



Development of Annual Audit Plan

CIGFARO Audit & Risk Workshop –14 July 2022

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Ba-Phalaborwa Municipality



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“Unless you try to do something beyond what you have already mastered, you will never grow”



Ronal E Osborn

Attributes Standards

Standard 1000

Purpose, Authority, and Responsibility

The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the Standards. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

Internal Audit
Charter

Standard 1100

Independence and Objectivity

The internal audit activity must be independent, and internal auditors must be objective in performing their work

Internal Audit
Charter

Standard 1200

Proficiency and Due Professional Care

Engagements must be performed with proficiency and due professional care.

Continuous Professional
Development

Ethics
40 hours

Standard 1300

Quality Assurance and Improvement Program

The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity

Quality Assurance
and Improvement
Program

External Review

A photograph of four Black women sitting around a wooden conference table in a modern office. They are engaged in a discussion, with one woman on the right smiling and looking at a laptop. A whiteboard is visible in the background.

Role of IA on Risk Management

Role of Internal Audit on risk management

Standard 2120 – Risk Management

- The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.

Scope of Risk Management audit

Timing?

Organizational objectives support and align with the organization's mission;

Significant risks are identified and assessed;

Appropriate risk responses are selected that align risks with the organization's risk appetite; and

Relevant risk information is captured and communicated in a timely manner across the organization, enabling staff, management, and the board to carry out their responsibilities.

NB: This can be one audit of multiple audits in terms of the standards.

Prior utilization of risk register

What to do	How
Organizational objectives support and align with the organization's mission	IDP Strategic Plan
Significant risks are identified and assessed;	Incidence that occurred during the year AG Report IA Findings raised Investigations Headlines
Appropriate risk responses are selected that align risks with the organization's risk appetite; and	Risk appetite
Relevant risk information is captured and communicated in a timely manner across the organization, enabling staff, management, and the board to carry out their responsibilities.	Monitoring and reporting processes. RMC functionality Council

After approval of IA Plan – throughout the year

1. Test of controls leading to the level of the residual risk.
 2. Adjustment of the residual risk level
- ✓ All risks related to the engagement must be reviewed and controls tested for effectiveness
 - ✓ The results might cause the risk to either remain the same, or go up or down.
 - ✓ This is because the Internal Audit exercise is supported by evidence

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Relevant Legislations

Legislations to be considered:

Other Legislations and requirements:

- **National Environmental Management Act Section 51 (1)** *the Waste Management Licence must include: (k) monitoring, auditing and reporting requirements*
- **National Treasury Requirements – FMCMM, FRP**
- **AG Follow-up**
- **AFS Review**

Regulation 14 (a) A municipality must develop and implement mechanisms, systems and processes for auditing the results of performance measurements as part of its internal auditing processes.

- **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**



Standard 2010: The chief audit executive must establish a **risk-based plan** to determine the priorities of the internal audit activity, consistent with the organization's goals.

- **Documented Risk Assessment, done at least annually**
- **Consider Senior Management expectation**
- **Consulting Engagements**

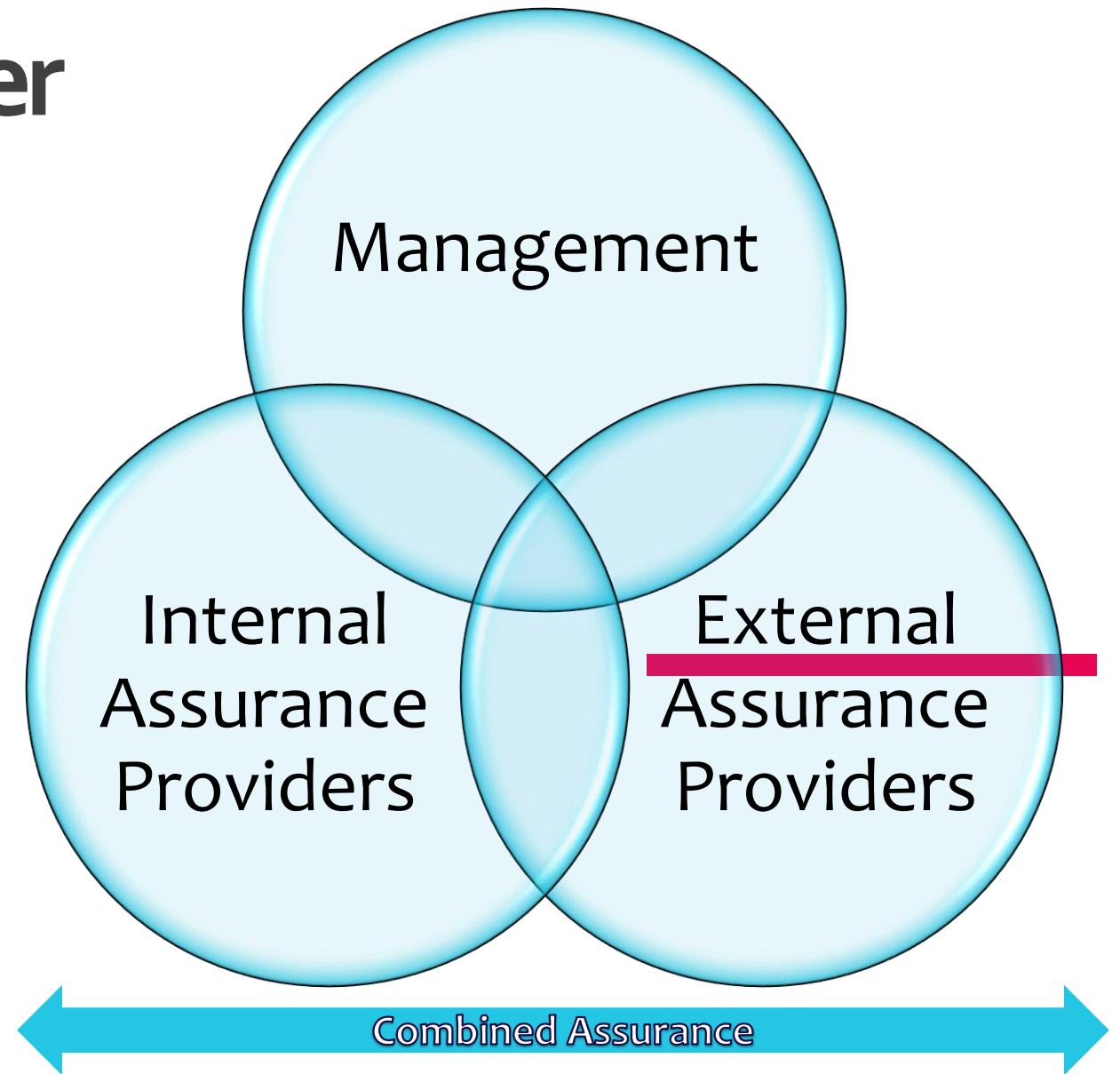
Section 165 of the MFMA: The IA unit must advise the accounting officer and report to the audit committee on the implementation of the internal audit plan and matters relating to—

- (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

- **All this are audits... ii to vii (6 audits in total)**

Risk-based – Risk Register

1. **Standard 2010:** The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals.
2. Internal Audit should prioritise high risk areas inherently.
3. **2050 – Coordination and Reliance.** The chief audit executive should share information, coordinate activities, and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimize duplication of efforts.



Analysis of AG Report

Description	2020/2021	2019/2020	2018/2019	2017/2018	2016/2017	2015/2016	2014/2015
Opinion	Qualified	Qualified	Qualified	Qualified	Disclaimer	Disclaimer	Qualified
Number of qualification paragraphs	14	9	8	8	30	39	10
Major Findings	Cash and cash equivalents (1)	PPE (3)	Receivables (1)	Receivables (2)	Inventories (3), Receivables (5)	Inventories (2), Receivables (3), PPE (2)	Inventory (1), PPE (1), Receivables (1)
Qualification Paragraphs	Receivables from exchange transactions (1)	Investment Property (1)	Payables (1)	Consumer Debtors (2)	Revenue (5)	Revenue (8)	Revenue (2),
	Receivables form non exchange (1)	Receivable from non-exchange transactions (1)	Irregular Expenditure (1)	Payables (1)	VAT (2)	VAT (4)	Expenditure (2)
	Payables from exchange transactions (3)	Consumer Deposits (1)	PPE (4)	Irregular Expenditure (1)	Expenditure (2)	Expenditure (2)	Payables (1)
	Investment Property (1)	Payable from exchange transactions (1)	Cashflow (1)	Impairment Loss (1)	Provisions (2)	Provisions (2)	Prior Period Errors (2)
	PPE (1)	Other Income (1)		Revenue – Aggregate of Immaterial Findings (1)	Cashflow (1)	Cashflow (1)	
	General Expenses (1)	Irregular Expenditure (1)			Employee Cost (2)	Employee Cost (3)	
	Agency Services (1)				Contingent liability (2)	Contingent liability (1)	
	Contingencies (1)				Commitments (1)	Commitments (1)	
	Unauthorised Expenditure (1)				Payables (3)	Consumer Deposits (3)	
	Commitments (1)				UIF (2)	Payables (4)	
	Cash Flow Statement (1)				Prior Period Errors (1)	Irregular Expenditure (1)	
						Prior Period Errors (1)	
						Distribution Loss (1)	

Analysis of AG Report

Recurring Findings	Background	Intervention
Accounts Receivables <ul style="list-style-type: none"> Traffic Fines Debtors Payables – MDM	Paragraphs in this years 2013/2014 2014/2015 2015/2016 2016/2017 2017/2018 2018/2019 2019/2020 2020/2021	Action Plan developed to address the findings. SLA signed with MDM and more intervention meetings held. A Council resolution is required to address the R30 million on traffic fines. Community Services must fast track the process with the help of BTO
Property Plant and Equipment: <ul style="list-style-type: none"> Mostly on land. 	No paragraph in this years 2016/2017 Disclaimer 2017/2018 Qualified	System for FAR in the process of implementation
Prior Period Errors	Raised in this three years 2014/2015 2015/2016 2016/2017	Action Plan development and reviewed by IAA.
UIFW Expenditure	No paragraphs in this years 2014/2015 Qualified 2016/2017 Disclaimer	MPAC busy with the investigations. Prevention strategy on procurement Is needed

Draft Annual Plan before considering risk register:

No	Audit Engagement	Alignment to risk register	Number of projects per year				Remarks
			Q1	Q2	Q3	Q4	
1	Risk Management Audit	Standard 2120/ Sec 165 MFMA			x		Can be done 2 times a year
2	Accounting procedures and practices	Sec 165 MFMA			x		Once each year
3	Performance management	Sec 165 MFMA/ Municipal Planning and Management Regulations	x	x	x	x	Planning Regulations requires that it be done each quarter
4	Loss control	Sec 165 MFMA		x			Once each year
5	Compliance with this Act, the annual Division of Revenue Act and any other applicable legislation	Sec 165 MFMA		x			Once each year
6	DORA	Sec 165 MFMA	x	x	x	x	Preferably done each quarter
7	AG Follow-up	Mostly high risk/ recommended	x	x	x	x	Preferably done each quarter
8	FMCM Review	Requirement of NT/ PT		x			Once each year
9	Annual Financial Statement Review	High risk mostly	x				Once each year
10	Financial Recovery Plan Review	Requirement of NT/ PT		x			Once each year
11	Environmental Audit	NEMA requirement/ Waste Management Licence	x				Once each year

Other Engagements



Standard 2100 – Nature of Work

- a) **2110.A1** – The internal audit activity must evaluate the design, implementation, and effectiveness of the **organization's ethics-related** objectives, programs, and activities.
- b) **2110.A2** – The internal audit activity must assess whether the **information technology governance** of the organization supports the organization's strategies and objectives.
 - **1210.A3** – Internal auditors must have **sufficient knowledge of key information technology risks and controls and available technology-based audit techniques** to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing.
 - **Continuous Auditing/ CAATS**

Allocation of Audit Hours

2230 – Engagement Resource Allocation

- Internal auditors must determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources.
- Best practice as recorded by IIA, an audit should take 3 week to complete
- Consider experience of each auditor
- Invest on planning with minimum hours to CAE

A photograph of four Black women sitting around a wooden conference table in a modern office. They are all looking towards the right side of the frame, engaged in a discussion. The woman on the far right is smiling and looking at a silver laptop. The woman next to her is also smiling and looking towards the same direction. The woman in the center is looking towards the camera with a smile. The woman on the far left is looking towards the camera. There is a whiteboard in the background and a blue laptop on the table in the foreground.

Practical Approach

Risk Register

Risk No	Link to objective	Risk category	Risk description	Root Cause to the risk	Consequences	Impact	Likelihood	Inherent risk	Current control	Perceived control effectiveness	Residual risk
OR 29		2Service delivery	Contaminated water	Inadequate water sampling and monitoring.	Human health and community protests.	4	4	16	1. Daily operational water quality monitoring. 2. Monthly compliance water quality monitoring.	0.40	6.4
OR 30		2Service delivery	High water losses	Aged infrastructure. Illegal water connections, vandalism to municipal infrastructure and non-billing in most areas.	Prolonged water supply interruptions. Loss of revenue .	4	5	20	Regular repairs of pipe bursts (Reactive maintenance)	0.65	13
OR 31		2Service delivery	Environmental Pollution	1. Aged infrastructure. 2. Lack of awareness campaign. 3. Lack of by-laws enforcement. 4. connection to the municipal lines and improper construction of bulk sewer pipe lines. 5.Foreign materials in the sewer network leading to spillage/overflow of sewer manholes.	Polluted water sources. Environmental damage and pollution. Health challenges. Civil claims against the municipality.	4	5	20	Constant monitoring, unblocking of sewer pipes and cleaning of manholes.	0.65	13

Risk Register

Risk No	Objective	Risk category	Risk	Root cause	Consequences	Impact	Likelihood	Inherent risk	Current control	Control effectiveness	Residual risk exposure
SR 1	Advance spatial planning and land use management	Legislative environment	Outdated LUMS and SDF	Lack of review of LUMS (Land Use Management System) and SDF (Spatial Development Framework). Due to budget Constraints	Litigation	4	5	20	1. Implementation of the existing LUMS and SDF that was approved in 2004 and 2010 respectively.	65%	13
SR2	Advance spatial planning and land use management	Compliance/Regulatory	Illegal use of land	1. Lack of land allocation procedures manuals and policies 2. Lengthy procedure in obtaining court order	Inaccurate asset register	5	5	25	Corporate Services assist with issuing of Court Interdicts.	90%	22.5
SR3	To ensure continuous and reliable supply of water, electricity, sanitation, waste removal to all resident within the municipality	Basic Service Delivery	Ageing Infrastructure (Roads & Storm water, water & sanitation networks, Electrical Networks)	1. Lack of Infrastructure Master plans and maintenance plans. 2. Minimal maintenance for municipal infrastructure due to insufficient budget. 3. The Municipal Infrastructure has exceeded its designed life span.	1. Poor service delivery resulting in community protests. 2. Possibility of litigations.	5	5	25	1. Reactive Maintenance on Water & Sanitation and Roads & Storm water infrastructures. 2. Planned Maintenance for electrical infrastructure. 3. An engineer is assisting the municipality with water management services voluntarily.	80%	20
				Lack of ICT strategy.							

Proposed Plan

No	Audit Engagement	Alignment to risk register	Root Causes (Focus)	Number of projects per year				Remarks
				Q1	Q2	Q3	Q4	
1	Water Services Audit	Contaminated water	Inadequate water sampling and monitoring.					
2	Infrastructure Audit/ Water Services Audit	High water losses	Aged infrastructure. Illegal water connections, vandalism to municipal infrastructure and non-billing in most areas.					
3	Infrastructure Audit/ Water Services Audit	Environmental Pollution	1. Aged infrastructure. 2. Lack of awareness campaign. 3. Lack of by-laws enforcement. 4. connection to the municipal lines and improper construction of bulk sewer pipe lines. 5.Foreign materials in the sewer network leading to spillage/overflow of sewer manholes.					Decision on what audit can be done. Check the root cause
4	Land Use Management Review	Outdated LUMS and SDF	Lack of review of LUMS (Land Use Management System) and SDF (Spatial Development Framework). Due to budget Constraints					Check how long has this been the case. If recent leave it out. If it has been the case for more than 2 years without improvement, Suggest Consulting and consider the skills in Internal Audit.
5	Land Use Management Review/ Land Audit	Illegal use of land	1. Lack of land allocation procedures manuals and policies 2. Lengthy procedure in obtaining court order					
6	Infrastructure Audit	Ageing Infrastructure (Roads & Storm water, water & sanitation networks, Electrical Networks)	1. Lack of Infrastructure Master plans and maintenance plans. 2. Minimal maintenance for municipal infrastructure due to insufficient budget. 3. The Municipal Infrastructure has exceeded its designed life span.					This can be a major audit which might need engineers. Consider outsource/ co-source or do it in pieces looking at the risks
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Internal Audit vs MPAC

Amended Municipal Structures Act 79A.

- (1) A municipal council must establish a committee called the municipal public accounts committee.
- (2) The mayor or executive mayor, deputy mayor or executive deputy mayor, any member of the executive committee, any member of the mayoral committee, speaker, whip and municipal officials are **not allowed to be members of the municipal public accounts committee**.
- (3) The municipal council must determine the **functions of the municipal public accounts committee**, which must include the following:
 - (a) review the Auditor-General's reports and **comments of the management committee and the audit committee** and make recommendations to the municipal council;
 - (b) review **internal audit reports** together with comments from the management committee and the **audit committee** and make recommendations to the municipal council;

Important to note:

1. Report of the AC on AG Report and Action Plan must be sent to MPAC
2. Internal Audit Reports must be referred to MPAC through the AC.
3. Mind how you report, [...\\Audit Committee\\AC Meetings\\AC Meeting 1 - 26 July 2021\\AC Meeting - 26 July 2021\\Final AC Pack - 26 July 2021\\AC Pack 3 - 26 July 2021\\3.5.2. 4th Quarter Internal Audit Progress Report.pdf](#)



Amended Structures Act

Amended Municipal Structures Act 79A.

- **initiate** and develop the oversight report on annual reports contemplated in section 129 of the Local Government: Municipal Finance Management Act;
- (d) attend to and make recommendations to the municipal council on any matter referred to it by the municipal council, executive committee, a committee of the council, a member of this committee, a councillor and the municipal manager; and
- (e) **on its own initiative**, subject to the direction of the municipal council, investigate and report to the municipal council on any matter affecting the municipality

Important to Note:

1. The major challenge of reports not referred to MPAC is addressed in the Amendments
2. MPAC can now initiate subject to Municipal Council approval and direction



“You cannot conquer what you are not committed to.”



T.D. Jakes



Thank You

Ms. MM Makhongela



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Ba-Phalaborwa Municipality

