed working papers) and audit findings (issue viewer).

3.4. Reporting

3.4.1 Management letter

At the conclusion of fieldwork for each audit, the **Internal Auditor** will prepare a management letter with the significant findings and observations including any significant risk exposures and control issues, fraud risks, or governance issues identified during the audit. Management will be given an opportunity to respond on the report within a timeframe as agreed with the Internal Auditor but for a period of three (3) working days, not exceeding five (5) working days.

3.4.2 Draft audit report

After receiving the management letter back, the **Internal Auditor** will prepare a draft audit report. The purpose of the draft audit report will be the main source for the final audit report. During this phase the Internal Auditor should assess management's responses and additional evidence, and conclude on the individual findings as presented in the management letter.

The final draft audit report will be provided to the Municipal Manger, management staff responsible for the activity under examination for review and to assess the accuracy of the facts presented. A closing meeting will be held to discuss and correct any factual errors found in the draft report, and to finalize any comments or considerations to be included in the final report.

3.4.3 Final audit report

The final report should be accurate, objective, clear, concise, constructive, complete, and timely.
The report should include the audit objectives, the scope of audit work performed, an overview of the business or activity, an opinion on the adequacy of the internal controls, conclusions regarding significant finding and observations, and recommendations to management to address any issues found. The report should also acknowledge when satisfactory performance is determined.

Once the report is finalized, and management had provided a written response to each recommendation made, the report will be presented to the audit, risk and performance committee. Any minor issues identified during the audit that did not warrant being included in the audit report may be discussed at the closing meeting for management's consideration. These minor closing meeting items will not require a written management response.

A finalized report with management's response will be presented to the Council through the Audit, Risk and Performance Committee during the course of their regularly scheduled meetings. The report presented may be a summary report, which will include all significant findings, observations, and recommendations. However, the summary public report will exclude any confidential information such as employee numbers that may have been included in a more detailed report to management.

Any instances where management has accepted a level of risk that may be unacceptable to the organization will be disclosed in the summary report. Any detailed reports not provided publicly will be made available to the Audit, Risk and Performance Committee and Council members upon request.

When quality assessment verifies that GIAS have been met for the audit engagement, the following statement will be included in the report: "This audit was conducted in conformance with the Global Internal Audit Standards for the Professional Practice of Internal Auditing prescribed by the Institute of Internal Auditors."

When quality assessment determines nonconformance with GIAS, the following will be disclosed in the report:

a) The specific areas of nonconformance.
b) The reasons for nonconformance.
c) The impact of nonconformance on the engagement and the communicated engagement results.

Before releasing an internal audit report publicly, the Internal Auditor will consider the following:

- Assess the potential risk to the organization;
- Consult with management and legal counsel;
- Control dissemination by restricting the use of the results.

Once the final report has been issued, it is included in the audit file together with the documentation of all relevant work performed.
If an audit report that has been issued is later found to contain a significant error or omission, the Head of Internal Audit will provide corrected information to all parties that received the original report.

At the completion of each audit, the Internal Auditor should provide the Head of Department/Manager or key personnel responsible with a feedback survey (Customer Satisfaction survey) on the quality of the audit process. Results of this survey must be reported to the Audit, Risk and Performance Committee on a quarterly basis.

3.4.4 Annual audit report

At the end of the financial year, the Head of Internal Audit will prepare an annual audit report with a summary of significant findings and observations including any significant risk exposures and control issues, fraud risks, or governance issues identified during the year for all audit engagements.

- **Output**

The output of this phase is the annual audit report, based on the issued management letters, draft audit reports, final audit reports, and minutes of closing meetings.

3.5. Engagement Quality Assessment

The purpose of the Engagement Quality Assessment process is to provide verification that the work performed by the Internal Auditor meets the requirements outlined in this policy and is in compliance with GIAS. A quality assessment checklist will be completed at the conclusion of each audit to verify compliance with the policy and GIAS.

- **Output**

The output of this phase is the signed off quality assessment checklist.

3.6. Follow-up

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Follow-up work is performed after the completion of an audit. It entails the Internal Auditor reviewing recommendations with management and determining whether the weakness in procedures or processes identified have been adequately corrected in accordance with the management response and committed timelines. In addition, the Internal Auditor will also follow up any recommendations issued by external auditors or the actuary.

All recommendations arising from the internal and external auditors and the actuary are summarized in an audit recommendations Excel file maintained by the Internal Auditor. The file is continuously updated with the implementation status of the recommendations. Any information obtained as part of the follow up process, is electronically retained in a Follow Up file on teammate. Quarterly a formal review of all recommendations' status will be completed and presented to the Audit, Risk and Performance Committee and the Council when there are recommendations outstanding that still need to be properly implemented.

- **Output**

The output of this phase is the updated recommendations tracking tool (follow up spreadsheet) and Follow-up report.

4. GOVERNANCE AND ADVISORY ACTIVITIES

4.1. Introduction

The GIAS has several requirements regarding governance and advisory activities performed by the internal audit function. This section provides operating procedures for the Internal Auditor to follow, to comply with these requirements.

4.2. Governance

The GIAS state that the internal audit function must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

4.2.1. Promoting appropriate ethics and values within the organization;
4.2.2. Ensuring effective organizational performance management and accountability;
4.2.3. Communicating risk and control information to appropriate areas of the organization;
4.2.4. Coordinating the activities of and communicating information among the Council, Audit, Risk and Performance Committee, external and internal auditors, and management.

The GIAS also state that the internal audit function must:

- evaluate the design, implementation, and effectiveness of the organization's ethics related objectives, programs, and activities.
- assess whether the information technology governance of the organization supports the organization's strategies and objectives.

The Internal Auditor will consider and assess these governance requirements during assurance and advisory engagements when appropriate, and make recommendations to address any deficiencies identified.

- **Outputs**

The outputs would be the signed off working paper during the management and planning phase.

4.3. Advisory Engagements

The GIAS defines advisory services as advice from the Internal Auditor to an organisation's stakeholders without providing assurance or taking on management responsibilities. The nature and scope are subject to agreement with relevant stakeholders. Examples include counsel, advice, facilitation, and training.

As required by the GIAS, the Internal Auditor will establish an understanding of the advisory engagement's objectives, scope, respective responsibilities and expectations. The Internal Auditor's objectives will address governance, risk management, and control process to the extent expected by management, and Audit, Risk and Performance Committee. The scope of the advisory engagement will be sufficient to meet the objectives. If the engagement's objectives are not consistent with Municipalities' values, strategies, and objectives, it will be declined.

As required by the GIAS, the Internal Auditor will also consider accepting other proposed advisory engagements based on the engagement's potential to improve management of risks, add value, and improve the organization's operations. The Internal Auditor will exercise due professional care during advisory engagements by considering the:

- needs and expectations of Municipalities' management, Audit, Risk and Performance Committee and Council members, including the nature, timing, and communication of engagement results;
- relative complexity and extent of work needed to achieve the engagement's objectives;
- cost of the advisory engagement in relation to potential benefits.

During advisory engagements, the Internal Auditor will:

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- address risk consistent with the engagement's objectives and be alert to the existence of other significant risks;
- incorporate knowledge of risks and controls gained from advisory engagements into the evaluation of the organization's risk management and control processes;
- refrain from assuming any management responsibility.

Based on the nature of the advisory engagement, appropriate work programs or documentation will be created and maintained. The Internal Auditor will notify management and the Audit, Risk and Performance Committee of any significant governance, risk management and control issues identified during the engagements.

The Internal Auditor will decline advisory engagements or obtain competent advice and assistance if lacking the knowledge, skills, or other competencies needed to perform all or part of the engagement.

5. QUALITY ASSURANCE AND ADMINISTRATION

5.1. Introduction

The purpose of this section is to provide information regarding the Internal Auditor's quality assurance procedures, professional development, and administrative duties regarding records maintenance and retention.

5.2. Quality Assurance and Improvement Program (QAIP)

The purpose of the Quality Assurance and Improvement Program (quality assurance) is to provide reasonable assurance to the various stakeholders of the Internal Audit function that Internal Audit:

1) Performs its work in accordance with its Charter, which is consistent with the GIAS;
(2) Operates in an effective and efficient manner; and
(3) Is perceived by stakeholders as adding value and improving Internal Audit's operations. To that end, Internal Audit's QAIP will cover all aspects of the Internal Audit function. In this regard, a list of the features to be considered for the QAIP.

Elements of the QAIP

1. Ongoing Monitoring

This will be implemented through Supervision of engagements

- Regular, documented review of work papers during engagements by appropriate Internal Audit staff;

- Audit Policies and Procedures used for each engagement to ensure compliance with applicable planning, fieldwork and reporting standards;
- Completion of a quality assessment checklist; and
- Peer review of audit files.

2. Periodic self-assessment

Periodic assessments are designed to assess conformance with Internal Audit's Charter, the *GIAS*, and the efficiency and effectiveness of internal audit in meeting the needs of its various stakeholders. Periodic assessments will be conducted through:

- Assessing the results of on-going monitoring;
- Assessing the results of customer survey's;
- Annually completing a self-assessment and reporting the results thereof to the Municipal Manager and the Audit, Risk and Performance committee.

3. External assessment

A. General Considerations – External assessments will appraise and express an opinion about internal audit's conformance with the *GIAS*, and include recommendations for improvement, as appropriate.

B. Timing – An external assessment will be conducted once every five years.

C. Scope of External Assessment – The external assessment will consist of a broad scope of coverage that includes the following elements of Internal Audit function:

- Conformance with the *GIAS*, and internal audit's Charter, plans policies, procedures, practices, and any applicable legislative and regulatory requirements.
- Expectations of Internal Audit as expressed by the audit, risk and performance committee, senior management, and operational managers.
- Integration of the Internal Audit function into the municipality's governance process, including the audit relationship between and among the key groups involved in the process.
- Tools and techniques used by Internal Audit function.
- The mix of knowledge, experiences, and disciplines within the staff, including staff focus on process improvement.
- A determination whether Internal Audit adds value and improves the municipality's operations.

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D. **Considerations** – The qualifications and considerations of external reviewers as noted in The IIA's Practice Advisory will be considered when contracting with an outside party to conduct the review.

5.3 Reporting on Quality Improvement Program

A. **Internal Assessments** – Results of internal assessments will be reported to the Audit, Risk and Performance Committee and to the senior management at least annually.

B. **External Assessments** – Results of external assessments will be provided to the senior management and the Audit, Risk and Performance Committee. The external assessment report will be accompanied by a written action plan in response to significant comments and recommendations contained in the report.

C. **Follow-up** – The CAE will implement appropriate follow-up actions to ensure that recommendations made in the report and action plans developed are implemented in a reasonable timeframe.

5.4. Annual Review of Audit Charter and Organizational Independence

The GIAS require the CAE to periodically review the internal audit charter and present it to senior management and the Audit, Risk and Performance Committee for approval. The GIAS also require the CAE to confirm the organizational independence of the internal audit function to the Audit, Risk and Performance Committee at least annually.

Annually the Internal Auditor will review the Internal Auditor Charter and the organizational independence of the internal audit activity, and confirm compliance with GIAS in a report to management, the Audit, Risk and Performance Committee, and the Council. Recommendations will be provided to correct any noncompliance issues identified.

5.5. Professional Development

The Internal Auditor is committed to maintaining sufficient knowledge, skills, experience, and professional certifications to best fulfill the mission of the Internal Audit Activity. The internal auditor will obtain a maximum of 40 hours of continuing professional education (CPE) every two years, with a minimum of 20 hours in any given year. A variety of CPE course topics will be taken to maintain or gain the knowledge necessary for current engagements, and to meet the CPE requirements for the following certifications:

- Certified Internal Auditor (CIA)
- Professional Internal Auditor (PIA) or Occupational Certificate: Internal Audit Manager
- Internal Audit Technician (IAT) or Occupational Certificate: Internal Auditor

The Internal Auditor will also develop knowledge through memberships in professional organizations and attendance at industry conferences, which will also fulfill CPE requirements. The Internal Auditor will maintain memberships with the following audit organizations including but not limited to:

- The Institute of Internal Auditors of South Africa (IIASA)

5.6. Retention and Custody of Records

An audit file consists of all documentation that has been gathered during the course of the assurance or advisory engagement. In order to determine whether documentation is retained, consideration is given to the quality, usefulness, and relevancy of the materials.

At a minimum, there should be sufficient, relevant and reliable documentation to be able to provide justification for the assessment and conclusion within audit reports and Internal Auditor staff reports. All documentation is to be electronically filed on the Teammate Audit Software.

Physical files are maintained in the Internal Auditor's office and electronic files are located on the Internal Auditor's "T" drive, which must be backed-up daily by the IT unit. Files should be retained for a minimum of 5 years.

REVIEW PERIOD

This policy will be reviewed as and when there are changes in the legislation, framework and standards, but at least annually.

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