

# NTABANKULU LOCAL MUNICIPALITY



## INTERNAL AUDIT METHODOLOGY

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# NTABANKULU LOCAL MUNICIPALITY

## 1. Introduction

Ntabankulu Local Municipality's Internal Audit provides independent, objective assurance and consulting services designed to add value and improve the municipality's operations. It helps the municipality accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance process.

This manual has been prepared to provide guidance on the standards and procedures to be followed in the performance and documentation of every internal audit project.

The objectives as well as the procedures to be followed for each section are explained with reference to the **Standards for the Professional Practice of Internal Auditing and International Best Practice**.

Internal Audit unit staff should bear in mind that this is a guideline and can be modified to suite peculiar circumstances. Authority and guidance should be sought from the Internal Audit Manager to deviate from this guideline.

**Assurance:** *refers to evaluate the adequacy of internal control, adequacy of process, adequacy of risk management, adequacy of governance processes, compliance with laws or regulations.*

**Consulting:** IIA Attribute Standard 1000.C1 stipulates that "The nature of consulting services should be defined in the charter". It refers to the improvement in efficiency or effectiveness, assistance in design of corrective actions, controls needed for the new systems design and benchmarking.

Internal Audit contributes to the Council's overall management quality and the achievement of its strategic objectives by providing objective and impartial advice relating to:

- *Opportunities for improving management practices and controls*
- *The maintenance of the highest standards of ethics within the Municipality*
- *Determining the accuracy and regularity of financial transactions*
- *Evaluating policies and procedures and providing advice and guidance thereon*
- *Verifying the existence of Municipal assets (as appropriate) and reporting on the effectiveness of the processes for ensuring that proper safeguards are maintained to protect them from loss.*
- *Determining the level of compliance with policies, procedures and regulations including statutes*
- *Coordinating investigations of fiscal misconduct*

Internal Audit will perform this by

- *undertaking regular compliance testing of key controls over accounting and financial management information and control systems;*
- *determining whether the systems of internal control are adequate and are functioning effectively and economically;*
- *ascertaining the extent to which property, money and resources under the control of the Council are accounted for, utilised and safeguarded from losses of all kinds;*
- *assessing the relevance, reliability and adequacy of management data;*
- *recommending changes in procedures and systems to improve efficiency and prevent waste and extravagance;*
- *ascertaining the extent of compliance with established policies, plans and procedures, and determining whether they are effective in securing their intended purpose;*

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- *carrying out special investigations, inspections and examinations in areas having financial, operational or management impact; and*
- *drawing attention to any failure to take prompt remedial action in regard to identified shortcomings.*

The Manager Internal Audit, reports administratively to the Municipal Manager and - functionally to the Audit & Risk Committee (ARC).

### 1.1 Objective of this Guide

The purpose of this manual is to establish a standard methodology for conducting internal audit reviews as required in terms of section 12 1 (c) and section 165 of the Local Government: Municipal Finance Management Act ("MFMA") No. 56 of 2003 and to comply with the International Standards for the Professional Practice of Internal Auditing (ISPPIA). This methodology is applicable to all audit reviews except those conducted by specialist audit functions. This methodology is modelled on the ISPPIA guidelines.

Although the scope and nature of the system being audited may differ substantially from one audit to the next, this methodology must be applied to the adequate and effective review of all systems of internal control.

The ISPPIA, -, should be used in conjunction with this methodology.

This manual also assumes that a risk based internal audit approach has been taken, when developing the internal audit plan, as well as during the execution of the internal audit plan.

It is also advised that over and above applying this manual, that the internal audit unit regularly liaise with the Auditor General.

### 1.2 Phases of overview System Review

ISPPIA 2200 to 2600 relates to the performance of audit work and states that audit work should include:

- \* Planning the audit/ engagement planning (ISPPIA 2200);
- \* Examining and evaluating information/ performing the audit (ISPPIA 2300);
- \* Communicating results (ISPPIA 2400); and
- \* Follow up/ monitoring progress (ISPPIA 2500)

System reviews consist of the following phases:

#### 1. Planning the audit:

- Preliminary survey and project planning.
- Identify management's objectives, risks and controls (adequacy reviews).



- Identify specific audit objectives and scope.
  - Assessing the adequacy of the controls identified.
  - Develop audit programme and identify method of selecting samples.
2. Examining, evaluating information and recording evidence.
    - Audit execution; and
    - Assessment for effectiveness of controls.
  3. Communicating results through reporting.
  4. Follow-up

### **1.3 Scope of Work**

ISPPIA 2100 states that the internal audit activity must evaluate and contribute to the improvement of governance, the organisation's risk management and control processes using a systematic and disciplined approach.

From the interpretation of ISPPIA 2100, three distinct audit focus areas arise from this definition, namely:

#### **Risk Management**

Risk management is a dynamic process for taking all reasonable steps to find out and deal with risks that impact on organisational objectives. It is the response to risk and decisions made in respect of available choices.

Risk Management is a key responsibility of management. To achieve its business objectives, management should ensure that sound risk management processes are in place and functioning. Councillors and Audit Committee have an oversight role to determine that appropriate risk management processes are in place and that these processes are adequate and effective.

The Internal Auditor's Role in the municipality is to assist the Management and the Council members to meet their objectives and to discharge their responsibilities by providing an independent appraisal of the adequacy and effectiveness of the risk management processes.

According to COSO, the three primary objectives of an internal control system are to ensure (1) efficient and effective operations, (2) accurate financial reporting, and (3) compliance with laws and regulations. The report also outlines five essential components of an effective internal control system:

Key strategic risks which are developed from management's strategic risk assessment are used in developing the Internal Audit Plan to direct internal audit effort at those areas of higher risk to NLM.

#### **Control:**



1. The review for **adequacy** of the system of internal control is to ascertain whether the system established provides reasonable assurance that the organisation's objectives and goals will be met efficiently and economically.
2. The review for **effectiveness** of the system of internal control is to ascertain whether the system is functioning as intended.
3. The review for **quality of performance** is to ascertain whether the organisation's objectives and goals have been achieved.

Furthermore, the interpretation of ISPPIA 2100 states the primary objectives of internal audit.

ISPPIA 2120 states the internal audit activity must evaluate risk exposures relating to the organization's governance, operations, and information systems regarding the:

- \* Reliability and integrity of financial and operational Information;
- \* Effectiveness and efficiency of operations;
- \* Safeguarding of the organization's assets;
- \* Compliance with laws, regulations and contracts;

ISPPIA 2120.A2 The internal audit activity must evaluate the potential for the occurrence of fraud and how the organisation manages fraud risk.

The above objectives are dealt with in detail as follows:

**A) Reliability and integrity of information**

Information systems provide data for decision-making, control, and compliance with external requirements. Therefore, financial and operating records must contain accurate, reliable, timely, complete, and useful information; and controls over record keeping and reporting must be adequate and effective.

**B) Effectiveness and Efficiency of Operations**

1. Management is responsible for setting operating standards to measure economical and efficient use of resources. Internal auditors are responsible for determining that:

- a) These standards have been established, understood and being met;
- b) Deviations are being identified, analysed, and communicated for corrective action; and
- c) Corrective action has been taken.

1. Related audits should identify such conditions as:

- a) under-utilised facilities;
- b) non-productive work;
- c) uneconomical procedures; and overstaffing or understaffing.

**C) Safeguarding of assets**



1. Internal auditors should review the means used to safeguard assets from various types of losses such as those resulting from fire, theft, improper or illegal activities, and exposure to the elements; and
2. Verify the existence of such assets by using appropriate audit procedures.

**D) Compliance with laws, regulations and contracts**

1. Management is responsible for establishing compliance standards and procedures to be followed by its employees and other agents that are reasonably capable of reducing the prospect of criminal conduct.
2. Internal auditors should evaluate an organization's regulatory compliance programs in light of the following suggested steps for effective compliance.

**Internal Audit should therefore examine and evaluate control systems that provide reasonable assurance that these objectives will be achieved.**

**Governance:**

The Institute of Internal Auditors (2004) by stating that the internal audit activity should evaluate and contribute to the improvement of risk management, control and governance, recognizes the assurance and consulting role of internal auditing in corporate governance.

NLM IA unit assists management and the Audit & Risk Committee by reviewing the adequacy and effectiveness of the governance processes within the municipality. The governance processes may include the following:

- Promoting appropriate ethics and values within the organisation;
- Ensuring effective organisational performance management accountability;
- Effectively communicating risk and control information to appropriate areas of the organisation;
- Effectively coordinating the activities of and communicating information amongst all interested parties such as internal auditors, external parties, Management, Accounting Officer; and council.

The IA unit's activities should evaluate the design, implementation, and effectiveness of the organisation's ethics-related objectives, programmes and activities.

**2. Phase 1 – The Preliminary Survey and Engagement Plan**

**2.1 Pre-Engagement Communication and Briefing the Audit team**

The Internal Auditor should prepare an engagement letter, which must conform to the IA plan. Further to this, the client should be informed of the proposed engagement and scope of work, and a copy of the engagement letter should be given to them, where they agree with the terms of the engagement.

The scope of the project needs to be clearly communicated. The different roles to be played by the different role players, assignment dynamics and sensitivities, key areas to be covered as well as



the projected timeframes needs to be clearly communicated and documented in the pre-engagement minutes.

## 2.2. Preliminary Survey

### 2.2.1 Purpose of a Preliminary Survey

ISPPIA 2201 states that in planning the engagement, internal auditors must consider:

- \* The objectives of the activity being reviewed and the means by which the activity controls its performance.
- \* The significant risk to the activity, its objectives, resources and operations and the means by which the impact of the risk is kept to an acceptable level.
- \* The adequacy and effectiveness of the activity's risk management and control processes compared to a relevant control framework or model; and
- \* The opportunities for making significant improvements to the activity's risk management and control processes.

#### ISPPIA 2210 – Engagement Objectives

Objectives must be established for each engagement.

**2210. A1** – Internal auditors must conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives must reflect the results of this assessment.

**2210. A2** – Internal auditors must consider the probability of significant errors, fraud, noncompliance, and other exposures when developing the engagement objectives.

**2210. A3** – Adequate criteria are needed to evaluate controls. Internal auditors must ascertain the extent to which management has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors must use such criteria in their evaluation. If inadequate, internal auditors must work with management to develop appropriate evaluation criteria. **2210. C1** – Consulting engagement objectives must address governance, risk management, and control processes to the extent agreed upon with the client.

The purpose of the preliminary planning phase is to obtain a sound understanding of the various facets of the audit area in order to be able to plan and manage the audit engagement activity. It will also assist in deciding on the means of applying the most effective and efficient audit procedure.

The objectives of this phase are to establish:

- 1 Why the project is required (project rationale, high risk area are (indicated on audit work plan) or ad hoc request);
- 2 What must be achieved (project objectives and scope e.g. the audit of adequacy, effectiveness and/or quality of performance);
- 3 How to achieve the objective (project method),
- 4 Who is going to do what (project team and their responsibilities), consider independence and objectivity as well (independence declarations for each team member to be on file);



- 5 At what cost (obtain reasonable estimates of what resources will be required in order to budget for the project).
- 6 What new risks have emerged since the last risk assessment?

### **2.2.3 Means of Obtaining Background Information**

The nature of the work to be performed during the preliminary survey will generally consists of enquiry, observation, collection and review of information and, where applicable, a broad analytical review.

The internal auditor will need to conduct interviews with the client's management in order to discuss information already obtained and to obtain further information with regard to the remaining issues to be addressed during the preliminary survey.

Depending on the extent of work to be performed, and the number of interviews required, it may be practical to use a questionnaire to elicit certain information from prospective interviewees, before commencement of the interviews.

### **2.2.4 Perform a High Level (Overall) Analytical Review**

From the background information obtained, as well as information obtained later on during the preliminary survey, the internal auditor should perform an overall analytical review, where appropriate. This should be confined to relevant financial and operating information that would be of assistance in gaining an overall understanding of the engagement client's operations, as well as highlighting potential areas of risk. It must be borne in mind that more detailed analytical review work will be performed at a later stage.

The overall analytical review should not be limited to financial or operating information produced on a regular basis, but should include any indicators of unusual events or significant changes in circumstances affecting the engagement client's operations (e.g. new legislation, government regulations, labour agreements, changes in municipality's strategy, etc.)

### **2.2.5 Assess Internal Environmental Factors**

Consider the impact of environmental factors internal to Ntabankulu Local Municipality and the engagement client's area, particularly where personal interrelationships are concerned. Some considerations on the internal environment are:

- 1 Organisational Structure;
- 2 Reporting Lines;
- 3 Information Systems available i.e. pastel system, VIP;
- 4 Computer systems applied - classify the engagement client's use of computers; and
- 5 Consider the need for the services of computer audit specialists, and the use of CAATS.

### **2.2.6 Client Entry Meeting**



Once all the required information has been obtained, an entry meeting with the client must be held. At this meeting, any additional questions must be asked to ensure that full understanding of their operations is understood. Further to this, the purpose of this meeting is to agree on the audit objectives, scope detail, timing of the engagement and deliverables. Key client contacts should also be obtained at this meeting. Management's expectations need to be confirmed at this meeting as well who the final report should be addressed to and distributed to.

Minutes of this meeting should be recorded and kept on the audit file.

### 2.3 Engagement Planning

#### 2.3.1 Purpose of Engagement Plan

**ISPPIA 2200 – Engagement Planning**  
Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations.

**2201 – Planning Considerations**  
In planning the engagement, internal auditors must consider:

- The objectives of the activity being reviewed and the means by which the activity controls its performance;
- The significant risks to the activity, its objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level;
- The adequacy and effectiveness of the activity's risk management and control processes compared to a relevant control framework or model; and
- The opportunities for making significant improvements to the activity's risk management and control processes.

ISPPIA 2340.01 defines supervision as a continual process beginning with the planning and ending with the conclusion of the audit. Supervision includes:

- \* Ensuring that that auditors assigned possess the requisite knowledge, skills, and other competencies to perform the engagement;
- \* Provide opportunities for development in the internal auditor: knowledge, skills and other competencies;
- \* Providing suitable instruction to subordinates at the outset of the audit and approving the audit program;
- \* Seeing that the approved audit plan is carried out unless deviations are both justified and authorised;
- \* Determining that working papers adequately support the audit findings, conclusions and recommendations;
- \* Making sure that audit reports and engagement communications are accurate, objective, clear, concise, constructive and timely; and
- \* Determining if the audit objectives are met.

Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed

The purpose of the engagement management phase is to:

- 1 Establish clearly defined engagement objectives that reflect the auditee's needs for output and clear statements of what is to be achieved regarding the audit project;
- 2 Identify and assess the likelihood of risks occurring and their impact should they occur;
- 3 Identify the appropriate relevant management controls in place to address/ mitigate the identified risks;



- 4 Set performance standards for the required level of achievement of the audit engagement objectives (i.e. the required performance) as measured by the engagement measures;
- 5 Evaluate performance and take any necessary corrective action to improve performance; and
- 6 Improve performance by lifting performance standards for the objectives.

The objectives of this phase are to establish:

- 1 that audit engagements are managed as projects in order to ensure that the engagement performance objectives are achieved at the required standards of performance; and
- 2 the process of managing, allocating, and timing resources to achieve a given goal in an efficient and expedient manner that will ensure a project achieving its objectives.

The engagement plan will include the objective, scope, approach to be undertaken by IA, deliverables for the audit, duration of the audit engagement and staff requirements and will take into account the fact that adjustments may be necessary as the audit engagement progresses and new information is gathered.

#### 2.4 Output

The output of this phase will be the preliminary survey, and signed engagement plan and time budget.

### 3. Phase 2 - Identify Risk, Control Strategies and Documenting System Descriptions

ISPPIA 2110 states that the internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- Promoting appropriate ethics and values within the organization;
- Ensuring effective organizational performance management and accountability;
- Communicating risk and control information to appropriate areas of the organization; and
- Coordinating the activities of and communicating information among the board, external and internal auditors, and management.

ISPPIA 2120 states that the internal audit activity must assist the organisation in maintaining effective controls by evaluating their effectiveness and contribute to the improvement of risk management processes.

ISPPIA 2201 states that in planning the engagement, internal auditors must consider:

- \* The objectives of the activity being reviewed and the means by which the activity controls its performance.
- \* The significant risk to the activity, its objectives, resources and operations and the means by which the impact of the risk is kept to an acceptable level.
- \* The adequacy and effectiveness of the activity's risk management and control processes compared to a relevant control framework or model; and
- \* The opportunities for making significant improvements to the activity's risk management and control processes.



ISPPIA 2130, states that the internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organization's governance, operations, and information systems regarding the:

- \* Reliability and integrity of financial and operational information;
- \* Effectiveness and efficiency of operations and programs;
- \* Safeguarding of assets; and
- \* Compliance with laws, regulations, policies, procedures and contracts.

### 3.1 Objective of this Phase

Objective of this phase is to identify the key risks, based on management's process objectives, for the process being audited, and based on the understanding obtained of the process, identify, which management controls are in place, if any, to reduce the risk to an acceptable level or to mitigate the risk completely

### 3.2 Steps to be followed during this Phase:

#### 3.2.1 Prepare and/or Review System Descriptions

Practice Advisory 2120.A4 states that adequate criteria are needed to evaluate controls. Internal auditors should ascertain the extent to which management has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, Internal Auditors should use such criteria in their evaluation. If inadequate, Internal Auditors should work with management to develop appropriate evaluation criteria.

#### 3.2.1.1 Objective of a System Description

The objective of preparing the system description by means of a flowchart and/or the preparation of a process flow narrative is to:

- 1 Identify risks;
- 2 Identify management's controls in place to address/ mitigate those risks; and
- 3 Identify control weaknesses (assess adequacy of the control).

#### 3.2.1.2 System Flowchart and Process Flow Narrative

Before meeting with key management, the internal auditor should have done research themselves on the particular task/ engagement, to allow them to have an informative discussion with management and to ensure that common risks are at least identified.

Informative meetings with key management should be held, and the output from these meetings should be a clear understanding of the process being audited. This should include the key risks and related controls to be audited. A draft system description and/or flowchart of the system should be created.

A process can be defined as follows:

"A set or collection of activities aimed at achieving a particular objective"



The process can be documented in two ways, namely, flowcharting or narrative. The **flowchart approach** is a diagrammatic representation of a system. The **narrative approach** is a narration of the system employed by the client. In both methods, it is crucial to always document the who, the how, the when, the where and the how often.

Two procedures are generally used when documenting a system. These procedures are enquiry and confirmation.

**Enquiry** is when the internal auditor interviews the client personnel about the operation of the system, the client personnel then provide a step-by-step narration of the activities of a system.

**Confirmation** is when the internal auditor, after interviewing the client personnel, performs a walkthrough of the system by developing short audit procedures to follow the system from start to finish. The internal auditor normally selects one transaction, to walk the transaction through the process from start to finish.

Walkthroughs are also used to assess and conclude on the adequacy of the control design.

From the walk-through, the internal auditor will be in a position to finalise the system description and/or flowchart of the system.

### **3.2.1.3. Guidelines for Performing Walkthrough Tests**

- Understand the system/process in detail from start to finish;
- Develop walkthrough test objectives;
- Develop walkthrough test procedures. The procedures should follow the trail of the system from start to finish.
- Perform the walkthrough, documenting the results at each stage of the process.
- Conclude on the existence of the control and the adequacy of the design of the control

#### **NB: Note the sequence of the procedures**

- Keep an evidence file as normal to support your conclusions;
- A normal working paper should be utilized to document all work performed
- Conclusion regarding the existence of controls and the adequacy of the design is crucial as this impact the rest of the testing.

### **3.2.1.4 Revision of Existing Objectives and Scope**

At this stage, the original objectives and scope of the engagement, documented in the engagement plan, should be revised, to ensure that any new areas/ risks, which were identified from the walkthrough, are included. The change in the scope must be agreed to and signed off by the IA Manager and the engagement client.

## **3. 2.2 Identify the Significant Risks and Fraud Risks**

### **3.2.2.1 Identifying and Documenting Risks**



Identification of risks starts in phase 1 The Preliminary Survey and Engagement Plan. In phase 2, through the process of documenting the system description and flowchart, further risks are identified.

For each management process, the risks that could affect the performance of the area being subjected to an internal audit should be recorded.

Inherent risk can be defined as follows:

"Inherent Risk is anything that impairs the achievement of an objective without the consideration of any controls"

This definition requires that inherent risks ought to be identified based on the management process objectives.

### 3.2.2.2 Procedures for Risk Assessment

1. Identify, for each targeted activity, the risks that could affect the performance of the area being subjected to an internal audit.

The focus should be on significant risks, as these are the risks with the greatest potential of impact the performance of the area being subjected to an internal audit. Both the impact, likelihood and perceived control effectiveness need to be taken into account when determining the significance of a risk.

### 3. 2.3 Identify Management Control Strategies

Identify the auditee's risk exposures and use of effective strategies to control them.

The control strategies available to the auditee include:

- 1 Avoiding the risk and its consequences;
- 2 Transferring the risk and its consequences;
- 3 Accepting the risk and its consequences;
- 4 Insuring against the risk's consequences should it occur; and
- 5 Controlling the risk.

To **avoid/ eliminate a risk**, the auditee needs to eliminate the resource affected by the risk. This can be done by changing the resource used in the activity, e.g. by automating a manual process, thereby changing the human resource to that of plant and equipment. A high-level manager can eliminate the activity by deciding not to render a certain type of service.

**Outsourcing** an activity can transfer risks. This means getting a supplier to undertake an activity previously carried out by the organisation. Although this will transfer the risks affecting the resources previously used within the activity, it will now expose the activity to new risks related to maintaining effective supplier relations.



The auditee may also decide to **accept a risk**. This strategy is appropriate where the likelihood of a risk occurring is extremely low, or where the potential impact, should the risk occur, is low i.e. the risk is within the risk appetite of an organisation.

**Insuring the risk** is when the risk is expensive to manage/reduce internally and management decides to insure the risks.

**Controlling/Managing the risks** is when management decides to manage/reduce the risk using the internal resources i.e. financial and other resources. The most important thing that the internal auditor must assess is the overinvestment in controls

From the above, internal auditor assesses, for each significant risk identified, the appropriateness/adequacy of the control design.

### 3.3 Output

The output of this phase is the system description and flowchart, the risk assessment and control identification, including, where applicable, a revised engagement plan.

## 4. Phase 3 - Assessment and Conclusion of Adequacy of Design of Identified Controls

### 4.1 Objective of an Adequacy Assessment

The objective is to determine whether the auditee's existing controls are adequately designed to reduce/manage the risks to an acceptable level.

### 4.2 Perform the Control Adequacy Assessment

Practice Advisory 2100 is interpreted and understood to state that the scope of internal auditing work encompasses a systematic, disciplined approach to evaluating and improving the *adequacy* and *effectiveness* of risk management, control, and governance processes and the quality of performance in carrying out assigned responsibilities. The purpose of evaluating the adequacy of the organization's existing risk management, control, and governance processes is to provide reasonable assurance that these processes are **adequately designed** and if effective, will enable the organization's objectives and goals to be met, and to provide recommendations for improving the organization's operations, in terms of both efficient and effective performance. Senior management and the board might also provide general direction as to the scope of work and the activities to be audited.

After the system has been documented, the internal auditor needs to identify controls, from the system, that are mitigating or managing the risks impairing the management process objectives to an acceptable level. It must also be remembered that the activities making up a process is a set of controls put in place by management to manage inherent risks. The process is as follows:

- Determine the most appropriate key controls for each significant risk from the system description. A key control is one that makes a large contribution to providing assurance to the achievement of a performance objective, upon which management will place heavy reliance.
- Identify and document the existing key controls for each significant risk in the detailed process
- Assess the adequacy of the design of the existing controls against each significant risk using the **Adequate (Strong)**, **Partially Adequate (Medium)** or **Inadequate (Weak)** criteria. To do



this, the internal auditor should consider whether the controls, if effective, would reduce the potential impact of the risk to a tolerable level for both the auditee and the internal auditor. Assess the adequacy of the design of the existing controls for each significant risk and benchmark these risks against most appropriate controls. The above control rating criteria defined below:

Where controls are inadequate or are not in place and after discussion with the client, all significant findings must be transferred to the adequacy evaluation in the final report.

The wording for the opinion on the adequacy of existing controls should be:

- 1) The existing controls are adequate to provide reasonable assurance that the activity will achieve its performance objectives (because risks that could have a significant impact on the activity achieving its objectives are now unlikely to have a significant impact) and are the most efficient.
- 2) The existing controls are less adequate to provide reasonable assurance that the activity will achieve its performance objectives.
  - a) The existing controls are partially adequate to provide reasonable assurance that the activity will achieve its performance objectives (because some risks that could have a significant impact on the activity achieving its objectives are still likely to have a significant impact), but the controls in place are the most efficient.
  - b) The existing controls are partially adequate to provide reasonable assurance that the activity will achieve its performance objectives (because some risks that could have a significant impact on the activity achieving its objectives are still likely to have a significant impact), but the controls in place are not the most efficient.
  - c) The existing controls are not adequate to provide reasonable assurance that the activity will achieve its performance objectives (because risks that could have a significant impact on the activity achieving its objectives are still likely to have a significant impact).
  - d) The auditee has no controls to provide reasonable assurance that the activity will achieve its performance objectives.

#### **4.3 Output**

The output of this phase is an opinion on the adequacy of the existing internal controls.

#### **5. Phase 4 - Assessment and Conclusion of Operating Effectiveness of Controls (Part 1)**

Everything the internal auditor does is based on information. Information is fundamental to the internal audit activity at each Phase within the audit engagement.

ISPPIA 2310 states that the internal auditor must identify sufficient, reliable, relevant, and useful information to achieve the engagement's objectives.



The methods available for obtaining information are:

- 1 enquiry;
- 2 observation;
- 3 inspection;
- 4 reperformance;
- 5 confirmation; and
- 6 data analysis.

The method selected depends on the degree of assurance required by the internal auditor based on the correctness of the assessments, findings and opinions.

The main aim is to gather sufficient audit evidence (information) in order to support conclusions regarding the operation of the system of internal controls.

### 5.1 Objective of Audit Programme

#### ISPPIA 2240 – Engagement Work Program

Internal auditors must develop and document work programs that achieve the engagement objectives.

**2240. A1** – Work programs must include the procedures for identifying, analyzing, evaluating, and documenting information during the engagement. The work program must be approved prior to its implementation, and any adjustments approved promptly.

**2240. C1** – Work programs for consulting engagements may vary in form and content depending upon the nature of the engagement.

An audit programme serves as a plan as to how to test relevant controls and guides the performance of the audit assignment. The execution of compliance and substantive tests is outlined in the audit programme. The results of these tests enable the internal audit activity to express an opinion on the effectiveness of the identified controls to keep risk at an acceptable level.

### 5.2 Steps to be followed during this Phase:

#### 5.2.1 Design an Audit Programme

The audit programme is designed to **test only** adequate/strong controls that are designed to manage significant risks with the activity under review. Partially adequate and/or weak controls are not to be tested, but reported.

The development of an audit programme entails:

- indicating the process that is the subject of the evaluation
- formulating audit objectives (which are different to control objectives);
- development of audit procedures to be followed to satisfy each audit objective; and

The important thing that the internal auditors must consider is the types of audit procedures when developing an audit programme, which are:

- **Inspection**.eg. inspecting a form or report



- **Observation** e.g. observing a process being carried out or a control being performed
- **Reperformance and re-computation** e.g. recalculation of invoice amounts
- **Enquiry and confirmation** e.g. about existence of policies and procedures
- **Analytical reviews** e.g. comparing the budget with actual information, trend analysis etc.
- **Data analysis** e.g. analysis of information on spreadsheets and/or reports

### 5.2.2 Decide on the Sample Size

Audit sampling consists of the following steps:

- 1 Determine the population; and
- 2 Decide on the appropriate strategy.

#### 5.2.2.1 Determine the Population

The internal auditor first needs to determine the information from which to select items for examination commonly referred to as the population. The internal auditor would have done this when establishing the audit test objectives and scope.

#### 5.2.2.2 Decide the Appropriate Strategy

By definition, the option of testing all items in a population does not involve sampling because each item in the population is examined. Similarly, where no items in the population are examined, no sampling is involved.

The overriding factor in deciding on a selection strategy is that the internal auditor must be satisfied that the results obtained give sufficient, competent, relevant and useful information for the audit assignment, and should convince any reasonable person that the opinion of the internal auditor is substantiated.

### 5.2.3 Audit Sampling

This is the application of a procedure to less than 100% of the population, to enable the internal auditor to evaluate evidence of a characteristic of the population and to form a conclusion about the characteristic of the population as a whole.

Sampling can be either statistical or non-statistical. The choice between the two methods will depend on the internal auditor's professional judgement and the specific circumstances that exist.

### 5.2.4 Determine the Sample Size

#### 5.2.4.1 Sample Sizes for Testing Key Controls (Based on Sarbanes Oxley):

The frequency of the control has to be determined, and based on the population of the controls, the applicable sample size is to be determined i.e. if frequency of the control is 10 times a month, and the number of months being audited is 10, then population is 100, resulting in the sample size of Daily being used. This sample table is to be applied per location selected for testing.

Sample sizes for testing automated controls



The testing of manual controls is generally more extensive than the testing of automated controls. In some instances, provided that general computer controls have been tested and are deemed to be effective, the testing of a single operation of an automated control may be sufficient to validate its effective operation. For example, a client's system automatically tests the completeness of sales transactions by checking the sequence of serially numbered shipping documents and reporting missing or duplicate numbers for manual investigation. If we have already completed a review of the system's general computer controls, which has indicated that they are effective, then we would probably only test the system once to verify that it, indeed, performs this check. However, the extent of the testing of manual investigation of the exceptions would be determined by reference to the above sample size ranges for testing manual controls.

#### **5.2.4.2 Considerations when Selecting a Sample**

The following are some, but not limited to, considerations when selecting a sample:

- Structure of the population;
- Culture of the organisation (e.g. selection of unusual amounts or high-value amounts); and
- Issues arising from High Level Overview e.g. media clippings, issues from AG, issues from other/ previous audits.

#### **5.2.4.3 Substantive testing**

Substantive testing is usually only performed when the impact of the significance of an identified control weakness needs to be quantified or further assessed. Substantive testing is also used during legislative compliance type internal audits, however, it is important to remember that the main focus should be assessing the adequacy and operating effectiveness of internal controls i.e. testing controls.

#### **5.2.5 Sample Selection Methods**

For the auditor to form a valid conclusion, the sample must represent the whole population. The following are the sample selection methods at the disposal of the Internal Auditor

##### **a) Random**

A method that ensures that all items in a population have an equal chance of being selected.

This can be used in any situation. Where population items do not have a generic assigned number, the auditor can number the population, thereby still making use of this method. This is one of the preferred methods as it is not possible to be influenced by the auditor's preference i.e. it is an unbiased, independent sample selection method.

Random number software can be used to select the sample.

##### **b) Systematic**

A systematic method for selecting a representative sample, where the use of random number selection is not deemed efficient (e.g. time constraints, population data is not readily available in an electronic format).

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A systematic approach is used by the auditor to select items, to minimize any potential human judgment or bias. Every  $n$ th item within the population is selected in accordance with a defined sampling interval.

The sampling interval is established based on the number of items within the population, without reference to size or monetary value of the item. For example, if there are 600 approved purchase invoices that we want to test for correct approval, and our sample size is 20, the sampling interval would be 30 (i.e. 600 divided by 20). The first invoice is selected at random from the first 30 invoices (say item no. 13), after that every 30th invoice is selected (i.e. item no. 43, item no. 73, item no. 103, and so on).

Systematic sample selection is not appropriate when the items in a population are not randomly ordered. For example, a payroll listing for a company that is listed by department rather than by employee name or social security number.

### c) Haphazard.

The auditor will check documents in no particular order or preference. It will be up to the auditor to use his/ her discretion when selecting documents or sample items to be tested.

This method may be particularly useful when selecting sample items that do not have any numbers, i.e. selecting employees to interview.

This is the least preferred method as it is often influenced by the selecting auditor's preference say to a month, number etc. selects sample items randomly, i.e., without any special reason for including or omitting items from the sample. This may be an acceptable alternative to random selection when electronic data is not readily available and if we are confident selection conditions will not induce bias.

Monetary unit sampling techniques are typically utilized with statistical audit sampling approaches. As the preference is to use non-statistical sampling approaches, no guidance has been provided on monetary unit sampling techniques.

### d) Value-Weighted

This sampling method entails focusing on certain value items in the population e.g. focusing on high-value amounts, average amounts and low amounts etc.

## 5.3 Output

The output of this Phase is the audit programme and sample size/selection.

## 6. Phase 5 - Assessment and Conclusion of Operating Effectiveness of Controls (Part 2)



**ISPPIA 2320 – Analysis and Evaluation**

Internal auditors must base conclusions and engagement results on appropriate analyses and evaluations.

**ISPPIA 2330 – Documenting Information**

Internal auditors must document relevant information to support the conclusions and engagement results.

**2330. A1** – The chief audit executive must control access to engagement records. The chief audit executive must obtain the approval of senior management and/or legal counsel prior to releasing such records to external parties, as appropriate.

**2330. A2** – The chief audit executive must develop retention requirements for engagement records, regardless of the medium in which each record is stored. These retention requirements must be consistent with the organization's guidelines and any pertinent regulatory or other requirements.

**2330. C1** – The chief audit executive must develop policies governing the custody and retention of consulting engagement records, as well as their release to internal and external parties. These policies must be consistent with the organization's guidelines and any pertinent regulatory or other requirements.

**6.1. Objective of an Effectiveness Assessment**

The objective of this phase is to formulate and agree on an opinion on the effectiveness of the existing adequate key controls. The phase achieves this by evaluating the effectiveness of existing adequate key controls in terms of the significant threats identified.

This phase entails gathering sufficient information (audit evidence to support conclusions and the opinion regarding the effectiveness of internal controls

During this phase, the internal auditor prepares working papers, which record, as a minimum the following information:

- Audit objective;
- Audit procedure to satisfy the audit objective;
- Sample size and method;
- Name of preparer;
- Name of reviewer;
- Date of work being performed;
- Period being covered during the audit;
- Name of engagement (scope area as per the IA plan)
- Testing Sheet/record of work performed;
- Supporting documents to be kept on file (only for findings/ weaknesses i.e. where there is a control deficiency identified); and
- Conclusions.

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A request for information (RFI) should be developed and sent out to the client, to allow them to gather supporting evidence before internal audit commence the execution.

When sending the client the RFI, 3 working days should be given to management to provide the requested information. In the event that such information is not provided, in the stipulated timeframe, this should be reported as such.

### 6.2. Assess the Effectiveness of the Existing Controls

The control effectiveness should be evaluated by considering the following factors:

- The significance of the control;
- The frequency of the control; and
- The impact on the organisation if the control is not operating effectively.

Internal audit should use their judgement when evaluating the effectiveness and this should be discussed with the client.

All exceptions (control weaknesses) from the expected standards and criteria of controls must be transferred to the draft report indicating the standard, condition, cause, risk and effect, and recommendation to management. The purpose of this document is to obtain line management comments during the fieldwork and for review purposes.

Findings/ exceptions can arise from any phase of the audit assignment and can be either favourable or unfavourable. Favourable findings are activities the auditee is doing right and unfavourable findings are activities the auditee is doing wrong.

Each finding should have two parts:

- 1 the standard/ criteria; and
- 2 the finding.

The exceptions/ findings in the report should be reference back to the working papers, to ensure completeness of the report.

### 6.3 Rating of findings/ Exceptions

In order to assist management with the allocation of resources to address the weaknesses and improve internal controls, Internal Audit should assign subjective ratings to each of the recommendations. These ratings are for guidance purposes only and management must evaluate them in light of their own experience and risk appetite.

Individual ratings do not necessarily take into account the effect of compensating controls in other areas. Individual ratings should not be considered in isolation and their effect on other objectives and areas should also be considered.

The key to these ratings is as follows:

CATEGORY	
Impact	The possible effect of the weakness in internal control
Threat	The likelihood of the weakness in internal control leading to financial loss



Effort	The amount of effort to implement the stated recommendation
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H	High
M	Medium
L	Low

**6.4. Report on Findings**

After discussion with the Senior Manager, all significant findings must be conveyed to the engagement client’s management.

**7. Phase 6 – Reporting**

**ISPPIA 2410 – Criteria for Communicating**  
 Communications must include the engagement’s objectives and scope as well as applicable conclusions, recommendations, and action plans.

**2410. A1** – Final communication of engagement results must, where appropriate, contain internal auditors’ overall opinion and/or conclusions.

**2410. A2** – Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.

**2410. A3** – When releasing engagement results to parties outside the organization, the communication must include limitations on distribution and use of the results.

**2410. C1** – Communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client.

**2420 – Quality of Communications**  
 Communications must be accurate, objective, clear, concise, constructive, complete, and timely.

**7.1 Objective of Reporting**

The effective communication of the assessment information to the auditee, in order for the auditee to obtain assurance about the quality and performance of the existing controls, is the purpose of this phase.

**7.2. Draft Audit Report**

The purpose of the draft audit report is to present the audit findings with the auditee to promote a two-way communication and feedback.

All the findings in the working papers should be transferred to the draft report, for discussion with the client.



The draft audit report is the main source for the final audit report.  
The draft report should contain at least:

- Scope
- Team
- Distribution list
- Audit opinions (adequacy and effectiveness)
- Criteria
- Root Cause
- Risk
- Recommendation

### 7.2.1. Final Audit Report

This report is the culmination of the audit work performed, and conveys the internal auditing activity's findings and views on improvement of the investigated system, to the engagement client.

It also prompts the engagement client to take action to address any concerns, which may have been highlighted. These "concerns" are the focus of the follow-up phase.

The final report is only final once it contains the final management comments, action plans from management to address the weakness identified, and the timeframe (implementation date of the corrective action) in which management will address the weakness, as well as who the responsible official will be to be the driver of the action plan.

Further to this, if there is a dispute between management and internal audit, internal audit must add an 'internal audit comment' after management's comment.

### 7.3 Output

The output of this phase is the summary of audit points, the draft audit report without management comments and final-audit report with management comments.

Both reports must be filed in order to trace changes after discussion with management.

## 8. Phase 7 – Follow-up

### ISPPIA 2500 – Monitoring Progress

The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.

**2500. A1** – The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

**2500. C1** – The internal audit activity must monitor the disposition of results of consulting engagements to the extent agreed upon with the client.



### **8.1 Objective of the Follow-up**

This phase is the process by which the internal auditor determines the adequacy, effectiveness and timeliness of corrective action taken by the engagement client to address unfavourable audit findings arising from the audit assignment.

### **8.2 Steps to be followed during this Phase:**

#### **8.2.1 Conduct the Follow-up**

The internal auditor should conduct the follow-up on, or soon after, the date agreed with the engagement client for implementation of the corrective action.

Follow-ups should be part of the internal audit plan. The Internal Auditor should keep track of implementation dates, and schedule follow ups. IIA standards require the following to be considered when determining the nature, timing and extent of the follow up reviews:

- Significance of the reported observation or recommendation.
- Degree of effort and cost needed to correct the reported condition.
- Impact that may result should the corrective action fail.
- Complexity of the corrective action.
- Time period involved.

Before a follow up commences, an entry meeting with the client should be held to identify if they have implemented the corrective action. If they have not, and the date for implementation of the corrective action has expired, a date should be agreed upon, with management as to when internal audit will be assessing the status of implementation of the corrective action. If after the time period has lapsed and management have still not implemented the agreed corrective actions, this should be reported as such.

An engagement letter needs to be issued before the start of a follow-up audit.

The engagement letter must communicate the intended follow-up review with reference to the previously issued final internal audit report. If actions have been implemented, the internal auditor must proceed with the follow-up review by developing a follow-up review audit programme to test the efficiency and effectiveness of the implemented agreed corrective action plans. The following are guidelines for the IA team:

- Agreed action plan or action actually implemented by management (sometimes management does not necessary implement the agreed action plan in the manner and form that was initially agreed for cost and other reasons);
- Set follow-up audit objectives; and
- Set follow-up review procedures.

Based on the information (audit evidence) gathered from the follow-up programme, the internal auditor must evaluate the action taken to determine if it is effective. The working papers for a follow-up should be the same as a normal internal audit engagement.

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If the agreed corrective action plans have not been implemented, internal auditor must obtain reasons for non-implementation during the entry meeting with client.

### 8.2.2 Effectiveness of Corrective Action

In deciding the effectiveness of the corrective action taken, the internal auditor should determine if the action:

- 1 rectifies the identified condition;
- 2 addresses the cause of the finding;
- 3 reduces the effect to an acceptable level; and
- 4 provides reasonable assurance that the standard will be achieved.

### 8.2.3 Report on Findings

All significant findings must be conveyed to the engagement client's management. The format for the follow-up findings needs to be as follows:

- Original finding (as it is from the previous final internal audit report including the agreed corrective action);
- Status of implementation (i.e. implemented, partially implemented or not implemented). Reasons for any status result given in the report should be provided.
- If the status is either partially or not implemented, the management response (action, responsible official and timeframes) should be obtained from the client.
- Follow-up audit opinion (this indicates the change of the condition as per the previous final audit report for the better or worse).

Where the client management has not satisfactorily implemented the agreed actions, these need to be discussed with management in the same way when discussing the normal draft report.

### 8.2.4 New Audit Findings

In cases where the internal auditor identifies new findings during the follow-up review, these need to be included in the follow-up internal audit report in the normal format of an internal audit report.

## 9. Quality Assurance

ISPPIA 1310 states that internal audit should adopt a process to monitor and assess the overall effectiveness of the quality assurance and improvement programme. The process must include both internal and external assessments.

SPPIA 1311 Internal Assessments must include:

- On-going monitoring of the performance of the Internal Audit Activity; and
- Periodic reviews performed through self-assessment or by other persons within the organisation, with sufficient knowledge of internal audit practices and standards.

ISPPIA 1312 External Quality Assurance such as quality assurance reviews must be conducted once every five years by a qualified independent reviewer or review team outside the organisation. The chief audit executive must discuss with the board:

- The need for more frequent external assessments; and
- The qualifications and independence of the external reviewer or review team, including any potential conflict of interest.



### 9.1 External Quality Assurance:

The Audit Committee should, as part of its monitoring of the effectiveness of the IA unit, appoint an external review team at least once every five years to review the IA unit's compliance with the ISPPIA and its methodology. The appointed team should demonstrate experience of having conducted such reviews.

The IA unit should upon planning this exercise, consult the Institute of Internal Auditors for assistance.

A qualified reviewer or review team consists of individuals who are competent in the professional practice of internal auditing and the external assessment process. The evaluation of the competency of the reviewer and review team is a judgement that considers the professional internal audit experience and professional credentials of the individuals selected to perform the review. The evaluation of qualifications also considers the size and complexity of the organisation.

- External assessment covers the entire spectrum of audit and consulting work performed by the internal audit activity and should not be limited to assessing its quality assurance and improvement program;
- To achieve optimum benefits from an external assessment, the scope of work should include benchmarking, identification; and reporting of leading practices that could assist the internal audit activity in becoming more efficient and/or effective.
- External assessment of an internal audit activity contain an expressed opinion as to the entire spectrum of assurance and consulting work performed by the internal audit activity, including its conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards and, as appropriate, includes recommendations for improvement.

## 10. Professional Consulting Services

The primary players in assurance work are the auditor, the client and the third party to whom assurance is being provided, while for consulting work it is the auditor and the client.

- Internal auditors may provide consulting services relating to operations for which they had previous responsibilities
- Model of consulting investigations which consists of a procedure involving 10 basic steps designed by KH Spencer Pickett must be used when providing consulting service:
  - Initial terms of reference for the work
  - Preliminary survey
  - Establish suppositions
  - Audit planning and work programme
  - Detailed field work
  - Determine underlying causes of problems
  - Define and evaluate available options
  - Test selected options
  - Discuss with management
  - Report



**1 Initial terms of reference for the work**

- Conduct key manager briefing and discussions on the review
  - Outline symptoms and main problem area
    - Establish management success criteria
    - Document brief history on events relevant to the issue in hand
    - Indicate specific constraints acknowledged by management
    - Look into management policy on unacceptable solutions,
    - Indicate future plans that management has set for short and medium terms.

**2 Preliminary survey**

- committee/board minutes that impact on the review
- brief discussion with staff to assess general consistency with key problems
- Analysis of symptoms to capture what is really wrong
- Internal reports and budgets
- Relevant published research that relates to the particular field work
- Visit to the location

**3 Establish supposition**

- Effects of the problems on performance quality and VFM
- Materiality of the problems
- Hierarchy of suppositions
- Indications of how the suppositions may be tested to establish whether they are correct or not
- Likely causes of problems
- Overall extent of the problems

**4 Audit Planning and work programme**

- Number of auditors required and time budgets
- Levels and types of expertise
- Supervision of staff assigned to the project
- Guidance on testing
- Review arrangements covering audit work as it is performed
- Reporting arrangements

**5 Detailed field work**

- Programmed interviews
- Available research that will have to be secured and taken on board
- Re-performance of specific tasks if required
- Independent expert opinion where appropriate



- Inspection
- Cause-and –effect analysis
- Statistical analysis
- Questionnaires

**6 Determine underlying causes of problems**

- Detailed discussions with management
- Review of managerial structure
- Review of existing managerial practices
- Determination of the extent of influence of the external environment
- Level of managerial control and guidance available to staff
- Establishing a clear relationship between problems and causes
- Distinguishing between symptoms and these underlying causes

**7 Define and evaluate available options**

- Extensive research in isolating suitable options
- Ideas from managers and staff
- Textbook solutions to form a starting place
- Model building
- The application of creative thinking
- Determination of relevant best practice elsewhere that is transferable

**8 Test selected options**

- Define benefits
- Staff expertise available and required
- Actual financial costs
- General resources implications
- Motivational aspects and impact on work flows
- Timetable for implementation
- Political aspects

**9 Discussions with Management**

- Constraints that confront management, including practicalities
- Agreement on the factual content of report
- Bear in mind the costs of the audit and the need to provide a defined benefits
- Watch the psychology of negotiations
- Keep in mind managerial objectives and their real success criteria

**10 Report**

- The report should be formally cleared for final publication



- It should ideally be an extension of the oral presentation
- It should be ensured that the report is factually correct
- All managerial input should be properly reflected
- Report structure should be good and well written.

### 11. Deviations from the Methodology

Adherence to this methodology is required for all system reviews. Deviations from this methodology during reviews must be documented, justified and authorised by the Audit Manager.

### 12. Change Control

Any proposals for changes to this document should be forwarded to the Audit Committee for evaluation. Where necessary, updates of the document will be issued from the Internal Audit office.

### 13. Final Sign-off

The Internal Audit Manager is responsible for the quality and integrity of all final audit reports and therefore sign-off the audit file, as evidence of applying due professional care. Before signing-off the audit file, the Internal Audit Manager must ensure that the audit evidence obtained supports the scope, objectives and findings of the audit review. This is done by appropriate review throughout the audit project life cycle.

### 14. Glossary

**Adequacy Audit** - To ascertain whether the system established provides reasonable assurance that the organization's objectives and goals will be met efficiently and economically.

**Audit Budget** – The written records of the expectations for the period; a comparison of budgets with actual results will give guidance on planning future internal audit plans.

**Adequate Control** - Is present if management has planned and organized (designed) in a manner that provides reasonable assurance that the organisation's objectives and goals will be achieved efficiently and economically.

**Audit Objectives** - The broad statements developed by the internal audit activity to define intended audit accomplishments. It is a comprehensive statement of what the audit is intended to achieve.

**Authorising** - Includes initiating or granting permission to perform activities or transactions.

**Cause** - The reason for the difference between the expected and actual conditions (why the difference exists).

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**Clear reports** - Easily understood and logical. Avoiding unnecessary technical language and providing sufficient supportive information can improve clarity of reports.

**Concise reports** - To the point and avoid unnecessary detail. They express thoughts completely in the fewest possible words.

**Conclusions (opinions)** - The internal auditor's evaluations of the effects of the findings on the activities audited. They usually put the findings in perspective based upon their overall implications.

**Condition** - The factual evidence, which the internal auditor found in the course of the examination (what does exist).

**Constructive reports** - Those which, because of their content and tone, help the auditee (auditee) and the organization and lead to improvements where needed.

**Controls (Control Techniques)** - The policies, procedures and methods, which ensure that adverse events, which may negatively affect the successful achievement of the control objectives, are prevented or detected and corrected. It includes soft controls such as the management style, ethics, communication, control environment, etc.

**Criteria** - The standards, measures, or expectations used in making an evaluation and/or verification (what should exist).

**Directing** - Involves, in addition to accomplishing objectives and planned activities, authorizing and monitoring performance, periodically comparing actual with planned performance, and documenting these activities to provide additional assurance that systems operate as planned.

**Documenting** - Provides evidence of the exercise of authority and responsibility, compliance with policies, procedures, and standards of performance, supervising, observing, and testing. Evidence to support the audit findings, as well as the documented process flow that the auditor undertook to be able to give an opinion.

**Economical Performance** - Accomplishes objectives and goals at a cost commensurate with the risk.

**Effect** - The risk or exposure the auditee and/or others encounter because the condition is not the same as the criteria (the impact of the difference). In determining the degree of risk or exposure, internal auditors should consider the effect their audit findings may have on the organization's financial statements. The potential impact on the organization if the risk materializes.

**Effectiveness** - To ascertain whether the system is functioning as intended.

**Effective control** - Present when the auditee directs systems in such a manner as to provide reasonable assurance that the organization's objectives and goals will be achieved.

**Efficiency** - Objectives and goals are accomplished in an accurate and timely fashion with minimal use of resources.

**Findings** - Pertinent statements of fact. Audit findings emerge by a process of comparing what should be with what is. Those findings, which are necessary to support or prevent



misunderstanding of the internal auditor's conclusions and recommendations, should be included in the final audit report. Less significant information or findings may be communicated orally or through informal correspondence.

**Flowchart** - A representation, primarily using symbols, of the sequence of activities in a system (process, operation, function, or activity).

**Goals** - Specific objectives of specific systems and may be otherwise referred to as operating or program objectives or goals, operating standards, performance levels, targets, or expected results.

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

**Internal Control** - A process within an organisation designed to provide reasonable assurance regarding the achievement of the following primary objectives:

- 1 The reliability and integrity of information.
- 2 Compliance with policies, plans, procedures, laws and regulations.
- 3 The safeguarding of assets.
- 4 The economical and efficient use of resources.
- 5 The accomplishment of established objectives and goals for operations or programs.

**ISPPIA** - The abbreviation for the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors of SA.

**Monitoring** - Encompasses supervising, observing, and testing activities and appropriately reporting to responsible individuals, to continuously be aware of the state of a system. Monitoring provides an ongoing verification of progress toward achievement of objectives and goals.

**Objectives** - The broadest statements of what the organization chooses to accomplish.

**Objective reports** - Factual, unbiased, and free from distortion. Findings, conclusions, and recommendations should be included without prejudice.

**Performance Measures** - The yardsticks against which the achievement of the project's objectives can be measured.

**Performance Standards** - The statement of the required level of achievement of the project's objectives (i.e. the required performance) as measured by the project measures.

**Project Objective** - Clear statements of what the Audit Engagement Manager is trying to achieve regarding the project.

**Purpose statements** - Describe the audit objectives and may, where necessary, inform the reader why the review was conducted and what it was expected to achieve.

**Quality of Performance** - To ascertain whether the organization's objectives and goals have been achieved, as well as to ensure that there is alignment and consistency of performance.

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**Reasonable Assurance** - Is provided when cost-effective actions are taken to restrict deviations to a tolerable level. Acknowledgement that it is not possible to assert absolutely and certainly that an even will or will not occur. Qualification that while a standard conforms to known limits, it is not exclusive in any way.

**Results** - Include findings, conclusions (opinions), and recommendations.

**Risks** - The probability that an event or action may adversely affect the activity under review. Risks are what can go wrong in the system of internal control to prevent the organization from achieving its objectives.

**Scope statements** - Identify the audited activities and include, where appropriate, supportive information such as time audited. Related activities not audited should be identified if necessary to delineate the boundaries of the audit. The nature and extent of auditing performed also should be described.

**System** - An arrangement, a set, or a collection of concepts, parts, and activities, and/or people that are connected or interrelated to achieve objectives and goals. (This definition applies to both manual and automated systems.)

**Timely reports** - Those, which are issued without undue delay and enable prompt effective action.

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15. AMENDMENT AND APPROVAL OF THE CHARTER

The Internal Audit Methodology will be reviewed annually by the Internal Audit Manager to ensure that it is aligned to the Standards, the requirements of Ntabankulu Local Municipality and best practices. The Methodology will be approved by the chairperson of the Audit & Performance Committee and accepted by the Accounting Officer of the department on an annual basis.

Document approval

<b>Prepared by:</b> Name and Surname: Ms B. Diko Title: Internal Audit Manager Date: 20/06/2023	Signature
<b>Approved by:</b> Name and Surname: Mr. S. Maharaj Title: Chairperson of the Audit & Performance Committee Date: 20/06/2023	Signature
<b>Approver comments:</b>	