INTERNAL AUDIT POLICY FOR THE JOHN TAOLO GAETSEWE DISTRICT MUNICIPALITY

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SIGNATURE OF THE MUNICIPAL MANAGER

SIGNATURE OF THE SPEAKER

Ms P Q Mogatle

Speaker

JOHN TAOLO GAETSEWE DISTRICT

INTERNAL AUDIT SHARED SERVICE

INTERNAL AUDIT POLICY

2020/2021

Ms P Q Mogatle

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1. INTRODUCTION

1.1 Introduction to the Audit Manual

The purpose of the Internal Audit Policies and Procedures Operating Manual is to provide a written summary of the audit processes employed by the Internal Auditor. It provides guidance for the planning, execution, reporting and follow up procedures performed by the Internal Auditor.

1.2. Objective and Scope of Audit Services

The mission of the Internal Auditor is to provide independent and objective assurance and consulting activity designed to add value and improve John Taolo Gaetsewe District operations and help John Taolo Gaetsewe District accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The scope of work is to assist the Audit and Performance Committee and the Council of Administration to fulfill its oversight responsibilities for John Taolo Gaetsewe District by evaluating whether John Taolo Gaetsewe District ' risk management, control, and governance processes and information systems are appropriately designed and operating as intended to manage key risks.

1.3. Authority

The Internal Auditor derives authority to conduct audits from the John Taolo Gaetsewe District Internal Audit Shared Service Charter. The Internal Auditor Charter defines the purpose, authority, and responsibility of the Internal Auditor's activities. The Internal Auditor is authorized to engage in independent audit programs, risk assessments, and to coordinate audit efforts with external auditors.

The Charter establishes the Internal Auditor's position within the organization and allows unrestricted access to John Taolo Gaetsewe District' records for any matter within the Internal Auditor's scope of responsibilities.

1.4. Independence and Objectivity

The IIA Standards require that the internal audit activity be independent and internal auditors be objective in performing their work. For independence, the chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities.

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John Taolo Gaetsewe District' Council appoints the Internal Auditor who serves at the pleasure of the Council, and the Internal Auditor reports directly to the Council through the Audit and Performance Committee.

This reporting structure is appropriate for the Internal Auditor's independence, and it allows the Internal Auditor to be free from interference in determining the scope of auditing, performing work, and communicating results as required by IIA Standards.

The Internal Auditor will have opportunities to meet with and report to the Audit Committee and the Council at least four times a year. In addition to presenting the results of audits, the Internal Auditor will provide status reports of other activities performed subsequent to the last meeting.

In order to maintain independence and objectivity, the Internal Auditor must have an impartial, unbiased attitude and avoid any conflict of interest, and must not perform audits under the following instances:

- Any situation that involves a member of the auditor's immediate family.
- Any activity that the auditor previously performed or supervised unless a reasonable period (a minimum of 1 year) has elapsed.
- Any activity to which the auditor previously provided advisory services unless a reasonable period (a minimum of 1 year) has elapsed.
- Any activity that the auditor has authority over or has responsibility for.
- Any situation in which other conflict of interest or bias is present or may reasonably be inferred. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the Internal Auditor.

To ensure compliance with IIA independence requirements, the Internal Auditor will document whether or not any impairment exists for conducting the current Audit Plan by signing *the Internal Auditor's Independence Statement* at the beginning of each audit assignment. While the Internal Auditor's function is independent from all other areas of John Taolo Gaetsewe District Internal Audit Shared Service' operations, situations may arise whereby there is an apparent or actual impairment to independence and objectivity. In those circumstances, the Internal Auditor will report the apparent or actual impairment to the Audit and Performance Committee Chair. The Audit and Performance Committee Chair will take action when necessary to resolve the issue. In those situations whereby the independence and objectivity of the Audit and Performance Committee Chair may also be impaired, the facts will be reported to the MPAC Chair or Council which is not impaired to resolve the issue.

1.5. Conformance with IIA Code of Ethics – Principles and Rules of Conduct

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The Internal Auditor follows the Institute of Internal Auditors (IIA) code of ethics, and will apply and uphold the following IIA principles and rules of conduct:

1.5.1. Principles and Rules of Conduct

1.5.1.1. Integrity

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

The Internal Auditor shall:

- perform work with honesty, diligence, and responsibility;
- observe the law and make disclosures expected by the law and the profession;
- not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization;
- respect and contribute to the legitimate and ethical objectives of the organization.

1.5.1.2. Objectivity

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.

The Internal Auditor shall:

- not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization;
- not accept anything that may impair or be presumed to impair their professional judgment;
- disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

1.5.1.3. Confidentiality

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

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The Internal Auditor shall:

- be prudent in the use and protection of information acquired in the course of their duties;
- not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

1.5.1.4. **Competency**

Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

The Internal Auditor shall:

- engage only in those services for which the Internal Auditor has the necessary knowledge, skills, and experience;
- perform internal audit services in accordance with IIA Standards;
- continually improve proficiency and the effectiveness and quality of their services.

2. STRATEGIC PLANNING AND RISK ASSESSMENT

2.1. Introduction

The IIA Standards and John Taolo Gaetsewe District Internal Audit Shared Service' 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.

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

The purpose of the Strategic Audit Plan is to:

- Identify all the areas of Council activity that require auditing over the three year period.
- State how the Council'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.

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- Set out the relative allocation of resources between the work to obtain assurance on the internal control systems and any work to provide advice.
- Assist the overall control and direction of the work.

The Strategic plan objectives are driven by Internal Audit Unit'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 Unit 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 unit's ability to deliver its mandate. The analysis will include review of the performance of the Internal Audit Unit in executing the previous year's operational plan.

Resources required for the execution of the Internal Audit Strategic 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:

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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 Unit is geared towards delivering its mandate of assisting management in achieving its objectives.
In this step the internal audit unit 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 unit.

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.

The strategic plan must be approved by management and the audit committee.

The Strategic Audit Plan is reviewed each year so that it can be amended to reflect changing priorities and meet the emerging needs of the Council

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 outlined in the chapter 7 that follows 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 committee.

2.5.3 Presenting the Audit Plan

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

3. AUDIT PROCESS

3.1. Introduction

The in John Taolo Gaetsewe District Internal Audit Shared Service services will focus on all areas of the Municipalities 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 resources and information** – Prevention of loss of assets or resources, whether through theft, waste, or inefficiency, and protection of confidential information.

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3.1.4. **Reliability of reporting and data** – Reports provide management with accurate and complete information appropriate for its intended purpose. It supports management's decision making and monitoring of the entity'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 five stages:

3.1.5.1. Management and Planning
3.1.5.2. System description
3.1.5.3. Control adequacy assessment
3.1.5.4. Control effectiveness assessment
3.1.5.4. Reporting
3.1.5.5. Follow-up and finalise

3.2. Management and Planning

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:

3.2.1. The objectives of the area/activity and the means by which the area/activity controls its performance;
3.2.2. The criteria established by management to determine whether objectives and goals have been accomplished;
3.2.3. 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;
3.2.4. The adequacy and effectiveness of the governance, risk management and controls processes compared to a relevant framework or model (best practices);
3.2.5. The opportunities for making significant improvements to the governance, risk and control processes.

As required by IIA Standards, 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;

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- 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 is the project assignment, preliminary survey, and engagement plan and time budget, minutes of meetings.

3.3. 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.

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- **Output**

The outputs of this phase is the signed system description.

3.4 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.

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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 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.

c) The existing controls are ***not 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 still likely to have a significant impact).

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

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 working paper.

3.5 Control effectiveness assessment

A. Design an Audit Programme

The designing of an audit programme 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 30 items for the sample. If the population is less than 30 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

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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, he 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 Four is the audit programme and sample size/selection.

3.6 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. The phase achieves this 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 as indicated in 5.2.6.

C. Develop and Confirm the Findings

Confirm an opinion on the adequacy and efficiency of the existing controls based on the exceptions arising from the control adequacy 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.

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D. Possible Audit Opinions:

1. *The existing controls are effective*, i.e. they 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).
2. *The existing controls are partially effective*, i.e. they partially provide reasonable assurance that the activity will achieve its performance 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 --performance objectives.

Remember that the internal auditor is providing an opinion on the effectiveness of the controls and not on the achievement of the 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 performance 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 programme 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.
- Develop audit engagement performance measures and standards for the audit assignment.
- Difference of opinion to be communicated to the audit committee and/or executive managers.

H. Update the Risk register 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 Five is the executed audit programme and audit findings.

This stage of the audit process involves executing the procedures described in the scope documents. Consideration is given to the underlying risks of the business or activity being reviewed and how those risks are managed or mitigated. The Internal Auditor evaluates whether the policies, procedures, and processes are appropriate in the circumstances and whether they are operating as intended.

The Internal Auditor will obtain a sufficiently detailed explanation of the business process from the Municipality staff. This process will be documented in the working paper files. Such documentation may take the form of a narrative description, a flowchart depiction, or a combination of both when appropriate.

Tests of operating effectiveness will also be performed. For the automated processes, it is considered appropriate and sufficient to perform a single walkthrough as results should not differ without human intervention. However, in those situations whereby the process is manual and subject to human intervention, additional testing is required.

The samples for testing control activities should be independently selected. Where possible, the population of items to be considered for testing should be obtained from a source that is independent of the area audited.

The sample size should be determined as the lesser of 10% of the population or 30 items, or based on a statistical sampling model when appropriate. In selecting the sample, the following sampling approaches may be used:

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- Simple Random Sampling – A sampling method where all items have an equal chance of being selected. The sample should be selected without intentional bias to include or exclude certain items in the population. A random number generator may be used to select the sample.
- Stratified Random Sampling – A method of sampling that involves the division of a population into smaller groups formed based on shared attributes or characteristics. A random sample from each group is taken in a number proportional to the group's size when compared to the population. These sample subsets are then pooled to form a random sample.
- Judgment Selection – A sampling method that is based on professional judgment. The following considerations may be used to determine items to be selected:

  - Value of items. Items that represent larger values or more significant transactions are selected.
  - Relative risk. Items prone to error due to their nature or complexity are given special attention.
  - Representativeness. Besides value and risk considerations, the auditor should be satisfied that the sample provides breadth and coverage over all types of items in the population.

The basis for selecting items for testing should be documented within the audit working paper files.

When assessing the adequacy of the business control process, the Internal Auditor should consider whether the following control objectives have been met:

- Authorization – Controls should include processes and procedures to ensure that only authorized transactions take place.
- Validity – All recorded transactions should be valid. The internal control process should include processes and procedures to preclude the inclusion of fictitious or non-existent transactions in the books and records.
- Completeness – The control processes and procedures must prevent the omission of transactions from the records.
- Valuation and Risk Measurement – Internal controls must include policies, processes and procedures that prevent errors in measuring and recording transaction amounts and the resulting risks.

In general, if errors or omissions are noted during the initial walkthroughs or testing (audit findings), further testing should be performed to determine whether the errors were isolated in nature or whether there is a more systemic problem inherent to the control environment. The potential issues identified should be discussed with Municipalities' staff to validate the factual accuracy, to determine root cause, and to identify any compensating controls.

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Root Cause Analysis is an integral part of the audit process used when assessing the impact of audit findings. It is used to identify why the issue occurred so that an appropriate recommendation can be made to resolve the control gap. It will ultimately improve the longer-term effectiveness and efficiency of business processes and thus, the overall governance, risk, and control environment.

During fieldwork, the Internal Auditor should identify, analyze, evaluate and document sufficient, reliable, relevant, and useful information to achieve the audit objectives. This evidence gathered will be documented in the working papers and used as the basis for the conclusions made and the reported results of the audit.

The risks and controls matrix created during the planning stage should be updated during fieldwork as information is gathered to accurately reflect the key risks and the mitigating controls, and the scoping documents should be updated to reflect the actual audit procedures used and deemed necessary. At the conclusion of fieldwork, the procedures performed to test the controls and the potential audit findings to be included in the draft audit report are summarized and cross-referenced to the detailed working papers.

3.6. Reporting

3.6.1 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 not exceeding five (5) working days.

3.6.2 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 that will be the main source for the final audit report. During this phase the Internal Auditor should assess management's responses and conclude on the individual findings as presented in the management letter.

3.6.3 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

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address any issues found. The report should also acknowledge when satisfactory performance is determined.

The final draft audit report will be provided to the Municipal Manger, management staff responsible for the activity under examination, and legal counsel 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. Legal council will provide guidance on any potential legal implications derived from the contents of the report that will limit the distribution of the results.

Once the report is finalized, management will provide a written response to each recommendation made. 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 Audit and Performance Committee and the Council through the audit 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 social security 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 publically will be made available to the Audit and Performance Committee and Council members upon request.

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

When quality assessment determines nonconformance with IIA Standards, the definition of Internal Auditing, or the code of ethics for a specific engagement, 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.

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Before releasing an internal audit report publically, 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 working paper 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 Internal Auditor 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 on the quality of the audit process. Results of this survey must be reported to the Audit and Performance Committee on a quarterly basis.

- **Output**

The output of this phase is the management letter, draft audit report, final audit report and minutes of closing meeting.

3.7. 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 IIA Standards. A quality assessment checklist will be completed at the conclusion of each audit to verify compliance with the policy and IIA Standards.

- **Output**

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

3.8. Follow-up

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 follows 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

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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 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 audit follow up spreadsheet.

4. GOVERNANCE AND CONSULTING ACTIVITIES

4.1. Introduction

The IIA Standards has several requirements regarding governance and consulting activities performed by internal audit activity. This section provided operating procedures for the Internal Auditor to follow to comply with these requirements.

4.2. Governance

The IIA Standards state that the internal audit activity 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, external and internal auditors, and management.

The IIA Standards also state that the internal audit activity 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 consulting engagement when appropriate and make recommendations to address any deficiencies identified.

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- **Outputs**

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

4.3. Consulting Engagements

The IIA defines consulting service activities as advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training.

As required by IIA Standards, the Internal Auditor will establish an understanding of the consulting 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 Committee and Board members. The scope of the consulting 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 IIA Standards, the Internal Auditor will also consider accepting other proposed consulting 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 consulting engagements by considering the:

- needs and expectations of Municipalities' management, Audit 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 consulting engagement in relation to potential benefits.

During consulting engagements the Internal Auditor will:

- 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 consulting 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 consulting engagement, appropriate work programs or documentation will be created and maintained. The Internal Auditor will notify management

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and the Audit and Performance Committee of any significant governance, risk management and control issues identified during consulting engagements.

The Internal Auditor will decline consulting 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 activity that Internal Audit:

1) Performs its work in accordance with its Charter, which is consistent with The Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing (*Standards)*, Definition of Internal Auditing and Code of Ethics;
(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 activity (1300). In this regard, a list of the features to be considered for the QAIP

Elements of the QAIP

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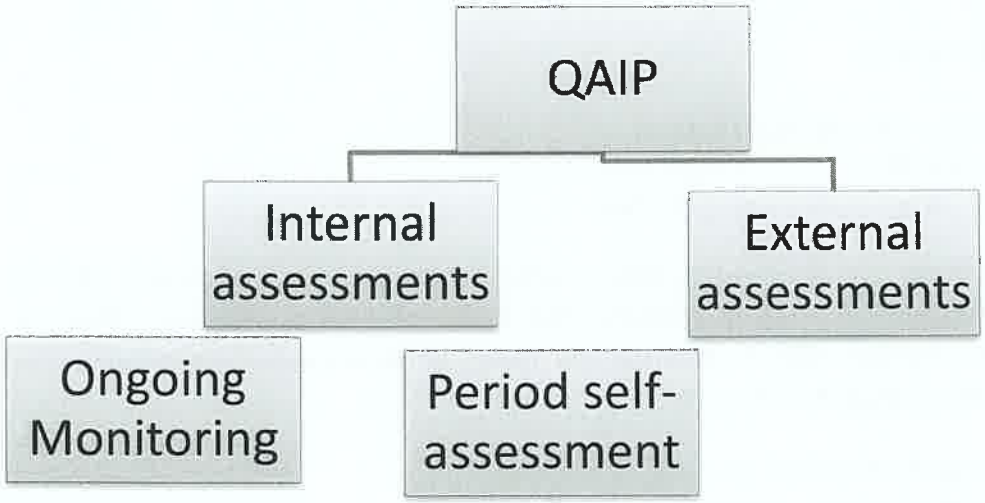

1. **Ongoing Monitoring**

The objective is to address the following standards:

2200: Engagement planning
2300: Performing the engagement
2400: Communicating results
2500: Monitoring progress

- 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.
- Peer review of audit files.

2. **Periodic self-assessment**

The objective of the self-assessment is to address the following standards:

Attribute Standards:

1000: Purpose, Authority, and Responsibility
1100: Independence and Objectivity
1200: Proficiency and Due Professional Care
1300: Quality Assurance and Improvement Program

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Performance Standards:

2000: Managing the Internal Audit Activity
2100: Nature of Work
2600: Communicating the Acceptance of Risk

Periodic assessments are designed to assess conformance with Internal Audit's Charter, the *Standards*, Definition of Internal Auditing, the Code of Ethics, 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 and performance committee.

3. External assessment

A. General Considerations – External assessments will appraise and express an opinion about internal audit's conformance with the *Standards*, Definition of Internal Auditing and Code of Ethics and include recommendations for improvement, as appropriate.

B. Timing – An external assessment will be conducted 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 activity:

- Conformance with the *Standards*, Definition of Internal Auditing, the Code of Ethics, 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 and performance committee, senior management, and operational managers.
- Integration of the Internal Audit activity 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.
- 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 municipalities operations.

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D. **Considerations** – The qualifications and considerations of external reviewers as noted in The IIA's Practice Advisory 1312-1 will be considered when contracting with an outside party to conduct the review.

REPORTING ON QUALITY PROGRAM

A. **Internal Assessments** – Results of internal assessments will be reported to the Audit 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 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.

5.3. Annual Review of Audit Charter and Organizational Independence

The IIA Standards require the chief audit executive to periodically review the internal audit charter and present it to senior management and the Audit and performance Committee for approval. The IIA Standards also require the chief audit executive to confirm the organizational independence of the internal audit activity to the Audit 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 IIA Standards in a report to management, the Audit and Performance Committee, and the Council. Recommendations will be provided to correct any noncompliance issues identified.

5.4. 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 minimum of 80 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)

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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 (IIA)

5.5. Retention and Custody of Records

An audit file consists of all documentation that has been gathered during the course of the examination or consulting 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 documentation to be able to provide justification for the assessment and conclusion within audit reports and Internal Auditor staff reports. All documentation are 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 Department. 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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