

MATJHABENG LOCAL MUNICIPALITY
INTERNAL AUDIT PLAN: 2018/19 – 2020/21

MATJHABENG LOCAL MUNICIPALITY



OFFICE OF THE MUNICIPALITY MANAGER

SUB-DIVISION: INTERNAL AUDIT

THREE YEAR ROLLING PLAN

2018-2021

INTERNAL AUDIT PLAN

**MATJHABENG LOCAL MUNICIPALITY
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1. INTRODUCTION

1.1 Terms of Reference

Paragraph 3.2.7 of the Treasury Regulations, requires Internal Audit to prepare in consultation with and for approval by the Audit Committee:

- a) A rolling three-year strategic internal audit plan based on its assessment of key areas of risk for the Municipality, having regard to its current operations, those proposed in its strategic plan and its risk management strategy; and
- b) An annual internal audit plan for the first year of the rolling three-year strategic internal audit plan.

Standard 2010 of International Standards for Professional Practice of Internal Auditing requires the Chief Audit Executive to establish risk-based plans to determine the priorities of the Internal Audit Activity which are consistent with the municipality objectives and goals.

1.2 Internal Audit Mandate

Section 165 (2) of the Municipal Finance Management Act, stipulates the following: The internal audit unit of a municipality must.

- The aim is to incorporate all key risk areas into the strategic internal audit plan to ensure that all high risk areas are covered over a three year period 2018 – 2021.
- The objective of this process is to prepare an Internal Audit plan, in consultation with the audit committee.
- Provide guidelines on the activities of Internal Audit Municipality
- Prepare a risk based audit plan and an internal audit program for each financial year.
- A rolling three year strategic internal audit plan based on an risk assessment considering its current operations
- An annual internal audit plan for the first year of the rolling plan.
- Advise the accounting officer and report to the audit committee on the implementation of the internal audit plan etc.
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1.3 Purpose of this Document

This document sets out the Internal Audit Plan for the period 2018/19 to 2020/21 for consideration and approval by the Audit Committee. The plan incorporates the:

- Three-year rolling Strategic Plan the period 2018/19 to 2020/21 ; and
- Annual Internal Audit Plan for the financial year ending 30 June 2019.

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The Internal Audit Plan is designed to provide the scope of Internal Audit Activities for the three year period.

It should be noted that the plan is intended to be a life document, thus changes in circumstances may warrant changes to the plan. All such changes to the plan will be communicated to Management for noting and Audit Committee for consideration and approval. Furthermore The Internal Audit Plan for the Matjhabeng local municipality was designed to provide an independent, objective assurance and advisory service, in an efficient and effective manner, to the following key stakeholders:

- the municipality's Council through the Audit Committee of the municipality
- Municipal Manager;
- Local line management;
- Audit Committee.

The overall approach was to formulate a risk-based Annual Internal Audit Plan to align the priorities of the Internal Audit function with the strategic objectives and goals of the Matjhabeng Local municipality and the related strategic and major business risks as identified by management and the Auditor General

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2. INTERNAL AUDIT – ROLES AND RESPONSIBILITIES

The institution of Internal Auditors defines internal audit as follows:

“... An independent objective assurance and consulting activity designed to add value and promote organization's operations. It helps an organization to accomplish its objectives by bringing as systematic, discipline approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

The Internal Audit Activity evaluates and contributes to the improvement of risk management, control and governance systems. Internal Audit Activity adopted a risk-based audit approach and it subscribes to the Code of Ethics of the Institute of Internal Audit and it strives to conduct the reviews according to the International Standards for the Professional Practice of Internal Auditing as well as relevant Government Legislative Framework

2.1 Scope of Internal Audit Activity

The scope of this planning process is to ensure that the regulatory audit plan is implemented

- Three year strategic internal audit plan; and
- One year regulatory internal audit plan.

The following steps will be taken to ensure the effective implementation of the internal audit plan:-

- The results of the risk assessment will be used as a basis for drafting the regulatory audit plan;
- Identify and assess risk at the beginning of each internal audit assignment, and design control testing procedures accordingly;
- Update and maintain the database of risks for the purpose of internal audit coverage through the following:
 - The performance of assurance reviews;
 - Information provided by management; and
 - Information obtained from external audit reports and management reports.

The implementation and execution of the strategic rolling internal audit plan and the annual internal audit plan will be done within the framework of the municipality's Internal Audit charter and as per professional practice of internal auditing. The scope of the execution of the annual internal audit plan will be influenced by the availability of resources in the internal audit section.

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2.2 Annual Budget:

The annual budget allocations for Internal Audit Budget for 2018/19 period are shown in the table below:

a. Annual Budget

The three- year budget of the Internal Audit Unit is as follows:

| BUDGET | Budget 2016/17 | Budget 2017/18 | Budget 2018/19 |
|-------------------|---------------------------|---------------------------|---------------------------|
| | R | R | R |
| Total Expenditure | 3 718 015,00 | 3 926 223,00 | 3 936 064,00 |

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3. STRATEGIC OVERVIEW OF THE MUNICIPALITY

3.1 Vision and Mission

The vision of the Municipality is “To provide through good governance an effective and efficient people-centered administration that will facilitate the developmental role of local government, taking into account our cultural diversity and improvement of service delivery to our rural and urban communities.

The mission to reach this vision will include

- Maximize efficient and effective utilization of resources to achieve a viable and developmental local government.
- Improve the quality of life of residents and customers by providing quality, accessible and affordable services.
- Deliver sustainable services.
- Improve Community – Council relationships through frequent interaction.
- Provision of capacity to local communities.
- Promotion of social and economic development.
- Creation of a safe and healthy environment.
- Encouragement of communication and participation.
- Implementation of the IDP.
- Adequate training and development of staff and political office bearers.
- Promoting the culture of unity and diversity.
- The promotion of tourism, our natural and historical heritage.

3.2 Management Responsibilities

Management is responsible for the establishment and maintenance of an effective system of governance, risk management and internal controls. The objectives of the system of internal controls are, *inter alia*, to provide management with reasonable, but not absolute assurance that:

- Risks are properly managed;
- Assets are safeguarded;
- Financial and operational information are reliable;
- Operations are effective and efficient; and
- Laws, regulations and contracts are complied with.

The principal safeguard against fraud, misstatement and irregularities is an effective system of internal controls. It must, however, be recognised that there are inherent limitations in any system of internal controls, including human errors and circumventions through collusions. The prevention and detection of fraud therefore, remains management’s responsibility.

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3.3 Legislative Mandate

The following is some of the national laws and regulations that govern the Municipality:

3.3.1 Core- Business related legislation

- Constitution of the republic of South Africa, 1996
- Local Government Municipal Demarcation Act, No.27 of 1998
- Local Government Municipal Structures Act, No.117 of 1998
- Local Government Municipal Systems Act, No.32 of 2000
- Local Government Municipal Financial Management Act, No 56 of 2003
- Local Government Municipal Property Rates Act, No. 6 of 2004

3.3.2 Administrative Legislation

The Municipalities' administrative functions are regulated by a number of the following national transversal laws and regulations:

Employment Equity Act, 1998 (Act No. 55 of 1998)

Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000)

Labour Relations Act, 1995 (Act No. 66 of 1995)

Basic Conditions of Employment Act, 1997 (Act No. 75 of 1997)

Skills Development Act, 1998 (Act No. 97 of 1998)

Municipal Financial Management Act, No 56 of 2003

Division of Revenue Act (Annually)

National Archives Act (Act No. 43 of 1996)

Occupational Health and Safety Act (Act No. 85 of 1993)

Collective Agreements

Treasury Regulations

4 Basis for the Plan

The plan was prepared based on:

- Auditor-General Management letter.
- The plan does takes into account any additional management requests that may be received during the year by making hours available for any special/ad hoc requests to be received.

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TABLE A

Three-year rolling Internal Audit Plan

| No. | Programme/Sub-programme | Business Process | Inherent Risks | 2018/19 Year | 2019/20 Year | 2020/21 Year |
|------------|--------------------------------|-----------------------------|---|---------------------|---------------------|---------------------|
| 1. | Financial Accounting/Reporting | Financial Statements Review | <ul style="list-style-type: none"> Compulsory/ Mandatory | √ | √ | √ |
| 2. | Revenue | Revenue | <ul style="list-style-type: none"> Follow up on prior year: Revenue: Service Charges Revenue: Property rates: Properties not being billed for property rates Revenue: Property rates: Tariff codes used differ from usage codes Revenue (Service Charge): Meter reading Revenue (Service Charge): Sewerage and Refuse charges Revenue (Other income): Fresh Produce Revenue (Other income) Rental income Revenue (Other Income): Rental of facilities Revenue (Service Charge): | √ | √ | √ |

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| No. | Programme/Sub-programme | Business Process | Inherent Risks | 2018/19 Year | 2019/20 Year | 2020/21 Year |
|------------|--|--|--|---------------------|---------------------|---------------------|
| 3. | Supply Chain Management and Budget and Expenditure | Supply Chain Management and Budget and Expenditure | <ul style="list-style-type: none"> • Awards were made to providers who are in the service of other state institutions or whose directors or principal shareholders are in the service of other state institutions, in contravention of MFMA 112(j) and SCM regulations • Deviations from Procurement policy as a result of e.g. emergency, sole provider of services • Bidding Process • Composition of Bid Committees | √ | √ | √ |

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| No. | Programme/Sub-programme | Business Process | Inherent Risks | 2018/19 Year | 2019/20 Year | 2020/21 Year |
|------------|--------------------------------|-------------------------|---|---------------------|---------------------|---------------------|
| 4. | Assets Management | Assets Management | <ul style="list-style-type: none"> • Immovable assets: Physical verification. • Movable Assets - Disposals • Movable Assets - Physical Verification • Movable assets: Additions Movable assets: | √ | √ | √ |

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| No. | Programme/Sub-programme | Business Process | Inherent Risks | 2018/19 Year | 2019/20 Year | 2020/21 Year |
|------------|--------------------------------|---------------------------------|--|---------------------|---------------------|---------------------|
| 5 | Performance | Performance Information | <ul style="list-style-type: none"> • POEs: Completeness • Pre-Determined Objectives- Key performance indicators and targets were not set for all priorities/objectives in the IDP. • Pre-Determined Objectives: Difference between reported and audited performance achievement • Pre-determined Objectives: No consistency between planned and reported priorities/objectives • Pre-Determined Objectives: Performance indicators/measurement not well-defined | √ | √ | √ |
| 6. | Information Technology | Information Technology Services | <ul style="list-style-type: none"> • General IT controls: Information technology governance • General IT controls: Information technology service continuity • General IT controls: Security management • General IT controls: User access management | √ | √ | √ |
| 7. | Risk Management | Risk Management | <ul style="list-style-type: none"> • Risk Management process • Risk Management policy • Risk Management Strategy | √ | √ | |

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5. Audit Staff

The approved Organizational Structure of the Internal Audit Units comprises of the following positions:

| Position | Status | Academic Qualification |
|---|--------|---|
| 1. Manager | Filled | B.Com, Forensic and Investigative Audit; Municipal Finance Management Programme |
| 2. Senior Internal Auditor : Performance | Filled | B.Com, CPMD Programme in forensic and investigative auditing Programme in Risk management |
| 3. Senior Internal Auditor: Operational | Vacant | - |
| 4. Internal Auditor | Filled | B.Com, Certf in Computer Auditing, Programme in forensic and investigative auditing |
| 5. Internal Auditor | Filled | B.Tech, Municipal Finance Management Programme Programme in forensic and investigative auditing Programme in Risk management |
| 6. Internal Auditor | Filled | B.Tech (internal audit), Btech (project Management) |
| 7. Internal Auditor | Vacant | - |
| 8. Internal Auditor | Vacant | - |

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| | | |
|-------------------------|--------|---|
| 9. Internal Auditor | Vacant | - |
| 10.Internal Auditor | Vacant | - |
| 11.Internal Auditor | Vacant | - |
| 12.Internal Audit clerk | Vacant | - |

6. AUDIT HOURS AVAILABLE

Projected Hours

| | |
|-------------------------------------|-----------------------|
| Manager | 782,00 |
| Senior Internal Auditor | 1912,00 |
| Internal Auditor | 1912,00 |
| Internal Auditor | 1912,00 |
| Internal Auditor | <u>1912,00</u> |
| Total Hours for the year | <u>8430,00</u> |
| Less Holidays | 590,00 |
| Less Leave Days | <u>843,00</u> |
| Actual Audit Hours available | <u>8177,00</u> |

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7. AUDIT UNIVERSE – 2018/19

An audit universe represents the potential range of all audit activities and is comprised of a number of auditable entities. These entities generally include a range of programs, activities, functions, structures and initiatives which collectively contribute to the achievement of the municipal strategic objectives.

Components of the Audit Universe are identified as functions of the Municipality. This has been selected in order to ensure the alignment of the internal audit activities with the objectives of the Municipality. Over and above the functional areas identified as elements of the audit universe, there are mandatory audits that must be performed as required by legislation or resolutions of council.

The Table below depicts different basis for identification of mandatory elements of the audit universe:

| No | Auditable Area | Basis for Identification |
|----|--|---|
| 1. | Risk Management | Municipal Finance Management Act requires that Internal Audit must advise the accounting officer and report to the Audit committee on matters relating to risk and risk management. |
| 2 | Governance | IIA standards definition of the Nature of Work of the Internal Audit. |
| 3. | Performance Information | Section 165 of Municipal Finance Management Act requires that Internal Audit must advise the accounting officer and report to the audit committee on matters relating to performance. |
| 4. | Compliance with Acts, policies and Legislation | Section 165 of Municipal Finance Management Act requires that Internal Audit must advise the accounting officer and report to the audit committee on matters relating to compliance with acts, legislations and policies. |

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8. ANNUAL INTERNAL AUDIT PLAN 2018/19

Approach

All risks rated high were selected and included for audit in the Internal Audit Plan for 2018/19. Those are the risks that are likely to happen or likely to occur more than once, and will have critical and negative outcomes to the achievement of the objectives.

The prioritisation was also made based on the capacity/human resources within the Internal Audit unit. The audit hours were therefore allocated in terms of available personnel in the audit unit.

TABLE B Annual Internal Audit Plan 2018/19

| Project | Auditable Process | Auditable Process | Audit Objective | COMPLIANCE | FINANCIAL | OPERATIONAL | PERFORMANCE | FORENSIC | TOTAL HRS |
|---------|------------------------|--|---|------------|-----------|-------------|-------------|----------|-----------|
| 1. | Risk Management Audit. | <ul style="list-style-type: none"> • Identification of Risks: Strategic, Operational & Compliance. • Assessing the risks: Strategic, Operational & Compliance. • Preparation of risk register | To review and evaluate the effectiveness and efficiency of Risk management processes and operations; as designed and implemented by Management; as well as its compliance to applicable Acts and Regulations. | X | | X | | | 344 |

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| Project | Auditable Process | Auditable Process | Audit Objective | COMPLIANCE | FINANCIAL | OPERATIONAL | PERFORMANCE | FORENSIC | TOTAL HRS |
|----------------|----------------------------------|---|---|-------------------|------------------|--------------------|--------------------|-----------------|------------------|
| 2. | Compliance and Governance Review | Ensure compliance to all applicable legislation, Acts and policies | Review financial and operation processes to verify compliance to applicable Acts, Policies and Legislations. | X | X | X | | | 1496 |
| 3 | Monitoring of Audit action Plan | Ensure that all the issues that have been raised by Auditor General are addressed | To review the adequacy and effectiveness of controls aimed at compliance with relevant financial and Operational laws, Acts and regulations | X | X | X | X | | |

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| Project | Auditable Process | Auditable Process | Audit Objective | COMPLIANCE | FINANCIAL | OPERATIONAL | PERFORMANCE | FORENSIC | TOTAL HRS |
|---------|-------------------------|--|---|------------|-----------|-------------|-------------|----------|-----------|
| 4. | Performance Audit Q1-Q4 | <ul style="list-style-type: none"> Audit of performance information. basic service delivery KPA2:municipal transformation and organizational development KPA 4: good governance and public participation kpa3:municipal financial viability and management KPA 5: local economic development | To review the adequacy and effectiveness of operational systems designed to achieve Municipal objectives and applicable compliance with laws and regulations. | X | X | X | X | | 888 |
| 5. | Supply Chain Management | <ul style="list-style-type: none"> SCM Policy Supplier Data Base Bid Committees Bid Tendering Process Declaration of Interest | To review the operational adequacy; efficiency and effectiveness of controls meant to ensure compliance with laws and regulations | X | X | X | | | 800 |

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| Project | Auditable Process | Auditable Process | Audit Objective | COMPLIANCE | FINANCIAL | OPERATIONAL | PERFORMANCE | FORENSIC | TOTAL HRS |
|---------|----------------------------|--|---|------------|-----------|-------------|-------------|----------|-----------|
| 6. | Expenditure | <ul style="list-style-type: none"> • Payment Period • Creditors Reconciliation • Payment Authorization • Funds Verification against budget | To review and evaluate the operational adequacy; efficiency and effectiveness of controls meant to ensure compliance with laws and regulations in Expenditure | X | X | X | | | 824 |
| 7. | Revenue | <ul style="list-style-type: none"> • Connections. • Billing & Invoicing. • Other Income. • Reconnections. • Disconnections. • Tariffs. | To review and evaluate the operational adequacy; efficiency and effectiveness of controls meant to ensure compliance with applicable laws and regulations in Revenue section. | X | X | X | | | 512 |
| 9 | Contract Management/ Legal | <ul style="list-style-type: none"> • Contract Management Register Completeness. | To review the adequacy and effectiveness of controls and | X | X | X | | | 344 |

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| Project | Auditable Process | Auditable Process | Audit Objective | COMPLIANCE | FINANCIAL | OPERATIONAL | PERFORMANCE | FORENSIC | TOTAL HRS |
|---------|------------------------|--|--|------------|-----------|-------------|-------------|----------|-----------|
| | | | evaluate compliance with applicable laws and regulations. | | | | | | |
| 10 | Information Technology | <ul style="list-style-type: none"> • Security Management • Information technology governance • User access management • Information technology disaster management plan | To review and evaluate the operational adequacy; efficiency and effectiveness of controls meant to ensure compliance with applicable laws and regulations. | X | | X | | | 528 |
| 11 | Asset Management | <ul style="list-style-type: none"> • Fixed Asset Register • Asset Register GRAP Compliance • Additions • Disposals • Recording and movement of inventory • Safe keeping of inventory | To review the adequacy and effectiveness of controls and determine compliance with policies and regulations | x | x | x | | | 840 |

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9. REPORTING

Communication, particularly through reports, is an essential element of the internal audit process. Reports will clearly demonstrate the control and operating concerns identified from the audit, the cause and potential impact thereof, reasoned recommendations for change and agreed programme of action.

The Internal Audit Function will report quarterly to the Audit Committee and regularly to the Accounting Officer on the achievement of the plan based on the available resources.

10. RESTRICTION ON DISTRIBUTION OF THIS PLAN

This plan has been prepared for the sole and exclusive use of the Municipality and may not be made available to anyone other than authorized persons within the Municipality, nor relied upon by any third party without the prior written consent of the Audit Committee.

11. APPROVAL OF THE PLAN

This plan is prepared by the Manager: Internal Audit and respectively discussed and agreed with the Executive Management and presented to the Audit Committee for approval.