

- Review the disclosure of assets in respect of Financial Reporting.

4.3.4 Ensure economical, efficient and effective use of resources

- Determine if standard operating procedures / process flow diagrams exist.
- Ensure that job function / task / description and Key Performance Indicators (KPI's) are being met by individuals.
- Advise Management and the Municipal Manager of shortcomings in the resource performance.

4.3.5 Ensure accomplishment of established objectives and goals for operations and programs

- Obtain the IDP and KPIs and objectives of the Municipality and the business unit processes under review
- Evaluate the goals and objectives to determine if they are specific, measurable, relevant, achievable and time based for the business process.
- Raise attention to shortcomings in the achievement of goals and objectives.

4.3.6 Ensure availability of services to management

- Ensure that personnel remain abreast of professional development by means of periodicals, seminars, courses and membership of professional bodies.
- Promote the consulting and assurance activities of Internal Audit.
- Plan ahead and include time for these ad hoc services in the audit plan, for approval of the Audit Committee.

4.4 Scope of Work

4.4.1 Assurance Services

The Internal Audit Activity provides an independent assessment on the risk management, control, and governance processes for the organisation. Examples include financial, performance, compliance, systems auditing, and control self assessment reviews.

4.4.2 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. Examples include counsel, advice facilitation and training.

4.4.3 Legal Requirement

The internal audit activity in local government is required to have or obtain skills and competencies to examine and evaluate:

- Internal controls;

- Accounting procedures and practices;
- Risk management;
- Loss control; and
- Compliance reviews.

4.5 Audit Areas of Specification

There are many types of audits; the Internal Audit Activity will determine which kind of audit process (or a combination) to perform based on a formal risk assessment process. Listed below are a few examples of the audits that could be performed by the Internal Audit Activity:

4.5.1 Financial Audit/ review

A financial audit - reviews the recording and reporting of financial transactions. The purpose of this type of audit is to provide management with assurance that financial information is complete and accurately recorded in the municipalities financial records and that these records support the information shown in the financial reports.

4.5.2 Auditing of Performance Measurements (AOPO – Audit of Pre-determined Objectives)

The audit/ review of the municipal performance management system (PMS) and performance measurement in terms of compliance with legislation, functionality of the system and assurance on the effectiveness of the system.

4.5.3 Operating Auditing

This type of audit examines an operating process to determine whether resources are being used effectively, efficiently and economically in the pursuit of the Council's corporate vision. The process / system is documented (process analyses documents) where after the process / system is reviewed for weaknesses. Internal Audit then provides practical solutions for the control weaknesses identified, preventing the weaknesses from recurring.

Activities such as human resources, cash handling, procurement, and inventories are generally subject to this type of audit.

4.5.4 Compliance Auditing

A compliance audit evaluates the municipality's adherence to laws, regulations, and internal and external policies governing the business process under review. The business unit should be applying the guidelines to ensure the successful operation of its activities and this assessment is a form of "health" check.

4.5.5 Information Systems Audit

An information system audit review of the internal control environment within the systems used by the municipality. It also addresses the Information Technology governance processes.

4.5.6 Control Self Assessments

This is also known as a facilitation process to internal auditing. The process is used to work with management in a workshop environment to assess the control environment of the business unit under review. A control model is usually utilised together with a set format, process and objectives. The information gathered in the workshop is summarised. The risks from the exercise are then reported with recommendations for management action.

4.5.7 Environmental Auditing

The environmental audits will be performed similarly to compliance auditing as environmental requirements are documented and therefore need to be complied with. The audit approach can also include a combination of the operating and financial auditing approach as well as control self assessments.

4.5.8 Ad hoc Management Requests

These are requests made by management to the Chief Audit Executive who in turn prioritizes and distributes the assignments to the relevant internal audit personnel for action. These requests must be made in writing by management and must be included in the Internal Audit Plan.

4.5.9 Forensic Auditing

This specialized type of auditing involves fraud investigations and related functions. The ultimate goal is to implement deterrent controls, which are geared towards prevention as opposed to detection in order to discourage fraudulent activity. Loss control can be included / encompassed in here in terms of assessing control measures to ensure they are appropriately highlighting losses at the earliest opportunity. Often loss control measures expose fraudulent activities that have taken place.

4.6 Specialized Skills – Assurance and Consulting Assistance

The Internal Audit Activity should be in a position to provide assurance and consulting advice to management. Where these skills, knowledge and competencies are lacking, the appropriate budgetary provision within the internal audit budget should exist to source in assistance as and when necessary.

The necessary supply chain management principles are to be applied when procuring consulting assistance.

5 AUDIT METHODOLOGY/ PROCESS

Internal Audit Engagement Cycle



5.1 Risk Assessment

The purpose of the risk assessment is to:

- Gain an understanding of the risks that threaten the organization's achievement of strategic objectives;
- Develop foundations that will assist in identifying the client's key business processes that mitigate strategic risks and to focus process-level assessment; and
- Develop the basis for the internal audit plan (single or multi-year).

The extent to which risk assessment activities are performed depends on the management. Management's involvement/ownership/buy-in is crucial to the success of the risk assessment. Management should determine and agree on the risk rating criteria to be used in assessing risks and plays a key role in the identification and analysis of risks throughout the process.

Internal Audit's role is limited to facilitating the process and providing observations and recommendations on the management's assessments, but not making the assessments for them.

The inputs for risk assessment include:

- Discussions with senior management, the board (Mayoral Committee) , and the audit committee through interviews and/or facilitated discussions;
- Business Understanding Document;
- Previous internal audit and risk assessment information, when available; and
- Other industry knowledge

The activities to complete the risk assessment include:

- Establish and agree on risk rating criteria;
- Agree approach to risk assessments and facilitate discussions;
- Identify and assess risks;
- Identify key business processes;
- Perform control environment review; and
- Document issues and validate with client.
- The risk assessment activities are explained in more detail below.

5.1.1 Establish and agree on risk rating criteria

The significance of the risks identified can be determined by considering three factors:

The risk appetite and risk capacity of the organization;

Risk appetite is defined as the level of risk that management is prepared to accept (tolerate) to achieve the organization's objectives. Risk appetite is determined by considering the relationship between risk and return.

Risk capacity is the level of risk the client is not prepared to exceed. This can be done by management by estimating the maximum loss that they believe they can endure in one year without endangering the survival of the company.

The magnitude of the impact of the risks;

Risk impact can be defined using a five-point scale as follows:

- Low or **Insignificant** (1)
- Low to Moderate or **Minor** (2)
- **Moderate** (3)
- Moderate to High or **Major** (4)
- High or **Catastrophic** (5)

The following table illustrates detail impact descriptors that might be chosen:

Impact on business		
Level	Descriptor	Example of detail descriptor
1	Low or Insignificant	<ul style="list-style-type: none"> - Issue can be delegated to junior management and staff to resolve - No or insignificant impact on service delivery

		<ul style="list-style-type: none"> - No impact on internal business - Insignificant impact on available budget - Insignificant impact on reputation - No injuries
2	Low to Moderate or Minor	<ul style="list-style-type: none"> - Issue can be delegated to middle management to resolve - Low to moderate impact on service delivery - Low to moderate impact on internal business - Low to moderate impact on available budget - Low to moderate impact on reputation - Light injuries – first aid required
3	Moderate	<ul style="list-style-type: none"> - Issue can be delegated to senior management to resolve - Moderate impact on service delivery - Moderate impact on internal business - Moderate impact on available budget - Moderate impact on reputation - Light injuries – medical treatment required
4	Moderate to High or Major	<ul style="list-style-type: none"> - Issue can be delegated to Council to resolve - Moderate to high impact on service delivery – may impact the ability to deliver service - Moderate to High impact on internal business – may stop internal business - Moderate to High impact on available budget – requires significant portion of budget - Moderate to High impact on reputation - Serious injuries – possibly life threatening
5	High or Catastrophic	<ul style="list-style-type: none"> - Delegate to Provincial Government to resolve - High or Catastrophic impact on service delivery – unable to deliver services - High or Catastrophic impact on internal business – internal business stops - High or Catastrophic impact on available budget – organization place under administration - High or Catastrophic impact on reputation - Life threatening

The likelihood that the risks will occur.

Before determining the likelihood/possibility of a risk materializing, a time frame should be determined, in most cases the time period used is one year. It is important that the time period and the descriptors be agreed with the management.

When determining likelihood for an identified risk during the risk assessment process, it is important to consider the number of occurrences related to the process or event in question. For example, certain transactions such as acquisitions may only occur once, whereas placing orders for supplies might occur daily.

Likelihood of occurring		
Level	Descriptor	Example of detail descriptor
1	Rare	- May only occur in exceptional circumstances.
2	Unlikely	- Low probability of occurring but could occur.

3	Possible	- Moderate probability of occurring.
4	Likely	- Will probably occur in most instances.
5	Almost certain	- Is expected to occur in most instances.

The relationship between the impact of the risk and the likelihood of occurrence is illustrated by the following table:

Likelihood	Almost certain					
	Likely					
	Possible					
	Unlikely					
	Rare					
		Insignificant	Minor	Moderate	Major	Catastrophic
		Impact				

5.1.2 Agree approach to risk assessments and facilitate discussions

The technique used to perform the risk assessment will depend on management's preferences.

The following are two examples of approaches to risk assessments:

- Involving the Mayoral Committee and senior management in facilitated workshops; or
- Obtaining relevant information through individual interviews and questionnaires.

Regardless of the approach employed, Internal Audit's role during the risk assessment and facilitated discussions is to:

- Establish a process that builds on the client's knowledge and experience;
- Encourage open discussion and exploration of issues;
- Help participants identify, prioritize, and consolidate issues into common themes; and
- In the case of workshops, help participants reach a common understanding on issues.

5.1.3 Identify and assess risk

Internal Audit's main objective during risk assessment is to help the client identify and understand the risks that can threaten the achievement of business objectives.

Different definitions of the term "risk" exist and for the purposes of the methodology, the terms are defined as follows:

- Risk: Risk is the possibility that event/circumstances will impact the achievement of DM strategic objectives negatively.
- Gross risk: The possibility that events or circumstances will prevent the client from achieving its objectives that does not take into account the effects of controls, also known as "inherent risk."

- Residual risk: The remaining risk after considering the effect of internal controls implemented by client management.

The objective of risk analysis is to help the management determine the significance of the risks identified by considering the relationship between the potential impact of a risk and the likelihood of its occurrence. The relationship between impact and likelihood is visually depicted on the enterprise risk matrix. Although engagement teams may opt for other means of describing risk categories, one way it may be described is using a scale with the following categories:

- C critical risk, immediate action required
- H high risk, senior management attention needed
- M moderate risk, management responsibility must be specified
- L low risk, manage by routine procedures

Example

- The relationship can be depicted graphically in the risk matrix.

Likelihood	Almost certain	H	H	C	C	C
	Likely	M	H	H	C	C
	Possible	L	M	H	C	C
	Unlikely	L	L	M	H	H
	Rare	L	L	M	H	H
	Insignificant	Minor	Moderate	Major	Catastrophic	
	Impact					

☉ Risk

Once the significance of the risks has been determined management may be asked to rank the risks in order of significance. The risks deemed above the origination's risk appetite especially those in the upper right-hand quadrant, would be ranked as most significant.

5.1.4 Identify key business processes

A key business process is defined as a process associated with a strategic risk. This association may arise in two ways:

- The process contains internal controls that address or manage the strategic risk.
- The process creates the risk or generates aspects of the risk.

5.1.5 Perform control environment review

The objective of a Control Environment Review (CER) is to assist the management in obtaining an overall understanding of the general and underlying control environment supporting the business operations. This assessment can be a key aspect to Internal Audit Department in understanding of the high-level structures and controls within the organization.

The business control environment consists of activities covering and integrating the municipality's strategy and operations. It forms the context within which management makes choices about controls and other activities.

Management maintains a balance between driving for high performance and helping to ensure that its personnel do not go beyond the bounds of acceptable risk or business practice. This means creating a business control environment to support the municipality's business objectives and strategies. Without a reasonable control environment, performance may not be optimized and organization-wide (strategic) risks could emerge.

The CER can help enable the municipality to identify significant risks.

5.1.6 Document issues and validate with client

Issues potentially can be identified during the risk assessment. It is important to document these issues or performance improvement opportunities. Following documentation, present these items to management for verification. This process is critical to maintaining the relationship as well as notifying management of any "new" risks or strategic issues that were noted during this process.

The document outputs for the risk assessment can include a combination of the following:

- Risk Rating Criteria.
- Risk Categories.
- Risk Matrix.
- Risk Register.
- Control Environment Review.

6 INTERNAL AUDIT PLAN (RISK-BASED)

The risk based internal audit plan (IAP) sets out the scope of work to be undertaken by the Overstrand Municipality's Internal Audit unit. The plan is directed, agreed and adopted by the municipality's audit committee and is developed in conjunction with the risk assessment.

The inputs to the risk based Internal Audit Plan include:

- Outputs of an enterprise risk assessment, including identified risk focus areas for the municipality's key business processes and information on specific process-level risk factors and internal controls within those business processes;
- Executive management/audit committee requests;
- Additional information about the industry;
- Information resulting from the external audits and regulatory examinations; and
- Historical internal audit activities, including those activities performed by other service providers.

There are a number of different types of internal audit projects that may be included in risk based Internal Audit Plan. These can include the following:

- Tests of Business Process and/or Internal Control Design;

- Tests of Internal Control Effectiveness;
- Follow-up reviews on issues identified during previous internal audits;
- Management requests/agreed-upon procedures; and
- Internal audit function administration.

The proposed risk based Internal Audit Plan should be presented to the audit committee for consideration and adoption, usually with, at a minimum, a proposed timeline for execution of the plan and descriptions of each audit project.

The output of the Internal Audit Plan phase is a one-year internal audit plan and/or 3 year rolling internal audit plan (multi-year internal audit plan) depending on needs and discretion of the Overstrand Municipality Internal Audit Unit, Audit Committee and Executive Management.

7 INTERNAL AUDIT EXECUTION

Internal audit execution is performed after approval of the Internal Audit Plan. Internal audit execution formalizes the activities to be performed as a result of our understanding gained through risk assessment and internal audit planning.

The inputs for internal audit execution are:

- Approved internal audit plan;
- Information from strategic analysis and risk assessment; and
- Discussion(s) with management and/ or request(s) from management – usually *via* the Accounting Officer.

During the internal audit execution process the following activities are conducted:

- Process Analysis /System description;
- Create Internal Audit Program;
- Execute Program; and
- Document Evidence and Report

The activities performed during internal audit execution may allow Internal Audit to identify operational weaknesses and cost-saving recommendations which are key to adding tangible value to the organization.

The Internal Audit Execution activities are explained in more detail below.

7.1 Process analysis

The process description should be documented in narrative form and/or through the use of flowcharts, where deemed appropriate. Once the process is documented, the process owner should confirm our understanding of that process by signing the Process Documentation Analysis (PAD) working paper since this will serve as the foundation for the scope of the internal audit.

Internal audit would look at the process and how it is managed and compare it against some standard or benchmark, where available and appropriate, to help the management/process owner assess the reasonableness of the process and controls and how they are managed.

In undertaking any comparison against practices exhibited elsewhere, it is important that this practice be generally recognized as a highly effective or efficient way of doing things.

7.2 Create Internal Audit Program

To create the internal audit work program, Internal Audit personnel should be able to identify process level risks and internal controls for testing of design and effectiveness.

Information gained from a number of sources, including risk assessment and process analysis, will drive the areas of emphasis in an internal audit program. The strategic and process level risks identified and the priority of those risks will focus the internal audit program on the internal controls that should be tested.

Such decisions (which controls should be tested) are based on the assumption that the internal controls are operating effectively, which directly impacts the creation of the internal audit program. If an internal control is known by the process owner to not be operating effectively or if it has been determined and agreed to by the client that a control is not designed properly, then agreement must be reached with the client on whether it is appropriate to perform testing of those controls. In many instances, it may not be beneficial to the process owner to test internal controls if they are known to have substantial issues in either design or effectiveness.

The internal audit program sets out the procedures to be undertaken to help the process owner assess the existence and effectiveness of identified controls. There may be regulatory compliance issues that also require testing. These issues should be documented in the program.

In designing the internal audit procedures to include in the program, it is important that the program allows flexibility for team members to use judgment, but provide sufficient guidance that the fieldwork achieves its objectives. Internal Audit professionals should design internal audit procedures in a manner that will result in the most efficient evidence on whether an internal control is operating effectively.

7.3 Execute Program

Testing procedures should be structured to provide the strongest evidence for the least effort sufficient to satisfy the testing objectives. Each test objective will have one or more procedures that are performed to effectively meet that objective. Further, each planned test procedure is linked to a specific test objective to determine that the test procedures are relevant and link back to the specific scope of the assignment.

The extent of procedures may range from observation, inquiry and process walkthroughs to detailed controls assessment and testing. In executing internal audit procedures, Internal Audit should attempt to be as concise as possible in their documentation. To this end, conciseness and relevance are key in developing working papers.

7.4 Document Evidence and Report issues

Audit evidence can be physical, testimonial, documentary, or analytical. The type and source of test evidence obtained and used to complete testing are documented in a relevant working paper. This enables an independent reviewer to arrive at the same findings and recommendations by reviewing the working papers. Each test procedure should link back to the

specific scope of our internal audit project. Upon completion of the test work, the test program may be referenced to the relevant working papers, signed, and dated by the staff member who performed the procedure or test.

It is acceptable to prepare exception-based documentation, whereby for a given test of internal control, only those items with noted exceptions are included in the work papers. If no exception is noted for the given test, then the engagement team includes a photocopy of a complete set of supporting documentation for one of the items tested for that control to document an example of what was reviewed by the engagement team.

It is important to note that, when preparing exception-based documentation; sufficient information must be maintained in the working paper so that the test could be re-performed. Alternatively, photocopies could be kept of all evidential matter supporting the test, whether exceptions were found or not.

During our work, we may identify additional internal control issues that require resolution but are not specifically within the scope of the internal audit project. These issues should be raised as soon as possible with the Chief Audit Executive.

A finding is noted when the results of internal control testing denotes that the control is either missing or not working as expected and could be documented on the Finding sheets. Accordingly, a substantial residual risk remains even after the related internal controls have been reviewed and tested.

All findings included in the internal audit report should tie back to the finding sheets, which in turn should tie directly, back to the supporting test documentation or other relevant work papers.

In contrast, a *performance improvement observation (PIO)* is defined as an area for improvement that does not involve a control weakness or involves an area outside of the scope of the internal audit project and is documented on the finding sheets or a separate Performance Improvement Observation document.

Based on the results of our internal audit procedures, we document the following information for both findings and PIOs:

- Basis for our observation;
- Root cause;
- Impact on the organization;
- Recommended actions; and
- Management responses.

When recommending actions it is important for Internal Audit to analyze the root cause of the finding. Once this information is documented, the assigned Auditor, together with the Chief Audit Executive will decide which findings and/ or issues will be carried through to the draft report versus only being reported to the client verbally.

The outputs for internal audit execution include a combination of the following:

- Background information/ Process Analysis – document/ summary of our understanding of the business process, which strategic risks the process is associated with, and our overall understanding of process level risks and associated internal controls.
- System description / Process Workflow Process map graphically depicting the flow of the business process along with key participants and internal controls.
- Process Risk Register. This document provides a summary of the outcome of the conducted risk assessment at the process level. It usually contains a detailed listing and description of each risk along with individual ratings for impact and probability.
- Internal Audit Program. The audit program sets out the procedures to be undertaken, these procedures enable us to assess the existence and effectiveness of documented controls.
- Internal Audit Working papers. These working papers provides an indication work performed during the internal audit project and are cross-referenced to the internal audit program and the internal audit report for easy reference. This includes overall conclusions reached by the assigned auditor in relation to the individual audit objectives tested.

8 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. Reporting occurs through formal documentation and respective meetings with the process owner, senior management, audit committee and other stakeholders of the audit process.

All of the work and documents previously prepared provide input to the reporting process; however, the following documents are drawn from in preparing reports to management and the audit committee.

- Audit committee charter;
- Internal audit charter;
- Risk register;
- Internal Audit Plan;
- Process analysis documentation;
- Process risk register;
- Audit working papers;
- Audit evidence obtained; and
- Audit reports from individual projects.

8.1 Reporting to management

During the course of performance of the engagement, regardless of the phase the Internal Audit team is in, it is imperative that the Internal Audit team communicate as often as practically possible with the process owner and/ or senior manager concerned. The timing and nature of the communication is generally agreed upon with the management in advance, during the planning meetings.

Status reporting should include, but not be limited to, communication of:

- Significant issues or findings;
- Potential scope changes;
- Project progress and milestones; and
- Items that may affect project timing.

Continual management communication helps the management and the Internal Audit in agreeing with each other as to the significant aspects of the audit. Visibility of Internal Audit work and work product helps to avoid surprises, which can potentially have a detrimental effect on the working relationship.

For the reporting process to be effective the following should be adhered to at all times:

- No findings are to be included in the management reports that have not previously been discussed with the process owner and/ or senior manager. This is a matter of courtesy and sound business practices.
- The findings are associated with a business process and strategic risk(s). This emphasizes the risk based internal audit approach and demonstrates the impact to the internal control environment.
- Agreement is reached regarding the factual correctness of the audit findings and root causes. If any disagreement exists, in relation to the audit finding(s) and/ or root causes concerted efforts must be made to resolve such disagreements – if no agreement is still reached between Internal Audit and the relevant process owner/ senior manager, this should be noted in the Audit report (Draft of final audit report).

Disagreements: There are certain instances where there will be disagreement between the audited process owner and Internal Audit. Where agreement cannot be reached, the audited process owner has the opportunity to have its written comments “*verbatim*” included in the report. The comments will be recorded in the management response portion of the internal audit report. Management’s views should clearly identify:

- The reasons for disagreement with the recommendations;
 - The alternative course of action that management plans to follow (if any);
 - Justification for preferring the alternative course of action; and
 - The name and designation of the person(s) whose views are expressed.
- Do not regard the recommendations made by internal audit as the only alternative that will acceptably improve a deficiency and also be cost-effective. This point should be clear in the tone of our comments in the report and in our informal discussions with organizations’ personnel. It should be noted, that Internal Audit’ recommendations remain Internal Audit’ recommendations based on our assessment and professional judgment and that the risk and the treatment (mitigation) thereof remains there responsibility of management.
 - Management must be directly involved in the formulation of the recommendations. It is easier for management to accept recommendations if they were directly involved and consulted in their formulation. It is also more likely that the recommendation will be implemented, as management will more readily take ownership of the corrective action.

- Internal Audit, in conjunction with management, must develop an effective action plan that will address the issues identified. In agreeing and jointly developing the actions required, organizational objectives as well as the improvement of the control environment are being taken into account.
- The agreed action takes the 3 E's into account, i.e., Economy, Efficiency, and Effectiveness. The cost of implementing and maintaining the control is normally weighed against the possible benefits to be derived from it.

8.2 Reporting to the audit committee

The internal audit function ultimately reports and is accountable to the Audit Committee of the municipality. The audit committee must therefore be considered the ultimate Internal Audit customer. An audit committee typically meets four times a year and will normally include internal audit activities and performance as a standard item on its agenda.

Prior to the meeting Internal Audit must prepare internal audit reports for the projects performed during the audit cycle and distributes them to the members of the audit committee and other related parties. This distribution allows the committee to effectively examine and consider the issues when provided with sufficient lead time prior to the audit committee meeting.

While all information should be available to the Audit Committee, internal audit should not overwhelm the committee with excessive detail. Summaries are appropriate and should be supported by detail as requested by the audit committee. In addition, we should also address the details of previous report follow-up and status of management's implementation of corrective actions.

The Chief Audit Executive must attend each audit committee meeting.

The following factors are critical to our involvement with the Audit Committee:

- Internal Audit should have the respect, support, and cooperation of both senior management and the audit committee;
- Internal Audit should always have an open line of communication and unrestricted access to members of the Audit Committee, the Accounting Officer, The Executive Mayor and Speaker and mayoral committee members of the municipal council.
- In order to discharge its functions and responsibility to the Audit Committee, Accounting Officer, Management and Council, Internal Audit must have unrestricted access to personnel and/ or information in the performance of its duties.
- Internal Audit's involvement with the audit committee is focused on the most strategic and significant issues, making the best use of their time.

The benefits of our interaction with the audit committee are:

- The audit committee is kept informed of our observations regarding the effectiveness of the organization's risk management, internal control environment, and governance processes, assisting them in discharging their governance, "due professional care" and due diligence responsibilities.
- It enables regular contact with management at the highest level — key decision makers in the municipality and potentially those outside.

- Through its unrestricted access to the audit committee, Internal Audit may influence the scope and extent of the services provided to the municipality.

Progress is reported on the delivery of the internal audit plan that was submitted and approved by the audit committee at the beginning of the financial year.

The outputs for internal audit reporting include:

- Internal Audit Report. The internal audit report provides a comprehensive presentation of the business processes and internal controls assessed during the internal audit project. It provides findings and performance improvement opportunities as well as summary information on the internal audit process.
- Periodic & Annual Audit Committee Reporting. As discussed, the audit committee will receive updates of the Internal Audit progress with respect to the execution of the Internal Audit plan as well as the related results for the reviews conducted.

8.3 Fraud Reporting

Any fraud identified during any audit will be reported upon in the final audit report and will be communicated to the Accounting Officer for further processing.

9 FOLLOW UP AND MONITORING

The follow-up process monitors the progress of agreed-upon management action plans and reports this progress to senior management and the audit committee.

The following inputs are required for follow up and monitoring and tracking:

- Internal audit report(s); management action plans, implementation timelines, and persons responsible; and
- Management response on action plan status and revised implementation dates, where applicable.

The method and timing of follow-up and roles and responsibilities should be formally agreed upon with the management. Typically, timing will be tied to the agreed-upon completion date if the issue is significant or to the audit committee's meeting cycle.

Internal audit should determine whether corrective action was taken and is achieving the desired results, or that senior management or the board has assumed the risk of not implementing the agreed-upon corrective action. In the event that a corrective action has not been taken, written confirmation from management stating that senior management or the board has assumed the risk of not implementing the agreed-upon corrective action should be sought.

To effectively perform these tasks the assigned auditor or Chief Audit Executive should coordinate or direct the following activities:

- Determine which findings should be followed up;
- Confirm that the reported management response actually occurred;
- Evaluate the reasonableness of management response on actions;
- Assess whether the implemented action addressed the original finding;

- Collate responses and update status of actions; and
- Summarize and report as appropriate

These activities can be performed in conjunction with a scheduled internal audit per the internal audit plan or as a separate review. It is important to assess the status of these action plans and the related internal audit test work, as they may affect audits in the current plan.

The Internal Audit Services team is involved in reviewing and reporting results of follow-up activities to senior management and the audit committee often coinciding with the audit committee's meeting schedule.

10 THE PARTNERING RELATIONSHIP

Internal Audit provides a service to management by examining and evaluating the effectiveness of controls put in place by Management. A key responsibility of Internal Audit is to identify weaknesses and to provide practical solutions / recommendations; however the responsibility for the prevention and detection of irregularities and fraud rests with management of the business unit under review

The Internal Audit Activity seeks to:

- Involve management to a greater extent in the audit planning process;
- Be fair on audit objectives, purpose and outcomes;
- Be constructive and demonstrate added value for the client

Internal Audit makes use of exit meetings to ensure that the business unit and its management are aware of the deficiencies / weaknesses in their systems before sending the report to the Accounting Officer and the rest of the Executive Management Team. These exit meetings will allow the management the opportunity to comment on the practicality of the audit recommendations. Furthermore, at the exit meeting Internal Audit will provide the relevant process owner/ senior manager to complete an "Auditee's Assessment Questionnaire" – the aim of the assessment is to ensure that Internal Audit continues to play a critical role in value adding in terms of conducting internal audits.

11 CONCLUSION

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 governance and risk management processes, and provide recommendations and suggestions for continuous improvements. If deficiencies are eliminated, controls are enforced and fraud is prevented and deterred – the municipality is managed more efficiently and effectively.

The content of the Internal Audit Methodology seeks to provide the relevant role players and readers with an understanding of the role of the Internal Audit Activity of Overstrand Municipality.

12 APPROVAL

This Internal Audit Methodology has been compiled by the Chief Audit Executive and its contents are supported, recommended and approved by the Accounting Officer and Audit Committee as set out below, effective from the date of approval.

CHIEF AUDIT EXECUTIVE

DATE

ACCOUNTING OFFICER

DATE

AUDIT COMMITTEE

DATE