

**MSUNDUZI MUNICIPALITY**  
**INTERNAL AUDIT UNIT**



**THREE YEAR ROLLING AUDIT PLAN**  
**FOR 2015/16, 2016/17 & 2017/18 FINANCIAL YEARS**

*'Auditing to Enhance, Protect and Promote Service Delivery'*

TABLE OF CONTENT

Contents	Page
1. Mandate	3
2. Objectives & Scope of the Three Year Rolling Audit Plan	4
3. Accountability	6
4. Engagement Co-ordination & Co-operation	7
5. Reporting Structure	7
6. Internal Audit Expectations	9
7. Approach to the Preparation of an Annual Audit Plan: 2012/13	9
8. Financial Implication of the Annual Audit	15
9. Approval of the Annual Audit Plan	17
10. Summary of the Annual Audit Plan	18
11. Summary of the Two Out Years of the Three Year Rolling Audit Plan	

## 1. MANDATE

### 1.1 Legislative Requirements for Internal Audit Activity

#### 1.1.1 *Municipal Finance Management Act, Act 53 of 2003*

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

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

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

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

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

#### 1.1.2 *Local Government: Municipal Planning & Performance Management Regulations*

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

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

- (i) The functionality of the municipality's performance management system;

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

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

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

## 1.2 Professional Requirements

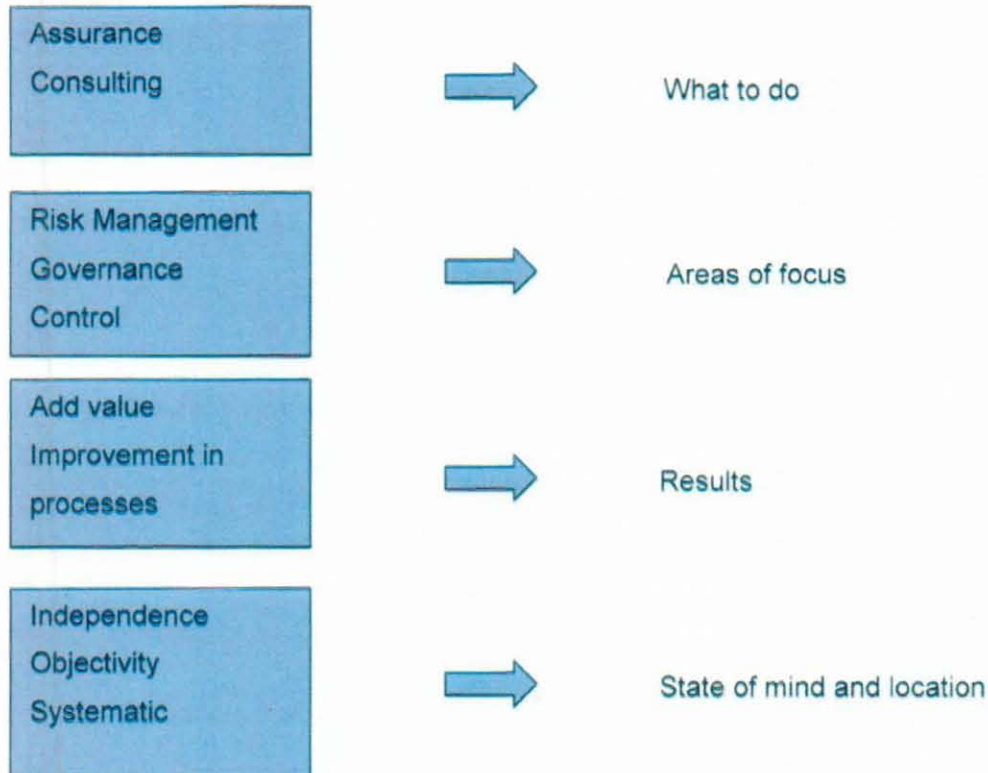
Msunduzi Municipality Internal Audit Unit subscribe to the International Standards for the Professional Practice of Internal Audit (standards) and Code of Ethics thereto issued by the Institute of Internal Auditors of South Africa (IIA).

## 2. OBJECTIVES AND SCOPE OF THE THREE YEAR ROLLING AUDIT PLAN

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



The definition internal auditing has many facets that, if unpacked, provides a vivid understanding of the expectations of internal auditor. The diagram below represents the different elements of the definition



Internal Audit Unit has a responsibility to review the functionality of the municipality's performance management system,

- (a) whether or not the municipality's performance management system complies with the regulatory framework,
- (b) the extent to which the municipality's performance measures are reliable in measuring performance of the municipality on indicators (Compliance with the SMART Principles),
- (c) that reported performance is supported by valid and accurate information (PoE) and that there is effective management of performance processes.

The following typically, core Internal Audit Unit will be undertaken in order to achieve the above primary objective:

- (b) Risk and Control identification & assessment;
- (c) The review of adherence to the Constitution of the Republic of South Africa, Act 108 1996 (as amended), Local Government legislation and other Legislation relating to operations at Msunduzi Municipality, Regulations, Bylaws, Policies & Procedures and Contractual obligations arising from different relationships;
- (d) The review of systems of internal controls (both financial and non-financial) within the business processes;

- (e) The examination of financial and operating information for management;
- (f) The review of governance processes;
- (g) The review of risk management processes, practices and management thereof;
- (h) Performance information review;
- (i) Special assignments (consulting activity e.g. Trade Payables and Consumer Refunds payment review prior to effecting payments, special adhoc reviews as requested by the Accounting Officer, Senior Management, Portfolio Committees, MPAC, Audit Committee, Executive Committee and Council from time to time ;
- (j) Review of IT systems; and
- (k) Forensic investigations on allegations of fraud, theft, corruption, impropiator, maladministration, gross irregularities, etc. as reported through the Whistleblowing Hotline, reported by members of the public and officials directly to the Mayor, Speaker, Deputy Mayor, Municipal Manager, Executive Manager; Internal Audit Unit or any other Senior Management and as identified through normal internal audit activity in any area within the municipality.

The scope of our internal audit assignments for the acknowledgement and support by the Accounting Officer and approval by the Audit Committee is detailed in annexure A attached hereto.

### 3. ACCOUNTABILITY

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

Internal Audit Unit is responsible to the Accounting Officer to ensure that it provides assurance as to the effectiveness and efficiency of the systems of internal controls, risk management and governance process employed in the municipality. This should not, however, be construed as channelling the Internal Audit's direct responsibility to the Accounting Officer as this function reports to the Audit Committee as set out in Section 166 of the MFMA.

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



#### 4. ENGAGEMENT CO-ORDINATION & CO-OPERATION

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

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

Name	Telephone No.	Email Address
Mr PJ Mahlaba	033- 392 2883 or 082 895 3848	Petrus.mahlaba@msunduzi.gov.za
Ms Sithabile Msomi	033-392 3565 or 072 1598 8382	Sithabile.msomi@msunduzi.gov.za

Our key contacts within the municipality are the Municipal Manager, all Deputy Municipal Managers, Process Managers and Managers.

#### 5. REPORTING STRUCTURE

Communication, particularly through reports, is an essential element of the internal audit process. Matters of significance which require the attention of the Deputy Municipal Managers will be discussed verbally before we finalise each audit assignment on regular basis, however, if the matter is severe in nature and its impact is catastrophic and of high security and in our assessment and requires the Municipal Manager's urgent attention it will be escalated to him. Otherwise all matters will be discussed with the Process Managers and management comments confirmed with the Deputy Municipal Managers.

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

- (l) graphically summary of audit results per rating;
- (m) summary of findings processes or sub-processes in a chart per percentage;
- (n) our opinion on each processes or sub-process or activity reviewed; and
- (o) overall audit opinion on the areas reviewed.



Reporting will take place on a continuous basis as work is finalised with the Process Managers. Once the draft reports have been finalised they will be issued to the Deputy Municipal Managers with a view to discuss them and confirm management comments. It is the prerogative of the Deputy Municipal Manager to decide who should get a copy of the report and be part of the discussion of the report unless we have strong and justifiable reasons that certain officials must not see the content of the report. Deputy Municipal Managers will be afforded maximum of one weeks (7 days) to provide management comments and action plan. During the two week period a meeting between Internal Audit Unit and the Deputy Municipal Managers and their teams should take place. Should we not obtain co-operation we will escalate the matter to the Municipal Manager as an Accounting officer. If we are unable to get co-operation of the Municipal Manager, the matter will be escalated to the Audit Committee.

Once we have received management comments and agreed on the action plan, those will be incorporated into the report and report issued to the Strategic Management Committee as a final report with a electronic copies to the Process Managers and Managers. Copies of our final audit reports will be forwarded to the Auditor General for information in an electronic form.

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

### 6. INTERNAL AUDIT UNIT EXPECTATIONS

The following are expectations from our client business units:

- (a) Unrestricted access to all records of the municipality and any other information and objects in the custody and control of any person employed by Msunduzi Municipality which is necessary and critical for the performance of our duties.
- (b) Timely submission of management comments and action plan to address the weaknesses identified during audits and ensure that this is done within 14 days from the date of receipt of the draft report. Should we not receive a response within the timeframe thereafter; the matter will be escalated to the Accounting Officer.
- (c) The Process Managers or their delegates will be responsible for administration arrangements (e.g. office space, furniture, parking, etc.) at the audit point.
- (d) Implementation of our recommendations and agreed action plan (follow up to verify implementation – 6 months after submission of the final report).
- (e) Management takes responsibility for risk management and collapse of the system of internal control and governance.



## 7. APPROACH TO THE PREPARATION OF THREE YEAR ROLLING AUDIT PLAN

### 7.1 Background

Our approach to the preparation of the annual audit was informed by the following:

Risk and Control Identification and Assessment at Msunduzi Municipality was completed in September 2012 by Internal Audit Unit and updated regularly in 2013/14 and 2014/15. We engaged with the Business Units on regular basis with a view to addressing the municipality's critical areas. We have reviewed the reports of Auditor-General and considered reports by Internal Audit Unit in the past two financial years as we prepared the Three Year Rolling Audit Plan for 2014/15 to 2017/18.

The audit coverage covers vast areas in municipality which are support and core functions, compliance with legislation, regulations and policies and procedures and regularity review as required by Section 166 of the MFMA.

### 7.2 Our Approach

Risk based auditing implies risk based planning. We want to handle the significant exposure to risk in the municipality. We want to make an impact as internal auditors. In terms of the definition which is encapsulated in our Internal Audit Charter, we articulate our role as providers of **assurance** or **consulting** activity. This is the point where we believe we should bring to surface.

If one were to guess a typical risk profile, or at least its parameters, it would resemble the one in **figure 1**.

**Figure 1:**

<i>Risk Elements</i>	<b>Inherent Risk</b>	<b>Control Assessment</b>	<b>Residual Risk</b>
One	High	Strong	Low
Two	High	Weak	High
Three	Low	Strong	Low
Four	Low	Weak	Low

There would be risks and controls that the auditor/management may be for better judgement would assess as medium. For the purpose of this discussion I have ignored them, are inclusive in our plan.

#### **Risk Element One: High Risk – Strong controls**

These are the areas where according to the assessment by management, have put in place adequate controls against high risks exposures. Our reaction here is testing those controls for effective operation and provides management **assurance** that controls they have put in place are operating as designed. Where the controls are not



operating effectively we would give management advice through our recommendations on what they can do to strengthen the effectiveness of these controls.

Our plan therefore has identified these areas and developed a road map of the controls that we intend testing. Our individual engagement planning memorandum which will be discussed with management and audit programs that will be prepared before commencement of each audit will focus more on how these controls will best be tested.

**Risk Element Two: High Risk – Weak control**

In these areas we have assessed that there are no identified controls or weak controls identified for high risks exposures. In these areas we need to be mindful that management probably was not aware or did not appreciate that they are exposed to risks that they are not adequately mitigating, or due to lack of knowledge and skills did not know how to mitigate against such risks. A very clear understanding of why the risk is not controlled would have to be obtained during the Risk and Control Self-Assessment stage. As we move forward in institutionalising risk management within the municipality, we will ensure that management put action plan in place to develop intervention that will develop controls to mitigate against those risks.

**Risk Elements Three: Low Risk – Strong Controls**

We must never lose sight of the fact that management also assessed the risk as low or medium in the first place, and that our approach is risk-based, therefore we should be focussing our attention on high risk exposure.

Before we make that conclusion and move on we need to thoroughly understand these "strong controls". Are they strong because they adequately address the risk or are they a potential over-investment in controls? If these controls are adequate for the risk we should, in fact, ignore these elements. If, however, the controls are too strong for the risk, we need to play a role in **advising** management to cut down on certain controls that do not add value but simply stifling efficiency in the operations. This will be done with great caution, as it is extremely risky to cut down on controls.

**Risk Element Four: Low Risk – Weak control**

We need to be mindful that the resources of the municipality are limited and cannot afford the budget for auditing everything. If we are comfortable with management assessments of risks and controls, we have nothing to audit in this area.

Audit areas have been prioritized based on their nature and inherent risk rating and the residual risk rating. Areas with inherent risk that is above 3 which we have deemed high but have controls that are sufficient (where no further action is required in terms of the assessment by management) have been given a high priority. Areas with inherent risk that is above 3 but with no controls in place or have weak controls and further action has been identified have been given less priority in order to afford management time to implement action plan. It does not add value to audit areas which we as



auditors are well aware that there are either no controls or there are weak controls. What is critical is to test the effectiveness of the controls that management believe are adequate against high risks.

### Questions used for the Evaluation of the Plan

As Internal Audit Unit we have formulated a plan of approach for the three years in an alignment with the Medium Term Revenue Expenditure Framework for 2015/16 to 2017/18. We have evaluated the plan for adequacy and appropriateness before finalisation and approval by raising the following questions at the back of our minds.

Is there an effective risk based Internal Audit Unit?

- (a) Evaluating the company's governance processes
- (b) Objective assessment of the effectiveness of risk management and the internal control framework
- (c) Analysing and evaluating business process and associated controls
- (d) Adhere to the IIA Standards and Code of ethics

Should the approach to its plan follow a risk based?

- (a) Informed by the strategy and risks of the municipality
- (b) Assess the municipality's risks and opportunities

Is the plan focused on internal controls established not only over financial matters, but also operational, compliance and sustainability issues?

Is the internal audit function appropriately resourced and have sufficient budget allocated to the function?

Are skilled and resourced as is appropriate for the complexity and volume of risk and assurance needs?

What do we believe as the stakeholders' perspective on the Internal Audit function and its plan

- (a) Internal Audit focus should evolve to align with emerging/changing risks
- (b) Internal Audit should balance its focus on all key elements in the risk domain
- (c) The portfolio of stakeholders will expand to include business unit management and other key executives, as well as other committees of Council
- (d) Internal Audit should enhance its understanding of (and focus on) risk management in general and ERM in particular. Internal Audit should become a key source of insight on the risks facing the municipality.
- (e) Internal Audit needs to enhance its communications with management and the Strategic Management Committee & Executive Committee. Communications need to become more impactful and timely.

### **Moving internal audit n/activity to the next level**

Whilst the unit has been praised for its competence, it is critical that the unit strives for continuous improvement by:

- (a) Considering how previously unaudited areas might be audited, and then align auditable risks to the audit plan.
- (b) Eliminate routine, low-value audits.
- (c) Based on the updated audit plan, consider transformational ideas to reduce cost.
- (d) Identify inefficient processes.
- (e) Develop implementation plans for transformational concepts as well as anticipated process efficiencies.
- (f) Review the updated internal audit plan, along with cost-reduction ideas, with key stakeholders to gain support.
- (g) Implement (add measurement, feedback, and adjustment processes for continuous improvement).

### **Balance between Assurance and Consulting**

The plan strikes a nice balance between the anticipated assurance activities and the consulting opportunities that Internal Audit intends to seize. The plan is based on the assessment of risks and, therefore, the prevalent questions relates to:

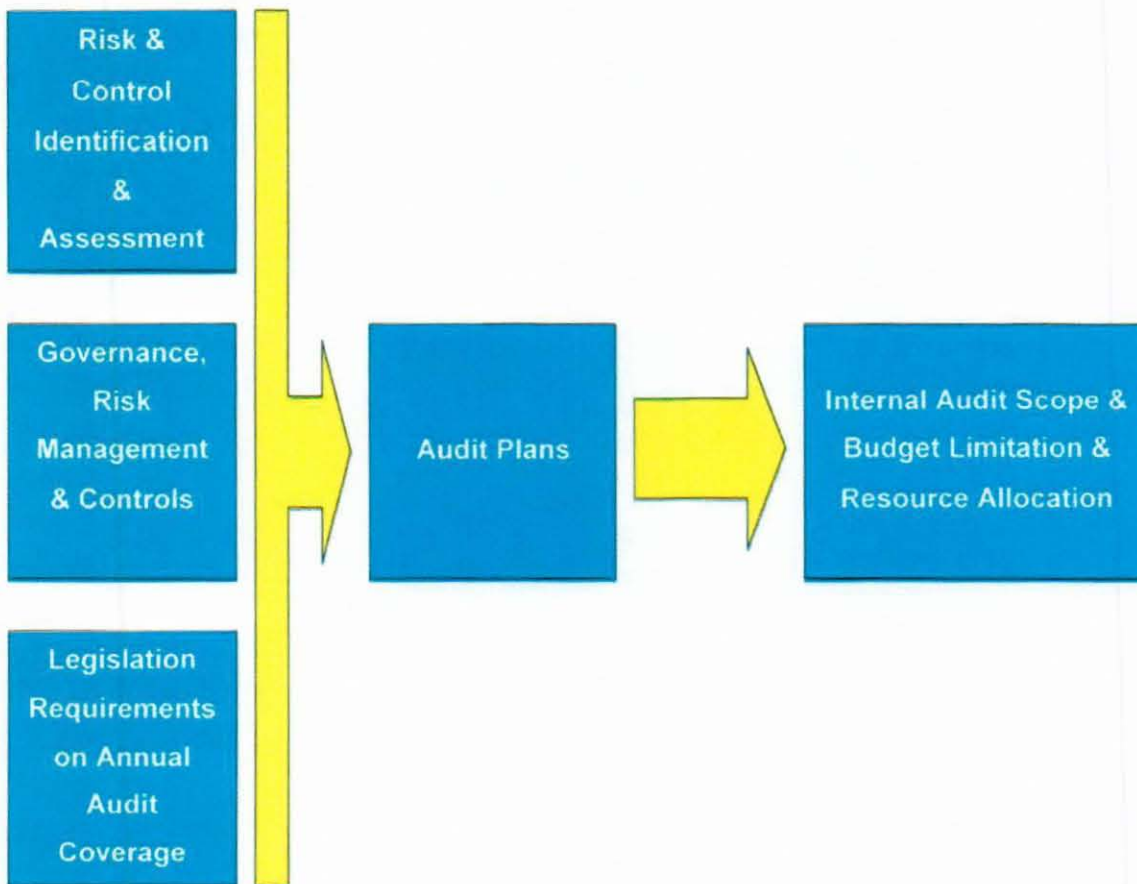
- When / how are we going to provide assurance on the areas of risk where we have identified well-designed controls? (*Assurance*)
- What are we going to do to assist the client on the areas of significant risk where we did not identify meaningful controls? (*Consulting*)

The Three Year Rolling Audit Plan for 2015/15 to 2017/18 and the Annual Audit Plan for 2015/16 did strike this balance? Internal Audit Unit's consulting activity was more evident during audit by the Auditor-General and after the audit to provide guidance and reduce Auditor-General findings in 2015/16 but this cannot be effective if support is lacking from those that required such assistance from Internal Audit Unit.

We have scrutinised our plan for 2015/16 to ensure that they strike a very clear balance between reviews of controls, governance processes and risks management strategies and processes. The Call Centre is the focus of our consulting in 2015/16 for a period of six months but will be monitored and reviewed on monthly basis. Project Risk Assurance on SAP implementation will continue in 2015/16 until the project is completed.



The following diagram illustrates the process by which the internal audit plan was formulated:



## 8. FINANCIAL IMPLICATIONS

Due to lack of capacity within the Unit, internal audit activity will be co-sourced to external service providers, appointed in compliance with the Supply Chain Management processes and will be managed and co-ordinated by the Executive Manager: Internal Audit Unit.

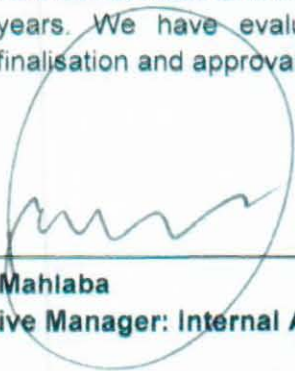
We believe the R9 349 875 budget for 2015/16 might not be sufficient due to the increase of forensic investigations after the launch of the Whistleblowing Hotline in August 2014 and the rollout of the Anti-fraud and corruption campaign through presentations to the officials of the municipality through our 2014/15 financial year which has resulted into a number of allegations that require forensic investigations additional funding request will be motivated to the Strategic Management Committee and if approved provision made during the mid-term review. The allocation for 2016/17 and 2017/18 is R9 817 770 and R10 347 930 respectively and request for increase will be made as the unit intends automating its methodology.

The unit is currently staffed with two internal auditors and two interns. Two internal auditor vacancies are planned to be filled no later than September 2015 and one other vacancy will be included in the next priority list for advertising with the remaining

vacancies in the structure approved in 2013 will be filled in terms of priority lists approved by the SMC. The internal resources have been planned to undertake some of the audit assignments. We are mindful of the adhoc requests which will require more funding but our intention is to utilise internal resources for these assignments.

**9. APPROVAL OF THE INTERNAL AUDIT PLAN**

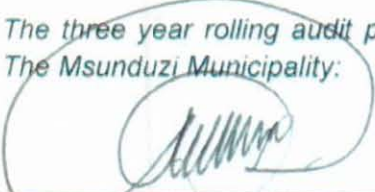
As Internal Audit Unit we have formulated a plan of approach for the ensuing financial years. We have evaluated the plan for adequacy and appropriateness before finalisation and approval.



\_\_\_\_\_  
**Mr P J Mahlaba**  
**Executive Manager: Internal Audit Unit**

29/06/2015  
**Date**

*The three year rolling audit plan is acknowledged & supported by the Accounting Officer of The Msunduzi Municipality:*



\_\_\_\_\_  
**Mr M A Nkosi**  
**Municipal Manager**

13/07/2015  
**Date**

*Annual Audit Plan has been reviewed by the Audit Committee and is approved:*



\_\_\_\_\_  
**Mr S B Mnguni**  
**Chairperson: Audit Committee**

13/07/2015  
**Date**



**Summary of the Annual Audit Plan 2015/16**

**ANNUAL AUDIT PLAN FOR 2015/16**

Project No.	Project Focus Area	July	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	April	May	June	HRs	Budget	Resource	Status
<b>A</b>	<b>Risk Based Audits &amp; Statutory Audits</b>																
	<b>First Quarter</b>																
A1	Expenditure (Trade Payables Special Runs) for Quarter 3 & of 2014/15	X	X											140	-	In-house	
A2	Annual Financial Statements for 2014/15		X											140		Co-sourced	
A3	Section 71 of the MFMA (including s52 & s66) Quarter 4 [including follow-up on findings raised in Quarter 1, 2 & 3 of 2014/15]	X	X											160		Co-sourced	
A4	Management of Fuel & Oil [Quarter 4 2014/15]	X	X											120		In-house	
A5	Conditional Grants & Investments [including follow-up on findings for 2014/15]	X	X	X										200		Co-sourced	
A6	Application for new services by customers [Electricity Installations]	X	X	X										160		Co-sourced	
A7	Application for new services by customers [Water & Sewer Installation & connection]	X	X	X										160		Co-sourced	
A8	Greater Edendale & Vulindlela Development Initiative [GEVDI]	X	X	X										200		Co-sourced	
	<b>Second Quarter</b>																
A9	Expenditure (Trade Payables) for Quarter 1 of 2015/16				X	X	X							140		In-house	
A10	Consumer Refunds for Quarter 1 of 2015/16													140		In-house	
A11	Motor Vehicle Driver's Licencing				X	X	X							160		Co-sourced	
A13	Management of Fuel & Oil [Quarter 1 of 2015/16]				X	X	X							140		In-house	
A14	Section 71 of the MFMA (including s52 & s66) Quarter 1 of 2015/16 Financial Year				X	X	X							160		Co-sourced	
A15	Indigent Management				X	X	X							160		Co-sourced	





<b>B</b>		<b>Audit of Performance Information</b>																
<b>AoPI 1</b>	Audit of SDBIP for 2015/16	X	X													160		Co-sourced
<b>AoPI 2</b>	Audit of Performance Information - Qtr. 4 for 2014/15 & Annual Performance		X	X												240		Co-sourced
<b>AoPI 3</b>	Audit of Performance Information - Qtr. 1 for 2015/16				X	X	X									160		Co-sourced
<b>AoPI 4</b>	Audit of Performance Information Mid-Term of 2015/16								X	X	X					180		Co-sourced
<b>AoPI 5</b>	Audit of Performance Information Qtr. 3 of 2015/16										X	X	X			160		Co-sourced
	<b>Sub-Total</b>															<b>900</b>		
<b>C</b>		<b>Information &amp; Communication Technology</b>																
<b>ICT 1</b>	Project Assurance for ERP project - Advising ERP Project Steering Committee that will control the execution of the ERP Project, verifying that the methodology is adhered to and that quality standards are met for deliverables.		X	X		X	X		X	X		X	X			1380		Co-sourced
<b>C</b>		<b>Follow-up on Information &amp; Communication Technology</b>																
<b>FICT 1</b>	ICT Security Review - Review of threat and vulnerability management processes and security / identity management controls.					X	X									80		Co-sourced
<b>FICT 2</b>	Audit of Internet Access by Employees					X	X									80		Co-sourced
<b>FICT 3</b>	ICT Governance & Continuity Review									X	X					80		Co-sourced
<b>FICT 4</b>	Application Controls Review on the Traffic Contravention System: Processing accuracy, completeness of transactions, security of data, data integrity, access controls, output controls, audit trails								X	X						80		Co-sourced











**Summary of the Two Outer Year of the Three year Rolling Audit Plan 2016/17 to 2017/18**

---

































<b>ICT 1</b>	ICT Security Review - Review of threat and vulnerability management processes and security / identity management controls.																				
<b>ICT 2</b>	Audit of Internet Access by Employees																				
<b>ICT 3</b>	ICT Governance & Continuity Review																				
<b>ICT 4</b>	Application Controls Review on the Traffic Contravention System: Processing accuracy, completeness of transactions, security of data, data integrity, access controls, output controls, audit trails																				
<b>ICT 5</b>	CAMIS: Processing accuracy, completeness of transactions, security of data, data integrity, access controls, output controls, audit trails																				
<b>ICT 6</b>	ICT Asset management - Review of processes and controls management have implemented to ensure they have complete and accurate records of all ICT assets, including software inventory.																				





