



Internal Audit Methodology

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1. INTRODUCTION

1.2 Definition of Internal Audit

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve Garden Route District Municipality's ("GRDM") operations. It helps GRDM accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

1.2 Background

The overall objective of the internal audit activity is to provide all levels of management with an independent assessment of the quality of the internal controls, administrative processes and the extent to which they are assisting the municipality in achieving its strategic objectives in terms of the Integrated Development Plan ("IDP").

The internal auditing profession exists within GRDM to serve both management and the organisation in providing recommendations and suggestions for continuous improvements.

The progress and understanding of internal auditing has evolved from an "error" style audit approach, with an emphasis on negative reporting, to a pro-active approach aimed at adding value through performance improvements and thus becoming a useful management tool.

The internal audit coverage extends beyond merely internal controls, to include assisting in providing a systematic and disciplined approach to risk management and corporate governance.

It is recognized that internal audit must focus on providing value to the organization. GRDM internal audit methodology encompasses many of the leading practices in internal audit and is designed to take IIA standards into consideration.

1.3 Purpose

The purpose of this document is to provide guidance on the key phases and activities applied in an internal audit engagement and to ensure consistent basis for the delivery of internal audit services. This document must be used in conjunction with the IPPF standards, internal audit and audit committee charters, code of ethics, applicable legislature requirements, prescribed guidelines, internal audit framework and applicable policies and procedures of Garden Route District Municipality.

Although professional judgement will be required in applying the Garden Route District Municipality's internal audit methodology to specific internal audit engagements, it

should not inhibit the professional judgement of the officials involved in the internal audit activity.

Internal audit is a systematic, objective appraisal of the diverse operations and controls within Garden Route District Municipality to ensure the:

- The information systems environment;
- The reliability and integrity of financial and non-financial information;
- The effectiveness of operations;
- Safeguarding of assets;
- Economical and efficient use of resources; and
- Compliance with all applicable legislation within the Government environment.

1.4 Objective

The objective of the internal audit review is to obtain reasonable assurance regarding the adequacy and effectiveness of the system of internal control. The overall objective of the internal audit activity of Garden Route District Municipality is to provide management with an independent assessment of the internal controls, administrative processes, governance and risk management and providing assurance on the extent to which these controls and processes are adequate and operating effectively to ensure Garden Route District Municipality is achieving its objectives effectively, efficiently and economically.

It provides a consistent basis for delivery of internal audit services and further aims to:

- Provide detail on the legislative framework in which Internal Audit operates.
- Specify the codes of practice and standards to which the Internal Audit Activity adheres.
- Document the scope of activities and objectives of internal audit activity.
- Provides guidance for the internal audit activity.

1.5 Scope of Internal Audit

Internal audit is a systematic, objective appraisal of the diverse operations and controls within an organisation to ensure the:

- Reliability and integrity of information;
- Compliance with policies and procedures;
- Safeguarding of assets;
- Economical and efficient use of resources; and
- Accomplishment of established objectives and goals for operations or programs.

The Internal Audit Activity provides the following services:

Audit Assurance

The Internal Audit Activity provides an independent assessment on the risk management, internal control, and governance processes for the organisation. Examples include financial, performance, compliance, systems auditing, and control self-assessment reviews.

Consulting services

Relates to advisory and related client service activities which are intended to add value and improve the organisations governance, risk management and control processes. Examples include counsel, advice facilitation and training.

2. LEGISLATION, GOOD GOVERNANCE AND GUIDANCE

The role and purpose of Internal Audit, like most professions, is governed by legislation and that from time to time guidelines and best practices are issued and formulated in an effort to regulate and govern the activities of Internal Audit. The following legislation and guidelines are applicable to internal auditing:

2.1 Local Government: Municipal System Act, No 32 of 2000

The Municipal Systems Act requires that the results of performance measurements in terms of section 41(1) (c) of the Act, must be audited –

- (a) *as part of the municipality's internal auditing processes; and*
- (b) *annually by the Auditor-General.*

2.2 The Constitution: Chapter 7, Section 152

- (1) The objects of local government are—
 - (a) to provide democratic and accountable government for local communities;
 - (b) to ensure the provision of services to communities in a sustainable manner;
 - (c) to promote social and economic development;
 - (d) to promote a safe and healthy environment; and
 - (e) to encourage the involvement of communities and community organisations in the matters of local government.
- (2) A municipality must strive, within its financial and administrative capacity, to achieve the objects set out in subsection (1).

2.3 Local Government: Municipal Finance Management Act, No 56 of 2003

2.3.1 Chapter 14, Section 165 – Internal Audit Unit

- (1) Each municipality and each municipal entity must have an internal audit unit, subject to subsection (3):*
- (2) The internal audit unit of a municipality or municipal entity 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*
 - c) Perform such other duties as may be assigned to it by the accounting officer.*
- (3) The internal audit function referred to in subsection (2) may be outsourced if the municipality or municipally entity requires assistance to develop its internal capacity and the council of the municipality or the board of directors of the entity has determined that this is feasible or cost effective.*

2.4 The King IV Report on Corporate Governance in South Africa 2016

The legal status of King IV, as with its predecessors, is that of a set of voluntary principles and leading practices. Corporate governance could apply as a statutory basis as rules, as a voluntary code of principles and practices or a combination of the two. The King IV report aspires to apply to all organisations, regardless of their form of incorporation.

King IV objectives are to:

- Promote corporate governance as integral to running an organisation and delivering governance outcomes such as an ethical culture, good performance, effective control and legitimacy.
- Broaden the acceptance of the King IV by making it accessible and fit for implementation across a variety of sectors and organisational types.
- Reinforce corporate governance as a holistic and interrelated set of arrangements to be understood and implemented in an integrated manner.
- Encourage transparent and meaningful reporting to stakeholders.
- Present corporate governance as concerned with not only structure and process, but also with an ethical consciousness and conduct.

Principle 8: The council should ensure that its arrangements for delegation within its own structures promote independent judgement, and assist with balance of power and the effective discharge of its duties.

a) Audit Committee

- i. The establishment of an audit committee is a statutory requirement for some organisations. As a matter of leading practice, the municipal council of any municipality that issues audited financial statements should consider establishing an audit committee, the role of which should be to provide independent oversight of, among others
 - The effectiveness of the municipality's assurance functions and services, with particular focus on combined assurance arrangements, including external assurance service providers, internal audit and the finance function; and
 - The integrity of the annual financial statements and, to the extent delegated by the municipal council, other external reports issued by the municipality.
- ii. A statutory audit committee has the power to make decisions regarding its statutory duties, and is accountable for its performance in this regard. In addition to its statutory duties, the municipal council may delegate other responsibilities to the audit committee, such as the approval of the annual financial statements, but the municipal council remains ultimately accountable for such delegated responsibilities.
- iii. If the municipal council delegates risk governance to the audit committee, the audit committee should satisfy itself that it dedicates sufficient time to this responsibility.
- iv. Whether or not the governance of risk is delegated to the audit committee, the audit committee should oversee the management of financial and other risks that affect the integrity of external reports issued by the organisation.
- v. The members of the audit committee should, as a whole, have the necessary financial literacy, skills and experience to execute their duties effectively.
- vi. All members of the audit committee should be independent, non – executive members of the municipal council.
- vii. The municipal council should appoint an independent, non – executive member to chair the audit committee.
- viii. The audit committee should meet annually with the internal and external auditors respectively, without management being present, to facilitate an exchange of views and concerns that may not be appropriate for discussion in an open forum.
- ix. In addition to required statutory disclosure, the following should also be disclosed in relation to the audit committee:
 - a) A statement as to whether the audit committee is satisfied that the external auditors is independent of the municipality. The statement should specifically address:

- The policy and controls that address the provision of non – audit services by the external auditor, and the nature and extent of such services rendered during the financial year;
 - The tenure of the external audit firm and, in the event the firm being involved in a merger or acquisition, including the tenure of the predecessor firm;
 - The rotation of the designated external audit partner; and
 - Significant changes in the management of the municipality during the external audit firm's tenure, which may mitigate attendant risk of familiarity between the external auditor and management.
- b) Significant matters that the audit committee has considered in relation to the annual financial statements, and how the committee addressed these.
 - c) The audit committee's views on the quality of the external audit, with reference to audit quality indicators such as those that may be included in inspection reports issued by external audit regulators.
 - d) The audit committee's views on the effectiveness of the chief audit executive and the arrangements for internal audit.
 - e) The audit committee's view on the effectiveness of the design and implementation of internal financial controls, and on the nature and extent of any significant weaknesses in the design, implementation or execution of internal financial controls that resulted in material financial loss, fraud, corruption or error.
 - f) The audit committee's views on the effectiveness of the CFO and the finance function.
 - g) The arrangements in place for combined assurance and the committee's views on its effectiveness.

Principle 15: The council should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision – making and of the municipality's external reports.

i. Combined Assurance

- a) The municipal council should assume the responsibility for assurance by setting the direction concerning the arrangements for assurance services and functions. The municipal council should delegate to the audit committee, if in place, the responsibility for overseeing that those arrangements are effective in achieving the following objectives
 - Enabling an effective internal control environment.
 - Supporting the integrity of information used for internal decision – making by management, the municipal council, and its committees.
 - Supporting the integrity of external reports.

- b) The municipal council should satisfy itself that a combined assurance model is applied which incorporates and optimizes the various assurance services and functions so that, taken as completely, these support the objectives for assurance.
- c) The municipal council should oversee that the combined assurance model is designed and implemented to cover effectively the municipality's significant risks and material matters through a combination of the following assurance service providers and functions as is appropriate for the municipality
 - The municipality's line functions that owns and manage risks
 - The municipality's specialist functions that facilitates and oversee risk management and compliance
 - Internal auditors, internal forensic fraud examiners and auditors, safety and process assessors, and statutory actuaries.
 - Independent external assurance service providers such as the Auditor General of South Africa.
 - Other external assurance providers such as sustainability and environmental auditors, external actuaries, and external forensic fraud examiners and auditors.
 - Regulatory inspectors.
- d) The municipal council and its committees should assess the output of the municipality's combined assurance with objectivity and professional scepticism, and by applying an enquiring mind, form their own opinion on the integrity of information and reports, and the degree to which an effective control environment has been achieved.

ii. Assurance of external reports

- a) The municipal council should assume responsibility for the integrity of external reports issued by the municipality by setting the direction for how assurance of these should be approached and addressed.
- b) The municipal council's direction in this regard should take into account legal requirements in relation to assurance, with the following additional considerations
 - Whether assurance should be applied to the underlying data used to prepare a report, or to the process for preparing and presenting a report, or both.
 - Whether the nature, scope and extent of assurance are suited to the intended audience and purpose of a report.
 - The specifications of applicable criteria for the measurement or evaluation of the underlying subject matter of the report.
- c) The municipal council should satisfy itself that the combined assurance model is effectively and sufficiently robust for the municipal council to be able to place reliance on the combined assurance underlying the statements that the municipal council makes concerning the integrity of the municipality's external reports.
- d) External reports should disclose information about the type of assurance process applied to each report, in addition to the independent, external opinions provided in legal requirements. This information should include

- A brief description of the nature, scope and extent of the assurance functions, services and processes underlying the preparation and presentation of the report; and
- A statement by the municipal council on the integrity of the report and the basis for this statement, with reference to the assurance applied.

iii. Internal Audit

- a) The municipal council should assume responsibility for internal audit by setting the direction for the internal audit arrangements needed to provide objective and relevant assurance that contributes to the effectiveness of governance, risk management and control processes. The municipal council should delegate oversight of internal audit to the audit committee, if in place.
- b) The municipal council should approve an internal audit charter that defines the role and associated responsibilities and authority of the internal audit, including addressing its role within combined assurance and internal audit standards to be adopted.
- c) The municipal council should ensure that the arrangements for internal audit provide for the necessary skills and resources to address the complexity and volume of risk faced by the municipality, and that internal audit is supplemented as required by specialist services such as those provided by forensic fraud examiners and auditors, safety and process assessors, and statutory actuaries.
- d) If a chief audit executive (CAE) position is provided for in the arrangements for internal audit, the municipal council should ensure that the position is set up to function independently from management who designs and implement the controls that are in place, and that the position carries the necessary authority.
- e) The municipal council should approve the appointment of the CAE, including the employment contract and remuneration of the CAE, and ensure that the person who fills the position has the necessary competence, gravitas and objectivity.
- f) For reasons of independence, the CAE should have access to the chair of the audit committee.
- g) For reasons of independence, the CAE should not be a member of executive management, should be invited to attend executive meetings, as necessary, to be informed about strategy and policy decisions and their implementation.
- h) Where internal audit services are co – sourced or outsourced, the municipal council should ensure that there is clarity on who fulfils the role of the CAE.
- i) The CAE should report to the chair of the audit committee on the performance of duties and functions that relate to internal audit. On other duties and administrative matters, the CAE should report to the member of executive management (Municipal Manager) designated for this purpose as appropriate for the municipality.
- j) The municipal council should have primary responsibility for the removal of the CAE.

- k) The municipal council should monitor on an ongoing basis that internal audit
 - Follows an approved risk – based internal audit plan; and
 - Reviews the municipality's risk profile regularly, and proposes adaptations to the internal audit plan accordingly.
- l) The municipal council should ensure that internal audit provides an overall statement annually as to the effectiveness of the municipality's governance, risk management and control processes.
- m) The municipal council should ensure that an external, independent quality review of internal audit function is conducted at least once every five years.
- n) The municipal council should obtain confirmation annually from the CAE that internal audit conforms to a recognised industry code of ethics.

2.5 MFMA Circular 65: Internal Audit and Audit Committees

Internal Audit Responsibilities:

- Ensure that the charter, independence and activities of the internal audit function are clearly understood and respond to the objectives of the municipality and the legal framework
- Regularly review the functional and administrative reporting lines of the internal auditor to ensure that the organizational structure is consistent with the principles of independence and accountability;
- Review and approve the internal audit charter, including internal audit strategic plan;
- Confirm that the annual audit plan makes provision for critical risk areas in the municipality and its entities;
- Advise the municipality on resources allocated to give effect to the work outputs of the internal audit function;
- Ensure that there is support for the internal audit unit and external auditors from senior management;
- Confirm with management that internal audit findings are submitted to the audit committee on a quarterly basis;
- Confirm actions taken by management in relation to the audit plan;
- Consider and review reports relating to difficulties encountered during the course of the audit engagement, including any scope limitation or access to information reported to the accounting officer that remain unresolved;
- Evaluate the performance of internal audit activity in terms of the agreed goals and objectives as captured in the audit plan;

- Ensure that the head of internal audit has reasonable access to the chairperson of the audit committee;
- Conduct a high-level review of internal audit on an annual basis, to ascertain whether the internal audit unit complies with the International Standards for the Professional Practice of Internal Auditing;
- Concur with any appointment and termination of the services of the chief audit executive;
- Internal audit unit is accountable to the audit committee as follows:
- Maintain open and effective communication with the audit committee
- Develop a flexible annual audit plan using a risk based methodology, addressing any weaknesses in risks or controls identified
- Submit the audit plan to the audit committee for review and approval;
- Report on the implementation and results of the annual audit plan including special tasks requested by management and the audit committee;
- Assist in drafting the agenda and documentation, and facilitate the distribution thereof to the audit committee in advance of meetings;
- Meet periodically with the chairperson of the audit committee to discuss whether the material and information furnished meets the requirements of the audit committee;
- Obtain advice from the audit committee whether the frequency and time allocated to the committee is sufficient to attend effectively to all matters;
- Cooperate with the audit committee as they conduct annual reviews of the performance of the internal audit function;
- Submit the internal audit charter to the audit committee for review and approval on an annual basis and as necessary.

3. THE PROFESSION OF INTERNAL AUDITING

The profession of internal auditing requires affiliation with a professional body, for example the Institute of Internal Auditors, which is an international body. The environments in which internal audit activities are performed throughout the world are highly diverse; this diversity affects the practice of internal auditing in each environment. Nevertheless, conformance with The IIA's International Standards for the Professional Practice of Internal Auditing (Standards) is essential in meeting the responsibilities of internal auditors and the internal audit activity

3.1 The IIA International Standards

The purpose of the *Standards* is to:

- Guide adherence with the mandatory elements of the International Professional Practices Framework (IPPF).
- Provide a framework for performing and promoting a broad range of value-added internal auditing services.
- Establish the basis for the evaluation of internal audit performance.
- Foster improved organizational processes and operations.

The Standards comprise two main categories: Attribute and Performance Standards that apply to all internal audit services.

- **Attribute Standards** address the attributes of organizations and individuals performing internal auditing.
- **Performance Standards** describe the nature of internal auditing and provide quality criteria against which the performance of these services can be measured.

Implementation Standards expand upon the Attribute and Performance Standards by providing the requirements applicable to assurance or consulting services.

- *Assurance services* involve the internal auditor's objective assessment of evidence to provide opinions or conclusions regarding an entity, operation, function, process, system, or other subject matters. The nature and scope of an assurance engagement are determined by the internal auditor. Generally, three parties are participants in assurance services:
 - 1) the person or group directly involved with the organisation, operation, function, process, system, or other subject matter — the process owner,
 - 2) the person or group making the assessment — the internal auditor, and
 - 3) the person or group using the assessment — the user.
- *Consulting services* are advisory in nature and are generally performed at the specific request of an engagement client. The nature and scope of the consulting engagement are subject to agreement with the engagement client. When performing consulting services the internal auditor should maintain objectivity and not assume management responsibility. Consulting services generally involve two parties:
 - 1) the person or group offering the advice — the internal auditor, and
 - 2) the person or group seeking and receiving the advice — the engagement client.

3.2 The IIA Code of Ethics

The Code of Ethics states the principles and expectations governing the behavior of individuals and organizations in the conduct of internal auditing. It describes the minimum requirements for conduct, and behavioral expectations rather than specific activities.

The purpose of The Institute's Code of Ethics is to promote an ethical culture in the profession of internal auditing; it extends beyond the definition of internal auditing to include two essential components:

- Principles that are relevant to the profession and practice of internal auditing; and
- Rules of conduct that describe behaviour norms expected of internal auditors. These rules are an aid to interpreting the principles into practical applications and are intended to guide the ethical conduct of internal auditors.

Internal auditors are expected to apply and uphold the following principles:

1. **Integrity**

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

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.

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.

4. **Competency**

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

Rules of Conduct

1. Integrity

Internal auditors:

- 1.1 Shall perform their work with honesty, diligence, and responsibility.
- 1.2 Shall observe the law and make disclosures expected by the law and the profession.
- 1.3 Shall 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.
- 1.4 Shall respect and contribute to the legitimate and ethical objectives of the organization.

2. Objectivity

Internal auditors:

- 2.1 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.
- 2.2 Shall not accept anything that may impair or be presumed to impair their professional judgment
- 2.3 Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3. Confidentiality

Internal auditors:

- 3.1 Shall be prudent in the use and protection of information acquired in the course of their duties.
- 3.2 Shall 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.

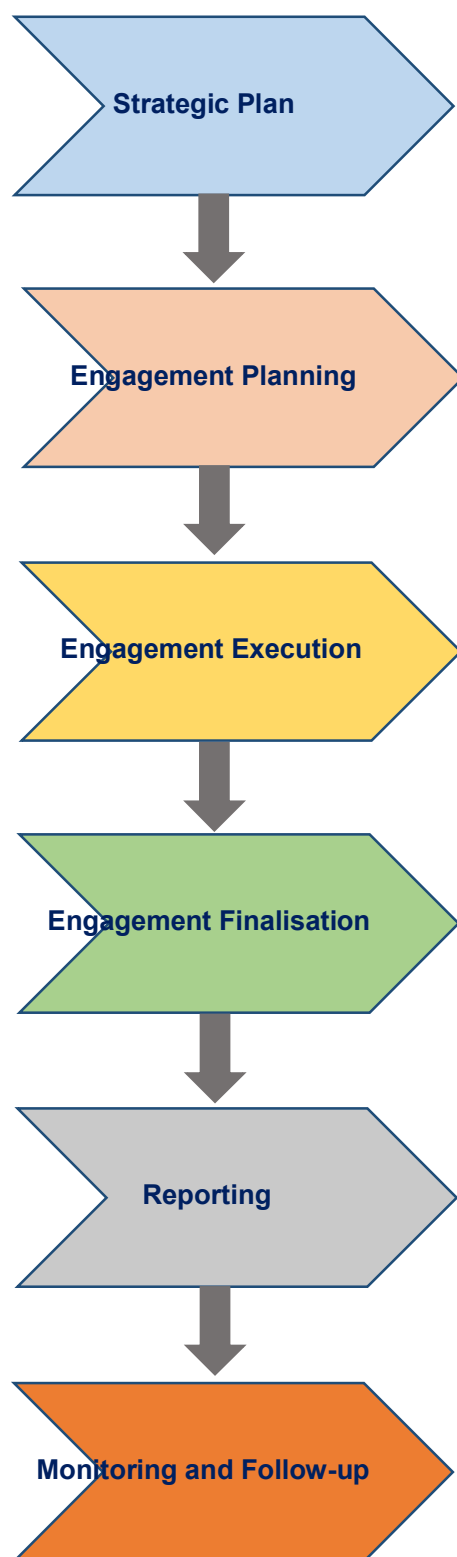
4. Competency

Internal auditors:

- 4.1 Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
- 4.2 Shall perform internal audit services in accordance with the International Standards for the Professional Practice of Internal Auditing (Standards).
- 4.3 Shall continually improve their proficiency and the effectiveness and quality of their services.

All internal audit employees participating in the internal audit activity should sign the code of ethics and rules of conduct annually.

4. THE INTERNAL AUDIT ENGAGEMENT PROCESS



4.1 Strategic Plan

The internal audit strategic plan of Garden Route District Municipality will be compiled as per the following process:



4.1.1 High Level Risk Assessment

The risk assessment forms part of the risk management framework. Therefore, it will not be covered under this methodology.

4.1.2 Strategic Plan

- a) The purpose of the strategic internal audit plan is to:
 - Provide detail on the areas that will be included in the internal audit plan execution.
 - Create a linkage between the internal audit and enterprise risk management.
- b) This will determine whether the planned scope is adequate to addresses the high-risk areas and add value to Garden Route District Municipality by providing assurance on the significant areas.
- c) A strategic three (3) year internal audit plan will be developed after considering:
 - Significant risks after management have ranked the risks in order of significance.
 - Executive management and / or audit committee requests.
 - Industry related information.

- Information resulting from external audits and regulatory examinations
 - Historical internal audits and historical activities performed by other service providers.
 - Audits to improve control adequacy and effectiveness, therefore low to medium risk will be considered for inclusion in the drafting of the risk – based internal audit plan.
- d) The strategic internal audit plan will be updated if any significant changes occur on the risk assessment activities.

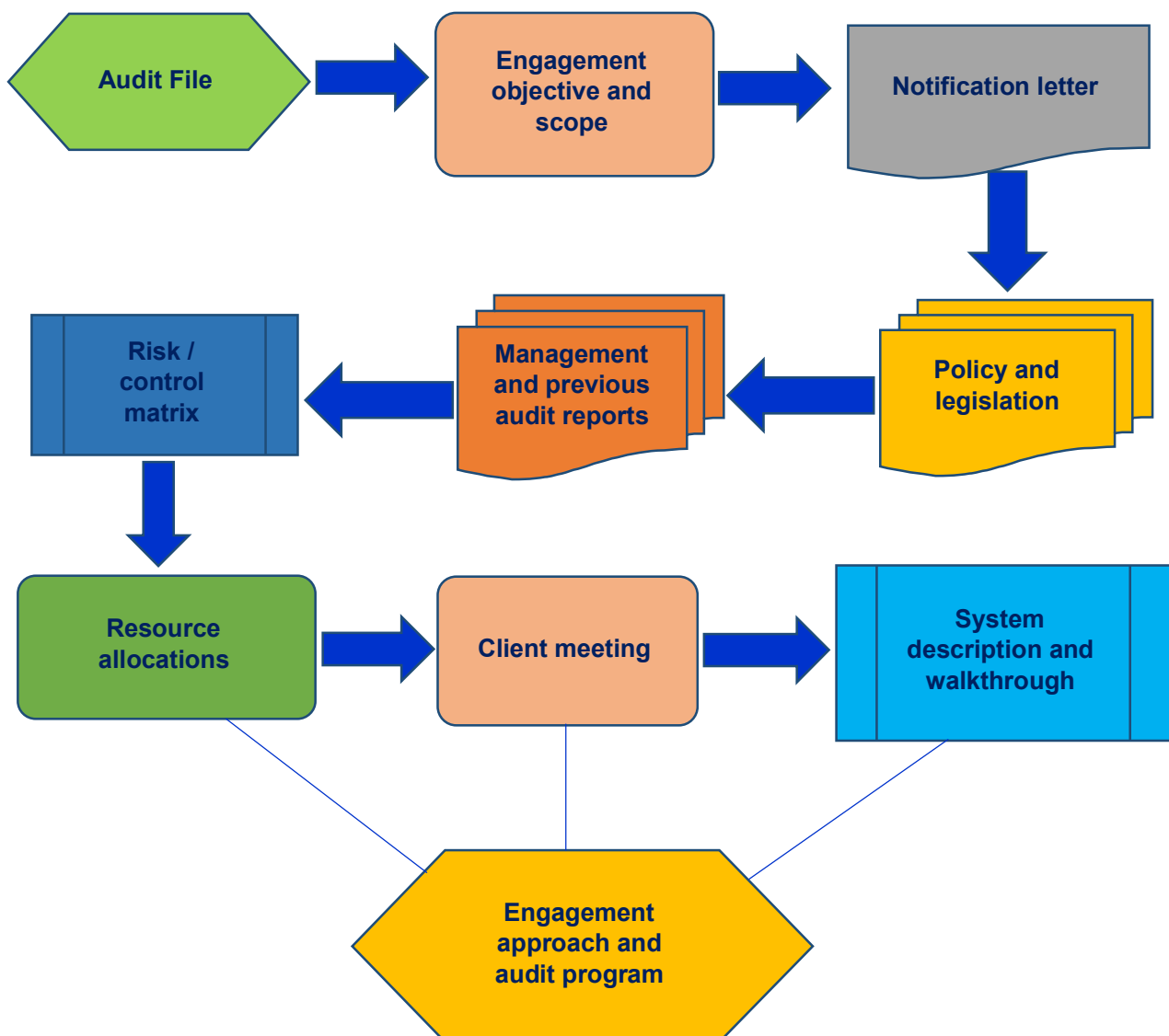
4.1.3 Operational Plan

- a) Garden Route District Municipality's Internal Audit Operation Plan provides a detailed description of the scope of the proposed areas for review during the next audit year's cycle (first year on the strategic internal audit plan).
- b) The operational plan is developed based on the risk assessments and the associated strategic audit plan. The following detail will be provided in the operational plan:
- Focus areas for the internal audit
 - Internal audit scope in relation to the focus areas
 - Resources to the planned audits including requirements of specialized services.
 - The timing of the planned audits
 - Reporting requirements
 - Engagement type i.e. consulting engagement or assurance engagement.
- c) The relevant Head of Department should make management's requests for Ad hoc audits that does not form part of the operational audit plan in writing. Internal Audit should consider these requests by considering the following:
- Current operational audit plan
 - Identified high – risk areas and changes to the risk environment of the municipality
 - Available resources and capacity
 - Skills of Internal audit staff
 - Value the Ad hoc audit will add to Garden Route District Municipality
- d) After Internal Audit has reviewed the Ad hoc request from management, it should be submitted to the Audit Committee for approval.
- e) The operational internal audit plan is flexible and may be amended due to the following reasons:
- Planned audits not executed due to operational changes.
 - Changes in risk areas.
 - Special Ad hoc requests from management or Audit Committee.

4.1.4 Approval of Audit Plan

- a) The plan will be submitted to the Executive Management for discussion and review. The strategic and operational audit plan will be submitted to the Audit Committee for approval. The plan will be signed by the Municipal Manager as evidence of review and discussion with management. The Audit Committee Chairperson will sign the plan as evidence that the Audit Committee approved.
- b) Any significant changes to the operational plan will be submitted to the Audit Committee for approval. The approved plan will be communicated to management for planning considerations.

4.2 Engagement Planning



4.2.1 Audit File

A preliminary assessment will be conducted and documented. The objective of the preliminary assessment is to:

- Acquire a better understanding of the area being audited
- Audit focus is based on a comprehensive analysis of the control environment of the audit area
- Identification of high-risk areas and emerging risks, which were not identified by management.

For each engagement, a file will be created on the audit system (BarnOwl). The Internal Auditor must create the audit file prior to the start of the audit and distribute the audit file to relevant team members at the kick-off meeting. The Internal Auditor is also responsible for maintenance of the audit file. The requirements for the maintenance of the audit file should be communicated to the team members at the kick-off team meeting.

The Chief Audit Executive needs to ensure that the audit file complies with the requirements of the Internal Audit Methodology and standard operating procedures.

4.2.2 Engagement objective and scope

The engagement objective should be determined and documented on the audit file for each engagement whether it is an assurance engagement or a consulting engagement.

For assurance engagements, the engagement objective should address governance, risks and control processes associated with the activities under review. For consulting engagement, the engagement objective will be agreed with the consulting client.

The engagement scope must be sufficient to satisfy the objectives of the engagement and should be documented on the audit file. For assurance engagements, the scope can be defined in terms of the following:

- Period under review
- Business unit
- Business process / sub – business process
- Relevant system
- Geographical area

For consulting engagements, the scope will be sufficient to address the agreed upon engagement objective. The scope will be agreed with the consulting client.

Both the engagement objective and engagement scope will form part of the audit planning memorandum to management.

The Senior Internal Auditor should provide the budgeted hours for planning which will be amended at a later stage after the Chief Audit Executive has reviewed the Engagement Work Programme.

4.2.3 Notification letter

A notification letter should be prepared on BarnOwl containing the following:

- Planned audit in terms of the risk – based audit plan
- Execution of preliminary assessment by internal audit.
- Requesting basic documents, e.g. policy, standard operating procedures, etc. for the preliminary assessment.
- Possible date of contact meeting with the client

The notification letter should be prepared at least one (1) month before the start of the planned audit engagement. The Chief Audit Executive should sign off the notification letter on BarnOwl and send it to the relevant Head of Department and copy the relevant sectional manager through email. The signed notification letter together with the email should be filed on BarnOwl and network drive audit file.

4.2.4 Legislation and policy

The legislation and policies applicable to the engagement should be requested from management. The sections of the legislation relevant to the engagement should be identified and documented. The existence of approved policies and revision dates should be documented. The policy's adequacy in relation to legislation requirements should be evaluated and documented. The policy should be evaluated for adequacy to respond to the risk profile of the organisation.

4.2.5 Management and previous audit reports

Perform an analysis on management reports and previous audit reports and identify risks and / or critical areas. Verify whether these form part of the audit area risk profile. Verify whether management has implemented the action plans on previous audit reports. Analyse any strategic plans and objectives of the audit area that the engagement should provide assurance. For consulting engagements, only reports will be considered that is relevant to the agreed engagement scope. Management should be requested to perform a self – assessment review on the control activity and environment of the audit area.

4.2.6 Risk Profile

Obtain a copy of the risk register from the Risk Management unit. Based on the preliminary assessment and understanding of the audit area, document the following:

- High / Significant risk that were not identified in the risk profile
- Emerging risks
- Any fraud risks

The risk profile of the audit area will be updated and management will be requested to rate the newly identified risks. These new risks will be communicated to the Risk Management Unit. The Chief Risk Officer and/or Risk Officer will be responsible to request management to evaluate these risks in terms of the risk management policy of the municipality.

4.2.7 Resource allocations

Internal audit must determine the appropriate and sufficient resources to achieve engagement objectives and record on BarnOwl. Internal audit teams performing each engagement should be selected based on:

- The nature and complexity of each engagement
- Time constraints
- Skills and experience
- Availability
- Consideration for the use of external specialist

If the internal audit staff does not have the relevant skills to perform assurance engagements (e.g. IT audits), the Chief Audit Executive should consider procuring a reputable audit firm to perform the engagement, subject to availability of funds.

The independence of each internal audit staff member on each assurance engagement will be evaluated. Each staff member will be required to sign off a declaration of interest form on BarnOwl and it should be sign off by Chief Audit Executive as evidence of evaluation. This should be done in order to ensure that each audit team member is complying with the IIA standards on independency. A copy of the signed declaration of interest should also be saved on the network drive.

Each staff member on the engagement will be required to prepare a personal development plan and discuss it with the Senior Internal Auditor. The Senior Internal Auditor will present it to the Chief Audit Executive for sign – off.

4.2.8 Pre-engagement team meeting

The Senior Internal Auditor should have a meeting with the engagement team a month before the start of the audit, to inform the team about the planned engagement. A standard agenda should be prepared and circulated to the engagement team. The minutes and the agenda should be kept on the audit file on BarnOwl and network drive.

The following will be discussed during the meeting:

- Meeting Objective
- Audit detail
- Legislation, policies and previous reports
- Audit file
- Preliminary timelines

4.2.9 Pre – engagement client meeting

The purpose of the client meeting is to obtain client concerns and discuss the engagement planning with the client. The meeting will take place on the agreed date and time between line management, Chief Audit Executive and Senior Internal Auditor of the engagement. The following will be discussed during the meeting:

- Engagement objective
- Preliminary engagement scope
- Period of review
- Adequacy of the policy in relation to legislation
- Management's self – assessment review of the engagement area
- Risk / control matrix of the engagement area
- Rating of new risks and identification of controls by management
- Engagement team
- Standard operating procedure or date for system description
- Client's expectations and concerns
- The nominated officials of client that will assist the engagement team
- Official responsible to deal with audit findings and provide action plans in a timely manner

The Senior Internal Auditor should ensure that minutes is recorded and kept on the audit file and BarnOwl. A copy of the minutes should be sent to the client for confirmation. The Chief Audit Executive should sign off the minutes.

4.2.10 Obtain and document system descriptions

The purpose of the system description is to document and obtain an overall understanding of the process flow and to understand the control design. Standard operating procedures, if any, should be obtained from management.

A detailed system description should be documented on BarnOwl and saved on the audit file on the network drive. The system description should be documented either narrative and / or flow chart format. It is recommended that the system description be documented in narrative to identify all key controls in the audit area. The flow chart can be used to give a systematic flow of the activities of the audit area.

The system description should be amended if there were any changes from the prior audit. With consulting engagements, only the agreed upon process will be documented in order for internal audit to obtain an understanding of the process. The audit team can obtain the information on the system description from a number of resources for e.g. through discussions with staff involved in the process, standard operating procedures and other documents prepared by the client, etc.

A flow chart can be used to analyse the flow of the business process in identifying how integration of the business units is illustrated. The engagement team should compare the process to the policies to confirm whether the business process is aligned to the relevant policy.

In instances where there are no detailed business process / standard operating procedure, the engagement team should perform the following:

- Schedule an interview with the client and document the process comprehensively detailing all the activities within the process
- Identify the Key Controls taking into account the identified risks and the management assertion the control is addressing

In instances where there are detailed business process / standard operating procedure, the engagement team should perform the following:

- Identify the activities and key controls that the auditor needs clarity on
- Engage the process owner / client to clarify these activities
- Document those activities as per the process owner's clarification.

The Senior Internal Auditor should send the system description to the client for confirmation. The relevant manager responsible for the audit area should sign the system description and send it back to the Senior Internal Auditor within 10 working days. A signed copy of the system description should be uploaded on BarnOwl and saved of the audit folder.

4.2.11 Confirmation of the system description

The engagement team should verify whether the documented system description functions as described. The Internal Auditor should perform a walkthrough test to confirm the system description.

The following should be documented as part of the evaluation

- System design
- Control objectives
- Control Activities
- Risks
- Assertions
- Walkthrough

The Internal Auditor should analyse the control capability to respond to the risk factors embedded in the nature of the risk. The Internal Auditor should evaluate controls that are currently performed manually and have a potential to be automated to strengthen monitoring. The Internal Auditor should review the number of preventative controls in comparison with detective controls.

The Internal Auditor should review whether corrective controls are in place once detective controls are triggered. The Internal Auditor should analyse whether management addresses management assertions in relation to the control in place to address the risk.

Any weaknesses in controls should be documented and these control weaknesses should be reported to management. The Senior Internal Auditor should prepare a preliminary draft report and submit it to the Chief Audit Executive for review. Management's comments and action plans on these findings should be documented on the audit file. The Senior Internal Auditor should update the risk / control matrix with all the identified key controls and potential risks as identified from the system description.

4.2.12 Audit Strategy

The Senior Internal Auditor will have to document the overall engagement strategy on BarnOwl considering the following:

- The characteristics of the engagement
- Reporting objectives
- Timing of the audit
- Nature of communications
- Significant factors in directing engagement team efforts
- The results of preliminary engagement activities
- The knowledge gained on other engagements
- The nature, timing, and extent of resources available for the engagement

The Senior Internal Auditor should furthermore consider the following to include as part of the documentation:

- The engagement objective
- The Audit scope
- Our response in detecting the risk of fraud
- The period of review
- Use of experts and skilled persons in the engagement
- Significant risk and mitigation of these risks
- Areas of judgement if any exists
- The timelines for us completing an engagement
- The engagement team
- Any threats to independency
- Exceptions

The audit strategy needs to be signed off by the Chief Audit Executive on BarnOwl and saved on the audit folder

4.2.13 Engagement Work Program

The purpose of the engagement work program is to provide techniques on how to evaluate the effectiveness of internal controls. It links the preliminary assessment and the audit fieldwork in order for the auditor to provide an opinion on the effectiveness, efficiency and economy of the activity under review. Audit procedures must be designed to test the control and ensure its alignment to the risk and audit objective.

The management assertions should be taken into account that is relevant to the control. The sample size of an audit procedure will be determined based on the nature of controls. The purpose of sampling is to provide a justifiable basis upon which to support audit findings while not requiring 100% testing of the subject matter under audit.

The auditor needs to identify, analyse and define the characteristics of the population taking into account the following:

- Type of report
- System report is generated from
- Report format
- Intervals of generating reports
- Volume of transactions per week, month or year
- Areas affected by the process

The following sample methods may be applied based on the population size and the analysis of the population made:

- Random
- Judgmental
- Statistical
- High Values
- Medium – Low Value
- Combination of the above methods

Depending of the nature of control the following sample size may be selected

Nature of Control and Frequency of Performance	Minimum Number of Items to Test
Manual control, performed daily and multiple times per day	At least 30
Manual control, performed weekly	At least 10
Manual control, performed monthly and quarterly	At least 2
Manual control, performed annually	At least 1

The internal auditor may increase the sample sizes based on the preliminary assessment in consultation with the Chief Audit Executive.

Procedures must clearly indicate the documents to be reviewed, specifying areas of significance. An audit program must include the objectives and procedures to be performed, an appropriate description of the auditable area, the preparer, the date of preparation, the reviewer and the review date. The program must be appropriately referenced and cross-referenced. The audit program must be compiled on BarnOwl in a standard format to ensure consistency.

The following should be included in the audit program:

- Business process
- Sub – process
- Process description
- Risk and risk ratings
- Control, type of control and frequency / nature of control
- Adequacy design
- Audit Objective
- Audit procedure
- Preparer of each audit procedure
- Reviewer of each audit procedure
- Proposed dates of preparation and revision of each audit procedure

The final audit program must be reviewed and approved by a supervisor on BarnOwl. The Chief Audit Executive must approve the audit program on BarnOwl before testing is performed. All changes to the program must be approved in writing by the supervisor and reasons for changes should be documented. The budgeted hours should be amended after the engagement work program has been compiled on BarnOwl and submitted to the Chief Audit Executive.

4.2.14 Audit Planning Memorandum

The Senior Internal Auditor should prepare an Audit Planning Memorandum / engagement letter on BarnOwl. The following information should be documented:

- Engagement objective
- Engagement scope
- Audit approach / audit methodology
- Background information
- Applicable legislation
- Summary of risks
- Sampling methods
- Time and planned hours
- Audit team
- Client contact
- Reporting and Communication
- Acceptance of engagement

The Senior Internal Auditor should forward the draft Audit Planning Memorandum (“APM”) to the Chief Audit Executive for approval and submission to the relevant Head of Department and the line manager for sign – off. For audits that do not require an APM-sign off meeting (Such as PMS and AG Follow Up), the Chief Audit Executive and the relevant Head of Department shall sign off the APM as evidence that both parties accepted the terms of the engagement during the scoping meeting. A copy of the signed APM must be uploaded on Barnowl and saved on the audit folder.

4.2.15 APM Sign-off Meeting

The purpose of the scoping meeting is to:

- Present major gaps identified in the control environment during the execution of the preliminary survey.
- To obtain management commitment to address these gaps.
- Present the audit approach
- Confirm and agree on the scope of engagement and further obtain APM sign off.

The Senior Internal Auditor should confirm a date of meeting between the Head of Department, line manager, Senior Internal Auditor and Chief Audit Executive and compile an agenda on BarnOwl and forward the agenda at least 3 working days before the meeting.

Discussions should be documented on the standard template on BarnOwl. Minutes should reflect the depth in which the following were discussed:

- The expectation and suggestions of the client
- Planned scope and objective of the engagement.
- Any changes affecting the scope or risks of the audit
- Agreement on risks in the area covered
- Special concerns and requests from the client
- Indicate and agree the process of issuing informal audit queries.
- Determine the frequency and timing of in – progress updates and meetings.
- Discussion of preliminary report and management comments / action plans
- APM sign – off.

Minutes should be kept and signed – off by both the Chief Audit Executive and the Head of Department.

4.2.16 Kick – off Team Meeting

The purpose of the kick – off team meeting is to ensure an understanding of the audit area by each team member involved in the engagement, each team member to understand what is required during the course of the audit.

The Senior Internal Auditor must arrange a kick – off meeting a week prior to the start of the engagement. The agenda should be distributed three working days before the meeting occurs. The following must be included as part of the agenda:

- All data that was used as part of the preliminary survey (incl. annual reports, performance reports, previous internal audit reports, policies and procedures, AG reports and relevant legislation).
- Client contact details and contact persons.
- Budgeted hours for the project.
- Agreed deadlines as per the signed Audit Planning Memorandum
- Performance targets for each level of staff to be agreed, deadlines to be set for the completion and review of each task assigned in relation to the engagement.
- Audit files (Network and BarnOwl).

Senior Internal Auditor should agree minutes of the meeting and keep it on BarnOwl and network drive.

4.3 Engagement Execution

Performing the engagement involves conducting fieldwork to ensure achieving the objectives of the audit. This includes review, analysis and verification of information contained in documents, physical items and confirmation by officials. Performing the audit can include, but is not limited to:

- Identifying information
- Analysis and evaluation
- Documenting information and findings
- Engagement supervision
- Budget monitoring
- Weekly progress meetings
- Review audit work

4.3.1 Identifying Information

Information should be collected on all matters related to the engagement objectives and scope of work. Information must be sufficient, competent, relevant, and useful to provide a sound basis for engagement observations and recommendations.

- *Sufficient information* is factual, adequate, and convincing so that a prudent, informed person would reach the same conclusions as the auditor.
- *Competent information* is reliable and best attainable using engagement techniques.
- *Relevant information* supports the engagement observations and recommendations consistent with the objectives for the engagement.
- *Useful information* helps the organisation meet its goals.

4.3.2 Analysis and Evaluation

Internal auditors must base conclusions and engagement results on appropriate analyses and evaluations. The internal auditor can perform test of control and/or analytical procedures. Analytical audit procedures provide efficient and effective means of assessing and evaluating information collected during the engagement. This procedure will identify unexpected differences, absence of differences when expected and / or potential errors, irregularities or illegal acts. Any exceptions noted when performing analytical procedures should be subjected to additional procedures in order to achieve engagement objectives.

The internal auditor evaluates the effectiveness and adequacy of internal controls and compliance to legislation by performing the following audit procedures:

- *Inspection*: The inspection of documents and physical items is used to gather audit evidence. This is the most persuasive audit test.
- *Re-performance*: Re-performance of the auditee's control processes (e.g. bank reconciliation) for accuracy.
- *Confirmation*: Independent validation of information provided by the auditees or validations of the auditee control processes. Third party confirmations are more reliable than those obtained from the client.
- *Enquiry*: The internal auditor should carefully design appropriate questions to verify management information and processes.
- *Observation*: Shadowing, being present and observing the process being performed by the auditee (e.g. cash counts).

4.3.3 Document Information

The purpose of the documentation phase is to provide record of the internal audit work done, providing a basis for conclusions and supporting recommendations made by the internal audit team.

Internal auditors must document relevant information to support the conclusions and engagement results throughout the engagement. Internal audit procedures should be documented in detail to enable:

- A user to reasonably understand what evidence was documented, and
- If necessary, re-perform the audit programme systematically and reach the same conclusions.

Information should be documented on the standard working paper template electronically or on BarnOwl where feasible/convenient. Electronic working papers should be uploaded on BarnOwl. Where there is a requirement to maintain hard copies of evidence and working papers, it should be appropriately referenced to the electronic working papers and should form part of the audit file.

Information, which is not ultimately useful in supporting the work performed and the final audit report issued should generally not be retained. Excessive details, copies of documents, lengthy explanations of audit procedures performed and duplication greatly reduces audit efficiency and should be avoided, where possible.

Audit documentation should be appropriately secured both during and after completion of an audit assignment. Authorised individuals should hold electronic working paper files in a secure location that allows for easy retrieval. Certain information will be confidential and therefore, extra care needs to be taken over the storage. Access to working papers should be restricted to those involved in the assignment. Where third parties such as external auditors request access, it should only be granted after consultation with the Chief Audit Executive and the approval of the Accounting Officer and Audit Committee.

Working papers are the property of Garden Route District Municipality and must be under the control of the Internal Audit division. Access to working papers should be restricted to the Internal Audit team. Access to personnel outside the internal audit unit, should be approved by the Chief Audit Executive. Access to parties outside the municipality should be with the approval of the Accounting Officer or the appropriate policy.

4.3.4 Documenting findings

Where significant discrepancies or weaknesses were discovered from the audit work performed and other assessment information gathered, it could be concluded that the control tested did not operate effectively for the period under review. In the event the internal auditor identifies any exception, the internal auditor must raise a finding. The finding will be communicated to the auditee. The finding should be documented on the standard finding template on BarnOwl.

Findings should be categorised as follows to ensure consistent prioritisation by the internal audit staff:

- *Critical* – control weaknesses requiring immediate management action.
- *Significant* – control weaknesses that are regarded as serious and require management action within a short period.
- *Housekeeping* – control weaknesses do not represent a significant risk to the control environment. The correction of these control weaknesses will have the effect on the control environment.

The categorisation of findings will be influenced by the following factors:

- Whether the condition was previously identified through compensating controls implemented by management before the audit work was conducted.
- Whether the root cause was addressed through improvements made by management.
- Whether the result of the improvements implemented by management is evident in the test results from internal audit / addressed the root cause.

If any control weaknesses / finding are encountered during the execution, the finding must be formulated and brought to management's attention by way of an informal query immediately. Management's responses to the queries must be provided within two working days of the date of the query, and these could be tracked and discussed at the regular progress meetings arranged with clients. These responses from management should form part of the draft report and assist with identification of the root cause.

Findings can generally be categorised as either control enhancement recommendations or process improvement opportunities. It may address efficiencies, effectiveness, communications, finding details, root causes and / or possible solutions. Findings may also address alignment gaps identified because of detailed planning and / or execution.

4.3.5 Engagement Supervision

Supervision is a process that continues throughout the engagement. The extent of supervision depends on the experience and proficiency of the internal auditors assigned to the engagement.

Supervision includes:

- Staff training and development.
- Assigning the work program and ensuring that the audit is executed.
- Ensuring engagement objectives are met.
- Reviewing and signing off of working papers (on working papers and BarnOwl).

4.3.6 Budget monitoring

Actual time spent against each task assigned to each team member should be monitored weekly against the budgeted hours on BarnOwl. This is the responsibility of the Senior Internal Auditor. Where the Senior Internal Auditor identifies overruns, he / she should report these overruns and the reasons for these overruns to the Chief Audit Executive.

4.3.7 Weekly progress meetings

The Senior Internal Auditor and all team members should hold weekly progress meeting. The agenda should be distributed to all team members and should include the following:

- Actual time spent versus budgeted hours
- Reasons for delays
- Current problems experienced by team members that hamper progress
- Outstanding queries, including request for information
- Changes in deliverables by team members should be discussed
- The list of all outstanding information required from the client for audit purposes
- Any leave to be taken by team members and how it will affect the audit

Minutes of the weekly progress meeting should be kept on BarnOwl and audit file. The Senior Internal Auditor should sign – off on these minutes and present a weekly report to the Chief Audit Executive on the progress of the audit.

4.3.8 Review of audit work

The Senior Internal Auditor and Internal Auditor should review the executed audit fieldwork continually throughout the audit. Review of the executed audit work, should follow a combination of three review methods:

- Ongoing review
- Review by the interview
- Post – execution review

Any review notes arising must be communicated to the relevant team member immediately and an agreed response time must be discussed. The review notes should be signed – off on BarnOwl by the Internal Auditor / Senior Internal Auditor that raised the review note. The review notes should be kept on the audit file as evidence of review.

4.4 Engagement Finalisation

During the engagement finalisation, the Senior Internal Auditor should ensure the following:

- Update the risk / control matrix
- Preparation of the draft internal audit report
- Discussion of findings with management
- Team debriefing meeting

4.4.1 Final risk / control matrix

The Senior Internal Auditor should forward all the risks that were identified during the engagement process to the Risk Management Unit. This is to ensure that these risks are incorporated into the operational risk registers of the audit area and that management maintain and monitor these newly identified risks.

4.4.2 Draft audit report

The purpose of the draft audit report is to collate all findings when execution is completed and should be compiled by the Senior Internal Auditor on BarnOwl. The purpose of the draft audit report is to present findings of the internal audit team and recommendations to obtain management comments for inclusion in the final report. The specific contents of the reports will vary depending on the nature of the individual audits, but reporting formats and general contents should be consistent with the prescribed report format.

The Chief Audit Executive must review the draft report before it is issued to the client for comments. The information communicated must be:

- *Accurate*: free from errors and distortions
- *Objective*: fair, impartial and unbiased
- *Clear*: easily understood and logical
- *Concise*: to the point, without unnecessary elaboration, superfluous detail, redundancy and wordiness
- *Constructive*: helpful to the engagement client and the organisation and lead to improvement where needed
- *Complete*: include all the relevant facts
- *Timely*: well timed, opportune and expedient for careful consider

Engagement results must be circulated to those who are in a position to take corrective action or to ensure that corrective action is taken. The draft report should be issued to the relevant line manager who will be responsible for the implementation of the agreed recommendations and comments should be obtained from the line manager/ as per agreed contact person in terms of the Audit Planning Memorandum.

The engagement results may be distributed to:

- The responsible unit manager
- Executive Management
- Relevant Head of Department
- Accounting Officer
- Audit and Performance Audit Committee

The internal auditors must obtain comments from management timeously. Management should submit their responses within 10 working days after issuing the draft audit report. The internal auditors must record all attempts to obtain management comments.

If a final internal audit report contains a significant error or omission, the Chief Audit Executive should communicate the correct information / report to all parties who received the original communication.

The responses of management should state the following if management agrees with the finding:

- Action plan to be implemented
- Accountable person
- Person responsible for implementing the action plan
- Date of completion of action plan.

If management disagrees with the finding:

- Provide a reason on why management disagrees.
- Provide evidence to substantiate disagreement.

The Senior Internal Auditor should evaluate the new evidence against the current working paper and should determine whether the finding would remain or should the working paper be adjusted based on the new evidence provided by management. If the finding remains, management should be informed of the decision and requested to provide an action plan. If management still disagrees, then both comments of management and internal audit should form part of the final report.

The internal auditors should analyse management comments received and consider the following:

- The adequacy and relevance of management's response to findings and recommendations
- Any disagreements raised by management on the findings
- Proposed actions by management
- The impact of management's actions on the report

The draft report and evidence of distribution to management should be kept on audit file. Receipt of the comments from management should also be kept on the audit file.

4.4.3 Discussion of findings with management (Close out meeting)

A workshop should be scheduled with the relevant management who will be responsible for implementation of the recommendation / agreed action plans. The purpose of the workshop is to brain storm and agree recommendations with management to ensure that it is practical to implement and the benefit of implementation outweighs the cost.

The Senior Internal Auditor will be responsible for arranging the workshop with all the relevant stakeholders. The Chief Audit Executive and all audit team members should form part of the meeting. The agenda should be distributed within three working days before the workshop.

Management should provide input into the practicality of recommendations, and their comments on recommendations will be included in the final audit report. Where there are disagreements between management and internal audit findings, it should be discussed at the relevant workshop. If there are no conclusions reached, the matter should be reported to the Audit Committee and Accounting Officer if the Chief Audit Executive is of the opinion that the residual risk or the impact of the risk is at an unacceptable level.

Minutes of the meeting should be kept on BarnOwl and saved on the audit file. Minutes should be distributed to all stakeholders and should be signed – off by the Chief Audit Executive.

4.4.4 Team debriefing meeting

After the completion of the audit, the Senior Internal Auditor should assess the performance of the team members and discuss the following:

- If objectives set out were met.
- Improvements from previous audit.
- Strengths
- Weaknesses

Within a month after the issuing of the audit report to management, a debriefing meeting should be held between the Chief Audit Executive and all team members to discuss the following:

- Results of the audit: Final report and management comments.
- Problems experience and agreed solutions.
- Lessons learned.
- Budgeted hours and actual hours.
- Recommendations from team members
- Performance review by the audit client and comments from the team.

Minutes of the team debriefing meeting should be documented on BarnOwl and saved on the audit file.

4.5 Reporting

The primary objective of reporting is to communicate effectively the results of the internal audit work, thereby helping to drive changes that contribute to the achievement of organizational objectives. The final audit report might be communicated to the following:

- Management
- Audit Committee
- External parties such as the Auditor General

4.5.1 Reporting to management

It is imperative that the Internal Audit team communicate as often as practically possible with the process owner and/ or senior manager concerned during the engagement.

The Chief Audit Executive should consider the following when issuing the final report to management:

- No findings should be included in the final audit report to management that have not previously been discussed with the relevant management / Head of Department.
- The finding should be associated with a business process and municipal risks to emphasize the risk based internal audit approach and the impact to the internal control environment.
- Agreement should be reached regarding the factual correctness of audit findings and root causes. If no agreement is reached, both management and internal audit comments should form part of the finding. Management comments should be included “verbatim” as part of the final report. Management comments should clearly identify:
 - The reasons for disagreement with recommendations and / or finding
 - The alternative course of action that management plans to follow (if any)
 - Justification for preferring the alternative course of action
 - The designation of the person who provides the comment
- Recommendations made by Internal Audit should not be regarded as the only alternative that might improve controls. It should be noted, that Internal Audit’s recommendations remain the recommendations of Internal Audit based on our assessment and professional judgement and that the risk and the mitigation of controls, remains the responsibility of management.

The final audit report should be communicated to the Accounting Officer and the relevant HOD / line manager. The final report and evidence of communication should be part of the audit file.

4.5.2 Capturing of action plans on the electronic audit file

After the final report has been issued to management, the action plans as agreed in the final report should be captured on BarnOwl. The Internal Auditor should ensure that these action plans are correctly captured and allocated to the responsible and/or accountable person.

4.5.3 Communicating to the Audit Committee

Internal Audit ultimately reports to the Audit and Performance Audit Committee (“APAC”) which normally meet four times per year.

While all information should be available to the APAC, internal audit should not overwhelm the committee with excessive detail. The Senior Internal Auditor should prepare a summary of the final audit report in a prescribed format and submitted it to the Chief Audit Executive for review.

The Chief Audit Executive should provide this summary to the members before the meetings. In the event the members request additional information, the Chief Audit Executive should provide them with the additional information. Evidence of distribution to the audit committee should be kept on the audit file. This audit summary of the final report should form part of the audit committee agenda.

4.5.4 Communicating results to external parties

Distribution of reports to external parties is subject to the municipality's laws and policies with regard to distribution of results to external parties. Prior to releasing the results to external parties, the Chief Audit Executive should:

- Assess the potential risk to the municipality
- Consult with senior management and/ or legal counsel as appropriate
- Control distribution of results by restricting the use of the results.

4.5.5 Closing of the audit file

The Senior Internal Auditor should ensure that the audit file is complete and complies with the IIA standard and our internal audit methodology. The Chief Audit Executive should review the audit file to ensure the audit file is complete and complies with legislation. The Chief Audit Executive should close the audit file.

On the BarnOwl system, the Chief Risk Officer and/or Risk Officer will be responsible to incorporate the risks identified during the audit as part of the section's risk register.

4.6 Monitoring and Follow Up

Management will capture responses on the agreed action plans continuously on the BarnOwl system. Management will capture the following information on the agreed action plan:

- Status summary on implementation of recommendations.
- Implementation status: Management should either select the following:
 - Not yet started
 - In progress – 25%
 - In progress – 50%
 - In progress – 75%
 - Completed – 99%
- Progress notes
- Uploading of evidence

The relevant Head of Department should complete the action plan as 100% after reviewing the action plan and evidence of completions provided by the responsible person.

Should action plans not be completed within the due date, management may request an extension on the date of implementation to the Chief Audit Executive. The responsible person should provide reasons on why the action was not completed within the given period. The Chief Audit Executive will assess the impact of extension on the control environment and discuss the extension and impact on control environment with the Accounting Officer and the relevant HOD.

The Senior Internal Auditor will monitor the progress of updating the action plans continuously. The Senior Internal Auditor will submit a report monthly to the Chief Audit Executive; this report will be communicated to the Accounting Officer and all Heads of Departments. The Senior Internal Auditor will submit a quarterly report to the Chief Audit Executive for submission of quarterly progress reports to the Audit Committee on the implementation of action plans.

Follow-up audits must be incorporated in the annual audit plans. Follow-up audits entail verification of implementation of management action plans and the impact the implementation of these action plans has on the control environment.

5. REVIEW

The Internal Audit Methodology will be reviewed on an annual basis.

6. APPROVAL

The Internal Audit Methodology will be approved by the Audit Committee and signed by the Chairperson of the Audit Committee:

**Dr Adele Potgieter
(CHAIRPERSON)**

DATE



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OFFICE OF THE MUNICIPAL MANAGER

Dear Sir / Madam

The Internal Audit Team is planning its audit for <audit area> as approved by the Audit Committee on the Risk based Internal Audit Plan <financial year>.

Before the beginning of our audit, we would like the opportunity to meet with you on <insert date> to discuss our audit objectives, solicit your input, perform an analysis on the control environment and have a detailed understanding of your internal control processes. The preliminary survey is aiming at:

- Acquiring a better understanding of the area being audited.
- Ensuring that an audit focus is determined based on a comprehensive analysis of the control environment.
- Identification of high-risk areas, which were not identified at high level planning assessment and emerging risks.

Our goal is to perform an effective and efficient audit. We will need your staff to provide us with the following documents and schedules on <date>:

Our mission is to help you achieve Garden Route District Municipality's objectives by providing you with assurance on the effectiveness of internal controls and by recommending courses of actions, which will improve your section's performance.

If you have any questions about this year's audit, please do not hesitate to call at <phone number> or email us at <email address>

Yours faithfully

<name and surname>

CHIEF AUDIT EXECUTIVE

APPENDIX B: Budgeted Hours

<Audit Area>

<WP Ref>

Budgeted hours

Description	Intern	Internal Auditor	Senior Internal Auditor	CAE	Total budgeted hours
	Initials	Initials	Initials	Initials	
Planning					
<insert steps>					
Execution					
<insert steps>					
Finalisation					
<insert steps>					

APPENDIX C: Control activity self-assessment review

<Audit Area>		
<Working Paper Reference Number>		
No.	Control activities	Rating
1	Management determines which relevant business processes require control activities; document the control policies, the procedure manuals.	
2	The municipality has policies and procedures addressing proper segregation of duties between the authorization, custody, recordkeeping, to facilitate the recording and accounting of transactions in compliance with laws, regulations, and provisions of contracts and grant agreements.	
3	Management performs periodic review of policies and procedures to determine their continued relevance, and reviews them when necessary.	
4	Effective control activities are in place to ensure validity, accuracy and completeness of transactions through the input, processing and output phases.	
5	Processes are in place to ensure the safeguarding of assets and information from unauthorised access or use.	
6	Processes are in place to ensure compliance with laws and regulations, policies and procedures and contractual obligations.	
7	Processes are in place to ensure effective, economic and efficient use of all resources.	
8	Management segregates incompatible duties. Where such segregation is not practical, management selects and develops alternative control activities.	
9	Management selects and develops control activities that are designed and implemented to restrict access rights to authorised users commensurate with their job responsibilities and to protect the municipality's assets from external threats.	
10	Effective risk assessment for the criticality and sensitivity of computerised operations and identification of supporting resources.	
11	Management selects and develops control activities over the acquisition, development, and maintenance of technology and its infrastructure to achieve management's objectives.	
12	There are effective data and program procedures to prevent and minimize potential damage and interruption, including off-site storage of backup data as well as staff training, and hardware maintenance.	

Rating Scale		
1 – No formal processes in place	2 – Process is documented, but not aligned with job descriptions and performance agreements	3 – Process is documented, staff received training on the process and job descriptions are aligned with the process responsibilities



MEETING AGENDA

Garden Route District Municipality, the leading, enabling and inclusive district, characterised by equitable and sustainable development, high quality of life and equal opportunities for all.

NAME OF MEETING

DATE:		TIME:	VENUE:
Item	Discussion	Responsible official	
1.	Opening		
2.	Welcoming		
3.	Apologies		
4.	Announcements		
5.	Adoption of previous minutes		
6.	Matters arising from the previous minutes		
7.	Presentations		
8.	Current agenda items		
9.	Date of next meeting		
10.	Closure		

APPENDIX E: Minutes Template



Minutes:		Name of meeting		Venue:	
Date:		Time from:		Time to:	
No	Item and Discussion				Responsible
1.	Opening and Welcoming				
2.	Present				
3.	Apologies				
4.	Minutes of previous meeting:				
5.	Matters arising				
6.	Standing items				
	6.1				
	6.2				
	6.3				
7.	New items				
	7.1				
	7.2				
	7.3				
8.	General and additional remarks				
9.	Date of next meeting				
10.	Closure				

List of acronyms

•
•



DECLARATION OF INTEREST STATEMENT

To be completed by Internal Auditors:

Name: _____

Date: _____

**Annual Code of Ethics and Conflict of Interest Declaration for the financial period
(01 July 2019 – 30 June 2020)**

CODE OF ETHICS

Rules of Conduct	Yes	No
1. Integrity <i>Internal Auditors:</i> 1.1 Shall perform their work with honesty, diligence, and responsibility. 1.2 Shall observe the law and make disclosures expected by the law and the profession. 1.3 Shall 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 organisation. 1.4 Shall respect and contribute to the legitimate and ethical objectives of the organisation.		
2. Objectivity <i>Internal Auditors:</i> 2.1 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 organisation. 2.2 Shall not accept anything that may impair or be presumed to impair their professional judgment. 2.3 Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.		
3. Confidentiality <i>Internal Auditors:</i> 3.1 Shall be prudent in the use and protection of information acquired in the course of their duties. 3.2 Shall 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 organisation.		
4. Competency <i>Internal Auditors:</i> 4.1 Shall engage only in those services for which they have the necessary knowledge, skills, and experience. 4.2 Shall perform internal audit services in accordance with the International Standards for the Professional Practice of Internal Auditing. 4.3 Shall continually improve their proficiency and the effectiveness and quality of their services.		

CONFLICTS OF INTEREST

No.	Details	Yes	No
1	Do you have any official, financial or personal relationship with anyone that might limit the extent of inquiries or disclosures, or the audits in any way?		
2	Do you have any preconceived ideas regarding persons, groups, organisations or objectives of an audit programme, which could influence or bias your audit mission?		
3	Have you any previous involvement in the decision making or management capacity that could affect the current operations of the departments to be audited?		
4	Do you have any political or social connection, resulting from a former employment or from receiving dues from a particular person, group, organisation or government level?		
5	Have you previously approved any policies, money orders and other payment instruments for the departments to be audited?		
6	Have you previously maintained the books of account for the departments to be audited?		
7	Have you any direct or indirect financial interest regarding the audited departments?		
8	Do you agree to treat information available to you as confidential and privileged and that you will not use or share the information available to you with any unauthorised person?		

Declaration

I certify that I have conformed to the Code of Ethics and have no conflicts of interest for the period 01 July 2019 to 30 June 2020 other than specified in the table above. If an issue arises that will impair my professional behavior and is not in the spirit of the Code of Ethics, or if a conflict of interest should occur in the coming year, I will immediately report it to the Chief Audit Executive and/or the Chairperson of the Audit Committee.

Specification of conflict of interest/possible conflict of interest

Signature: _____



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6529

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www.gardenroute.gov.za

OFFICE OF THE MUNICIPAL MANAGER

Enquiries:	
Reference:	4/1/2/4/1
Date:	

INTERNAL AUDIT REVIEW: <insert area>

As part of the Operational Internal Audit Plan for <insert period>, approved by the Audit Committee, the Internal Audit Unit is scheduled to perform a review of the above mentioned area. Internal audit's mandate is to assist Garden Route District Municipality to accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

STANDARDS AND GUIDANCE

The International Standards for Professional Practice of Internal Audit, established by the Institute of Internal Auditors (IIA), are used as guidelines to perform our audit.

Management is responsible for making all financial records and related information available to the auditor upon request in a timely manner and without restriction.

BACKGROUND

< insert >

MANAGEMENT CONCERNS

< insert >

OBJECTIVES AND SCOPE

The objective of the internal audit review is to obtain reasonable assurance regarding the adequacy and effectiveness of the system of internal control relating to <insert area>

The audit scope as described in the internal audit coverage plan would include the following activities / sub-processes within this area:

< insert >

APPROACH

The following steps will be followed during the execution of the internal audit work:

- We will evaluate the design of the controls for adequacy, effectiveness and efficiency;
- Control gaps identified during the evaluation of the design of controls will be reported to line management;
- We will test compliance to the **key** controls identified on a limited and representative sample of transactions subsequent to us evaluating the controls and finding it adequate;
- Instances of non-compliance to the identified key controls will be reported to management;
- Management comments will be obtained and action/implementation plans will be compiled following a facilitated session where the findings and the associated risks, as well as our suggested recommendation will be discussed; and
- A final report, incorporating the management action plan, will be issued to the **< insert department>**.

PERIOD COVERED AND SAMPLE SIZE

The period covered will be from **< insert >**

The sample size for this area will depend on the type of transactions included in the internal audit steps taken from the period under review as stipulated above, on a random basis and in co-ordinance with the following guideline.

Nature of Control and Frequency of Performance	Minimum Number of Items to Test
Manual control, performed daily and multiple times per day	At least 30
Manual control, performed weekly	At least 10
Manual control, performed monthly and quarterly	At least 2
Manual control, performed annually	At least 1

TIMING AND PLANNED HOURS

We will commence our detailed Internal Audit work on the **<<Insert date>>**, and we plan to complete the fieldwork by **<<insert date>>**

Action / Deliverable	Agreed Date
Commencement Date	
Date of completion of fieldwork	
Issue of draft report	
Receive final Management Action Plan	
Issue of final report	

AUDIT TEAM AND CONTACT DETAILS

The audit team will consist of the following individuals:

Name	Role	Contact Details
Vacant	Chief Audit Executive	044 803
Pamela Lufele	Senior Internal Auditor	044 803 1422
Mariska Pieterse	Internal Auditor	044 803 1421
Siphelele Notyhanga	Internal Auditor	044 803 1465
Vacant	Intern	044 803

REPORTING AND COMMUNICATION

During the course of our audit, it is possible that we may observe opportunities for economies of operation and for improved internal administrative, accounting or other key controls; we may also observe variances or non-compliance with applicable laws, regulations and contracts that should be brought to your immediate attention.

Audit findings are categorized as critical, significant or housekeeping. The assessment is based on the impact, probability and controllability aspects of risk on the business.

The new Internal Audit and Risk Management system will be used to communicate request for information as well as comments from identified weakness, if any. The relevant line managers will be given a maximum of **2 working days** to respond to these queries; depending on the volume of information on the query, additional time to respond may be granted.

Our comments and recommendations concerning such matters, if any, will be conveyed to you in writing. The draft report will be issued to management to provide responses within **10 working days**. The final report will be submitted to the responsible line management for discussion and confirmation of the plan of action. As part of this planning document, it is agreed that the final report for this audit area will be cleared with the **<insert HOD>**.

ACCEPTANCE

We look forward to a pleasant association and the opportunity to provide the services included in this engagement. Should you have queries or comments with regard to the contents of this letter, please do not hesitate to contact **<CAE>** at **<insert contacts>**.

If the proposed scope and arrangements meet your expectations, please sign below and return the agreement to us.

Please ensure that this document is forwarded to the line managers in **<insert section>** once signed, as they are expected to be assisting us with information during the audit.

Respectfully,

<name and surname>
Chief Audit Executive

<name and surname>
Executive Manager:



Audit Planning Tool

Name of Audit:	
Period:	
CAE- Chief Audit Executive; SIA– Senior Internal Auditor; IA– Internal Auditor	

Detailed Planning

1. PLANNING

No	Function	Responsible Person	Budgeted Hours	Actual Hours	Status
1.2	Create audit file	SIA			
1.3	Hard & Soft Copy on Drive	IA			
1.4	BarnOwl	SIA			
1.5	Team Meeting	SIA			
1.6	Notification letter	IA			
1.7	Annual Planning Memorandum	IA			
1.8	Client Contact Meeting	IA/SIA			
1.9	Team Meeting	SIA			

2. SYSTEM DESCRIPTION

No	Function	Responsible Person	Budgeted Hours	Actual Hours	Status
2.1	Set up meeting for System Description	SIA			
2.2	Draft system description	IA			
2.3	Review draft system description	SIA			
2.3	Confirm system description with auditee	IA			
2.4	Send RFI for Walkthrough sample	IA			
2.5	Document Walkthrough	AIA			
2.6	Review Walkthrough	IA/SIA			
2.7	Audit Approach	SIA			
2.8	Risk / control matrix & Audit program	SIA			
2.9	Review of Audit program	CAE			
2.10	Team meeting	SIA			

3. FIELD WORK

No	Function	Responsible Person	Budgeted Hours	Actual Hours	Status
3.1	Draft working papers for substantial testing	ALL			
3.2	Verify Data Integrity (Sample population)	SIA/IA			
3.3	Send our RFI for sample	IA			
3.4	Perform testing	ALL			
3.5	Review Working Papers	IA			
3.6	Final Review of Working Papers	SIA			

4. DRAFT REPORT

No	Function	Responsible Person	Budgeted Hours	Actual Hours	Status
4.1	Draft Finding	ALL			
4.2	Review of draft findings	SIA			
4.3	Compile draft report	IA			
4.4	Submit draft report to SIA	IA			
4.5	Review and submit draft report to CAE	SIA			
4.6	Load report on BarnOwl	IA			
4.7	Discuss findings with Management and obtain action plans (Close out meeting)	SIA			
4.8	Update BarnOwl with action Items	IA			

5. FINAL REPORT

No	Function	Responsible Person	Budgeted Hours	Actual Hours	Status
2.1	Finalise Report	SIA/IA			
2.2	Issued to management and Audit Committee	CAE			

Summary of budgeted time allocation

Our planned hours for completion of this assignment are based on the approved Operational Internal Audit Plan, and are as follows:

Phase	Performed by	Starting Date	Completion Date	Number of hours
Planning – Notification & APM	SIA			
Draft & Confirmation of System Description	IA & SIA			
Draft & Confirmation of Audit Program	IA & SIA			
Draft & Review of Working Papers	IA			
Field Work & Testing	Auditors			
Draft Report	IA & SIA			
Close and Management Action Plan	SIA & CAE			
Final report	SIA & CAE			
Total Hours				