# GREATER TAUNG LOCAL MUNICIPALITY
# INTERNAL AUDIT METHODOLOGY
# 2024/2025

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# 1. INTRODUCTION

## 1.1 Definition of Internal Audit

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve Greater Taung Local Municipality's ("GTLM") operations. It helps GTLM 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 GTLM to serve both management and the organization in providing recommendations and suggestions for continuous improvements.

The progress and understanding of internal auditing have 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. GTLM 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 and Performance committee charters, code of ethics, applicable legislature requirements, prescribed guidelines, internal audit framework and applicable policies and procedures of Greater Taung Local Municipality.

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Although professional judgement will be required in applying the Greater Taung Local 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 Greater Taung Local Municipality to ensure the:

- Information systems environment.
- 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 Greater Taung Local 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 Greater Taung Local 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 organization to ensure the:

- Reliability and integrity of information.

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- 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, governance processes for the organisation, for example 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 for 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 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

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(e) To encourage the involvement of communities and community organisations in the matters of local government.

(f) 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.

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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 and Performance 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 and Performance 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

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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 and performance committee, the audit committee should satisfy itself that it dedicates sufficient time to this responsibility.

iv. Whether the governance of risk is delegated to the audit and performance 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 and performance committee should have the necessary financial literacy, skills, and experience to execute their duties effectively.

vi. All members of the audit and performance 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 and performance committee.

viii. The audit and performance 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 and performance committee:

a) A statement as to whether the audit and performance committee is satisfied that the external auditors are 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.

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b) Significant matters that the audit and performance committee has considered in relation to the annual financial statements, and how the committee addressed these.

c) The audit and performance 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 and performance committee's views on the effectiveness of the Audit Executive and the arrangements for internal audit.

e) The audit and performance 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 and performance 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 and performance 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.

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c) The municipal council should oversee that the combined assurance model is designed and implemented to effectively cover 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 skepticism, 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 consider 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.

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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 the Audit Executive (AUDIT EXECUTIVE) 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

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the controls that are in place, and that the position carries the necessary authority.

e) The municipal council should approve the appointment of the AUDIT EXECUTIVE, including the employment contract and remuneration of the AUDIT EXECUTIVE, and ensure that the person who fills the position has the necessary competence, gravitas, and objectivity.

f) For reasons of independence, the AUDIT EXECUTIVE should have access to the chair of the audit and performance committee.

g) For reasons of independence, the AUDIT EXECUTIVE 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 AUDIT EXECUTIVE.

i) The AUDIT EXECUTIVE should report to the chair of the audit and performance committee on the performance of duties and functions that relate to internal audit. On other duties and administrative matters, the AUDIT EXECUTIVE 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 AUDIT EXECUTIVE.

k) The municipal council should monitor on an on-going basis that internal audit:
   - Follows an approved risk – based internal audit plan; and
   - Reviews the municipality's risk profile regularly and proposes adaptions 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 AUDIT EXECUTIVE that internal audit conforms to a recognized industry code of ethics.

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## 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 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 Audit Executive.

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Internal audit unit is accountable to the audit and performance committee as follows:

- Maintain open and effective communication with the audit and performance 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 and performance 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 and performance 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 and performance committee to discuss whether the material and information furnished meets the requirements of the audit and performance committee.
- Obtain advice from the audit and performance committee whether the frequency and time allocated to the committee is sufficient to attend effectively to all matters.
- Cooperate with the audit and performance committee as they conduct annual reviews of the performance of the internal audit function.
- Submit the internal audit charter to the audit and performance 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).

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- 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 organization, 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.

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### 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 behavior 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.

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**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 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.

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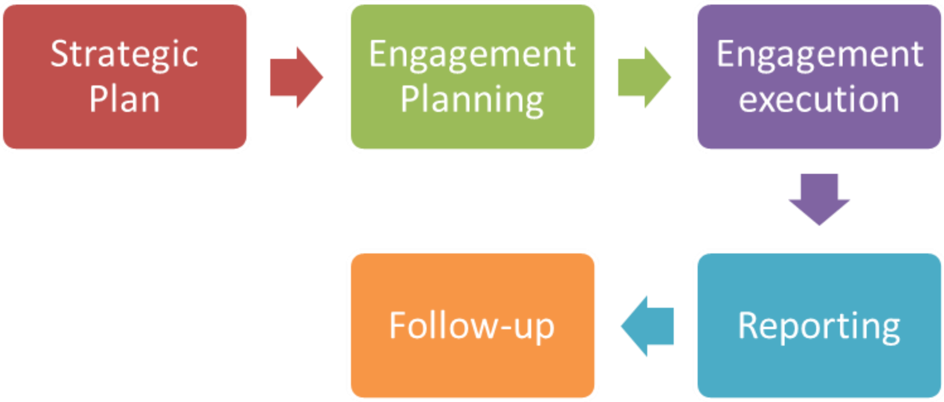
All internal audit employees participating in the internal audit activity should sign the code of ethics and rules of conduct annually.

## 4. THE INTERNAL AUDIT ENGAGEMENT PROCESS




### 4.1 Strategic Plan

The internal audit strategic plan of Greater Taung Local Municipality will be compiled as per the following process:

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#### 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 Greater Taung Local 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 and performance committee requests.
- Industry related information.
- Information resulting from external audits and regulatory examinations.
- Historical internal audits reports, 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) Greater Taung Local 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.

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- 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 Greater Taung Local Municipality.

d) After Internal Audit has reviewed the Ad hoc request from management, it should be submitted to the Audit and Performance Committee for approval.

e) The operational internal audit plan is flexible and may be amended due to the following reasons:

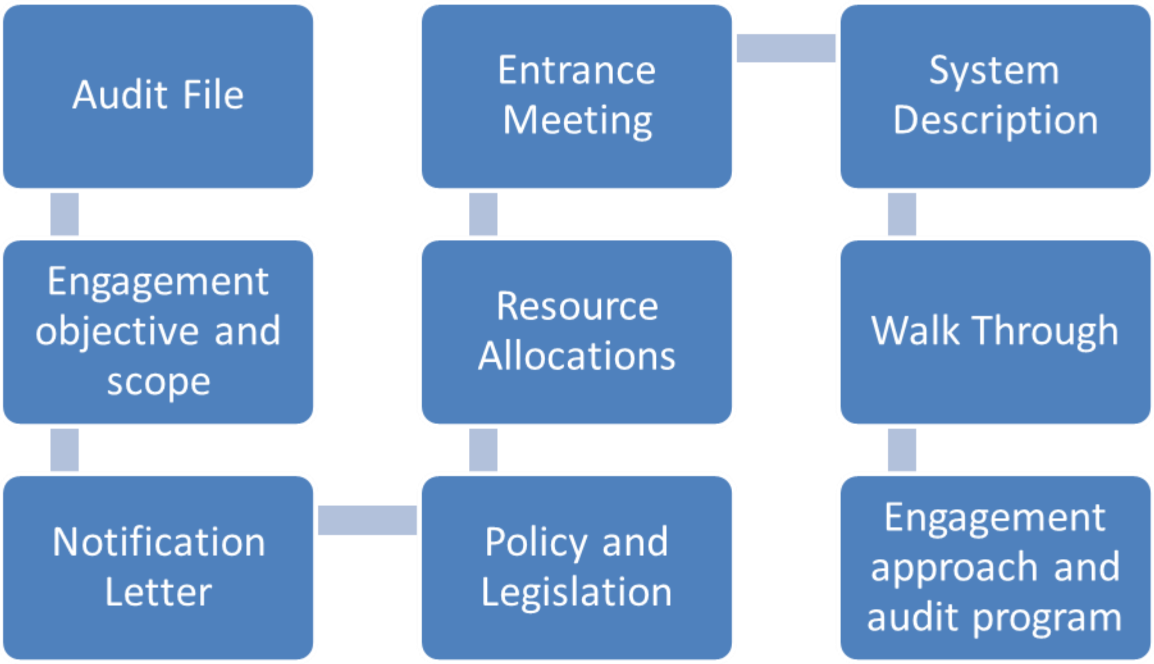
- Planned audits not executed due to operational changes.
- Changes in risk areas.
- Special Ad hoc requests from management or Audit and Performance Committee.

#### 4.1.4 Approval of Audit Plan

a) The plan will be submitted to the Senior Management for discussion and review. The strategic and operational audit plan will be submitted to the Audit and Performance Committee for approval. The plan will be signed by the Municipal Manager as evidence of review and discussion with management. The Audit and Performance Committee Chairperson will sign the plan as evidence that the Audit and Performance Committee approves the plan.

b) Any significant changes to the operational plan will be submitted to the Audit and Performance Committee for approval. The approved plan will be communicated to management for planning considerations.

### 4.2 Engagement Planning




#### 4.2.1 Audit File

For each engagement, a file should be created. 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 brainstorming 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 brainstorming team meeting.

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. 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.

### 4.2.3 Notification letter

The notification letter should be prepared at least fourteen (14) working days before the start of the planned audit engagement. Audit Executive should sign the notification letter and send the letter and SWOT analysis to the Accounting Officer, relevant Head of Department, and sectional manager through email. The signed notification letter together with the email should be filed on the audit file.

A notification letter should be prepared which entails 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 the opening conference meeting with the client.

### 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 organization.

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### 4.2.5 Resource allocations

Internal audit must determine the appropriate and sufficient resources to achieve engagement objectives. 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), 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. This should be done to ensure that each audit team member is complying with the IIA standards on independency. The signed declaration of interest form should be filed on the audit file.

### 4.2.6 Pre-engagement team meeting

Audit Executive should have a meeting with the engagement team after the notification letter has been issued to the accounting Officer and Management to discuss the following:

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

A standard agenda should be prepared and circulated to the engagement team. The minutes and the agenda should be kept on the audit file.

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### 4.2.7 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 the Accounting Officer, management, and Audit Team.

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
- 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 (Audit Facilitator)
- Official responsible to deal with audit findings and provide action plans in a timely manner.

The Audit Executive should ensure that minutes are recorded by the auditor and kepton the audit file.

### 4.2.8 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.

The system description should be documented either narrative and / or flow chart format. It is recommended that the system description be documented in narrative form to identify all the key controls in the audit area. The flow chart can be used to give a systematic flow of the activities of the audit area.

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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 for internal audit to obtain an understanding of the process. The audit team can obtain the information on the system description from several 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 is 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 considering the identified risks and the management assertion the control is addressing.

In instances where there is 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 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 Internal Auditor within 2 working days. A signed copy of the system description should be kept on the audit file.

#### 4.2.9 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.

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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.

When doing a walkthrough, a sample of four (4) transactions can be tested.

The Internal Auditor should review whether corrective controls are in place once detective controls are triggered. The Internal Auditor should analyze 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 Internal Auditor should prepare a preliminary draft report and submit it to the Audit Executive for review.

**4.2.10 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 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 considered 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.

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The auditor needs to identify, analyze, and define the characteristics of the population considering 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 on the nature of the control the following sample size may be selected.

| Nature of Control and Frequency ofPerformance | 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 Audit Executive.

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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, controls, financial year, sample size and the preparer, the date of preparation, the reviewer, and the review date.

The final audit program must be reviewed and approved by the Audit Executive before testing is performed. All changes to the program must be approved in writing by the manager and reasons for changes should be documented.

**4.2.11 Engagement Letter/Memorandum**

Audit Executive should prepare the Audit Planning Memorandum / engagement letter. The following information should be documented:

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

The Audit Executive should forward the Audit Planning Memorandum (“APM”) to the Accounting Officer, to the relevant Head of Departments and the line managers two (2) working days before the entrance meeting together with the agenda.

For audits that do not require an APM-sign off meeting (Such as PMS and AG Follow Up), the 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 filed on the audit file.

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#### 4.2.12 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 audit.

The Audit Executive must arrange a kick – off meeting after the engagement meeting and prior to the start of the engagement. The agenda should be distributed two (2) 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.
- The minutes of the meeting should be filled on the audit file by the internal auditor.

### 4.3 Engagement Execution

Performing the engagement involves conducting fieldwork to ensure that achievement of 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

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#### 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 internal 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 organization 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 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 auditee's validations of the auditee's 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.

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- Observation: Shadowing, being present and observing the process being performed by the auditee (e.g., cash or stock 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.
- Where there is a requirement to maintain hard copies of evidence and working papers, they should be appropriately filed on 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 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 Audit Executive and the approval of the Accounting Officer and Audit and Performance Committee.

Working papers are the property of Greater Taung Local Municipality and must be under the control of the Internal Audit division. Access to working papers should be restricted to the Internal Audit team

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Access to personnel outside the internal audit unit, should be approved by the 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.

Findings should be categorized as follows to ensure consistent prioritization 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 weakness / finding is 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 query, and these could be tracked and discussed at the regular progress meeting arranged

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with client. These responses from management should form part of the draft report and assist with identification of the root cause.

Findings can generally be categorized 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 of working papers.

#### 4.3.6 Budget monitoring

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

#### 4.3.7 Weekly progress meetings

The Audit Executive 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.

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- 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 the audit file after review.

#### 4.3.8 Review of audit work

Audit Executive should review the executed audit fieldwork continually throughout the audit. Review of the executed audit work, should follow a combination of three review methods:

- On-going review
- Review by the interview
- Post – execution review

### 4.4 Engagement Finalization

During the engagement finalization, Audit Executive should ensure the following:

- Preparation of the draft internal audit report
- Discussion of findings with management
- Team debriefing meeting

#### 4.4.1 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 Internal Auditor. 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 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

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- Constructive: helpful to the engagement client and the organization 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 able 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
- Relevant Head of Department
- Accounting Officer
- Audit and Performance Committee
- Risk Management Unit

The internal auditors must obtain comments from management timeously. Management should submit their responses within two (2) 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 omission, the Audit Executive should communicate the correct information / report all parties who received the original communication.

The responses of management state the following if management agrees with the findings:

- Action plan to be implemented which details what management is going to implement and how are they going to implement the recommendation.
- Person responsible for implementing the action plan.
- Date of implementation of the action plan.

If management disagrees with the finding:

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

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The 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 analyze 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)

Meeting should be scheduled with the relevant management who will be responsible for implementation of the recommendation / agreed action plans. The purpose of the meeting is to obtain root causes and management action plans, also agree recommendations with management to ensure that it is practical to implement, and the benefit of implementation outweighs the cost.

Audit Executive will be responsible for arranging the meeting with all the relevant stakeholders. All the audit team members should form part of the meeting. The agenda should be distributed within two (2) working days before the meeting.

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 management meeting. If there are no conclusions reached, the matter should be reported to the Audit and Performance Committee and Accounting Officer.

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If the 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 the audit file. Client satisfactory form should be issued to the client to rate the work of the internal auditors.

### 4.4.4 Team debriefing meeting

After the completion of the audit, Audit Executive 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 Audit Executive and all team members to discuss the following:

- Results of the audit: Final report and management comments.
- Problems experienced 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 and saved on the audit file.

## 4.5 Reporting

The primary objective of reporting is to effectively communicate 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 and Performance Committee
- External parties such as the Auditor General
- Risk Management Unit

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### 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 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.

Tel: Administrative Office (053) 994 9400
Fax:Administrative Office (053) 994 3917
Tel: Political Office (053) 994 9600
Fax:Political Office (053) 994 9611
Website: www.gtlm.gov.za

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**4.5.2 Communicating to the Audit and Performance Committee**

Internal Audit ultimately reports to the Audit and Performance Committee ("APC") which normally meet four times per year.

While all information should be available to the APC, internal audit should not overwhelm the committee with excessive detail. Audit Executive should prepare a summary of the final audit report in a prescribed format

The Audit Executive should provide this summary to the members before the meetings. In the event the members request additional information, the Audit Executive should provide them with  the additional information. Evidence of distribution to the audit and Performance committee should be kept on the audit file. This audit summary of thefinal 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 regarding distribution of results to external parties. Prior to releasing the results to external parties, 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 Internal Auditor should ensure that the audit file is complete and complies with the IIA standard and our internal audit methodology. The Audit Executive should review the audit file to ensure the audit file is complete and complies with legislation. The Audit Executive should close the audit file.

**4.5.6 Monitoring and Follow Up**

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.

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A follow–up template will be sent to the accounting officer and management every quarter for them to indicate the management action plans which they have implemented and those they have not implemented.

Where management has implemented a follow-up will be conducted. Where management did not agree with the finding or not implemented a follow-up will not be conducted.

The reason for non-implementation should be stated on the template, future action date and plan should be obtained and stated on the standard follow-up template. The results of the follow-up will be communicated to Management and APC.

The follow-up template should entail the following information:

- Name of the report
- Audit Component
- Title of the finding
- Cause
- Effect
- Recommendations
- Risk Rating
- Action Plans, implementation date and responsible person
- Implementation status
- Reason for non-implementation
- Future implementation date
- Audit remarks/conclusion (when the work has been done/implemented findings)

## 5. REVIEW

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

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## 6. APPROVAL

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

____________________________ ________________________

**Mr E.G. Mmokwa FIIASA, IAT**

**Audit Executive** **Date**

____________________________ ________________________

**Mr D Matshoba CA (SA)**

**APC Chairperson** **Date**