STRATEGIC RISK BASED INTERNAL AUDIT PLAN 2017-2020

AND

ANNUAL RISK BASED INTERNAL AUDIT PLAN 2017-2017/2018

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1   INTRODUCTION

1.1 Introduction

The Institute of Internal auditors South Africa (iiasa) defines Internal Audit as:

"......an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes."

The International Standards for the professional practice of internal auditing (hereafter referred to as Standards) require that:
"The Internal Audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually." (Standard 2010.A1)

The purpose of this document is to provide management and the Audit and Performance Audit Committee with:

i)   An understanding of Internal Audit's risk-based approach to developing its three year Strategic Plan (2017-2020) and

ii)   The proposed Operational Plan for 2017-18.

1.2 BACKGROUND

The Manager Internal Auditor (referred to under Standards as the Chief Audit Executive) is required by the *Standard* to:

a) Evaluate the design, implementation and effectiveness of the municipality's ethics-related objectives, programmes and activities;
b) Evaluate the effectiveness and contribute to the improvement of risk management processes; and
c) Assist the municipality in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

1.3 ASSURANCE PROVIDERS AND LIMITATION

Internal Audit is a management tool that forms part of the municipality's assurance framework. The Council will have other sources of assurances on which it can rely, such as: the risk management framework; policies and procedures; financial regulations and the Code of Conduct, as well as other independent sources of assurance ,for example external audit.

As would be consistent for any Internal Audit Service, given the finite Internal Audit resources available, it would not be possible to provide audit coverage of all aspects of the Council's activities within a given year. Therefore the plan of Internal Audit activity aims to address all the risks within the three year audit cycle, that's been identified across the auditable areas, as part of the risk assessment process.
The three year plan is based on the strategic risks identified on the strategic risk register of the Council.
The annual plan will primarily be focused on the more significant (high) inherent risks.

The level of internal audit activity represents a deployment of the Council's internal audit resources.

Internal Audit must:

"Identify and consider the expectation of senior management, the board and other stakeholders for internal audit opinions and other conclusions". (STANDARD 2010.A2)"

"Communicate the internal audit activity's plans and resource requirement, including significant interim changes, to senior management and the board for review and approval". (STANDARD 2020)

The "Board" in local government is referred to as the Council and they have delegated their role to the Audit and Performance Audit Committee. This is set out in the municipality's Internal Audit Charter.

They have send the Strategy and Plan to the following members for their considerations and comments:

Jurie Van Dyk	Chairperson of Audit and Performance Audit Committee
Chris De Jager	Member of Audit and Performance Audit Committee
Lysander Prins	Member of Audit and Performance Audit Committee
Graham Lawrence	Member of Audit and Performance Audit Committee
Reyhana Gani	Member of Audit and Performance Audit Committee
Henry Prins	Municipal Manager
Henk Matthee	Director: Technical Services
Wilhelm Markus	Director: Admin and Community Services
Johan Koekemoer	Director: Financial Services

2 Approach

Internal Audit's work will be performed in accordance with:

- International Standards for the professional practice of internal auditing;
- Internal Audit Charter
- National Treasury's Internal Audit Framework –March 2009

Internal Audit's five step approach to developing the Audit Strategy (2017-2020) and Operational Plan (2017-18) is set out below.

1	Define the auditable areas	Auditable areas represents all things (functions, locations, and processes) that are considered "auditable" by the Internal Audit.
2	Assess the inherent risk	Assess the inherent risk of each auditable unit based on impact and likelihood criteria. This assessment of risk is linked to the Council's objectives and risks.
3	Assess the significance of controls	Identification of auditable areas with a high reliance on controls.
4	Determine audit frequency	Calculate how often each auditable areas should be subject to audit taking account of the inherent risk and the significant of the controls.
5	Define the audit plan	Determine the timing and scope of audit work based on the municipality's priorities and consider additional audit requirements to those identified from the risk assessment process.

STEP 1-DEFINE THE AUDITABLE AREAS

Internal Audit has identified the auditable areas for the municipality.
Auditable areas include functions, processes, systems, or locations. Any processes or systems which cover multiple areas are grouped under the cross cutting auditable area.

The articulation of Auditable Areas is not intended to convey the municipal structure or reporting lines of the organisation.

STEP 2- ASSESS THE INHERENT RISK

"To develop the risk-based plan, the chief audit executive consults with senior management and the board and obtains an understanding of the organization's strategies, key business objectives, associated risks, and risk management processes. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls (STANDARDS 2010)

The Internal Audit plan should focus on the most risky areas of the municipality.

Risk is defined within the municipality's Risk Management Policy as:
"An uncertain future event (threat or opportunity) that could influence the achievement of the municipality's strategic goals and business objectives."

Inherent risk is defined as:
*"The impact that the risk will have on the achievement of objectives if the current controls in place are **not** considered."*

Within this Strategy and Plan, each auditable area is allocated an inherent risk score.

The inherent risk assessment is derived primarily from the risk registers prepared by management within the municipality (Strategic Register and the Operational Risk Registers).
All areas of inherent risks will be considered within the three year audit cycle.

STEP 3- ASSESS THE SIGNIFICANCE OF CONTROLS

Management will typically have controls in place / will take action to respond to / manage the identified risks.

Residual risk is defined as:
"Means the remaining exposure after the perceived effectiveness of controls/treatments has been taken into consideration. (The remaining risk after management has put in place measures to control the inherent risk).."

The difference between inherent risk and residual risk demonstrates the significance of the action being taken to respond to / manage the risk.

Inherent Risk – Residual Risk = Significance of the controls/mitigating action

Internal Audit can perform two roles:
(1) The provision of objective assurance; and

(2) The provision of proactive advice and guidance to improve management of risks, add value and improve the Council's operations.

(3) To assist external audit in auditing mutual audit areas, with a view to reduce external audit costs.

(4) Identify Gaps and recommends improvement in controls to management, through our internal audit reports

It is of most benefit to the Council for the Internal Audit to provide objective assurance where the controls in place are significant (i.e. they significantly reduce the level of inherent risk to an acceptable residual level).

Internal Audit can add value in providing proactive advice and guidance engagements where systems are in development or where help is needed to identify ways of reducing the level of residual risk to a more acceptable level.

This approach is represented diagrammatically below:
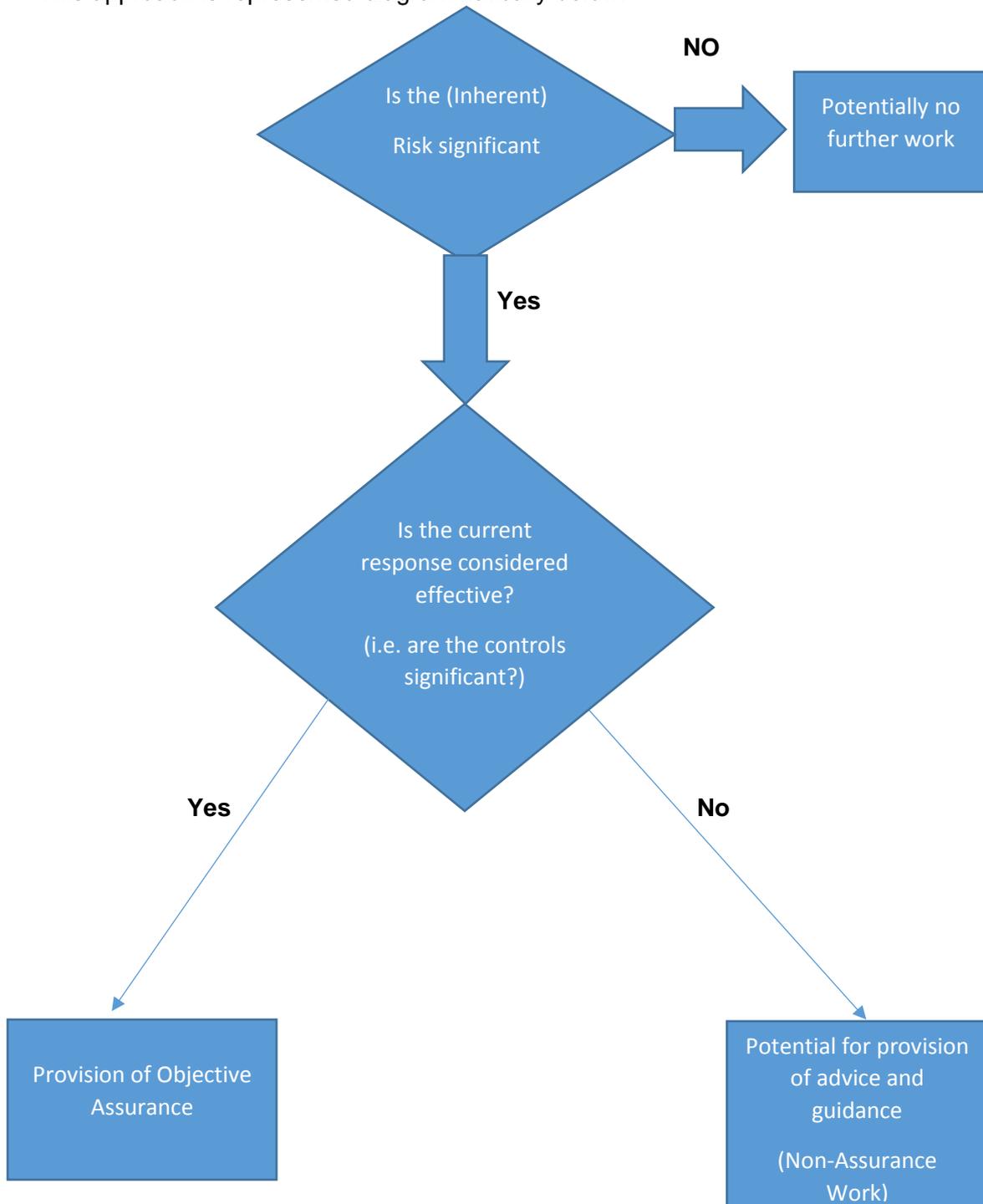
The significance of the controls is derived primarily from the risk registers prepared by management within the Council, being the difference between the inherent and the residual risk.

STEP 4 – DETERMINE THE AUDIT FREQUENCY

The significance of the control / response is used to determine the audit frequency.

SIGNIFICANCE OF CONTROLS
(percentage reduction from the inherent to residual)

0%   100%
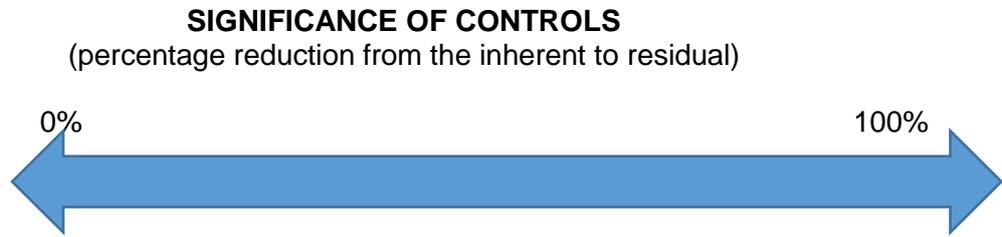
Inherent Risk Rating as per Risk Register	0-20%	21-40%	41-60%	61-80%	81-99%
15-25(High)	Possible Advice and Guidance		RED		
8-14 (Medium)	Possible Advice and Guidance		YELLOW		
7-13 (Low)	GREEN				YELLOW

Auditable areas must be reviewed annually, every two years and every three years

COLOUR CODING	AUDIT FREQUENCY
RED	ANNUALLY
YELLOW	EVERY 2 YEARS
GREEN	NO FURTHER WORK

STEP 5-DEFINE THE AUDIT PLAN

Individual audit (objective assurance) will be carried out using a range of techniques. These techniques may include (but are not limited to):

SYSTEMATIC AUDIT	A "full" audit in which every aspect and stage of the audited subject is considered. It includes review of both the design and operation of controls.
COMPLIANCE AUDIT	Where there is pre-existing confidence that controls are well designed, but effective operation of the controls is a material issue, audits that test only for effective operation of controls.
SYSTEMS DEVELOPMENT AUDIT	Review of plans and designs for new systems and processes aimed at providing assurance on controls being designed into future systems and on the adequacy of the project/change process.

As discussed previously, Internal Audit may also be utilised in an advice and guidance role. This role can be undertaken to improve management of risks, add value and improve the Council's operations. The advice and guidance role can be performed where management has already acknowledged (through the risk management process) that risks are not currently been managed to an acceptable level.

Where management has acknowledged this, the provision of assurance is not required (as it would simply be telling management what it already knows). Accordingly, no opinion will be given and Internal Audit will provide advice and guidance to management in developing internal controls. Moreover the audit methodology (for example sample sizes etc.) does not strictly need to be applied.

Such assignments however need to be considered in terms of the municipality's risk management framework and the independence of the Internal Audit function:

"Internal auditors must incorporate knowledge of risks gained from consulting engagements into their evaluation of the organisation's risk management / control processes." (STANDARD 2120.C2 and 2130.C1)

"When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risk." (STANDARD 2120.C3)

3 Auditable Areas

SO-Strategic Objectives

SO 1 Environmental Integrity	SO 2 Economic Growth	SO 3 Social Well Being
Environmental Health and Safety	Tourism	Social Development
Spatial Planning	Facilitation of Job Opportunities	Disaster Management(Public safety)
		Fire Services
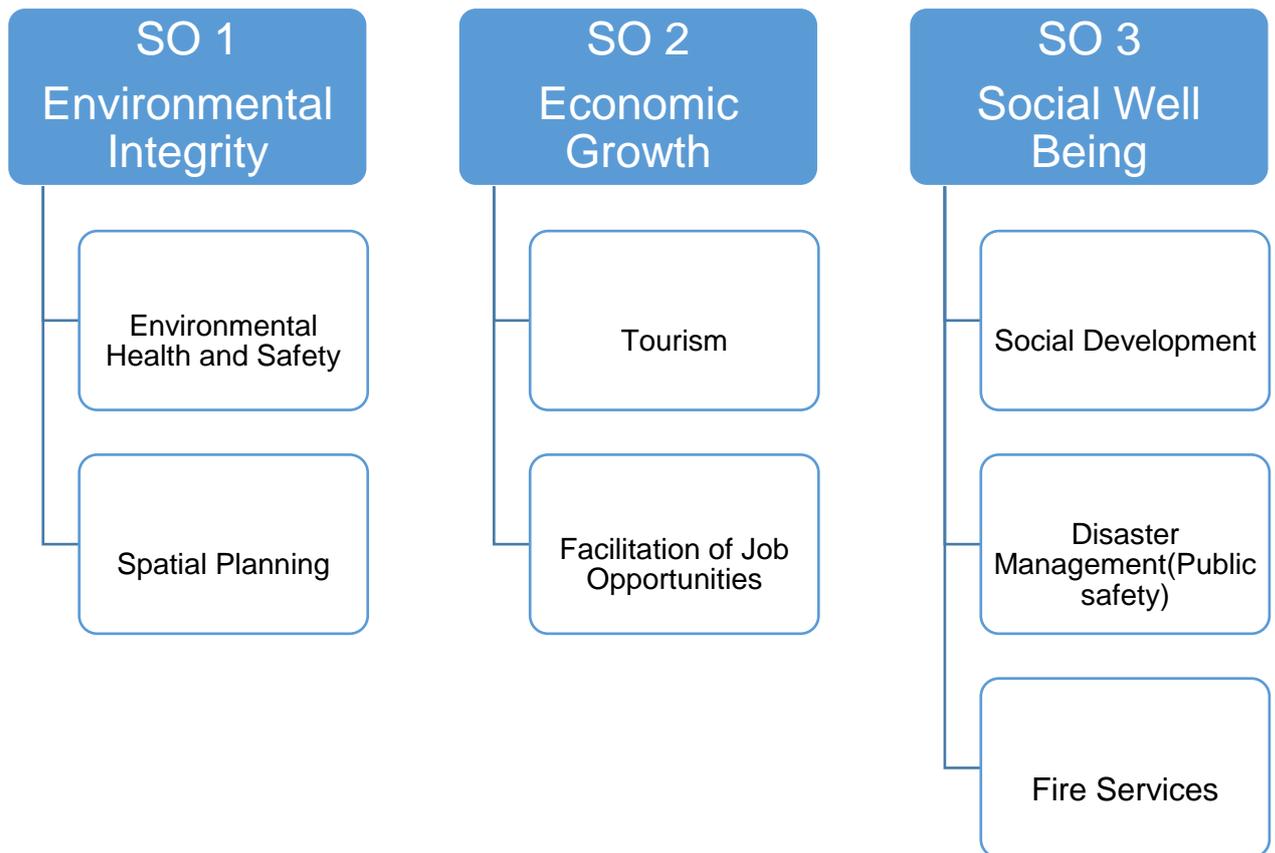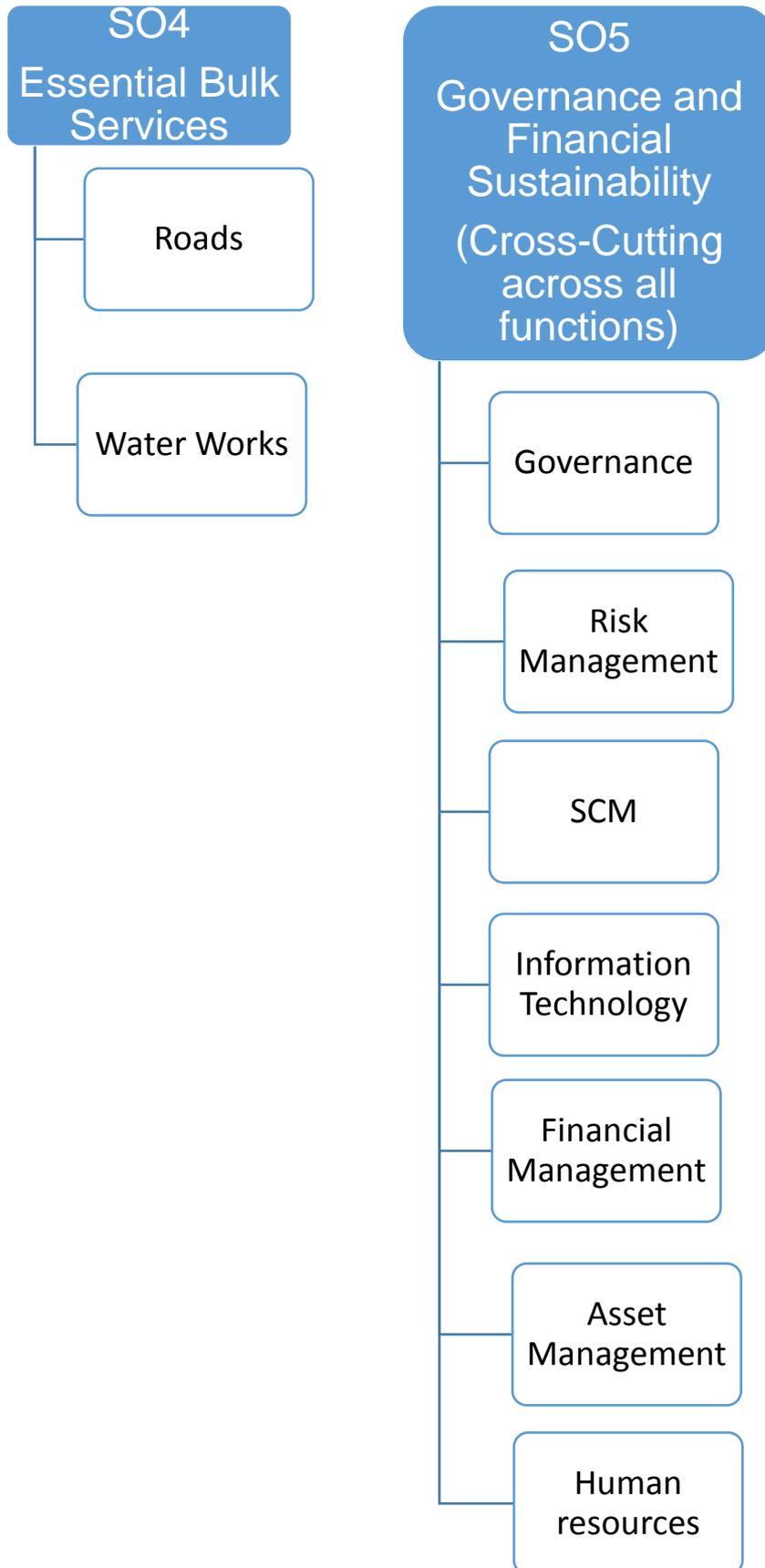
4 Risk Assessment and Strategy (2018-2020)

Risk Based Strategic Internal Audit Plan (2018 - 2020)

Ref	Auditable Area	Inherent Risk Rating	Percentage reduction(as a result of controls)	Audit Frequency	2017/2018	2018/2019	2019/2020	Comments
	COMPLIANCE AUDITS							
	Corporate Governance	15	41%	🔴	✔	✔	✔	*Paragraph 1.3.2.3 of National Treasury Internal audit framework of 2009* requires Internal Audit to provide assurance of the municipalities governance processes.
	Financial Statements review (incl Key controls and inventory counts)	15	41%	🔴	✔	✔	✔	*Section 165 (2)(b)(iii) of the MFMA* requires internal audit to report matters relating to accounting procedures and practices
	Risk Management	15	41%	🔴	✔	✔	✔	*Section 165 (2)(b)(iv) of the MFMA* requires internal audit to report matters relating to Risk Management.

	Performance Management (quarterly per annum)	15	41%	🔴	✔	✔	✔	*Section 165 (2)(b)(v) of the MFMA* requires internal audit to report matters relating to Performance Management and *Section 14(1)(c)(i) of the Municipal Planning and Performance Management Regulations* states that A municipality's internal auditors must on a continuous basis audit the performance measurements of the municipality; and submit quarterly reports on their audits to the municipal manager and the performance audit committee.
	DORA(Division of Revenue Act)	15	41%	🔴	✔	✔	✔	*Section 165 (2)(b)(vii) of the MFMA* requires internal audit to report matters relating to DORA.
	Compliance with applicable legislation(Compliance Assist)	15	41%	🔴	✔	✔	✔	*Section 165 (2)(b)(vii) of the MFMA* requires internal audit to report matters relating to any other applicable legislation
	Review the municipalities Municipal Governance Review and Outlook (MGRO) quarterly per annum	15	41%	🔴	✔	✔	✔	Provincial Treasury *Circular 38* issued 2012
CROSS-CUTTING ACROSS DEPARTMENTS								
	Supply Chain Management	16	60%	🔴	✔	✔	✔	The scoring attributed to this area as derived from the risk registers. Supply Chain Management a key risk area for any municipality – given the amount of money spend on goods and services.

Financial Management	14	60%	🟡		✔			The scoring attributed to this was considered to have a high inherent risk, however this was measured downward by IA due to work already done on MSCOA during 2016/2017 and will be therefor be covered in year 2. The basis used to determine the municipalities budgeting process(including MSCOA),long term financial plan, monitoring and cost saving measures they have in place will be evaluated.
Asset Management	16	60%	🔴	✔	✔	✔		The scoring attributed to this area as derived from the risk registers.
Information Technology	20	60%	🔴	✔	✔	✔		The scoring attributed to this area as derived from the risk registers.
Human Resources	16	60%	🔴	✔	✔	✔		The scoring attributed to this area as derived from the risk registers. The safety of the working environment as well as the recruitment process, from advertising to appointments to Task Grading(job descriptions) etc.will be evaluated

ENVIRONMENTAL INTEGRITY								
	Environmental Health	16	60%	🟡		✔		The scoring attributed to this area as derived from the risk registers. Training, Complaints, Public awareness and Quarterly monitoring of sample testing for water, food and sewerage will be evaluated. The KPI's will be evaluated annually as part of the predetermined objectives audit.

SOCIAL WELL BEING								
	Fire Management	8	60%	🟡		✔		The scoring was considered high in this area as derived from the risk registers, however the control was tested in 2016/2017 and Internal audit has adjusted it downwards Signed MOU, with other municipalities in the region and monitoring of the fire strategy of the municipality will be evaluated.
	Disaster Management	20	60%	🔴	✔	✔	✔	The scoring attributed to this area as derived from the risk registers. Review and monitoring of Disaster management Plans, Testing of disaster recovery and business continuity plan evaluated. This will be tested as part of the IT environment

	ESSENTIAL BULK SERVICES							
	Bulk Potable Water Services	16	60%	🔴	✔		✔	The scoring attributed to this area as derived from the risk registers. Review of Bulk water master plan, Drought Management plan as well as Water Quality and Purification processes will be evaluated.
	Roads Infrastructure	20	60%	🔴	✔	✔	✔	The scoring attributed to this area as derived from the risk registers. Evaluating the implementation of annual plan for roads. This will be tested as part of the predetermined objectives audit.
	Project Management	16	41%	🔴	✔	✔	✔	The scoring was considered medium in this area as derived from the risk registers, however due to the risks identified during previous investigations, IA considers this to be high Project monitoring including financial spending will be evaluated.
	ECONOMIC GROWTH							
	Tourism	9	60%	🟡		✔		The scoring was considered medium in this area as derived from the risk registers. Evaluation of the unit's marketing strategy.

5 ANNUAL OPERATIONAL PLAN (2017-2018)

REF	AUDITABLE AREA	HOURS	HIGH LEVEL OVERVIEW OF SCOPE
COMPLIANCE			
	Corporate Governance	288	The municipalities governance process as well as principles of King IV will be used to evaluate compliance.
	Risk Management	248	Evaluation of the municipalities risk assessment process, policy and implementation plan
	Financial Statements review	848	AFS review, stock counts and financial key controls, Internal and external follow-up audits will be evaluated
	Performance Management (quarterly per annum)	1 392	Evaluation of the municipalities performance management system and key performance indicators as well as performance reporting
	DORA(Division of Revenue Act)	192	Evaluation of conditional grants spending as gazetted in DORA
	Compliance with applicable legislation(Compliance Assist)	760	Evaluating adherence to key legislation,eg municipal Finance Management Act
	Review the municipalities Municipal Governance Review and Outlook (MGRO) quarterly per annum.	440	Evaluating Self Assessments relating to financial statements, Audit committee, human rescources,municipal websites,ect
CROSS-CUTTING			
	Supply Chain Management	328	Tender evaluation process, procurement process, Supplier database, ect.
	Asset Management	248	Safeguarding and control of assets will be evaluated,
	Information Technology	220	General IT Control Environment
	Human Resources	304	

			Recruitment and selection of process
SOCIAL WELLBEING			
	Disaster Management	100	Implementation of Business Continuity Plan
ESSENTIAL BULK SERVICES			
	Bulk Potable Water Services	264	Implementation of Bulk water master plan, Drought Management plan.
	Roads Infrastructure	160	Evaluating the implementation of annual plan for roads as part of predetermined objectives.
	Project Management	496	Project monitoring and implemenation
ADHOC			
	Assisting AG	376	Assisting AG in collating Request for Information
	Total Hours	**6 664**	

5.1 LIAISON WITH EXTERNAL AUDITORS

a) Internal Audit shall co-ordinate their work with Council's External Auditors as directed by management and the Audit and Performance Audit Committee. The External Auditors will look at the following work performed by us, for their risk identification:

1) Supply Chain Management

2) Inventory Counts

3) Predetermined Objectives

This is however dependant on their evaluation of skills and competencies of our Internal Audit staff and the scope of the work we will perform.

b) External Auditors shall have access to Internal Audit documentation.

c) It has been noted that the Auditor-General South Africa (AGSA) conducts the Information Technology audit on general and application controls. Internal Audit will consider the timing and scope on the work performed by the Office of the Auditor General and their reports in this regard, as part of the combined assurance framework.

5.2 RESOURCE MANAGEMENT

Human Resources

Internal audit unit comprises of five (5) officials:

Officials	Job Title	Qualifications	Audit Experience
A Adams	Chief Audit Executive	B Comm: (Accounting) degree Completed articles	9 years
K Frans	Internal Auditor	ND: Internal Auditing	4 years
N Mlambo	Internal Auditor	B Comm: Internal Auditing	3 years
S Ndondo	Intern:Internal Auditor	ND: Financial Information Systems	4 Months
I Vilankulu	Intern:Internal Auditor	ND: Accounting	2 Months

5.3 TIME AVAILABLE

Year 2017/2018:

	Total hours Per annum	Chief Audit Executive	Internal Auditor	Internal Auditor	Intern: Internal Auditor	Intern: Internal Auditor
Work hours avail	9 880	1 976	1 976	1 976	1 976	1 976
#Leave	1 664	408	272	368	368	248
*Meetings	1 008	580	111	111	103	103
!Training	544	0	72	72	240	160
Available hours	**6 664**	**988**	**1 521**	**1 425**	**1 265**	**1 465**

*Meeting hours include internal audit team meetings, Council, Executive Mayoral, Greater Extended Management, Risk Management, KPI Monitoring, MPAC, Audit Committee and IT Steering Committee Meetings.

Leave hours include study leave, annual leave, family responsibility leave and sick leave

! Training hours include, Municipal Minimum Competency Training and Institute of Internal Auditors (IIA) Training.