

**PIXLEY KA SEME DISTRICT MUNICIPALITY**

**SHARED INTERNAL AUDIT UNIT**



**THREE YEAR STRATEGIC PLAN**

**2014/2015 – 2016/2017**

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## 1. Introduction

A Risk Assessment for the Municipality has been compiled and this will serve as the basis for namely:

- A rolling three year Strategic Internal Audit Plan;
- A annual Internal Audit Plan for the first year of the rolling plan; and
- Plans indicating the proposed scope of each audit in the annual audit plan.

In order to assist in the preparation of the three-year risk based audit strategy and annual audit plan a number of detailed strategic risk workshops/sessions were conducted with the various Departments in the Municipality, by the Internal Audit section.

***This report presents the outputs obtained from the detailed strategic risk sessions held in various departments with the Pixley Ka Seme District Municipality.***

The purpose of performing these detailed risk sessions is to compile a risk assessment, with a view to focusing Internal Audit's efforts on the highest risk areas to which the Departments' are exposed.

We are pleased to provide you with the results from the risk assessment, as well as the proposed Internal Audit Strategy and Annual Internal Audit Plan for the year- ended June 2013, which are directly based on the risk assessments. Specifically this report contains:

- The results of the risk assessment as updated for the period 2016/2017. Municipality starting
- A three year internal audit strategy for the Municipality: 2014 - 2017
- The annual internal audit plan for the third year of the strategic plan; and
- The plans indicating the proposed scope for each audit in the annual internal audit plan.

## 2. Background

### Municipal Finance and Management Act

Section 62 provides that an Accounting Officer for the Municipality must ensure that their Municipality has and maintains-

***Effective, efficient and transparent systems of financial and risk management and internal control;***

***A system of internal audit under the control and direction of an audit committee complying with the operating regulations and instructions prescribed in terms of this act.***

***Internal audit must be conducted, in accordance with the Standards set by the Institute of Internal Auditors.***

***An Internal Audit Unit must prepare, in consultation with and for approval by the Audit Committee –***

- (a) a rolling three-year Strategic Internal Audit Plan based on its assessment of key areas of risk for the institution, having regard to its current operations, those proposed in its strategic plan and its risk management strategy;***
- (b) An annual Internal Audit Plan for the first year of the rolling three year Strategic Internal Audit Plan;***
- (c) Plans indicating the proposed scope of each audit in the annual internal audit plan.***

### **3. Risk Analysis**

#### **Business model**

A top down view is taken of the Municipality so as to better understand the environment within which the Municipality operates. In developing our understanding of the various activities of the Municipality we have compiled a business model, presented below.

#### **Identification of strategic risks**

##### **Departmental participation:**

In order to ensure that the strategic risks were correctly identified and assessed, it was agreed that the Departmental participants should comprise of the people directly involved within the section which is covered in the risk assessment.

These one-on-one sessions provided for debate and active participation by the participants. Participants were at ease since no HOD's were involved in this process. After the one on one session with the different employees in the departments were finished the HOD's were involved to determine if they agree with the risks and ratings as given by the employees in their respective departments.

While significant effort was given to ensure that the major strategic risks were covered in the sessions, the limited time and the reliance on the knowledge of the participants may not have identified all the issues that need to be reviewed. However, the session's outputs form a good basis for the development of the Strategic and Annual Internal Audit Plan.

The sessions comprised of 6 personnel from the various departments after which the risks were discussed with HOD's whereby all HOD's of the municipality were involved in the process.

##### **Workshop Preparation**

In preparing for the workshops, participants as well as Internal Audit were asked to perform some preliminary work. The information provided, together with the IDP, was used to develop and pre-populate a risk data base that was confirmed, altered and refined during the workshop, so as to ensure that the risks identified reflected the actual risks faced by the Departments.

**Determination of the risks**

The risk assessment process includes 4 steps:

**Step 1:**

Quantifying the parameters (scoring system) of impact and likelihood before the actual assessment (see the table below:)

**RATING GUIDE - LIKELIHOOD**

Rating	Assessment	Definition
1	Rare	The risk is conceivable but is only likely to occur in extreme circumstances
2	Unlikely	The risk occurs infrequently and is unlikely to occur within the next 3 years
3	Moderate	There is an above average change that the risk will occur at least once in the next 3 years
4	Likely	The risk could easily occur and is likely to occur at least once within the next 12 months
5	Common	The risk is already occurring, or is likely to occur more than once within the next 12 months

**RATING GUIDE - IMPACT**

Rating	Assessment	Definition
1	Insignificant	Negative outcomes or missed opportunities that are likely to have a SLIGHT IMPACT on the ability to meet objectives
2	Minor	Negative outcomes or missed opportunities that are likely to have a RELATIVELY LOW IMPACT on the ability to meet objectives
3	Moderate	Negative outcomes or missed opportunities that are likely to have a RELATIVELY MODERATE IMPACT on the ability to meet objectives
4	Major	Negative outcomes or missed opportunities that are likely to have a SIGNIFICANT IMPACT on the ability to meet objectives
5	Critical	Negative outcomes or missed opportunities that are of CRITICAL IMPORTANCE to the achievement of the objectives

**ASSESSMENT CRITERIA**

A risk is assessed on the basis on its IMPACT and its LIKELIHOOD

IMPACT refers to the effect on the risk in the event that it materializes. (HOW BAD CAN THINGS BE?)

LIKELIHOOD refers to the probability or frequency of the risk being realized?

HAS THE RISK OCCURRED (IF SO, HOW FREQUENTLY) OR HOW LIKELY IS IT THAT THE RISK COULD OCCUR IN THE FORESEEABLE FUTURE?

**Step 2:**

Applying the parameters to the risk matrix to indicate what areas of the risk matrix would be regarded as high, medium or low risk (see tables below):

Risk Rating = impact x likelihood

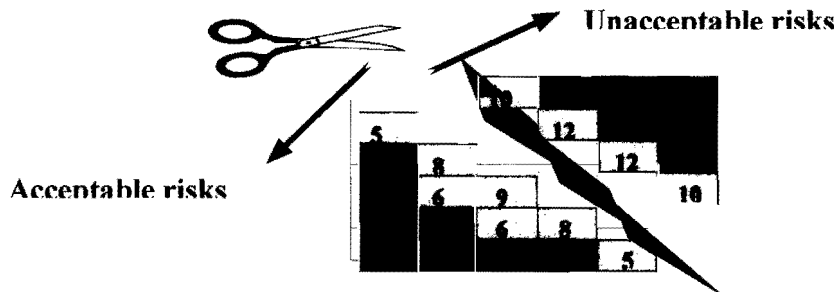
I	5	10	15	20	25
M	4	8	12	16	20
P	3	6	9	12	15
A	2	4	6	8	10
C	1	2	3	4	5
T	LIKELIHOOD				



RISK RATING	PRIORITY
16 - 25	HIGH
10 - 15	MEDIUM
1 - 9	LOW

**Step 3:**

Determining the risk acceptance criteria by identifying what risks will not be tolerated (see table below):



**Step 4:**

Risk index	Risk magnitude	Risk acceptability	Proposed actions
15 - 25	High risk	Unacceptable	Take action to reduce risk with highest priority, accounting officer and executive authority attention.
10 - 14	Medium risk	Unacceptable	Take action to reduce risk, inform senior management.
1 - 9	Minimum risk	Acceptable	No risk reduction - control, monitor, inform management.

#### **4. MISSION OF THE INTERNAL AUDIT UNIT:**

The mission of the Internal Audit Unit is to be a professional, independent Internal Audit function of best practice standard, which provide maximum benefit to the Municipality.

This is achieved through conducting efficient and effective audits of the Municipality's systems and services, and providing Management with independent and objective information, advice and assurance.

#### **5. CORE VALUE:**

The core value of the Internal Audit Unit is to:

- Demonstrate a commitment to ensuring the integrity of financial and operational management;
- Provide awareness and high quality advice to the Municipality's Management on policy, procedure, good practice and proper conduct;
- Promote a safe and healthy environment;
- Promote ethical behavior;
- Support good corporate governance;
- Demonstrate professionalism, integrity and discretion.

#### **6. GOALS:**

To perform our mission, the Internal Audit Unit has identified the following three (3) goals:

1. Provide strategic support to the municipality by performing independent appraisals and reporting the results of these to the municipality management, with a focus on control structures, risk exposure and legislative requirements.
2. Ensure that internal audit unit provides maximum value to the municipality.
3. Achieve an independent internal audit function of the best practice standard, with the focus on continuous improvement.

#### **7. Internal Audit Strategy**

##### **7.1 Risk based planning**

The Municipal Finance Management Act specifically requires that the Internal Audit approach be risk based. This means that the Internal Audit Plan, as well as the Internal Audit fieldwork must focus on the risks to which the Department is exposed.

Best practice Internal Audit also dictates that a specific strategy is developed, which best directs Internal Audit efforts to where the Department needs it most, at any given time.

This means that the correct balance of risk based versus cyclical based audits needs to be found. This balance depends on the maturity of an organization's systems and processes, the extent to which policies and procedures (and hence internal controls) are entrenched and complied with, and the general strength of the wider control environment.

Best practice is that the Internal Audit Unit spends approximately 60% of its time on risk-based audits, with the balance on cyclical based audits, and ad hoc requests.

However these limits should be seen as a guideline only and should be adjusted to best suit the Unit.

**7.2 Risk based audits**

Given the results from the risk assessments, which indicate only a satisfactory-to-weak control environment, we feel that it may be appropriate to, for the Internal Audit function to focus its attention on the high risk areas but concentrate on ensuring that the key controls are in place and adhered to.

This can be adjusted depending on the results from the first audits, given that the Audit Plan is flexible, dependant on Management and on Audit Committee’s approval.

**7.3 Cyclical audits**

As mentioned, Internal Audit may decide to focus its attention on certain medium to lower risk areas, for example to achieve general or specific improvements in the control environment or culture. These cyclical audits are normally be conducted on a yearly basis with the aim of monitoring and maintaining (through the reports issued and actions taken) a sound internal control environment.

**7.4 Ad hoc requests**

It is important that Internal Audit set aside time in their annual plan to attend to ad hoc management requests. However before accepting these requests, Internal Audit should assess the requests against the identified/planned audits of the high-risk areas and prioritize the requests based on how much value can be added, comparatively, prior to deciding whether or not to accept the requests.

It is important to note that the Audit Strategy and Plan presented overleaf remains risk based, which ensures that the resources are still spent effectively and the Treasury regulations are adhered to.

**8. Proposed risk based internal audit coverage**

**8.1 Three-year audit strategy**

Area	Details of coverage / Risks	2014/2015	2015/2016	2016/2017
<b>Planning and oversight</b>				
Risk workshops	Strategic level	Done	Done	Review and update
Audit Committee Meetings	Attendance of audit committee meetings	Ongoing	Ongoing	Ongoing
Management meetings	General meetings with management (HOD) on a regular basis to assess audit coverage requirements based on changing risks	Ongoing	Ongoing	Ongoing
Auditor General	Liaison with the audit general	Ongoing	Ongoing	Ongoing



**Risk Based Audit Plan**

AUDIT AREA		RISK RATING	2014/2015	2015/2016	2016/2017
<b>FINANCE DEPARTMENT</b>					
1	Other Income	H	Planned	Planned	Planned
	<b>EXPENDITURE</b>				
2	Cheque Control	M	Planned	Planned	Planned
3	Subsistence & Traveling	M	Planned	Planned	Planned
	<b>SUPPLY CHAIN MANAGEMENT</b>				
4	Demand Management	H	Planned	Planned	Planned
5	Acquisition Management	M	Planned	Planned	Planned
6	Bid Process	H	Planned	Planned	Planned
	<b>VAT</b>				
7	Vat accounting and Management	L	Planned		
8	Reporting of Awards above 100 000 (incl. Vat)	H	Planned	Planned	Planned
	<b>ASSET MANAGEMENT</b>				
9	New Assets	M		Planned	Planned
10	Accounting	M		Planned	Planned
11	Asset register	M		Planned	Planned
12	Inventories	L		Planned	
	<b>LOSS CONTROL</b>				
13	Short term Insurance	L		Planned	
14	Acquisition and Disposal of assets	L		Planned	
	<b>Cash &amp; Bank</b>				
15	BANK ARRANGEMENT	L		Planned	
16	BANK RECONCILIATIONS	L		Planned	
17	Short-term loans	L		Planned	
18	Capital loans	L		Planned	
19	Short term Investments	L		Planned	
	<b>MANAGEMENT ACCOUNTING</b>				
20	In year Monitoring	M	Planned	Planned	Planned
	<b>DEBTORS</b>				
21	Policy management	L		Planned	
22	Debt account and collection	H	Planned	Planned	Planned
23	Debt review and write -off	L		Planned	
	<b>CREDITORS</b>				
25	Sundry Creditors	M		Planned	
26	<b>INFORMATION TECHNOLOGY - GENERAL CONTROLS</b>	H	Planned	Planned	Planned
	<b>FINANCIAL ACCOUNTING</b>				
27	General Ledger	L			Planned
28	Journals	L			Planned

<b>INFRASTRUCTURE DEVELOPMENT, LED AND HOUSING</b>					
29	Housing	H	Planned	Planned	Planned
30	LED	H	Planned	Planned	Planned
31	RRAMS	H			Planned
	<b>STRATEGIC RISKS</b>				
32	IDP	H			Planned
33	BUDGET	H			Planned
34	PMS & PERFORMANCE INFORMATION	H			Planned
35	Organisational Structure	L			Planned
	<b>CORPORATE SERVICES</b>				
	<b>PERSONNEL &amp; PAYROLL</b>				
36	Recruitment and Appointment	M		Planned	Planned
37	Staff training and development	M	Planned	Planned	Planned
38	Leave	M	Planned	Planned	Planned
39	Overtime	M		Planned	Planned
	<b>SUPPORT SERVICES</b>				
40	Council Vehicles	L			Planned
41	Telecommunication	H	Planned	Planned	Planned
42	Legal Services	M			Planned
43	Disaster Management	H			Planned
44	Environmental Health	H			Planned
45	<b>RISK MANAGEMENT</b>	H	Planned	Planned	Planned
46	<b>COMPLIANCE WITH DORA</b>	M	Planned	Planned	Planned

<b>Cyclical Reviews</b>			<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
1.	Fixed Assets	Review of key fixed asset controls	Planned	Planned	Planned
2.	Financial discipline reviews	Review of key financial controls	Planned	Planned	Planned
3.	Finance Income	Review of the controls that exists over income	Planned	Planned	Planned
4.	Finance Expenditure	Review controls over Expenditure	Planned	Planned	Planned
5.	Personnel & Payroll	Review controls over Personnel and Payroll	Planned	Planned	Planned

<b>Ongoing Activities</b>					
Fraud and Corruption	Ongoing monitoring and review of adherence to the Fraud Prevention Policy and Plan	Ongoing	Ongoing	Ongoing	Ongoing
Policies and Procedures	The levels of adherence will be addressed during all audits. This will include an assessment of whether or not the policies and procedures are adequate	Ongoing	Ongoing	Ongoing	Ongoing

## **9. LINKS TO INSTITUTIONS AND OTHER BODIES**

The Internal Audit Manager is a member of the following professional Institutions:

- The Institute of Internal Auditors of South Africa (IIASA)
- The Institute of Municipal Finance Officers (IMFO)
- The Institute for Local Government Managers (ILGM)

All officials in the unit are members of the Institute of Internal Auditors. (IIASA)

## **10. STAFFING**

The staff component of the Unit consists of the following members:

4X Internal Audit Clerks  
 4 X Internal Auditors  
 1X Senior Internal Auditor  
 1 X Internal Audit Manager

The Internal Audit Unit will deploy staff with the appropriate skills; qualifications and experience to deliver the requirements set out in the Audit Plans. The Internal Audit Manager will control their deployment.

## **11. RESOURCES**

The Internal audit Unit has received a funding allocation of R 3 942 400.00 in respect of the 2016/2017 financial year. This allocation covers:

- (i) Salaries of R 3 545 400.00 in respect of the following personnel
  - (a) 4 X Internal Audit Clerks
  - (b) 4 X Internal Auditors
  - (c) 1X Senior Internal Auditor
  - (b) 1 X Manager: Internal Audit
- (ii) Other cost of R 397 000.00 to run the Internal Audit Unit, including equipment, office supplies, professional development and other travel costs.

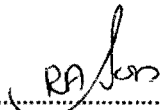
**12. TRAINING**

A training program will be developed for the members of the Unit, but unfortunately, the availability of financial resources will always be a factor.

Further development for both the Internal Auditors and the Internal Audit Manager will be agreed during the year and is likely to include attendance of relevant seminars and conferences to keep up to date with advances in the field of Internal Audit and Risk Management, and to ensure awareness of specific risks and issues facing Pixley Ka Seme District Municipality.

**13. APPROVAL OF THE STRATEGIC PLAN FOR 2014/15 – 2016/17**

Reviewed at De Aar on the 14<sup>th</sup> Day of November 2016

  
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RA SORS  
INTERNAL AUDIT

14/11/2016  
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DATE

  
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CHAIRPERSON  
AUDIT COMMITTEE

14/11/2016  
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DATE