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## INTERNAL AUDIT UNIT

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Enquiries  
Imibuzo : **Mr M Mbedhli**  
Navrae  
Email: [moses.mbedhli@kzntreasury.gov.za](mailto:moses.mbedhli@kzntreasury.gov.za)

Telephone  
Ucingo : **033 - 897 4425**  
Telefoon

P O Box 3613  
Ibhokisi Leposi: Pietermaritzburg  
Posbus 3200

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Reference  
Inkomba :  
Verwysing

Your reference  
Inkombayakho :  
U verwysing

Fax : **033 897 4493**

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1 August 2011

Mr XXXXXX  
Municipal Manager  
Batho Pele Local Municipality  
PO Box 1234  
**BATHO PELE**  
3001

### PROPOSED INTERNAL AUDIT PLAN: 2012

Kindly find our proposed risk-based internal audit plan for Batho Pele Local Municipality ("Municipality") for the financial period ending 30 June 2012 as well as our strategic internal audit plans for the financial years ending 2013 and 2014.

Should you need any further information, or wish to discuss any aspect of this document, please do not hesitate to contact **Moses Mbedhli** on telephone number 033 - 897 4312/ 082 058 9688.

Yours faithfully

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**Ms M Motaung**  
**Senior General Manager**  
**Head: Internal Audit**

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EXAMPLE

## 1. Introduction

Batho Pele Local Municipality (“Municipality”) must comply with the provisions of the Municipal Finance Management Act (“MFMA”).

Section 165 of the MFMA focuses on municipal internal audit functions, and stipulates that the Municipality must have an internal audit function, which must:

- Prepare a risk-based audit plan for each financial year.
- Advise and report to the Municipal Manager and the Audit Committee on the execution of the internal audit plan and matters relating to:
  - Internal audit function.
  - Internal control assessments.
  - Accounting procedures and practices.
  - Risk and risk management.
  - Loss control.
  - Compliance with the MFMA, and other applicable legislation.

## 2. Development of Internal Audit Plans

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 2012.

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.

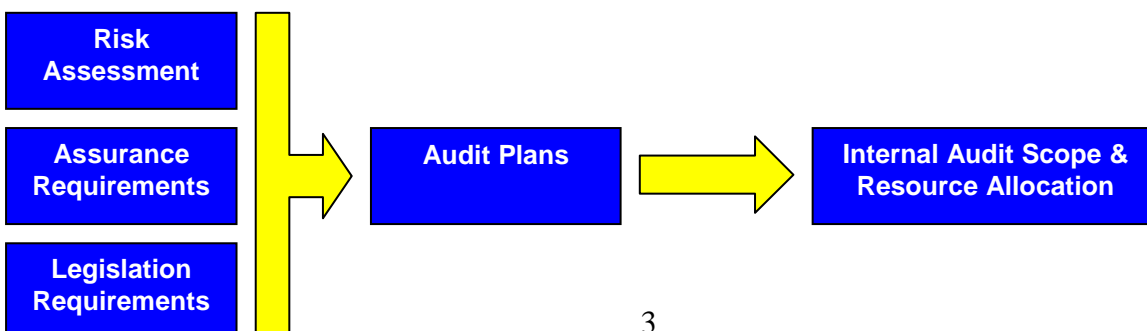
A risk and control assessment report has previously been prepared, where management participated in identifying key risks facing the Municipality, and key control to mitigate identified risks including risk and action owners. The risk assessment constitutes an integral phase in the preparation of the 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 vs the resources available for internal audit.
- Our experience in preparing and executing internal audit plans at other municipalities.

The following is a diagrammatical overview of the process by which the proposed internal audit plans were formulated:



In the “risk and control assessment report”, dated 19 June 2011, risks were identified and controls related to the risks were assessed by management. In that report, we noted the risks where their controls were asserted to be well managed, meaning that their current control effectiveness where: Satisfactory, Good or Very and these risks should ideally be the key focus of internal audit when applying the principal of risk-based approach.

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”.

In the list of risks below, we have also indicated next to each individual risk item, our assessment of whether that particular 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.

#	Risks	Risk Category / Focus Area:	Control Effectiveness	Auditable	Risk to be included in the Review of the Following Processes/ Cycle:
1	Inadequate maintenance and safeguarding of Municipal assets.	Financial	Satisfactory	Y	Asset Management
2	Non-alignment of budget and IDP.	Finance	Satisfactory	Y	Budget Process
3	Inability to collect revenue due to the Municipality.	Finance	Satisfactory	Y	Debtors Management
4	Payments of services/ goods not yet rendered/ received.	Finance	Good	Y	Supply Chain Management
5	Inappropriate disposal of land.	Social Services, Economic Development and Planning	Satisfactory	Y	Land Disposal
6	Delays in the procurement of goods and services.	Finance	Satisfactory.	Y	Supply Chain Management
7	Failure to report to relevant stakeholders	Finance	Good	Y	Budget Process
8	Aging infrastructure	Technical Services	Good	Y	Asset Management

#	Risks	Risk Category / Focus Area:	Control Effectiveness	Auditable	Risk to be included in the Review of the Following Processes/ Cycle:
9	Political interference in the administration of the Municipality	Office of the Municipal Manager	Satisfactory	N	
10	Inadequate implementation of PMS.	Office of the Municipal Manager	Satisfactory	Y	Institutional Performance Management Systems
11	Ineffective risk management process.	Office of the Municipal Manager	Satisfactory	Y	Risk Management
12	Unauthorized development.	Social Services, Economic Development and Planning	Satisfactory	Y	Development and Planning Management
13	Inaccurate recording of Council resolutions.	Corporate Services	Good	Y	Council Support
14	Inadequate implementation of social programmes.	Social Services, Economic Development and Planning	Satisfactory	Y	Social Programme – Performance Audit
15	Ineffective public participation process.	Corporate Services	Satisfactory	Y	Institutional PMS
16	Ineffective traffic and safety function.	Technical Services	Satisfactory	Y	Traffic and Safety Management Services
17	Inability to collect waste timeously.	Technical Services	Satisfactory	Y	Waste Management
18	Inadequate monitoring of service providers/ contractors.	Finance	Satisfactory	Y	Project Management – expand the scope to cover all projects
19	Inadequate coordination of strategic agenda.	Office of the Municipal Manager	Satisfactory	N	
20	Loss of critical information	Office of the Municipal Manager	Satisfactory	Y	Information Technology General Controls

The above assessment of internal audit auditable areas reveals that the following business processes/ cycles should be the key focus of internal audit:

1. Asset Management
2. Budget Process
3. Debtors Management

4. Supply Chain Management
5. Land Disposal
6. Institutional Performance Management System
7. Risk Management
8. Development and Planning Management
9. Council Support
10. Social Programme
11. Integrated Development Plan
12. Traffic Management Services
13. Waste Management
14. Project Management

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 should be 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.***

### **3. Co-ordination and Co-operation**

It is accepted that the co-operation and availability of the Municipality's personnel plays a significant role in impacting the effectiveness and efficiency of the internal audit service. Every effort must be made to explain the purpose of internal audit to obtain the complete co-operation of departmental management and staff.

### **4. Liaison with External Audit**

In order to obtain efficiencies wherever possible, it is advised that Internal Audit and/ or management meet with external audit to allow them to consider and conclude on the level of reliance that they wish to place on the internal audit work.

### **5. Client Expectations**

Internal Audit should take cognisance of the need for:

- Timely issue of reports.
- Efficient and effective audits which react and report promptly.
- Reports to be discussed with management prior to being released to the Audit Committee.
- Liaison with external auditors.
- Attendance at Audit Committee meetings.

## 6. Detailed Internal Audit Plan

#	Project/ Details	Scope of Work	Anticipated Timing	Budgeted Hours
	<b>Risk-Based Projects</b>			
1	Asset Management	<ul style="list-style-type: none"> <li>• Fixed asset recording and accounting treatment</li> <li>• Fixed asset register maintenance and control</li> <li>• Bar-coding/ tagging of assets</li> <li>• Asset verifications</li> <li>• Reconciliations (between the fixed asset register and the general ledger).</li> </ul>	October 2011	120 hrs
2	Budget Management Process	<ul style="list-style-type: none"> <li>• Budget compilation process</li> <li>• Budget approval</li> <li>• Budget control, monitoring and reporting</li> <li>• Management information on actual vs budget</li> <li>• Budget virements</li> </ul>	March 2012	40 hrs
3	Debtors Management	<ul style="list-style-type: none"> <li>• Credit Management</li> <li>• Debtors Collection</li> <li>• Billing Systems</li> <li>• Indigent Register</li> </ul>	March 2012	80 hrs
4	Supply Chain Management	<ul style="list-style-type: none"> <li>• Budget</li> <li>• Requisition and ordering process</li> <li>• Receiving of goods and services</li> <li>• Payments process</li> <li>• Tendering process</li> <li>• Supply database maintenance</li> </ul>	Quarterly	40 hrs
5	Land Disposal	<ul style="list-style-type: none"> <li>• Land Disposal Management process</li> </ul>	April 2012	80 hrs
6	Planning and Development Management	<ul style="list-style-type: none"> <li>• Applications</li> <li>• Approval</li> <li>• Monitoring</li> </ul>	September 2011	80 hrs

#	Project/ Details	Scope of Work	Anticipated Timing	Budgeted Hours
		<ul style="list-style-type: none"> <li>• Building guidelines</li> <li>• Town Planning Scheme</li> <li>• Occupational Health and Safety Act</li> </ul>		
7	Social Programme	<ul style="list-style-type: none"> <li>• Performance audit – compare actual deliverables against predetermined target, including the level of quality, i.e. Housing or Roads projects (Kindly note this may require technically expertise depending on the scope)</li> </ul>	It will depend on the project time lines	160 hrs
8	Integrated Development Plan	<ul style="list-style-type: none"> <li>• Public Participation Policy</li> <li>• Communication Strategy</li> <li>• Incorporate institutional PMS/ Budget Process</li> </ul>	April 2012	80 hrs
9	Traffic and Safety Management	<ul style="list-style-type: none"> <li>• Applications</li> <li>• Monitoring and Review</li> <li>• Issuing</li> <li>• Safeguarding</li> <li>• Compliance with policies and procedures</li> <li>• Roadworthy certificates</li> </ul>	May 2012	120 hrs
10	Waste Management	<ul style="list-style-type: none"> <li>• Waste management plan</li> <li>• Refuse removal by-laws</li> <li>• Awareness Campaign</li> </ul>	September 2011	80 hrs
11	Project Management	<ul style="list-style-type: none"> <li>• SLA/ Project agreement compliance monitoring</li> <li>• Project reporting to funder</li> <li>• Project budgeting and planning</li> <li>• Project procurement</li> <li>• Project expenditure control/ monitoring</li> <li>• Project performance management and accountability</li> </ul>	May 2012	80 hrs



#	Project/ Details	Scope of Work	Anticipated Timing	Budgeted Hours
12	Information Technology General Controls	<ul style="list-style-type: none"> <li>Overall management of IT</li> <li>IT security management</li> <li>IT security procedures</li> <li>Computer operations</li> </ul>	June 2012	110 hrs
<b>Management/ Adhoc Request</b>				
	Internal Audit should consider management requests and make necessary provisions.			
<b>Legislative/ Compliance Projects</b>				
1	Institutional PMS (Municipal Planning and Performance Management Regulations, 2001 Chapter 3: 14)	<ul style="list-style-type: none"> <li>Indicators in the IDP</li> <li>Alignment between the IDP, SDBIP and PMS</li> <li>PMS Policy Framework</li> <li>General Key Performance Indicators</li> <li>Existence of PMS for non-section 57 employees</li> <li>monitoring of performance</li> <li>Compliant annual review of Section 57 employees</li> </ul>	Quarterly	40 hrs
2	Risk Management	<ul style="list-style-type: none"> <li>Risk Management Plan</li> <li>Monitoring and Reporting</li> </ul>	December 2011	40 hrs
3	Internal Audit Follow-up	<ul style="list-style-type: none"> <li>Follow-up of internal audit reports issued during the previous financial year to review the status of implementation of agreed action plan</li> </ul>	It will depend on the implementation date according to individual internal audit reports issued.	It will depend on number of internal audit reports issued.
4	Auditor General Follow-up	<ul style="list-style-type: none"> <li>Follow-up of management letter issued during the previous financial year to review the status of progress with regards to the implementation plan to address matters raised by AG to avoid recurrence</li> </ul>	Quarterly from the date the report was issued.	It will depend on the number of findings issued by AG.

#	Project/ Details	Scope of Work	Anticipated Timing	Budgeted Hours
5	Annual Financial Statements Review	<ul style="list-style-type: none"> <li>Review the AFS prior to submission to AG by management, with regards to disclosure and compliance</li> </ul>	August 2011	40 hrs
6	Loss Control	<ul style="list-style-type: none"> <li>Review procedures for safeguarding of assets</li> <li>Loss Management Control</li> <li>Wasteful and Fruitless Expenditure Register</li> </ul>	September 2011	40 hrs
7	DORA	<ul style="list-style-type: none"> <li>Review compliance with DORA</li> <li>Monitoring grants expenditure</li> </ul>	Quarterly	40 hrs

## 7. Operational and Strategic Internal Audit Plans

#	Project/ Focus Area	Operational Plan (FYE 2011)	Strategic Plan (FYE 2012)	Strategic Plan (FYE 2013)
<b>Proposed Areas of Coverage:</b>				
<b>Risk-Based Projects</b>				
1	Asset Management	X		
2	Budget Management Process	X		X
3	Debtors Management	X		X
4	Supply Chain Management	X	X	X
5	Land Disposal	X		
6	Planning and Development Management	X		
7	Social Programme	X	X	X
8	Integrated Development Programme	X		
9	Traffic and Safety Management	X		X
10	Waste Management	X		X
11	Project Management	X	X	X
12	Information Technology General Controls	X	X	X

**Note: The scope of work and the risks to be addressed by internal audit should be determined prior to the start of the 2013 and 2014 financial years respectively, and the operational/ annual internal audit plans for these financial years will need to be approved by the Audit Committee.**

**8. Approval of Internal Audit Plan**

**APPROVED BY:**

\_\_\_\_\_  
Audit Committee Chairperson \_\_\_\_\_  
Date

**ACKNOWLEDGED BY:**

\_\_\_\_\_  
Municipal Manager \_\_\_\_\_  
Date

**PREPARED AND SUBMITTED BY:**

\_\_\_\_\_  
KZN Provincial Treasury \_\_\_\_\_  
Date

EXAMPLE