



**Annual Internal Audit Plan
For 2017/2018 Financial Year**

Amajuba will be a leading and pioneering District characterized by sustainable development and quality services

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1. Introduction

The Internal Audit as defined in the International Standards for Professional Practise of Internal Auditing as follows;

An independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

2. Purpose of this document

This document sets out the Annual Internal Audit Activity Plan for the financial year ending 30 June 2018, for consideration and approval by the Audit Committee.

The Plan incorporates the following;

- Detailed Annual Internal Audit Activity Plan for the financial year ending 30 June 2018.

The Internal Audit Activity Plan for the Amajuba District Municipality was prepared to provide an efficient and effective assurance services to:

- The Audit Committee
- Council, and
- Management

3. Development of the plan

The MFMA requires that an annual internal audit plan is prepared. To facilitate effective communication and planning, we have prepared a draft risk-based internal audit plan for the financial year ending 30 June 2018.

The proposed internal audit plans described below have been prepared to direct internal audit effort, based on available and envisaged resources, in terms of a risk-based methodology.

A risk and control assessment report has previously been prepared, where management participated in identifying key risks facing the Municipality, and key control to mitigate identified risks including risk and action owners. The risk assessment constitutes an integral phase in the preparation of the audit plans.

We wish to highlight that the identification and management of risks is the primary responsibility of Council and management.

We have also taken into account the following items while preparing the attached internal audit plans:

- The need for adequate coverage against the resources available for the internal audit.

The risk and control assessment was conducted on 12 - 13 September 2017, risks were identified and management assessed controls related to the risks. In that report, we noted the risks where their controls were asserted to be well managed, meaning that their current control effectiveness were: Satisfactory, Good or Very and these risks should ideally be the key focus of internal audit when applying the principal of risk-based approach.

There are 30 strategic risks and 53 operational risks identified as per attached annexure (Risk Register) for financial year 2017/2018. The following is a listing of risks that were asserted to be well managed, sorted by focus area/ risk category from the above-mentioned "risk and control assessment report". The below listing of risks reflects all low risks with appropriate controls, high and medium risks that have poor or weak controls and therefore not auditable.

In the list of risks below, we have also indicated next to each individual risk item, our assessment of whether that risk item is auditable or not i.e. can that risk item be effectively reviewed by internal audit during its reviews.

For each auditable risk item, we have indicated above, the area/ process/ business cycle in which that risk items would be reviewed, as individual risk items are not normally stand-alone items, but form part of a business process/ cycle.

Risk No.	Risk	Focus Area	Control Effectiveness	Auditable	Risk to be include in the following cycle / processes
Disaster 01	Constraints in Prevention of disasters	Community Services	Good	Yes	Disaster Management Follow-up Audit
Disaster 02	Inadequate mitigation of all disasters	Community Services	Good	Yes	Disaster Management Follow-up Audit
Disaster 03	Inability to responds to disasters effectively	Community Services	Good	Yes	Disaster Management Follow-up Audit
Disaster 04	Inability to recover and rehabilitate when disaster strikes	Community Services	Good	Yes	Disaster Management Follow-up Audit
Property 01	Limited provision of safety and security to ADM	Corporate Services	Good	Yes	OHS Follow-up Audit
Property 05	Inadequate provision of fleet services to ADM	Corporate Services	Good	Yes	Fleet Management
Project 01	Failure to ensure effective implementation of basic water services programmes	Corporate Services	Good	Yes	Water and Sanitation Management Review
Water 01	Inability to operate and maintain sanitation and supply efficient and sustainable clean water to the Community	Corporate Services	Good	Yes	Water and Sanitation Management Review

Customer 02	Ineffective resolution of customer queries by field workers	Corporate Services	Good	Yes	Call Centre Management
SCM 01	Ineffective Supply Chain Management Processes	Financial Services	Good	Yes	SCM Management
SCM 02	Inability to execute acquisitions processes efficiently	Financial Services	Good	Yes	SCM Management
SCM 03	Failure to administer contract management processes	Financial Services	Good	Yes	SCM Management
B&T 03	Inability to compile monthly reconciliations of creditors	Financial Services	Good	Yes	Performance Management Review
Rev 01	Ineffective managements of grants	Financial Services	Good	Yes	Grant Management
Rev 02	Inability to collect sundry income from hall hiring and rentals etc.	Financial Services	Good	Yes	Revenue Management Follow-up
Internal Audit 01	Inability to conduct external and internal assessment by the Audit function	Municipal Manager	Good	No	Performance Management Review
P Relations 01	Constraints in the development of communication strategies policies and plans	Municipal Manager	Good	Yes	Public Relations Review
P Relations 02	Constraints in facilitating media Liaison activities.	Municipal Manager	Good	Yes	Public Relations Review
P Relations 04	Inability to update the Website effectively	Municipal Manager	Good	Yes	Public Relations Review

P Relations 05	Constraints in the development of promotional of materials (banners and gazebos)	Municipal Manager	Good	Yes	Public Relations Review
P Relations 06	Difficulty in management of social networks	Municipal Manager	Good	Yes	Public Relations Review
P Relations 07	Sub-optimal provision of strategic leadership in District communicators forum	Municipal Manager	Good	Yes	Public Relations Review
LED 03	Poor Agricultural Development	Planning & Development	Good	Yes	Performance Management Review
Plan 01	Delayed review of SDF in terms of Legislation	Planning & Development	Good	Yes	Performance Management Review
Plan 02	Time frames are hindered in regard to land development applications assessments	Planning & Development	Good	Yes	Performance Management Review
Plan 03	Inability to ensure the Municipal GIS data sets conform to the spatial data infrastructure Act due to reliance on external parties for data	Planning & Development	Good	Yes	Performance Management Review

IDP 02	Low credibility of IDP	Planning & Development	Good	Yes	IDP Process Review
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The above assessment of internal audit auditable areas reveals that the following business processes / cycles should be the key focus of internal audit:

1. Disaster Management
2. Supply Chain Management
3. Operations Health and Safety
4. Fleet Management
5. Water and Sanitation Management
6. Performance Management
7. Call Centre Management
8. Grant Management
9. Revenue Management
10. Public Relations Review
11. IDP Process Review

However, as management and the Audit Committee can appreciate, if there is limited resources (budget) for internal audit services, internal audit may not be able to cover all the above areas in year one. In the plan below, the timing and resources required to review the above internal audit auditable areas have been discussed and agreed with management and the Audit Committee.

We acknowledge that not all risks identified will be audited and/ or are auditable. Monitoring and management of risks is primarily a responsibility of management, and as such, management are responsible to ensure that risks of the Municipality are properly identified, managed and monitored.

4. Internal Audit Activity's Roles and Responsibilities

Internal Audit Activity evaluates and contributes to the improvement of risk management, control and governance systems.

4.1 Governance

Internal Audit Activity should assist the Amajuba District Municipality's Audit Committee, Council and Management in achieving the goals of the Amajuba District Municipality by evaluating the process through which:

- Goals and values are established and communicated;
- The accomplishment of goals is monitored; and
- Accountability is ensured and corporate values are preserved.

4.2 Risk Management

Internal Audit Activity should assist the Amajuba District Municipality by evaluating the assessment of significant organisational risks and should provide assurance as to the effectiveness and adequacy of the related internal controls regarding the focus areas reviewed.

It must be emphasized that Internal Audit Activity is not responsible for implementing controls and managing risk. Internal Audit Activity is responsible for reporting on the effectiveness of the risk management process

4.3 Controls

Internal Audit Activity should evaluate if the controls of the focus areas as set out in its Internal Audit Activity Plan, and which management relies on to manage the risk down to acceptable levels, are appropriate and functioning as intended and make recommendations for enhancement or improvement of the current system of internal control

It must be stressed that Internal Audit Activity is not responsible for implementing and managing controls. Internal Audit Activity is responsible for reporting on the effectiveness of the control environment.

Internal Audit Activity is not authorised to perform the following:

- Any operational duties for the Amajuba District Municipality.
- Initiate or approve accounting transactions; and
- Direct the activities of any Amajuba District Municipality's employee not forming part of Internal Audit Activity except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist Internal Audit in carrying out its functions.

5. Management's Responsibilities

- Unrestricted access to all records of the municipality and any other information and objects in the custody and control of any person employed by Amajuba District Municipality which is necessary and critical for the performance of our duties.
- Timely submission of management comments and action plan to address the
- Weaknesses identified during audits. Should we not receive a response within the reasonable time (14 days) thereafter; the matter will be escalated to the Accounting Officer.
- Implementation of our recommendations and agreed action plan.
- Management takes responsibility for risk management and putting control measures to strengthen the systems of internal control.
- Ensure that the Amajuba District Municipality's assets are properly safeguarded.
- Ensure that financial and operational information is reliable and supported by sufficient appropriate evidence.
- Ensure that operations are effective and efficient.
- Ensure that laws, regulations and contracts are complied with.

The principal safeguard against fraud, misstatement and irregularities is an effective system of internal control. The prevention and detection of fraud is therefore management's responsibility

6. Types of Audits

6.1 Process reviews (Risk Based)

The objective of these types of reviews is to evaluate the adequacy and effectiveness of controls in respect of key business processes and related risk (linked to the strategic objectives / process level risks of Amajuba District Municipality). The review process includes the following:

- Prepare / update the process documentation to extend the understanding of the process. This includes the identification of the process-level objectives, risk and controls.
- Evaluate and testing of controls currently in place.

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- Confirmation of factual correctness of findings with management and agreeing management actions.
- Reporting recommendations for improvement of controls where applicable.

6.2 Compliance Reviews

The objective of compliance reviews is to evaluate to which departmental decisions, policies and procedures, statutory requirements, management and legislature decisions have been complied with. Statutory requirements will include adherence to the MFMA and any other relevant legislation.

6.3 Financial Discipline Reviews

Financial discipline reviews focuses mainly on the evaluation of the adequacy of and compliance to current financial controls (e.g. control account reconciliations, segregation of duties, etc.) in order to promote:

- The safeguarding of assets – in particular financial assets;
- The complete, accurate and timely recording of transactions;
- The prevention of fraud, errors and misstatement of financial information;
- Confirmation of factual correctness of findings with management and agreeing management actions; and
- Reporting recommendations for improvement of controls where applicable.

6.4 IT Reviews

IT reviews include the evaluation of internal controls within the computer information system environment to ensure the validity, reliability and security of information. Furthermore, it includes the assessment of the efficiency and effectiveness of the computer information system environment.

6.5 Cyclical Reviews

Internal Audit may focus its attention on certain High to Medium risk areas for example to achieve general or specific improvements in the control environment or culture. It is important to note that Internal Audit Activity review

approach in these instances remain risk based, which ensures that the resources are still applied effectively.

6.6 Follow-Up Reviews

The objectives of these reviews will be to determine the progress made by management with the implementation of agreed upon action plans previously reported by Internal Audit Activity. We intend to follow up on the previous audit report issued at the start of each audit. It is important to note that we will only re-test controls deficiencies assessed as "High". The status of control deficiencies previously assessed as "Medium" and "Low" will be assessed through enquiry.

6.6 Ad Hoc Management Request Reviews

The Audit Committee will consider and approve all Internal Audit Activity work requests, which fall outside of the approved Annual Internal Audit Activity Plan. Care will be exercised to ensure that these reviews do not negatively impact on the Internal Audit Activity's ability to deliver on the approved Internal Audit Activity's Plan.

7 Audit Universe

Standard 2010 of the Professional Practice of Internal Auditing states that;

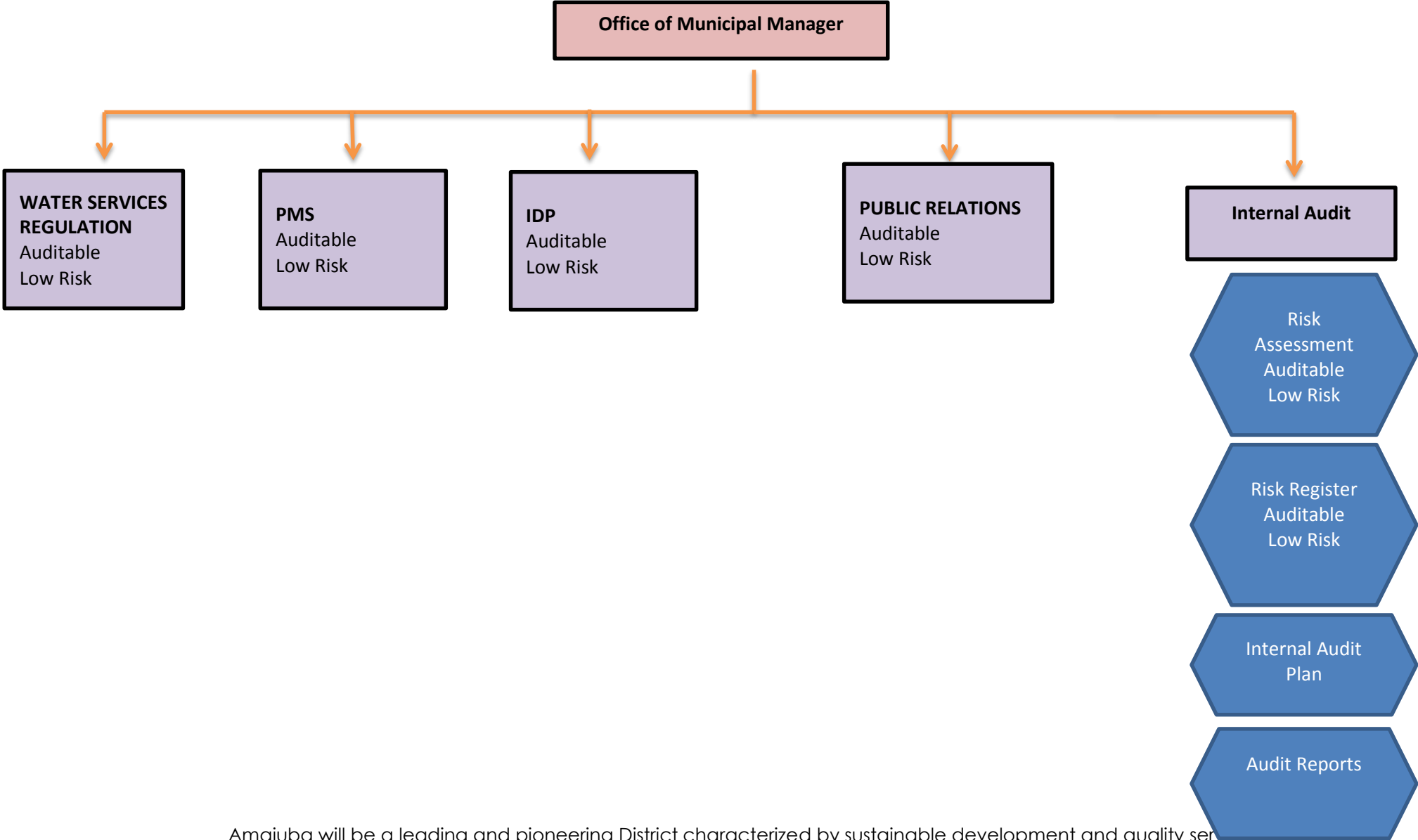
"The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals."

In view of the standard for professional Practice of Internal Auditing, it is imperative that the Internal Audit Activity takes cognisance of all the business processes of the municipality in its risk assessment and development of the annual audit plan to ensure that all the risk areas are identified and prioritised in the annual plan.

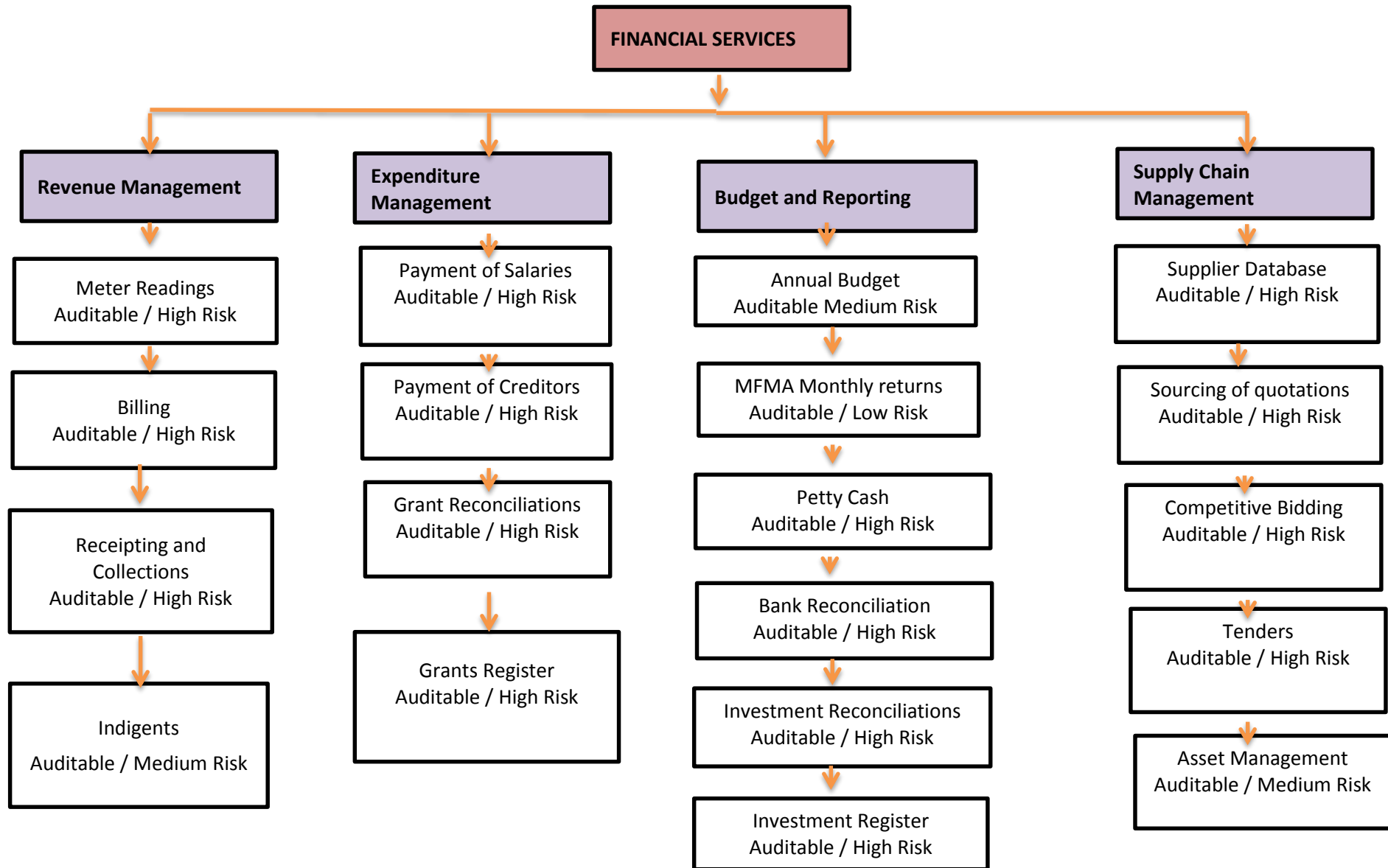
The business processes or systems flow of all the sections within the departments have been identified with the intentions of prioritising those areas that are auditable and high risk in the Internal Audit Activity's Annual plan.

The below illustrations highlight the municipality's business processes/ systems flow:

8 Amajuba District Municipality Audit Universe (Office of the Municipal Manager)

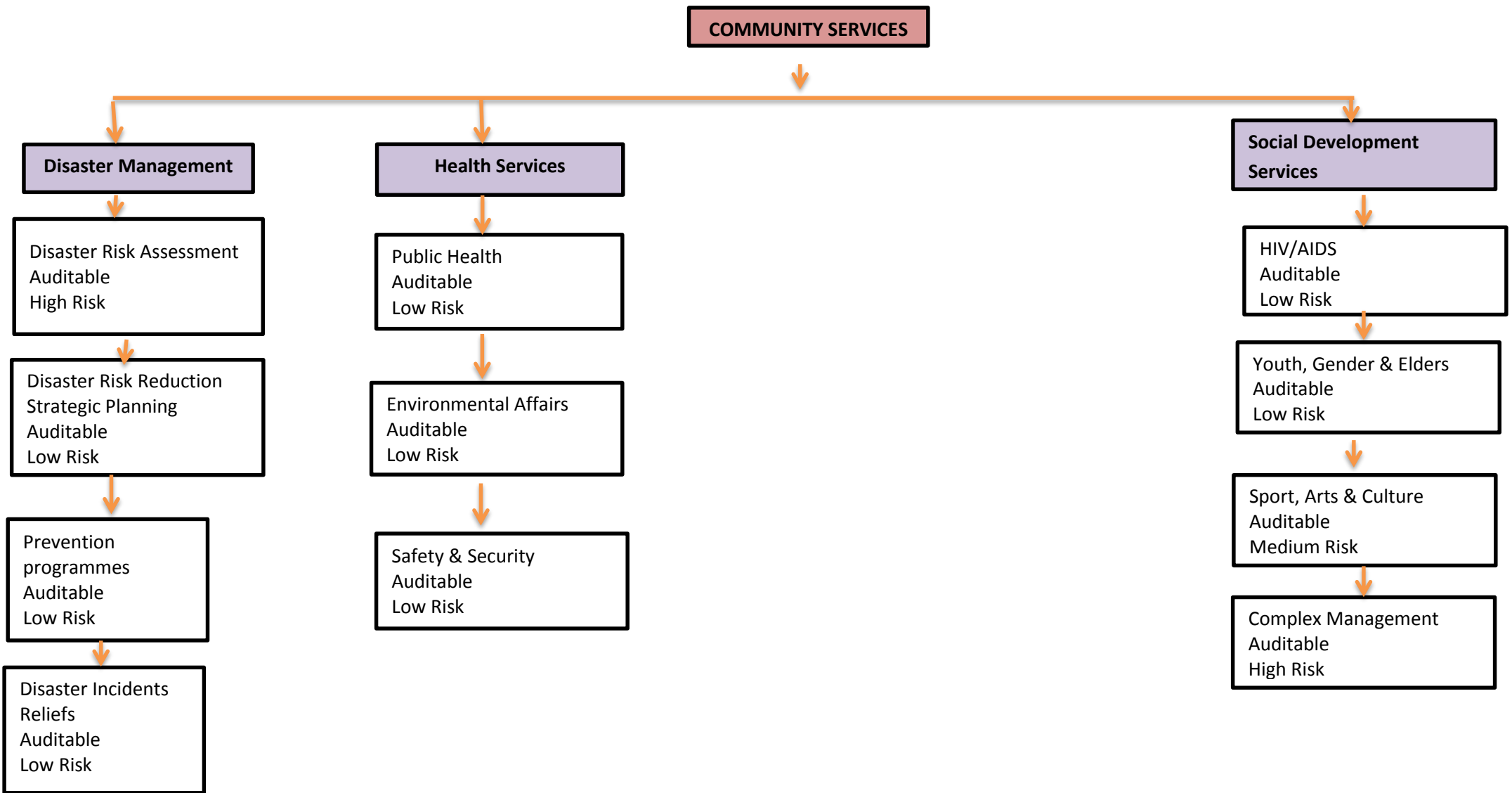


9 Amajuba District Municipality Audit Universe (Financial Services)



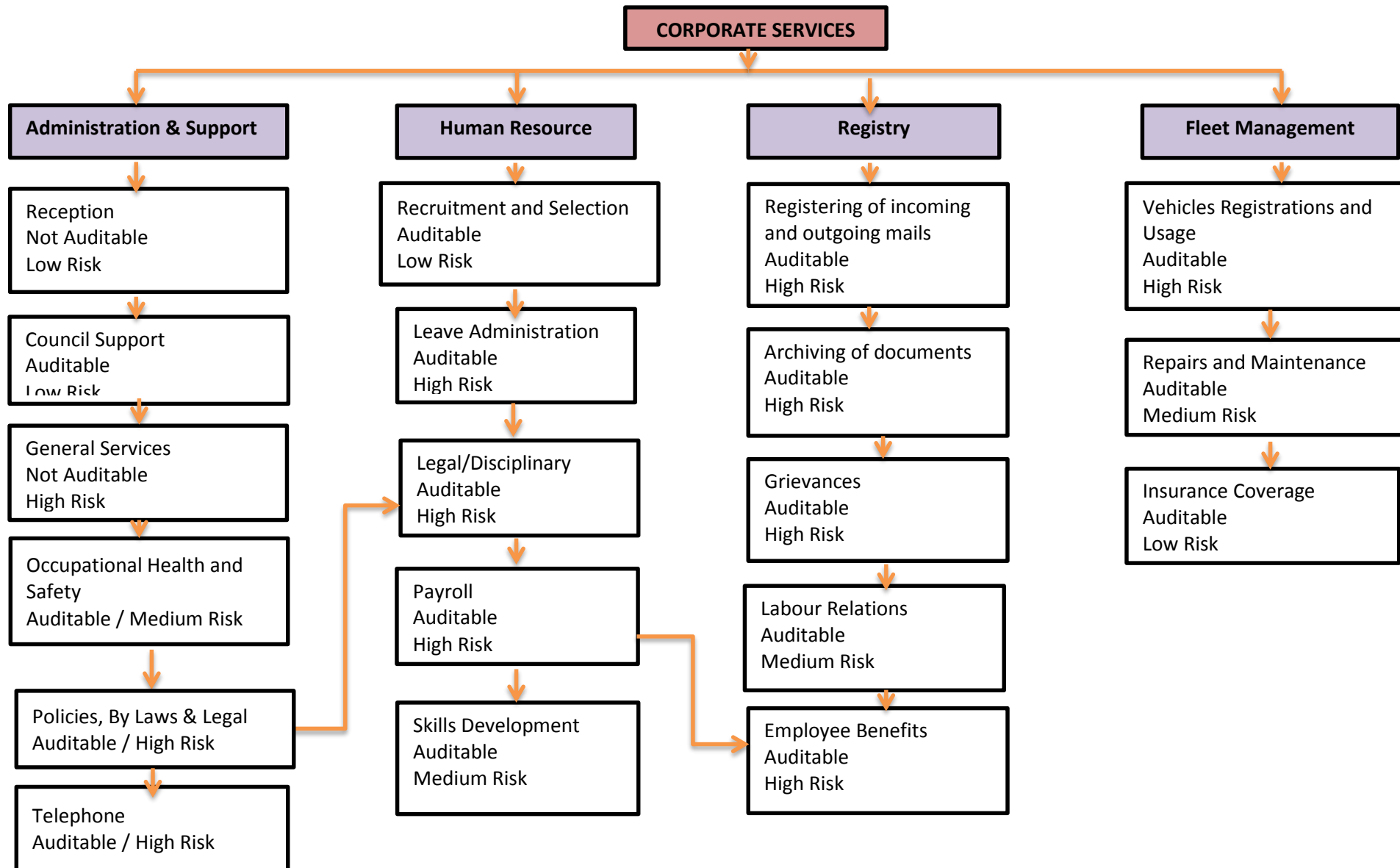
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10 Amajuba District Municipality Audit Universe (Community Services)



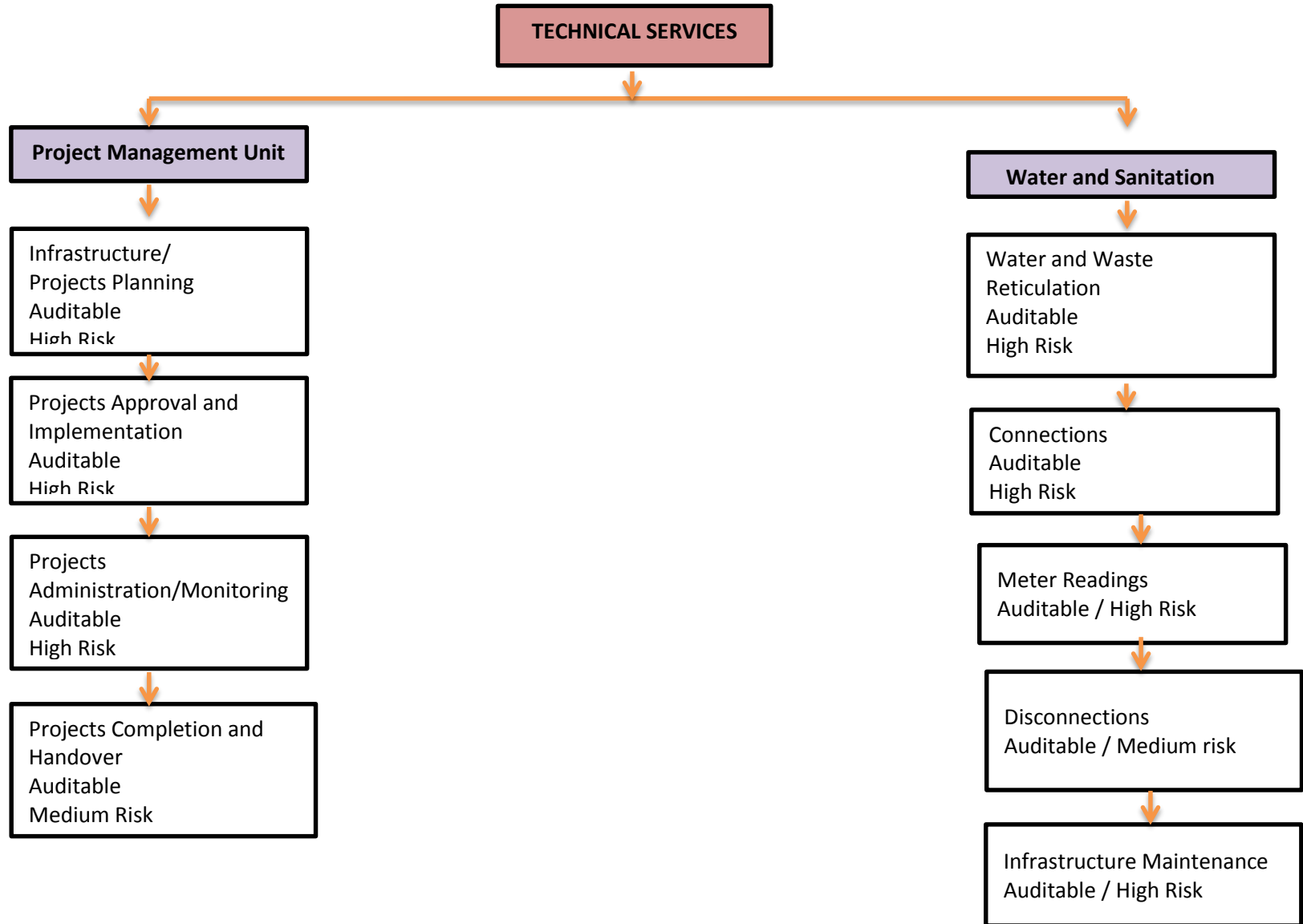
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11 Amajuba District Municipality Audit Universe (Corporate Services)



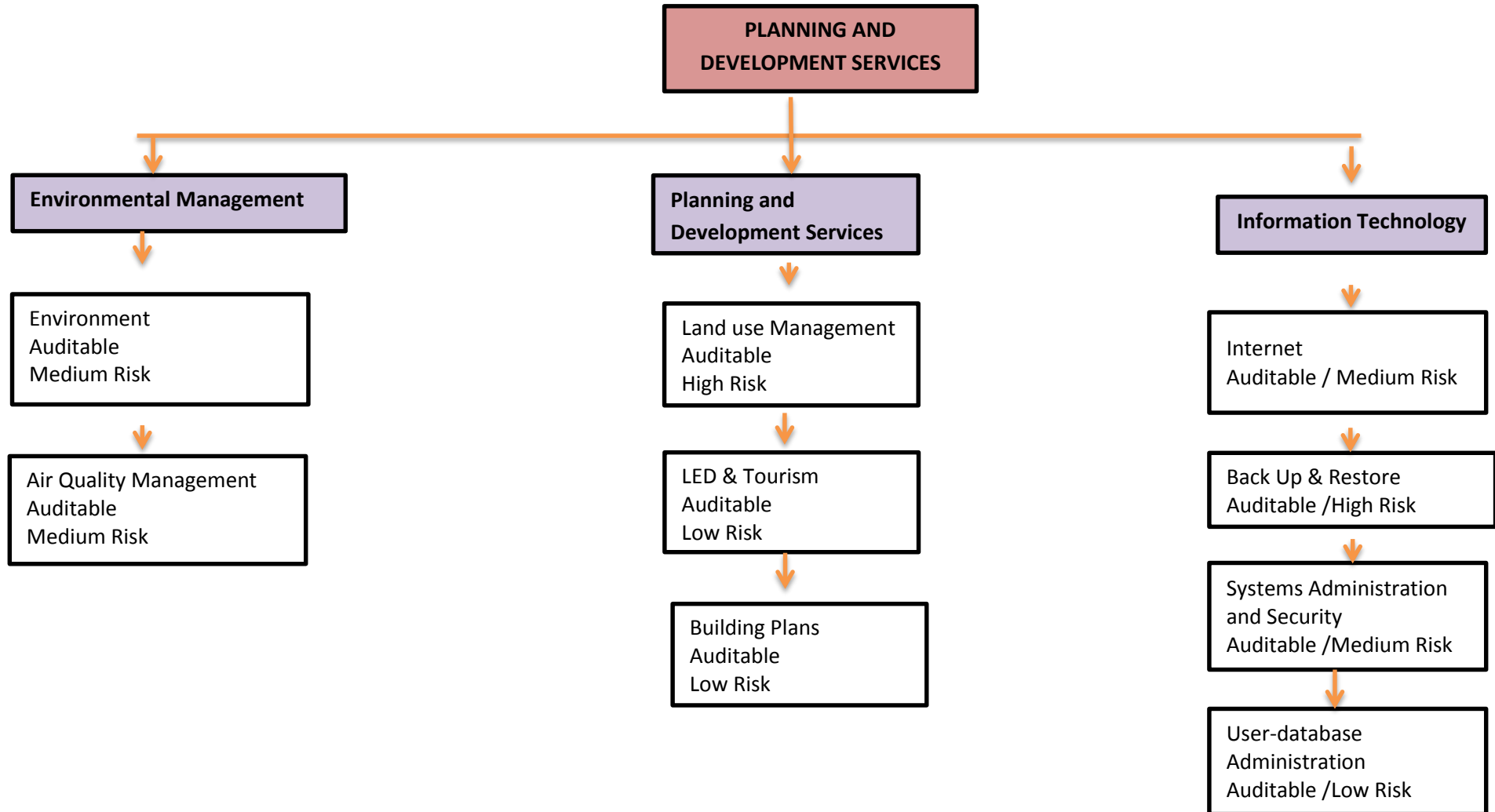
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12 Amajuba District Municipality Audit Universe (Technical Services)



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13 Amajuba District Municipality Audit Universe (Planning and Development Services)



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14 Reporting Structure

Internal Audit activity will report quarterly to the Audit Committee. The report to the Audit Committee will include, among other things:

- Details of the Internal Audit Activity activities for the preceding period / quarter;
- Results of the Internal Audit Reviews undertaken and finalised during the preceding period or quarter; and
- Progress against the approved Annual Internal Audit Activity Plan – Including any deviations from the approved plan.

Internal Audit Activity will report to Management as and when reports are finalised. All Internal Audit Activity Reports will be discussed and agreed with Senior Management.

15 Liaison with external Auditors

The Auditor General is the external Auditor of Amajuba District Municipality. To ensure that the audit of Amajuba District is performed cost effectively and efficiently, continuous liaison between the external and internal auditors will take place. The process will also ensure implementation of the combined assurance model

16 Internal Audit Annual Plan

Internal Audit is required to establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals. Detailed below is the Internal Audit Activity's Annual Plan for financial year 2017-2018 for consideration by the Audit Committee.

ANNUAL COVERAGE PLAN FOR 2017-2018									
Project Reference	Project Name	Linked to Strategic Risks	Linked to KPA	Risk Description	Audit Scope	Quarter	Budget Hours	Actual Hours	Status
Risk Based Audit									
ADM2018004	Fleet Management	Property 05	Municipal Institutional Development and Transformation	Inadequate provision of Fleet Services to Amajuba	Utilisation of vehicles; Repairs and Maintenance; Fuel Consumption Accident and Losses; Monthly Reporting; Insurance;	Q2	298		
ADM2018007	Water and Sanitation Review	Project01, Water 01,	Basic Service Delivery	Failure to ensure effective implementation of basic water services programmes; Inability to operate and maintain sanitation and efficient and sustainable clean water to the community	Raw water acquisition; Manufacturing, processing and formulation Distribution Use/Reuse/maintenance; Recycle; Waste Management	Q3	380		

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ANNUAL COVERAGE PLAN FOR 2017-2018										
	Project Name	Linked Strategic Risks	to	Linked to KPA	Risk Description	Audit Scope	Quarter	Budget Hours	Actual Hours	Status
Cyclic Audits										
ADM2 018001	Annual Financial Statements Review for 2016/2017	N/A		Financial Viability & Management	Failure to meet reporting deadlines/Late Submission of AFS	Accuracy and validity of financial totals and balances; Compliance with disclosure requirements	Q1	40		
ADM2 018002	Performance Management System Review – Quarter 4 of 2016/2017	MMO402		All	Insufficient/inappropriate information to support performance information	Policies and Procedure Review; Internal Controls Review; Review Compliance with Relevant Legislations	Q1	80		
ADM2 018003	Performance Management System Review – Quarter 1 of 2017/2018	MMO402		All	Insufficient/inappropriate information to support performance information	Policies and Procedure Review; Internal Controls Review; Review Compliance with Relevant Legislations	Q2	80		

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ANNUAL COVERAGE PLAN FOR 2017-2018										
Project Reference	Project Name	Linked Strategic Risks	to	Linked to KPA	Risk Description	Audit Scope	Quarter	Budget Hours	Actual Hours	Status
Cyclic Audits										
ADM20 18005	AG's Response Action Plans & Dashboard Report	N/A		Good Governance	Inability to implement AG's recommendations	Monitoring of progress in the implementations of Actions plans and Dashboard Report	Q3	30		
ADM20 18006	Internal Audit' Agreed Management Action Plans - Quarter 2 of 2017/2018	N/A		Good governance	Ineffective Internal Audit Function	Monitoring of Internal Audit Recommendations	Q3	30		

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ANNUAL COVERAGE PLAN FOR 2017-2018									
Project Reference	Project Name	Linked to Strategic Risks	Linked to KPA	Risk Description	Audit Scope	Quarter	Budget Hours	Actual Hours	Status
Cyclic Audits									
ADM201808	Supply Chain Management	SCM 01,02,03	Financial Viability & Management	Ineffective Supply Chain Management processes; Inability to execute acquisition processes efficiently	Demand Management; Acquisition; Reporting; Disposal	Q3	380		
ADM2018011	Asset Management Review	N/A	Financial Viability & Management	Movement of assets without Authorisation Failure to record assets timely. Failure to maintain Municipal Buildings and grounds Ineffective Infrastructure Maintenance Ineffective Plant Management	Policies and procedures; Asset Register compilation; Asset Register Reconciliation; Depreciation; Work in Progress valuation; Addition and; Administration and Maintenance	Q4	410		
ADM2018012	Performance Management System Review – Quarter 2 of 2016/2017	MMO402	All	Insufficient/inappropriate information to support performance information	Policies and Procedure Review; Internal Controls Review; Review Compliance with Relevant Legislations	Q3	80		

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ADM2018013	Performance Management System Review – Quarter 3 of 2016/2017	N/A	All	Insufficient/inappropriate information to support performance information	Policies and Procedure Review; Internal Controls Review; Review Compliance with Relevant Legislations	Q4	80		
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ANNUAL COVERAGE PLAN FOR 2017-2018									
	Project Name	Linked to Strategic Risks	Linked to KPA	Risk Description	Audit Scope	Quarter	Budget Hours	Actual Hours	Status
Follow up Reviews									
ADM2018009	Disaster Management	COM/202	Basic Service Delivery	Lack of awareness by the community	Follow up on prior year audit findings	Q3	198		
ADM2018010	Revenue Management		Financial Viability & Management	Unauthorised usage of water; Faulty water meters	Follow up on prior year audit findings Review of Control over Billing Management.	Q3	304		
							2 290		

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Hours Reconciliation

Total Annual Hours	8760	
Less: Weekends	2688	
Less: Public Holidays	336	
Less : Office Closure	168	
Less: Vacation Leave	422	
Less: Study Leave / Training	40	
Less: Family Responsibility Leave	80	
Less: Administrative Function/Staff/IGR/MANCO/EXCO/Council Meetings/Budget Roadshows	1606	
Total Available Hours	3 420	
Less: Hours per Coverage Plan	2 290	
Difference: Allocated for Adhoc Assignments	1 130	

 **Due to limited resources, the IT Audit cannot be performed**

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Internal Audit Team

The internal audit consists of the following members:

Name	Designation	Qualification/experience
Mbali Khumalo	Senior Internal Auditor	ND: Accounting, +7 years' experience Internal Audit Technician
Sanele Mbatha	Internal Auditor	ND: Internal Auditing, +3 years' experience

17 Conclusion

Our approach in providing quality Internal Audit services is based on effective communication and co-operation with management, the auditees and other role players. We therefore strive to develop a culture of open discussion and free exchange of ideas by working together with management and staff being audited to jointly identify problem areas and develop practical solutions or improvement of the system of internal control.

This process should enable us to achieve the ultimate objective of our internal audit service – to systematically improve internal control and management systems that will support the achievement of the municipality’s strategic and management objectives.

It should be noted that the following factors will have a direct impact on the effective planning, management and execution of the internal audit plan.

- Availability of Management and staff, including prompt responses to audit queries and recommendations.
- The extent of Ad hoc Requests
- Approval and acceptance of this plan by the Audit Committee –including areas where the Audit Committee may require specific assurance from Internal Audit.

Acting Manager: Internal Audit

Date

18 Recommendation and Approval of Internal Audit Annual Plan

The annual internal audit plan is acknowledged and supported by the Accounting Officer of Amajuba District Municipality:

Mr S.R Mathobela

Municipal Manager

Date

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

Ms N. Mchunu

Chairperson: Audit Committee

Date