

EMNAMBITHI/ LADYSMITH
MUNICIPALITY
INTERNAL AUDIT SECTION



THREE YEAR ROLLING AUDIT PLAN
FOR THE FINANCIAL YEARS
2013/2014, 2014/2015, 2015/2016

**EMNAMBITHI/LADTSMITH MUNICIPALITY
INTERNAL AUDIT THREE YEAR ROLLING PLAN
FOR THE FINANCIAL YEARS 2013/2014, 2014/2015 & 2015/2016**

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1. MANDATE

1.1 Legislative Requirements for Internal Audit Activity

1.1.1 Municipal Finance Management Act, Act 53 of 2003

In terms of Section 62 (c) of the Municipal Finance Management Act no 56 of 2003 (MFMA), the Accounting Officer of a Municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure—

- that the municipality has and maintains effective, efficient and transparent systems—
 - (i) of financial and risk management and internal control; and
 - (ii) of internal audit operating in accordance with any prescribed norms and standards;

Furthermore, Section 165 (1) of the MFMA, states that the each municipality must have an internal audit unit.

Section 165 (2) states that the internal audit unit of a municipality must—

- (a) prepare a risk-based audit plan and an internal audit program for each financial year;
- (b) advise the accounting officer and report to the audit committee on the implementation of the internal audit plan and matters relating to—
 - (i) internal audit;
 - (ii) internal controls;
 - (iii) accounting procedures and practices;
 - (iv) risk and risk management;
 - (v) performance management;
 - (vi) loss control; and
 - (vii) compliance with this Act, the annual Division of Revenue Act and any other applicable legislation; and
 - (viii) perform such other duties as may be assigned to it by the Accounting Officer.

1.1.2 Local Government: Municipal Planning & Performance Management Regulations

Regulation 14 (1) (a) of the Local Government: Municipal Planning & Performance Management Regulations of 2001, prescribe that a municipality must develop and implement mechanisms, systems and processes for auditing the results of performance measurements as part of its internal auditing processes.

Sub-regulation (b) of Regulation 14 states that any auditing in terms of paragraph (a) must include assessments of the following:

- (i) The functionality of the municipality's performance management system;
- (ii) whether the municipality's performance management system complies with the Act; and
- (iii) the extent to which the municipality's performance measurements are reliable in measuring performance of municipalities on indicators referred to in regulation 9 and 10.

Sub-regulation (c) states that a municipality's internal auditors must-

- (i) on a continuous basis audit the performance measurements of the municipality; and
- (ii) submit quarterly reports on their audits to the Municipal Manager and the Performance Audit Committee referred to in sub regulation (2).

1.2 Professional Requirements

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

2. OBJECTIVES AND SCOPE OF THE INTERNAL AUDIT PLAN

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

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

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

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

The scope of our audits for the acknowledgement and support by the Accounting Officer and approval by the Audit Committee is detailed on pages 8-10.

3. ACCOUNTABILITY

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

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

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

4. ENGAGEMENT CO-ORDINATION & CO-OPERATION

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

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

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

5. REPORTING STRUCTURE

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

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

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

Internal audit's reports will be in writing. The details; unless otherwise requested by management, will be copied to the relevant line management, who will already have been made fully aware of the details and whose co-operation in preparation the report will be sought. The managers will be given a maximum response period of two weeks (14 days).

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

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

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

6. INTERNAL AUDIT EXPECTATIONS

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

- Unrestricted access to all records of the municipality and any other information and objects in the custody and control of any person employed by Emnambithi/Ladysmith Municipality which is necessary and critical for the performance of our duties.
- Timely submission of management comments and action plan to address the weaknesses identified during audits and ensure that this is done within 14 days from the date of receipt of the Internal Audit

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

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

7. APPROACH TO THE PREPARATION OF THE AUDIT PLAN

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

- Risk and Control Identification and Assessment conducted by Provincial Treasury In respect of the 2013/2014 financial year.
- Review of risks identified in the report of Auditor-General for the past three years.
- Risks identified in carrying out our Internal Audit Work

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

7.1. Three Year Rolling Internal Audit Plan

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

Refer to Appendix B

7.2. Annual Internal Audit Plan

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

Refer to Appendix A

8. FINANCIAL IMPLICATIONS

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

The structure of the unit is as follows:

Internal Audit Manager x 1

Chief Internal Auditor x 1

Internal Auditor x 1

Senior Audit Clerk x 1

Junior Audit Clerk x 3

Personal Assistant x 1

9. APPROVAL

Approved by: Audit Committee Chairperson

Mr S Majola

Date

Accepted by: Accounting Officer

Mr M P Khathide

Date

Compiled : Manager Internal Audit

Mrs S Mahraj

Date