DR AB XUMA LOCAL MUNICIPALITY

INTERNAL AUDIT METHODOLOGY AND PROCEDURE MANUAL

2026/27

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1. Preface

This manual sets forth the standards and requirements of the Dr AB Xuma Local Municipality's Internal Audit Unit. It must serve as a guideline for implementing the work to be performed by the auditors. It is understood that the audit guideline must not always be strictly adhered to depending on the nature of the individual assignments. The auditor is to use professional, reasonable judgement in his / her decision to deviate from these procedures. Substantial deviations must be approved by the Senior Internal Auditor

This manual must be reviewed and updated annually to ensure that the latest techniques and practices are available.

2. Internal Audit Activity

3. Mission, Objectives and Strategic Goals

Mission

The mission of the Internal Audit Activity is to provide the Municipality with a value adding internal audit function by assisting management in controlling risk, monitoring compliance, corporate governance and improving efficiency and effectiveness of the internal control system.

Objectives

The key objectives of the Internal Audit are:

- To provide an independent, objective assurance and consulting activity designed to add value and improve the Municipality's operations.
- To evaluate and improve the effectiveness of the Risk Management and Internal Control processes.
- To assess, evaluate and improve the effectiveness of the Corporate Governance processes.

Strategic Goals

The Internal Audit work must normally include, but not be restricted to, review, appraise and report on the following:

• Systems established by management to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports, and determining whether the Dr AB Xuma Local Municipality is in compliance.

• Operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.

• Reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information.

• Economy and efficiency with which Dr AB Xuma Local Municipality resources are employed and identify opportunities to improve operating performance.

• Means of safeguarding assets and, as appropriate, verifying the existence of assets.

4. Governance

Effective Corporate Governance is based upon strong working relationships among four groups: Management, Council, External auditors, and internal auditors.

The Internal Audit Unit assists Council and senior management in achieving the goals of the Dr AB Xuma Local Municipality by evaluating the process through which:

4.1. Goals and values are established and communicated.
4.2. The accomplishment of goals is monitored.
4.3. Accountability is ensured and corporate values are preserved.

5. Audit Committee

The Audit Committee is responsible for approval of the scope of the Internal Audit's work, and for recommending the action to be taken on the outcome of or findings from their work.

6. Audit Committee Terms of reference

The Audit Committee Terms of reference stipulates the following:

6.1. Introduction
6.2. Benefits of the Audit Committee

6.3. Composition of the Audit Committee

6.4. Meetings

6.5. Attendance and voting at meetings.

6.6. Minutes of Meetings

6.7. Rights and Authority

6.8. Duties and responsibilities

6.9. Reporting

6.10. Remuneration and Disbursements

6.11. Approval

7. Organisation

The Internal Audit Unit of the Dr AB Xuma Local Municipality was established in the year 2006.

The Internal Audit Unit is under the office of the Municipal Manager reports administratively to the Municipal Manager and functionally to the Audit Committee

The Internal Auditor, in the discharge of his / her duties, shall be accountable to the Municipal Manager and the Audit Committee to:

7.1. Assess the adequacy and effectiveness of the municipality's processes for controlling its activities and managing its risks in the areas set forth under the mission and scope of work.

7.2. Report significant issues related to the processes for controlling the activities of the Council, including potential improvements to these processes, and provide information concerning such issues through resolution.

7.3. Periodically provide information on the status and results of the annual audit plan and the adequacy of resources.

7.4. Coordinate with and provide oversight of other control and monitoring functions (risk management, compliance, performance management, ethics, external audit).

There are approximately 185 permanent employees, 45 trainees, 40 councillors and 6 Chiefs under the employ of Dr AB Xuma Local Municipality in five directorates and 4 buildings spread throughout the town.

The Municipal Stores is at Power Station Road.

The Driving Licence Testing Centre at Engcobo Main Street R61.

The main municipal offices with revenue and administration offices is at ERF No.59 Union Street and other building ERF NO.58 Union Street for LED and Disaster Management.

All assets are managed by the accountant under the budgeting and treasury directorate.

8. Conduct of Internal Audit Staff

All Internal Audit staff must comply with the Code of Ethics of the Institute of Internal Auditors (regardless of whether the official is a member of the Institute or not) and the Dr AB Xuma Municipality's Code of Conduct.

The following guidelines are established regarding personal conduct:

8.1 Integrity – Internal auditors:

8.1.1. Shall perform their work with honesty, diligence, and responsibility.

8.1.2. Shall observe the law and make disclosures expected by the law and the profession.

8.1.3. Shall not knowingly be a party to any illegal activity or engage in acts that are discreditable to the profession of internal auditing or to the municipality.

8.1.4. Shall respect and contribute to the legitimate and ethical objectives of the municipality.

8.2 Objectivity – Internal auditors:

8.2.1 Shall not participate in any activity that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may conflict with the interests of the municipality.

8.2.2 Shall not accept any gift, reward or favour that may impair or be presumed to impair their professional judgment.

8.2.3 Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

8.2.4 Shall not engage in any business, trade, or profession outside of the Council without the express permission of the Council.

8.3. Confidentiality – Internal auditors:

8.3.1 Shall be prudent in the use and protection of information acquired in the course of their duties.

8.3.2 Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the municipality.

8.4. Competency – Internal auditors:

8.4.1. Shall engage only in those services for which they have the necessary knowledge, skills, and experience.

8.4.2. Shall perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing

8.4.3. Shall continually improve their proficiency and the effectiveness and quality of their services.

The auditor is expected to avoid extremes of dress or personal grooming.

9. Standards and Ethics

In all its activities, the Internal Audit Unit must adhere to the Standards for the Professional Practice of Internal Auditing and the Code of Ethics adopted by the Institute of Internal Auditors. All internal audit staff must be performing their duties and responsibilities with proficiency and due professional care.

The Institute of Internal Auditors Professional Practices Framework consists of three sections:

9.1. Standards (mandatory)

9.2. Practice Advisories

9.3. Development and Practice Aids

These documents delineate the characteristics, procedures and activities that are considered essential to the professional practice of internal auditors.

10. Values

The following values are the principles that bind and guide the Division:

10.1. Open communications – regular, frank, and open communication with the Audit Committee, Municipal Manager, Councillors and Senior Management.

10.2. Urgency – all tasks are attended to timeously and diligently.

10.3. Commitment – all officials demonstrate unwavering dedication to their work and perform tasks purposefully within available resources.

10.4. Integrity – the unit rejects any form of corruption and / or maladministration and all officials vow to expose any actions undermining principles of good corporate governance.

10.5. Decisiveness – no time is wasted, nor resources spared to expedite decision making and effect problem-solving actions.

10.6. Client focus – all aspects of the work is guided by the need to improve service delivery to clients both internally and externally.

10.7. Teamwork – every official has a specific task / role to perform and the sum of all actions define the success or failure of the endeavour.

11. Confidentiality

Much of the information available to internal auditors is of a sensitive or confidential nature. Auditors should be prudent in their use of information acquired in the course of their duties or information which is available to them. They may not discuss any matters pertaining to the audits performed by the division in other than an official manner.

Auditors shall not use confidential information for any personal gain or in a manner which would be detrimental to the municipality or any employee of the municipality.

Auditors must take adequate measures to prevent the unauthorised release of confidential materials or information in any medium including paper copies, microfiche, or computer files. Such materials should be adequately secured from theft, reproduction, or casual observation.

Confidential materials include any information (except public information) associated with employee names or identification numbers. Examples of confidential information include, but are not limited to the following:

11.1 Employee medical or psychological records.

11.2 Financial aid records.

11.3 Financial status records.

11.4 Employee personnel, benefit, or payroll information.

11.5 Any information which could cause the Council embarrassment or liability.

12. Access to Audit Reports and Records

The following Standards, published by the Institute of Internal Auditors, relate to access to audit records and reports:

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

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

Information required by the Auditor-General must be listed by them and the auditor accepting the information must sign to indicate that the audit records have been taken.

Any other parties requesting information must submit the request in writing to the Chief Audit Executive who must decide whether the information can be supplied or not.

13. Audit Charter

The Internal Audit Charter stipulates the following:

13.1. Purpose
13.2. Legislative Mandate
13.3. Objective and Mission
13.4. Scope
13.5. Assurance Engagements
13.6. Consulting Engagements
13.7. Independence
13.8. Authority
13.9. Responsibility
13.10. Planning
13.11. Reporting Responsibility
13.12. Quality Assurance Matters
13.13. Standards for professional Practice
13.14. Audit Committee meetings
13.15. Approval

14. Authority

The Internal Audit Unit is granted full, free, and unrestricted access to any and all of the Dr AB Xuma Local Municipality's records, physical properties, and personnel relevant to any function under review. All officials shall upon request from the CAE supply such information as is required.

Documents and information given to the Internal Audit Division during a periodic review must be handled in the same prudent and confidential manner as by those employees normally accountable.

15. Independence and Objectivity

To be effective in performing audits the audit staff must be independent and objective both and perception. Independence is maintained through organisational position and the Internal Audit Charter.

To provide for the independence of the Internal Audit Unit, the CAE must report administratively to the Municipal Manager and functionally to the Audit Committee in a manner outlined in the Audit Charter

The Internal Audit Unit does not perform line management tasks as this would infringe on independence and impair objectively, neither has the unit any authority for any of the activities which they audit. Members of the Internal Audit Unit must not assume responsibility for the operation or control of any procedures.

To maintain objectivity, auditors must immediately inform the Senior Internal Auditor of any factors that may be perceived as impairing their objectivity on an assigned audit. Also, auditors must take great care to prevent even a perception of partiality by maintaining a professional distance from the staff of a directorate while performing an audit. Questions concerning any relationships with clients or potential clients should be brought to the attention of the Senior Internal Auditor. Finally, auditors must not accept anything of value from any Council employee or supplier which would impair or be perceived to impair their professional judgement or objectivity. Any gifts accepted must be immediately reported to the CAE

16. Responsibilities

The Internal Audit Unit has the responsibility to:

16.1 Operate under the policies, procedures, laws and regulation established by all statutory bodies.

16.2 Develop a flexible annual Operational and Strategic Internal Audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by management, and submit that plan to the Audit Committee for review and approval. The plan should allocate Internal Audit resources to the areas where the greatest risks are present and reflect the cost of those resources necessary for it to be fulfilled. In addition, it should also indicate the timing and frequencies of the audit activities.

16.3 Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter.

16.4 Evaluate and assess significant new or transforming services, processes, operations, and control processes coincident with their development, implementation and / or expansion.

16.5 Issue quarterly reports to the Audit Committee, and Municipal Manager summarising the results of audit activities. These reports must include:

16.5.1. Status of the Internal Audit Unit activities

16.5.2. Significant findings and management action plans

16.5.3. Follow-up on previously reported audit findings

16.5.4. Internal Audit budgets and variances

16.5.5. Internal Audit resource requirements

16.5.6. Fraud and non-compliance with legislation.

16.6. Issue quarterly reports to the Performance Audit Committee, and Municipal Manger on Audits of performance information.

16.6.1. To make suggestions on the improvement of the standard of services, processes and / or procedures.

16.6.2. To keep the Audit Committee informed of emerging trends and successful practices in internal auditing.

16.6.3. Provide a list of significant measurement goals and results to the Audit Committee.

16.6.4. To report suspected fraudulent activities when identified while respective internal audit reviews are being conducted.

16.6.5. Assist in the investigation of significant suspected fraudulent activities within the organisation and notify Council, management, and the audit committee of the results.

17. Reporting

All audit reports must be discussed and agreed with line manager's / process owners before being finalised and distributed to senior management and the Audit Committee. Where obtaining management comments and approval must unduly delay the finalisation of audit reports these may be distributed marked "Issued without Management Comment".

18. Legislation

The main legislation governing the Dr AB Xuma Local Municipality are the following:

18.1. Local Government Transition Act, Act 209 of 1993
18.2. Municipal Finance Management Act, Act 56 of 2003
18.3. Municipal Structures Act, Act 117 of 1998
18.4. Municipal Systems Act, Act 32 of 2000
18.5. Division of Revenue Act (promulgated annually)

Other Acts and regulations apply to various sections within the municipality, e.g., the Disaster Management Act, Act 27 of 2002 but the abovementioned regulations apply to the entire Council. Current copies of all Acts and regulations, relevant to the municipality are kept in the Reference Library.

19. Job descriptions

The following designations exist within the Internal Audit Unit:

19.1. Chief Audit Executive
19.2. Internal Audit Manager
19.3. Internal Auditor

20. Audit Planning

21. Audit Universe

The audit universe may be defined in a few ways, such as by function or activity, by organisational unit or division or perhaps by project or program. The audit universe of

the Dr AB Xuma Local Municipality is structure in line with the Council's organisational structure and consists of Five (5) directorates with a total of twenty-two (22) sub-directorates:

21.1. Budget and Treasury (under the Chief Financial Officer)

- 21.1.1. Financial Management & Budget Control
- 21.1.2. Accounting System Administration
- 21.1.3. Financial Administration and Municipal Support
- 21.1.4. Financial Accounting Services
- 21.1.5. Supply Chain Management

21.2. Corporate Services

- 21.2.1. Human Resources Unit
- 21.2.2. Occupational health and safety
- 21.2.3. Archives
- 21.2.4. Information Technology
- 21.2.5. Health and Community Services
- 21.2.6. Municipal Health Services
- 21.2.7. Primary Health Care
- 21.2.8. Disaster Management
- 21.2.9. Fire Services

21.3. Engineering/ Technical Services

- 21.3.1. Water and Sanitation
- 21.3.2. Roads
- 21.3.3. Project Management Unit

21.4. Office of the Municipal Manager

- 21.4.1. Communication and Public Participation.
- 21.4.2. Internal Audit
- 21.4.3. Legal and Admin Unit
- 21.4.4. Performance Information System

21.5. Office of Integrated Plan and Economic Development

- 21.5.1. Integrated Development Plan
- 21.5.2. Local Economic Development (LED)

21.6. Office of the Mayor/Speaker

21.6.1. SPU

21.6.2. TROICO

21.6.3. Councillors

Three-year plan must be compiled by the CAE in consultation with the Auditors. This Strategic Audit Plan outlines the proposed audits to be conducted over the next three years and must be approved by the Audit Committee. The plan must be based on the key areas of risks as contained in the Council's risk management policy.

The Audit Plan allows for the allocation of resources and provides the basis of the necessary budgeting to enable the division to perform the planned audits.

22. Annual Audit Plan

In terms of Section 165 (2)(a) of the Municipal Finance Management Act, the Internal Audit, is compelled to develop an annual risk-based audit plans The Institute of Internal Auditors' Standards for the Professional Practice of Internal Auditing gives the following guidelines for the development of an annual audit plan:

2010 The Chief Audit Executive should establish risk-based plans to determine the priorities of the Internal Audit activity, consistent with the organisation's goals.

2010.A1 The internal audit activity's plan of engagements should be based on a risk assessment, undertaken at least annually. The input of senior management and the board should be considered in this process.

2010.C1 The Chief Audit Executive should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value, and improve the organisation's operations. Those engagements that have been accepted should be included in the plan.

In developing an annual audit plan for each financial year, the Internal Audit Unit utilises a Risk Management Model. This is a survey designed to determine, through quantitative means, those auditable entities that pose the highest degree of risk.

With the assistance of the Senior Management, risks are weighted, and, from this, auditable areas are scored and ranked from those perceived to pose the greatest risk to those representing a lower degree of risk exposure.

An audit plan is developed, considering the external audit coverage for the year, and this audit plan is approved by the Audit Committee.

Audit planning is based on an assessment of risks and exposures that may affect the Council and must be done annually to reflect the most current strategies and direction of the Council.

23. Risk Management

Each directorate has strategic objectives and key performance areas that are aligned to the Council's Integrated Development Plan (IDP) and business operations. Due to environmental (external) and / or internal factors (risks), some objectives / key performance areas may not always be achievable and can impact negatively on service delivery within the directorate.

Each Executive Director is best positioned to identify the high-risk areas and determine effective controls / action plans which would address and / or mitigate each identified risk in the directorate. This is called risk management.

Various methods can be used to obtain a Risk Assessment of the Council and the Risk Assessment can be formulated at different levels or types of risks (e.g., Strategic Risks, Operational Risks and Support Risks).

24. External Risk Assessment

A full Risk Assessment by an external facilitator can be requested. This involves the appointment of outside consultants to facilitate workshops with the various role-players (Executive Directors and other employees to obtain the information required to rate the risks within the Council.

The consultants can be requested to concentrate on specific types of risks or directorates, or to perform an overall risk assessment of the whole Council.

The external facilitation procedure can be time consuming and requires the co-operation of all directorates and offices to achieve the set goals.

25. Internal Risk Assessment

A Risk Assessment can also be facilitated by the Internal Audit Unit. The first method is like that of an External Risk Assessment, but the Internal Audit Unit must perform the function of facilitator.

Another method is the "Risk Assessment Questionnaire the Internal Audit Unit through the "Risk Assessment Questionnaire", evaluates the risk management, controls, and governance processes in the directorate. Interviews are also held with the Executive Directors to ensure that all relevant information has been provided.

The directorates are asked to identify the following steps in relation to the directorate's strategic objectives:

25.1. Identify the strategic business objectives of the directorate.
25.2. Identify potential business risks (high impact).
25.3. Assess / rate the impact and probability for each potential risk.
25.4. Identify control measures in place to alleviate each risk.
25.5. Rate the effectiveness of the existing controls.

The conducting of the risk assessment assists the Internal Audit Unit in developing an appropriate internal audit coverage plan to test the internal control environment related to the high-risk areas and to provide reasonable and independent assurance

26. Types of Audits

The following are various types of audits that may be conducted by this unit:

Performance Audits

Operational / Programmatic Audit

This refers to a comprehensive examination of a directorate or silo to evaluate its performance, as measured by management's objectives and goals. An operational audit focuses on the efficiency, effectiveness, and economy of operations.

Management Audit

This type of audit entails the review and evaluation of the adequacy of the application of generally accepted management principles in achieving the desired objectives of the municipality.

Risk Based Process Review

The objective of this type of review is to evaluate the adequacy and effectiveness of controls in respect of key business processes and related risks (this is linked to the strategic objectives / risks of the municipality).

Department Administrative Review / Financial Audit

This is a pre-approved program that is used to audit accuracy and propriety of expenditures and payroll transactions. Income must be audited if the amount is material. This review may also include asset confirmations. Internal controls for income may also be reviewed if monetary amount is material.

These audits focus mainly on the evaluation of the adequacy of financial controls in place to promote:

26.1. The safeguarding of assets – in particular financial assets.
26.2. The complete, accurate and timely recording of transactions
26.3. The prevention of fraud, errors and misstatement of financial information.

Forensic Audits

This type of audit assesses situations or transactions indicative of fraud, abuse or illegal acts and, if evidence exists, identifies the effect of the act(s) on a directorate or silo's operations. In exercising due professional care, internal auditors should be alert to the possibility of fraud.

Compliance Audits

The objective of this type of audit is to evaluate to what extent by-laws, policies and procedures, statutory requirements, management, and board decisions have been complied with. Statutory requirements must include adherence to the Local Government Transitions Act, the Municipal Finance Management Act, the Municipal System Act, the Municipal Structures Act and other relevant legislation.

Specialised Audits

Performance / Value for Money Audit

The objective of this type of audit is to evaluate the economy, efficiency, and effectiveness of the municipality. The Internal Audit must identify a focus area of

concern to management, investigate it in depth and recommend actions to improve efficiency and effectiveness.

Asset Verification Audit

An independent appraisal of municipal operations is provided through the verification of accountability, physical safeguards, and valid use of municipal assets. This is often performed in conjunction with an audit.

Information Systems Audit

This includes the evaluation of internal controls within the Information Systems environment to ensure the validity, reliability, and security of information. Furthermore, it includes the assessment of the efficiency and effectiveness of the Information Systems environment.

Computer System Design and Enhancement

The Internal Audit can actively participate in the development of new systems or enhancements to current systems to promote the design of adequate internal controls prior to implementation and reduce the need for corrective measures later.

Consultant Services

Information, encouragement, and review must be provided on issues concerning Council policies, procedures, and internal controls with this type of review. This can include:

- Assistance on evaluation of backup procedures and contingency planning
- Assistance on whether a defined architecture has proper controls.
- Information on computer controls.
- Assistance on implementation of internal financial system

Cash Count

A cash count is performed to determine custodial fund accountability which may include one or more of the following types of funds: petty cash fund, change fund, or revolving fund. A pre-approved cash count audit program is utilized for this type of audit.

Environmental Audit

An environmental audit covers the following audits relating to Councils' structure of responsibilities, policies, practices, procedures, processes, and resources for protecting the environment and managing environmental issues:

- Compliance audit
- Environmental management systems audits
- Transactional audits
- Treatment, storage, and disposal facility audits
- Pollution prevention audits
- Environmental liability accrual audits
- Product audits.

Follow-up Review

The objective of this review is to determine the extent of Management actions taken on previous internal audit recommendations.

27. Management of Audit Resources

The principal resource that the Internal Audit Unit has to accomplish its mission is the amount of available staff hours. Therefore, it is paramount that the division have a process that must provide the information necessary to effectively manage this resource.

28. Audit Resource Policies

The following applies to all audit personnel:

28.1. All personnel are expected to work a forty-hour week.

28.2. Auditors must perform fieldwork at the client location or in the audit office.

28.3. All staff members must submit a weekly time report, detailing the hours spent on assigned audits and miscellaneous administration. The time reports must be completed by Friday 16:00 p.m.

28.4. Any audit work or other activity that is material (e.g., expected to accumulate more than 8 hours or for which a written report / memo must be issued) must be assigned an audit name.

29. Office Administration

30. Training

Formal Training

Skills development covered by the unit's Skills Development Plan includes the following:

30.1. Computer courses
30.2. Conflict Resolution
30.3. Environmental Management
30.4. Institute of Internal Auditors Internal Audit Learnership Programme
30.5. Institute of Internal Auditors Mentorship Programme
30.6. Interviewing Techniques
30.7. Leadership Management
30.8. Modern Management
30.9. Performance Management
30.10. Record Management
30.11. Risk Assessment Techniques
30.12. Risk Management

Staff members are also encouraged to further their education by completing additional tertiary qualifications. Staff may apply for financial assistance from Council where the tuition fees must be paid by Council in a form of a loan converted into a bursary once they have passed.

31. Professional Organisations

Professional development through certification, membership, and participation in professional organizations is encouraged. All internal auditors are required to join the Institute of Internal Auditors.

Other organisations include the Association of Certified Fraud Examiners and the Institute of Municipal Financial Officers.

32. Professional Certifications

One aspect of professional development is obtaining professional certification as a Chartered Accountant, Certified Internal Auditor, Certified Information Systems Auditor, or Certified Fraud Examiner. To increase the professionalism and credibility of the audit

staff, the Council supports employees' efforts in achieving certification through obtaining study aids and providing reimbursement for sitting for exams. Support is also given by making study leave in terms of Council's leave policy. Professional certification is a factor used in the division's annual employee performance appraisal.

Dr AB Xuma Municipality's Internal Auditors are required to study towards obtaining the Professional Certification

33. Study Assistance

Staff members are encouraged to further their education and obtain additional tertiary qualifications and certifications. The staff member must obtain an application for study assistance from corporate services, the Council must grant the employee the tuition fees paid directly to the university or institution, the tuition fees must be deducted from the respective employee in twelve equal instalments.

Once the examination has been written and passed, the staff member must obtain an "Application for refund of tuition, etc from the Human Resources Directorate. This form must be completed by the staff members and the account, receipt and proof of passing the subject.

This must be submitted to the Human Resources Directorate and the refund must be made to the staff member at the end of the month with his / her monthly remuneration.

34. Performance Evaluations

All Internal Audit full-time appointed employees must have an evaluation of their work performance done on each audit and then again on an annual basis. The results of these evaluations must be the primary means for administrative decisions.

The evaluation process must be a two-fold approach (an evaluation per audit and then on an annual basis). The annual appraisal must be completed by the CAE as at each 30 June.

The "Performance Evaluation must be used for employee development. The feedback that staff receives from the appraisal process should provide them with information they can use to improve job performance. Second, performance appraisal provides bottom-line evaluations of employees that can be used for administrative decisions such as, promotion, recommendation for training, or remedial action.

35. Performance Evaluation Guidelines

Specific factors that must be considered in the Performance Evaluation must include:

35.1. Audits

- 35.1.1. Audit Completed Timely
- 35.1.2. Audit Within Budget hours
- 35.1.3. Work papers Technically Correct
- 35.1.4. Audits Performed according to standards.

35.2. Job Knowledge

- 35.2.1. Competent in required job skills and knowledge
- 35.2.2. Exhibits ability to learn and apply new skills.
- 35.2.3. Exhibits sound and accurate judgment.
- 35.2.4. Requires minimal supervision.
- 35.2.5. Displays understanding of how job relates to others.

35.3. Professional Development

- 35.3.1. Keeps current on Policies and Processes
- 35.3.2. Keeps current on systems.
- 35.3.3. Participates in available Continuing Education
- 35.3.4. Certified as CIA, CPA, CISA, CFE
- 35.3.5. Keeps current with Accounting and Auditing trends.

35.4. Teamwork

- 35.4.1. Balances team and individual responsibilities
- 35.4.2. Exhibits objectivity and openness to others' views.
- 35.4.3. Gives and welcomes feedback.
- 35.4.4. Contributes to building a positive team spirit.
- 35.4.5. Puts success of team above own interests

35.5. Written Communications

- 35.5.1. Writes clearly, precisely and informatively.
- 35.5.2. Edits work for spelling, grammar, and format
- 35.5.3. Varies writing style to meet needs.
- 35.5.4. Follows standards for presenting elements of findings.
- 35.5.5. Scope, Objective and Opinion consistent with work done.

35.5.6. Selects and uses appropriate communication methods.

35.6. Oral Communications

35.6.1. Speaks clearly and persuasively.

35.6.2. Listens and gets clarification.

35.6.3. Responds well to questions.

35.6.4. Demonstrates group presentation skills.

35.6.5. Participates in meetings.

35.6.6. Keeps others adequately informed.

35.7. Innovation / Creativity

35.7.1. Displays original thinking and creativity.

35.7.2. Meets challenges with resourcefulness.

35.7.3. Generates suggestions for improving work.

35.7.4. Develops innovative approaches and ideas.

35.8. Adaptability

35.8.1. Adapts to changes in the work environment.

35.8.2. Manages competing demands.

35.8.3. Accepts criticism and feedback.

35.8.4. Changes approach or method to best fit the situation.

35.9. Analytical Skills

35.9.1. Synthesizes complex or diverse information.

35.9.2. Collects and researches data.

35.9.3. Uses intuition and experience to complement data.

35.9.4. Identifies data relationships and dependencies.

35.9.5. Designs workflows and procedures

35.10. Attendance and Punctuality

35.10.1. Schedules time off in advance.

35.10.2. Begins working on time.

35.10.3. Keeps absences within guidelines.

35.10.4. Ensures work responsibilities are covered when absent.

35.10.5. Arrives at meetings and appointments on time.

35.11. Cooperation

35.11.1. Establishes and maintains effective relations.

35.11.2. Exhibits tact and consideration.

35.11.3. Displays positive outlook and pleasant manner.

35.11.4. Offers assistance and support to co-workers.

35.11.5. Works cooperatively in group situations.

35.11.6. Works actively to resolve conflicts.

35.12. Cost Consciousness

35.12.1. Works within approved budget

35.12.2. Conserves organizational resources

35.12.3. Develops and implements cost saving measures.

35.13. Customer Service

35.13.1. Displays courtesy and sensitivity.

35.13.2. Manages difficult or emotional customer situations.

35.13.3. Meets commitments.

35.13.4. Responds promptly to customer needs.

35.13.5. Solicits customer feedback to improve service.

35.14. Dependability / Reliability

35.14.1. Responds to requests for service and assistance.

35.14.2. Follows instructions.

35.14.3. Responds to management direction.

35.14.4. Takes responsibility for own actions.

35.14.5. Commits to doing the best job possible.

35.14.6. Keeps commitments.

35.14.7. Meets attendance and punctuality guidelines.

35.15. Initiative

35.15.1. Volunteers readily

35.15.2. Undertakes self-development activities.

35.15.3. Seeks increased responsibilities.

35.15.4. Takes independent actions and calculated risks.

35.15.5. Looks for and takes advantage of opportunities.

35.15.6. Asks for help when needed.

35.16. Judgment

35.16.1. Displays must ingress to make decisions.

35.16.2. Includes appropriate people in decision making process.

35.16.3. Makes timely decisions.

35.17. Leadership

35.17.1. Exhibits confidence in self and others.

35.17.2. Inspires respect and trust.

35.17.3. Reacts well under pressure.

35.17.4. Shows courage to act.

35.17.5. Motivates others to perform well.

35.18. Managing People

35.18.1. Provides direction and gains compliance.

35.18.2. Includes subordinates in planning.

35.18.3. Takes responsibility for subordinates' activities.

35.18.4. Makes self-available to subordinates.

35.18.5. Provides regular performance feedback.

35.18.6. Develops subordinates' skills and encourages growth.

35.19. Organization Support

35.19.1. Follows policies and procedures.

35.19.2. Completes administrative tasks correctly and on time.

35.19.3. Supports organization's goals and values.

35.19.4. Benefits organization through outside activities

35.19.5. Supports affirmative action and respects diversity.

35.20. Personal Appearance

35.20.1. Dresses appropriately for position

35.20.2. Keeps self-well-groomed.

35.21. Planning and Organization

35.21.1. Priorities and plans work activities.

35.21.2. Uses time efficiently.

35.21.3. Plans for additional resources.

35.21.4. Integrates changes smoothly.

35.21.5. Sets goals and objectives.

35.21.6. Works in an organized manner

35.22. Problem Solving

35.22.1. Identifies problems in a timely manner.

35.22.2. Gathers and analyses information skilfully.

35.22.3. Develops alternative solutions.

35.22.4. Resolves problems in early stages.

35.22.5. Works well in group problem solving situations.

35.23. Project Management

35.23.1. Develops project plans.

35.23.2. Coordinates projects

35.23.3. Communicates changes and progress.

35.23.4. Completes projects on time and budget.

35.23.5. Manages project team activities.

35.24. Quality

35.24.1. Demonstrates accuracy and thoroughness.

35.24.2. Displays commitment to excellence.

35.24.3. Looks for ways to improve and promote quality.

35.24.4. Applies feedback to improve performance.

35.24.5. Monitors own work to ensure quality.

35.25. Quantity

35.25.1. Meets productivity standards.

35.25.2. Completes work in timely manner.

35.25.3. Strives to increase productivity.

35.25.4. Works quickly.

35.25.5. Achieves established goals.

35.26. Safety and Security

35.26.1. Observes safety and security procedures.

35.26.2. Determines appropriate action beyond guidelines.

35.26.3. Uses equipment and materials properly.

35.26.4. Reports potentially unsafe conditions.

36. Travelling

All travelling expenses must be authorised by the CAE and the Municipal Manager. A "Request for Subsistence / Travel Reservations must be completed by the staff member and a copy of the notice / invitation received must be attached. The request must then be handed to the Office Administrator for bookings to be done. Once the bookings have been completed, a copy is made for record purposes.

37. Use of Council Vehicles

A car may be requested when needed through the fleet management office. The booking must be approved by the Municipal Manager. When more than one official is travelling, only one car must be used unless there are too many officials for the vehicle.

38. Vehicle Equipment

The following equipment should be received with the fleet vehicle:

38.1. Jack and handle
38.2. Release handle
38.3. Spare wheel
38.4. Wheel spanner
38.5. Triangle

It is the responsibility of each user to ensure that such equipment is intact when receiving the vehicle.

The "Vehicle Check" column in the log book must be completed and initialled when receiving the vehicle.

The loss of any equipment must be reported to the CAE so that appropriate action can be taken. The loss should be entered in the log book.

39. General

The vehicle may not be used for private purposes, e.g. transporting of private persons

Users are requested to check oil and water levels; these can be replenished at a municipal fuel point. Tyre pressure of all tyres, including the spare wheel, must be checked at a service station and should be recorded in the logbook.

Any fines incurred by the user must be paid by the user and not by the Council.

40. Air Travel

Air plane tickets must be booked by the Office Administrator as needed. The bookings must be made through the Council's official travel agents as described in the Council's Travel Policy.

41. Accommodation and Meal Expenses

Accommodation is booked through Council's travel agents by the Office Administrator as described in the Council's Travel Policy.

The subsistence allowance is paid to the employee on arrival and is paid directly into the employee's bank account.

42. Quality Assurance Review

According to the Institute of Internal Auditors' Standards for the Professional Practice of Internal Auditing, an external quality assurance review should be conducted on the unit at least once every five years.

Internal assessments, in the form of self assessment should also be performed in the form of an ongoing review as well as periodic reviews by other persons within the Municipality with knowledge of internal audit practices and the Standards for the Professional Practice of Internal Auditing.

43. External Assessment

Definition

Standard 1312 of the Standards for the Professional Practice of Internal Auditing states:

A qualified, independent reviewer or review team from outside the organisation should conduct external assessments, such as quality assurance reviews, at least once every five years.

Process

To obtain a formal external assessment review the Unit must contract with the Institute of Internal Auditors, other industry associations, accounting firms or consultants for a formal quality assessment review. The following should be considered in selecting a reviewer:

43.1. The individual or group conducting the review should be independent of the Council and the audit activity.

43.2. The review team should be made up of individuals who are competent in the professional practice of internal auditing and the external review process.

43.3. The review team should include members that have information technology experience.

43.4. The team members should have municipal audit experience or at least quality assurance review experience in municipal auditing.

44. Self Assessment

Definition

An alternative to the external assessment is for the audit staff to conduct a self assessment and submit the findings and supporting documentation to an outside consultant for validation. When the self assessment is completed, a qualified independent evaluator performs limited tests of the self assessment and the report recommendations to validate the results and express an opinion as to the level of compliance with the Standards for the Professional Practice of Internal Auditing.

Process

Tool kits are provided by the Institute of Internal Auditors to facilitate the self assessment. They provide details of the information required to perform the self-assessment and show the methods to be employed in order to have the process reviewed by an external reviewer.

45. Audit Projects

Staff Assignments

The Chief Audit Executive assigns audits to the individual Internal Audit Manager/auditors. This is done through meetings with or emails to the auditor(s) who must be conducting the audit.

An Assignment Sheet is completed by the Internal Audit Manager showing the name of the audit, the file number, main audit objectives, impact on the Annual Audit Plan and the Council's integrated development plan, the budgeted time to be spent on the audit and the names of the audit staff to perform the audit.

This is then signed by the Senior Internal Auditor before being passed to the auditor.

46. Starting the Audit

The first step for the auditor assigned to the audit is to allocate a file number to the audit. This is done by checking the file list on the computer on the drive "Teammate /Masterfile's/Year under review". The first open file number is taken, and the audit name and auditor initials are inserted by the auditor.

The file and dividers are then labelled and prepared for the audit. All necessary working papers are created and headed.

The working papers are saved on the my documents in a folder created for the audit. Main folders have been created for the two main types of audits, i.e. Compliance and Performance audits. Sub-folders are created for the individual audits.

47. Notification of Audit

Prior to the start of each audit, the Internal Audit Manager sends an "Engagement Letter to the appropriate Director. This letter describes the nature of the audit, the anticipated start date, and asks for the co-operation of the directorate as well as a liaison person.

The letter is then completed, signed and dated by the Executive Director and returned to the Internal Audit and filed in the audit file.

48. Declaration of Independence

A "Declaration of Independence certificate must be completed by each auditor working on the audit. This declaration certifies that the auditor has no conflicts of interest regarding the audit to be performed.

49. Audit File Summary

The purpose of the "Audit File Summary is to keep a record of the progress of the audit assignment as well as the movement of the audit file. Note is made of the date that the audit was assigned to the auditor(s), the date that the audit was started and so on until the date that the follow-up is completed.

50. Kick-off Meeting

A kick-off meeting is scheduled with the Director and the appropriate officials within the directorate / silo during which the audit objectives, audit personnel and timing are discussed. At this time, any necessary background documentation is requested.

The Senior Auditor as well as the auditors assigned to the audit should attend this meeting.

51. Permanent Audit Files

Certain sections of the Audit File contain information that should be kept for future audits. This includes copies of prior reports issued and management responses.

These sections are called the Permanent Audit File and the information is carried forward intact from the previous audit. The following sections of the Audit File are regarded as the Permanent Audit File:

5.1.1. Final and interim reports
5.1.2. Follow up on report responses
5.1.3. Control Environment
5.1.4. Preliminary Survey

The following information should be kept in the Permanent Audit File:

- Previous correspondence, reports, responses and results of follow-up
- Reviews of the long term audit plan by senior management
- Observations that may have future relevance
- Audit programmes
- Internal Control Questionnaires
- Long term contracts
- Flowcharts and procedure explanations
- Audit control information
- Updated policies, procedures and legislation.

52. Budget Estimates

A "Time Budget" provides overall guidelines for the performance of the audit. In addition, it enables the Senior Internal Auditor to control the audit work in process. The detailed audit time budget should be completed at the conclusion of the preliminary review.

Each audit must have a "Time Budget" that must be approved by the Senior Internal Auditor. This budget must include all time necessary to complete the audit, from assignment through issuance of the final report. The preliminary review phase should be completed when no more than 25 percent of the total time budget has been depleted.

The budget process must be broken down into two phases. A portion of the budget should be allocated for the planning process. This must provide the necessary control over this phase of audit work.

Near the completion of the planning process, the remaining budget should be allocated to the rest of the audit and recorded on the "Internal Audit Plan. For purposes of overall control, the time budget should be broken down into the following general categories:

- Planning – initial planning, preliminary survey, audit program
- Fieldwork – allocated to the various segments of the audit project
- Report back to client – interview to obtain client comments on observations
- Audit report and wrap-up – supervisory reviews, report writing and editing, report review, exit interview, etc.

53. Budget Revisions

The auditor must motivate and provide reasons if, for any reason, the budgeted number of hours must be exceeded. This motivation must be approved by the Senior Internal Auditor and filed in the Audit File. The estimated number of hours must then be adjusted on the Audit Time Tracking System by the Senior Internal Auditor.

54. Project Status Reports

When an audit has been in progress for a long period of time, periodic status reports must be submitted to the Senior Internal Auditor detailing the status of the audit, any projected delays in completing the audit, the estimated completion date and summarising any material findings to date.

55. Planning

The elements of materiality and relative risk must be considered in performing the audit. The due professional care standards do not imply unlimited responsibility for disclosure of irregularities and other deficiencies. The auditor's principal effort should be in those

areas where significant problems or deficiencies may exist, rather than in areas that are relatively unimportant. Time should not be spent examining or developing evidence beyond what is necessary to afford a sound basis for a professional opinion.

The results of the preliminary review should be analysed to determine the need for a detailed audit and the specific areas to be covered. The detailed audit program should be prepared allocating the project budget time established for the fieldwork to the specific areas to be covered in the audit.

The following are the standards published by the Institute of Internal Auditors relating to the audit engagement:

1220 Due Professional Care – Internal auditors should apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

1220.A1 The internal auditor should exercise due professional care by considering the:

- Extent of work needed to achieve the engagement's objectives.
- Relative complexity, materiality or significance of matters to which assurance procedures are applied.
- Adequacy and effectiveness of risk management, control and governance processes.
- Probability of significant errors, irregularities or non-compliance.
- Cost of assurance in relation to potential benefits.

1220.A2 The internal auditor should be alert to the significant risks that might affect objectives, operations or resources. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks must be identified.

1220.C1 The internal auditor should exercise due professional care during a consulting engagement by considering the:

- Needs and expectations of clients, including the nature, timing and communication of engagement results.

- Relative complexity and extent of work needed to achieve the engagement's objectives.
- Cost of the consulting engagements in relation to potential benefits.

56. Preliminary Survey

The objective of the preliminary survey is to gain sufficient knowledge of the directorate or silo being reviewed so the auditor can design an audit program to accomplish the assigned objectives. The survey must help the auditor to determine if the assigned objectives are attainable with the allocated resources and what audit procedures should be performed, based on assessed risks and exposures, to achieve the objectives.

The preliminary review work can be broken down into four distinct phases:

Familiarization – seeks to gain an understanding of existing procedures through observation, by discussions with staff and / or by review of documentation.

Identification of controls – identifies applicable existing internal and / or accounting controls.

Scope – establishes the scope of the audit based on the information obtained and on the risk assessment.

Planning – prepares an audit program that outlines the nature and extent of audit test work that must be performed.

57. Familiarisation

Prior to meeting with the client the assigned auditor(s) must obtain a basic understanding of the operation or system under review. This must normally include the following:

- Review of the permanent audit file (if one exists).
- Review of previous audit working papers and reports (if available).
- Review of department financial statements including historical trends if available and required for the audit.
- Review of department organization and staffing (organogram / personnel listing).

- Review of department equipment listing (if required).
- Review department's mission statement, organization chart and other information requested in the "Engagement Letter".
- Review any applicable laws, regulations, departmental policies and procedures.

58. Internal Control Questionnaire

The primary purpose of completing the "Internal Control Questionnaire" is to identify critical areas, strengths, and weakness in process. The auditor should develop an "Internal Control Questionnaire" to meet the requirements of the particular audit.

The questionnaires must be designed so that a negative response indicates a potential internal control weakness. A negative response must cause the auditor to determine whether compensating controls are in existence which would offset the negative response. The questionnaires must also be simple to understand and easy to complete.

The questionnaire can be sent to the client prior to the initial audit visit.

59. Preliminary Survey

The auditor assesses the clients internal control structure. In doing this, the auditor uses a variety of tools and techniques, including flow charts, interviews, data gathering, and analysis. The review of internal controls helps the auditor design tests to be performed in the fieldwork section of the audit.

The evaluation of the system of internal controls should provide reasonable assurance that the fundamental elements of the system are sufficient to accomplish their intended purpose. The study and evaluation should be adequately documented and properly supported. The use of electronic data processing methods that can affect the reliability, accuracy, or usefulness of financial or statistical data, and reports should be included as part of the study and evaluation.

Internal controls are evaluated throughout the audit examination. Generally, the controls are determined through "Internal Control Questionnaires" checklists, and specific audit tests and procedures.

The auditor may use "Internal Control Questionnaires" or checklists as well as written "Procedure Explanations", "Flow charts", a transaction walk through, and other applicable techniques in determining the adopted control procedures and the method and plan of organisation. These techniques are preferred because they provide adequate documentation. In addition to discussions with clients, auditors make inquiries and perform observations relating to the system of internal controls. These inquiries and observations, and resulting findings and conclusions are also documented in the working papers. This documentation includes identifying control strengths and weaknesses and cross-referencing them to the audit tests and procedures concerned with substantive testing.

To assist in evaluating the system of internal control the auditor should consider the following:

- Types of errors and irregularities that could occur.
- Control procedures to prevent or detect such errors and irregularities.
- Whether the procedures have been adopted and are being followed satisfactorily.
- Weaknesses which would enable errors and irregularities to pass through existing control procedures.
- The effect these weaknesses have on the nature, timing, and extent of auditing procedures to be applied.

Audit methods used to study and evaluate existing internal controls include:

- "Internal Control Questionnaires" – these guide the auditor to query responsible directors regarding specific or general internal controls.
- "Procedure Explanation" – these describe the procedures and system of internal control in place within the directorate or silo.
- "Flow chart" – a flow chart is beneficial because it visually depicts processes designed or intended for control purposes.

Documentation supports the auditor's understanding of the internal controls. Audit working papers provide the support for the conclusions reached by the auditor regarding the study and evaluation of internal controls. Only those internal control functions, which

are deemed critical or important to the strength within a particular transaction cycle, should be tested and evaluated. Working papers should be prepared to highlight the internal control attributes within the processes to be evaluated.

Tests of compliance are performed to obtain sufficient evidence that the system is operating in accordance with the understanding the auditor obtained from the review. These are performed for those control procedures or methods upon which the auditor has chosen to rely. Conversely, when the auditor determines that certain controls cannot be relied upon, tests of compliance are not ordinarily performed.

The nature, timing, and extent of tests of compliance are closely related to the control procedures and methods studied by the auditor. Additionally, the auditor must consider the availability of evidence and the audit effort required to test compliance. In considering the required audit effort, the auditor assesses whether precluding certain tests of compliance must reduce the reliance on the controls and procedures, and whether such reduced reliance significantly affects subsequent audit tests and procedures.

60. Flowcharting

The primary purpose of preparing a "Flow chart" is to identify the key control attributes – those attributes that achieve control objectives. This can efficiently point out cases of under / over control and processing redundancy.

Flowcharts are pictorial methods of analysing and understanding the processes and procedures involved in the organisation (either manual or computerised). Flowcharting is based on standardised symbols. All auditors should use the same symbols in the drawing up of flow charts.

61. General Flowcharting Guidelines

Clarity and simplicity in presentation are essential. Mistaken use of extreme detail may tend to conceal rather than expose key points. Complexities such as exception controls can be better explained in the "Procedure Explanation". In most cases, the combination of the flow chart and a procedure explanation tends to be far superior to either document alone.

Only transactions / documents with control significance should be shown (i.e., control over authorization, recording, safeguarding, reconciliation, and valuation). This can generally be accomplished by including only those activities within an application where data is initialized, changed, or transferred to other departments. For a process to be flow charted, it must be broken down into its component parts, namely actions and decisions. Also, the name(s) and position(s) of the people performing the transactions should be indicated for each action. The names of each document should also be included.

The auditor usually obtains information necessary for preparing or updating flow charts by interviewing personnel at each site about procedures followed, and by reviewing procedure manuals, existing flow charts and other system documentation. Sample documents are collected and each department involved is questioned about its specific duties. Inquiries can be made concurrently with the performance of transaction reviews, particularly when flow charts are being updated. If possible, the auditor should observe the process.

62. Internal Audit Planning

The purpose of the "Internal Audit Strategy / Plan" is to provide the audit team with a basic understanding of the business operations, information regarding the client, audit requirements in terms of approach, areas of risk and audit emphasis, administration matters and reporting deadlines.

Also shown on this document are the names, qualifications and experience of the auditors assigned to the audit (including the Senior Internal Auditor) and the names and contact details of the Director and other relevant persons.

This is the main planning document, sections of which must be completed at the beginning of the audit and must be kept up-to-date through-out the audit.

63. Process / Function Analysis Sheet

The purpose of the "Process / Function Analysis Sheet" is to document the details of the activities of the client as well as the resources and risks of these activities to assist the auditor in compiling the audit programme.

This document is completed as soon as the preliminary survey is completed.

A Process / Function Analysis is performed to prioritise audit testing that must be performed to achieve the audit objectives. This determination is essential for providing reasonable assurance that internal audit resources are deployed in an optimal manner (i.e., the most time is spent examining areas with the greatest risk exposure).

The three types of risks that must be considered are:

- Inherent Risk – the risk related to the fundamental characteristics of the assigned area (i.e., an area that receives income in the form of cash has a greater inherent risk of theft of that income than one that receives internal billing income from another department).
- Control Risk – the risk that the assigned areas internal control system would fail to prevent or detect a significant intentional or unintentional error in the process.
- Detection Risk – the risk that the internal audit would fail to detect errors that had occurred.

64. Process

During the preliminary review / internal control evaluation stage of the audit, the auditor must complete a schedule detailing the greatest risks and potential exposures, the "Process / Function Analysis Sheet", and discuss with the Senior Internal Auditor

It is cross-referenced to the "Audit Programme" and the various sections within the document are also referenced to each other. The "Process / Function Analysis Sheet" summarises the directorate / silo's objectives, resources and activities, lists all regulatory compliance for the directorate / silo and allows the auditor to determine what risks are to be found within the audit area as well as any controls.

The form also has place for the auditor to note any areas for improvement noted during the preliminary survey.

65. Audit Programme

Preparation of the "Audit Programme" concludes the audit planning phase. The audit programme outlines the necessary steps to achieve the objectives of the audit within

the scope defined by the Senior Internal Auditor. The audit programme is a detailed plan for the work to be performed during the audit. A well-constructed programme is essential to completing the audit project in an efficient manner.

A well constructed programme provides:

- A systematic plan for each phase of the work that can be communicated to all audit personnel concerned.
- A means of self control for the audit staff assigned to the audit.
- A means by which the Senior Internal Auditor / Auditor can review and compare performance with approved plans.
- Assistance in training inexperienced staff members and acquainting them with the scope, objectives, and work steps of an audit.
- An aid to the Senior Internal Auditor / Auditor to make a possible reduction in the amount of direct supervisory effort needed.
- Assistance in familiarising successive audit staff with the nature of work previously carried out

The programme consists of specific directions for carrying out the assignment. It should contain a statement of the objectives of the operation being reviewed. The audit programme should be cross-referenced to the "Process / Function Analysis Sheet". The programme must show, in detail, the work steps required to test the effectiveness of those controls and provide space for cross-referencing to the related audit work papers.

66. Audit Objectives

The audit programme should contain a statement of the objectives of the audit. These should correspond with the audit objectives stated in the "Engagement Letter" and they should be achieved through the detailed audit programme steps.

The audit objectives should be cross-referenced to the risks shown on the "Process / Function Analysis Sheet".

67. Audit Procedures

A well-constructed audit programme provides specific, detailed steps (procedures) for achieving the audit objectives. Details such as the contact person for information and the information to be verified should also be shown.

The "Audit Programme" allows space for cross-referencing the individual procedures to the relevant audit objectives and working papers. The auditor must also initial each procedure that he / she conducted.

The "Audit Programme" should be authorised by the Senior Internal Auditor / Auditor in charge of the audit. The end of the programme has a statement and place for him / her to sign and date it.

Any changes to the programme must be recorded and the programme must be kept up to date in the audit file.

68. Sampling

Audit sampling is performing an audit test on less than 100 percent of a population. In 'sampling' the auditor accepts the risk that some or all errors must not be found, and the conclusions drawn (i.e. all transactions were proper and accurate) may be wrong.

69. Types of Sampling

Statistical or probability sampling allows the auditor to stipulate, with a given level of confidence, the condition of a large population by reviewing only a percentage of the total items. Several sampling techniques are available to the auditor.

- Attribute sampling – is used when the auditor has identified the expected frequency or occurrence of an event.

- Variables sampling – is used when the auditor samples for values in a population which vary from item to item.

- Judgment sampling – is used when it is not essential to have a precise determination of the probable condition of the universe, or where it is not possible, practical, or necessary to use statistical sampling.

The type of sampling used, and the number of items selected should be based on the auditors understanding of the relative risks and exposures of the areas audited. The expectation in sampling is that the sample must be representative of the population and

must have the same characteristics as the population. Sampling risk is the probability that a properly drawn sample may not represent the population. Sampling risk includes:

- The risk of assessing the control risk too low
- The risk of assessing the control risk too high
- The risk of incorrect acceptance (substantive tests)
- The risk of incorrect rejection (substantive tests)

Non-sampling risk is all engagement risk not caused by sampling.

70. Policy / Process

All audit testing must include sampling. The type and sample size must be described in the program and approved by the Senior Internal Auditor.

71. Working Papers

Types of Working Papers

All working papers should be filed in the standard audit file. The file should be clearly labelled with both the audit name and the audit file number. See "Starting the Audit".

The following are the types of working papers used by the Internal Audit Unit:

70.1. "Assignment Sheet
70.2. "Audit Completion Summary"
70.3. "Audit Test Cover Sheet"
70.4. "Audit File Summary"
70.5. "Audit Programme"
70.6. "Audit Test Schedule"
70.7. "Audit Feedback Questionnaire"
70.8. "Declaration of Independence"
70.9. "Distribution List"
70.10. "Engagement Letter"
70.11. "File Appraisal"
70.12. "File Index"
70.13. "Flow Chart"

70.14. "Internal Audit Strategy / Plan"

70.15. "Internal Control Questionnaire"

70.16. "Investigation Diary"

70.17. "Notes on Meetings"

70.18. "Procedure Explanation"

70.19. "Process / Function Analysis Sheet"

70.20. "Report"

70.21. "Review Notes"

70.22. "Sampling Worksheet"

70.23. "Summary Test Sheet"

70.24. "Telephone Notes"

70.25. "Time Budget"

72. File Index

A standardised file index has been created for the Internal Audit Unit.

A main index, showing the different sections for the front of the files, is placed in the front of the audit file.

Sub-indexes showing the details of all documentation within the section, together with the page number, is filed in each separate section of the audit file.

73. Investigation Diary

The purpose of the "Investigation Diary" is to maintain a sequential record of events during the course of the audit. This, amongst others, may protect the auditor in case of disputes. The detailed minutes of long meetings and discussions are reflected under the appropriate section and the investigation diary is cross-referenced to this document.

74. Qualities of Good Working Papers

The following are the qualities required of the unit's working papers:

74.1. Complete – working papers must be able to "stand alone." This means that there should be no significant questions within the scope or related to the objective of the audit that are unanswered. It must be clearly stated what work

was performed, how and from where samples were selected, the purpose of the working papers and what findings were made. All points raised by the reviewer must be cleared, and a logical, well-thought-out conclusion must be reached for each audit segment.

74.2. Concise – working papers must be confined to those that serve a useful purpose.

74.3. Uniform – all working papers should be of uniform size and appearance. Smaller papers should be fastened to standard working papers, and larger papers should be folded to conform to size restrictions.

74.4. Neat – working papers should not be crowded. Allow for enough space on each schedule so that all pertinent information can be included in a logical and orderly manner. At the same time, keep working papers economical. Forms and procedures should be included only when relevant to the audit or to an audit recommendation. Also, try to avoid unnecessary listing and scheduling. All schedules should have a purpose which relates to the audit procedures or recommendations. Working papers should be arranged in a uniform style.

74.5. Each item in the working papers should contain a descriptive heading, identification of the source of the document (if not obvious), the date of the preparation and auditor's initials and the index number of the working paper.

74.6. Working papers should be sufficient, competent, relevant and useful to provide a sound basis for audit findings and recommendations.

74.7. Working papers should prove that standards have been followed such as adequate planning and supervision, adequate review of internal control and sufficient evidential matter.

All documentation included in the audit file must be signed and dated by all auditors performing the audit as well as all reviewers.

75. Functions of Working Papers

The following are required of any documentation placed in the audit file as a working paper:

75.1. Support auditor's opinion

75.2. Aid in the conduct and supervision of the engagement

75.3. Provide a record of:

75.4. procedures applied.

75.5. test performed.

75.6. information obtained.

75.7. pertinent conclusions reached.

75.8. Provide evidence that the audit was conducted in accordance with the Standards for the Professional Practice of Internal Auditing

76. Working Paper Techniques

The following information is required on all documentation filed in the audit file:

- Descriptive headings – all working papers should include the name of the audit, audit file number, the type of document (name), auditor's initials, date prepared / received by the auditor and the source of information.

- Tick-marks – the auditor makes frequent use of a variety of symbols to indicate work that has been done. These symbols are commonly referred to as tick-marks. As these tick-marks have no special or uniform meaning in themselves, an explanation of each tick-mark should be made on the schedule on which it appears.

- Cross-referencing – cross-referencing within working papers should be complete and accurate. Working papers should be cross-referenced to the audit programme. The draft audit report should be cross-referenced to the audit working papers. Refer to the section on cross referencing for more information.

- Indexing – all working papers should be indexed according to the standard indexing procedures in use in the division.

- Carry forward – the auditor should make full use of the working papers developed in the prior year's audit. Flow charts, system descriptions, and other data may still be valid. Those papers which remain useful should be made a part of the current working papers. They should be updated with current information, renumbered, referenced, initialled, and dated by the current

77. Fieldwork

Depending on the location and availability of records and reports, the audit tests can also be performed either at the client's premises or at the audit office. The audit work, in general follows the following steps:

- Perform audit tests.
- Document the audit work performed.
- Exit interview with appropriate officials.
- Audit report
- Review of audit work
- Issuance of audit report
- Follow-up

78. Evidential Matter

Evidential matter obtained during the audit provides the documented basis for the auditor's opinions, findings, and recommendations as expressed in the audit report. Internal auditors are obligated to act objectively, exercise due professional care, and collect sufficient, competent, relevant, and useful information to provide a sound basis for audit findings and recommendations.

The following are the standards published by the Institute of Internal Auditors relating to the audit engagement:

2300 Performing the engagement – Internal auditors should identify, analyse, evaluate and record sufficient information to achieve the engagement's objectives.

2310 Identifying information – Internal auditors should identify sufficient, reliable, relevant and useful information to achieve the engagement's objectives.

2320 Analysis and Evaluation – Internal auditors should base conclusions and engagement results on appropriate analyses and evaluations.

Copies or actual samples of various documents can be used as examples, for clarification, and as physical evidence to support a conclusion or prove the existence of a problem. These documents can be memos, reports, computer printouts, procedures,

forms, invoices, flow charts, contracts, or any other items. All documents included in the audit file must serve a useful purpose.

The following must be indicated on each document included in the file:

- Indicate both the person and / or file that the document came from (source).

- Fully explain the terms and notations found on the document, as well as its use (if needed). This is especially true when including maps, engineering drawings, etc. in the papers. These explanations may be made on an attached preceding page or on the face of the document itself.

The following are the four main categories of information that can be collected: \

- Physical information – the internal auditor's direct observation and inspection. When physical observation is the only information about a significant condition, at least two internal auditors should view it.

- Testimonial information – written or spoken statements in response to inquiries or interview questions.

- Documentary information – some permanent form of information. It is the most common type of information available to the internal auditor.

- Analytical information – drawn from the consideration of the interrelationships among data or the policies and procedures from which it is composed.

79. Interviews

A record must be kept by the auditor for each meeting held with the client, whether the director or clerk, as well as all relevant telephone calls. This information is recorded on the documents "Notes on Meetings" and "Telephone Notes" and filed in the audit file.

Most verbal information is obtained through formal interviews conducted either in person or by telephone. Formal interviews are most desirable because the interviewers know they are providing input to the audit; however, impromptu interviews, or even casual discussions can often provide important information. Any verbal information which is likely to support a conclusion in the audit working papers should be documented. Interviews are useful in identifying problem areas, obtaining general knowledge of the audit subject, collecting data not in a documented form, and documenting the audit

customer's opinions, assessments, or rationale for actions. Interview notes should contain only the facts presented by the person interviewed, and not include any of the auditor's opinions. The notes must be recorded promptly after the interview to ensure accuracy.

In preparing interviews for working papers, consider the following suggestions:

- Be sure to include the name and designation of all persons from whom information was obtained. This includes data gathered during casual conversations.
- Indicate when and where the meeting occurred.

For telephone conversations, the following should be recorded:

- The telephone numbers.
- When the call was made
- To whom, job title or designation
- A record of the conversation should be made.

Care must be taken to avoid biasing the information obtained during the interview. Especially avoid leading questions.

80. Observations

What the auditor observes can serve the same purpose as interviews. If observations can be used to support any conclusions, then they should be documented. They are especially useful for physical verifications.

Observations used as supporting documentation should generally include the following items:

- Time and date of the observation
- Where the observation was made
- Who accompanied the auditor during the observation?
- What was observed (when testing is involved, the working papers should include the sample selections and the basis of the sample)

81. Performing Audit Tests

Audit tests are usually analytical in nature and are designed to determine if the controls and procedures thought to be in place are functioning efficiently and effectively. The tests are usually performed on a selected sample of transactions. Therefore, they are not intended to detect all errors or irregularities that may have occurred.

82. Documenting the Audit Work Performed

Completed audit programmes and other information gathered during an audit are assembled into files and are referred to as "audit working papers". These papers contain the results of the testing and any other pertinent documentation such as memoranda, copies of replies, reconciliations, and any other correspondence, etc. Conditions requiring corrective action are documented in these papers and are referred to as "observations" or "audit findings". The working papers are indexed and follow an established form. Any background information that might be pertinent in future audits is maintained in a permanent working paper file.

Working papers serve both as tools to aid the auditor in performing his work, and as written evidence of the work done to support the auditor's report. Information included in working papers should be sufficient, competent, relevant, and useful to provide a sound basis for audit findings and recommendations.

In addition to serving as a reference for the auditor preparing them when called upon to report findings or answer questions, other auditors may find it necessary to use the working papers.

The Senior Internal Auditor must use the papers to review the quality of the audit project and to evaluate the audit staff assigned to the work.

External auditors review the work performed by the Internal Audit Unit and evaluate the effect that its activities had on the municipality's system of internal control.

The following are the Standards published by the Institute of Internal Auditors relating to the recording of information:

2330 Recording information – Internal auditors should record relevant information to support the conclusions and engagement results.

83. Audit Test Cover Sheet

The "Audit Test Cover Sheet" is used to summarise the findings of the audit procedure. This document is cross-referenced to all supplementary documentation for the audit procedure as well as to all evidence collected.

The purpose of the document is to describe the client risks and objectives (as identified during the preliminary phase of the audit) and nature of the audit test performed as well as for recording the observations, effects and conclusion as well as the recommendations relevant to the test.

A summary of each finding must be shown (if an audit test schedule is attached). If no test schedule is attached, the details of each finding must be shown. The finding must be referenced to the relevant supporting documentation. Findings must be relevant to the test performed.

This document must be used to discuss the audit findings and recommendations with the client and provides space for the client's comments and action plan. A copy of this template is included separately.

The following attributes must be present for each audit finding:

- Statement of Condition

The condition identifies the nature and extent of the find or unsatisfactory condition. It often answers the question: "What was wrong?" Normally, a clear and accurate statement of condition evolves from the auditor's comparison or results with appropriate evaluation criteria.

- Criteria

This attribute establishes the legitimacy of the finding by identifying the evaluation criteria and answers the question: "By what standards was it judged?" In financial and compliance audits, criteria could be accuracy, materiality, consistency, or compliance with applicable accounting principles and legal or regulatory requirements. In audits of efficiency, economy, and program results (effectiveness), criteria might be defined in mission, operation, or function statements; performance, production, and cost standards; contractual agreements; program objectives; policies, procedures, and other command media; or other external sources of authoritative criteria.

- Effect

This attribute identifies the real or potential impact of the condition and answers the question: "What effect did it have?"

The significance of a condition is usually judged by its effect. In operational audits, reduction in efficiency and economy, or not attaining program objectives (effectiveness), are appropriate measures of effect. These are frequently expressed in quantitative terms; e.g., , number of personnel, units of production, quantities of material, number of transactions, or elapsed time. If the real effect cannot be determined, potential or intangible effects can sometimes be useful in showing the significance of the condition.

- Cause

The fourth attribute identifies the underlying reasons for unsatisfactory conditions or findings, and answers the question: "Why did it happen?" If the condition has persisted for a long period of time or is intensifying, the contributing causes for these characteristics of the condition should also be described.

Identification of the cause of an unsatisfactory condition or finding is a prerequisite to making meaningful recommendations for corrective action. The cause may be quite obvious or may be identified by deductive reasoning if the audit recommendation points out a specific and practical way to correct the condition. However, failure to identify the cause in a finding may also mean the cause was not determined because of limitation or defects in audit work, or was omitted to avoid direct confrontation with responsible officials.

- Recommendations

This final attribute identifies suggested remedial action and answers the question: "What should be done?" The relationship between the audit recommendation and the underlying cause of the condition should be clear and logical. If a relationship exists, the recommended action must most likely be feasible and appropriately directed.

Recommendations in the audit report should state precisely what needs to be changed or fixed. How the change must be made is the client's responsibility. More generalised recommendations (e.g., greater attention be given, controls be re-emphasized, a study made, or consideration be given) should not be used in the audit report, but they are

sometimes appropriate in summary reports to direct top management's attention to compliance-type findings disclosed in several areas.

Unless benefits of taking the recommended action are obvious, they should be stated. The cost of implementing and maintaining recommendations should always be compared to risk.

Recommendations should be directed to an individual capable of taking action.

84. Audit Test Schedule

The "Audit Test Schedule" is a record of the observations for each procedure. This is an Excel spreadsheet for showing the findings for each audit procedure. Each procedure and the related findings are shown on a schedule and the details for the procedure and findings are documented.

This schedule is cross-referenced to the relevant supporting documentation.

85. Summary Test Sheet

The purpose of the "Summary Test Sheet" is to provide the auditor or supervisor with a quick overview of the status of the tests performed / to be performed.

86. Cross-referencing

Audit Test Cover Sheet = Reflects the objective, procedure(s), risk, observation(s), conclusion(s) and possible recommendations.

Summary Test Sheet = Schedule that summarizes / explains tests of a repetitive nature (could be financial or otherwise).

Lead Schedule = Financial schedule reflecting the make-up of amounts disclosed on schedules, e.g. on financial statements. Refer "The Principles and Practices of Internal Auditing".

87. Reporting

The principal product of this unit is the final report in which the auditor's opinions about the audit findings are expressed and the recommendations for improvements are discussed. Therefore, for the Internal Audit Unit to be effective, the reports must clearly

and persuasively convey the results of the audits and convince readers to recognize the validity of the findings and the benefit of implementing any recommendations.

To facilitate communication and ensure that the recommendations presented in the final report are practical, the Internal Audit Unit discusses the audit findings with the director prior to issuing the report.

The Internal Audit Unit prints and distributes the final report to the director, the Municipal Manager and any other relevant official. The Municipal Manager's approval is required for release outside of the municipality. The results of the audit are also included in the Internal Audit's quarterly report to the Audit Committee.

The report is divided into two sections, the covering letter and the audit report. The covering letter details the introduction (background to the audit and an introduction into the process audited), the objectives and scope of the audit and the conclusions drawn by the auditor. The covering letter also requests the director to provide a written response to the report within seven working days of the date of the report.

The audit report itself has a contents page for easy reference to the individual observations. Each observation should be listed, in order of importance, together with the risk to which the observation refers the auditor's recommendations and the client's comments.

88. Closing Conference

When the audit is complete, any observations perceived as requiring corrective actions are discussed with the appropriate official(s). Suggested corrective actions are discussed and these, together with feedback from the official(s), become the basis for recommendations. Observations may be brought to the director's attention as found or may be discussed at this time.

After the audit file has been reviewed by the Senior Internal Auditor, the auditor, together with the Senior Internal Auditor meets with the director, liaison official to discuss the findings and recommendations. At this time, the, liaison official and / or director may supply comments on the findings, and any inaccuracies or impractical recommendations are resolved to the extent possible.

The "Audit Test Cover Sheet" is used as the basis for this interview and copies should be provided to all officials attending the Exit interview.

- Pre-exit interview items

o There should be no surprises - everything in the draft should have been discussed during the fieldwork.

o Be sure you can easily find supporting documentation for findings in the working papers in case questions arise at the exit conference.

o Try to anticipate potential questions/conflicts.

- Exit interview agenda.

o Go through verbal recommendations.

o Discuss the following.

□ Do they want to respond after receiving the final report or would they like their response included in the final report?

□ A follow-up must be done within one year to review action taken.

□ Results of audit, response, and follow-up must be included in the Quarterly Audit Report to the Audit Committee.

□ Where there any questions about the scope and objectives?

□ Are there any questions about the opinion?

□ Are there any questions, comments, additions, or deletions on background?

□ Any comments or questions about other sections (go through each).

□ General comments about audit process?

89. Interim Audit Findings

The interim audit report provides a prompt means of documenting a situation requiring immediate action. It is a preliminary report, and it must be emphasised in the report that it is based on current, potentially incomplete information. It should also be mentioned that the final report must follow up on the topics covered in the interim report.

The first draft of the interim report must be referenced to the audit working papers and filed under Section B, "Draft Reports" in the Audit File. The interim audit report must be filed under Section A, Final and Interim Reports" in the Audit File. All reports must be indexed.

90. Draft Reports

The first draft report compiled by the auditor must be kept and filed in the Audit File under Section B, "Draft Reports". This report must be referenced to the audit working papers and must be marked draft. Subsequent draft reports must be shredded as soon as they have been updated to ensure that the correct draft report is available at any time. The draft report must be indexed.

The draft report is handed to the Senior Internal Auditor for review.

91. Final Reports

The final report must be signed by the Senior Internal Auditor. The report is then indexed and filed under Section A "Final and Interim Reports" in the Audit File.

The final report must be distributed within fourteen days of the conclusion of the audit.

92. Management Responses

When a reply has been received from the director, the auditor must scrutinise the reply to determine what, if any, action has been taken to rectify the deficiencies noted in the report. The reply must be filed with the audit report and indexed.

93. Distribution

A "Distribution List" should be completed for every audit report. This list shows when and to whom the report was distributed. The List is then filed in the Audit File under section A, "Final and Interim Reports". The report should be distributed to the following, seven days before the Audit Committee Meeting:

- Chairperson of the Audit Committee
- Members
- Municipal Manager

- CFO
- Portfolio Councillor Finance
- HOD
- DPHLG&TA
- Auditor General

94. Report Format / Content

The report should include the responses of the client (if any). Each response is listed immediately following the observation / recommendation to which it refers.

95. Sections of the Covering Letter

- Introduction

This section provides a rationalisation for the audit performed, including any explanatory notes. A definition of the directorate / silo being audited is also given, if needed.

It includes an explanation of the assigned areas of responsibilities for the directorate / silo and the purpose of the specific audit.

- Scope / Objectives

This section lists the individual objectives for the audit together with an explanation of each. The materials, etc. reviewed to accomplish each objective are listed.

- Conclusion

The conclusion on the audit report must be based on findings and supported in the attached audit report.

96. General Standards

The following standards apply to the final audit report:

- Reports must conform to the Internal Audit Unit's format guidelines.
- Report title must specifically state what was audited.
- Report must be copied to right people.

- Audit objectives must be stated clearly and in agreement with those stated in the engagement letter.

- The scope must clearly state what we examined including, if applicable, what period, transactions, documents, and limitations.

- The conclusion must be supported by audit findings.

- Findings are presented clearly and contain the following elements:

o Standard

o Condition

o Cause

o Effect/Risk

o Recommendation

 Recommendations are specific enough so the client understands what is expected, something that can be accomplished, cost beneficial, followed-up on, etc.

o Management Corrective Action

- Draft Report is referenced to the working papers.

- Reports are objective, clear, concise, constructive, and timely.

- Short paragraphs and numerous headings should be used in the audit report to avoid visual monotony.

- Headings should be as brief as possible.

97. Confidentiality

- Rationale

Although Internal Audit reports are internal documents exclusively for the use of the municipality, certain reports must contain information that SHOULD NOT BE DISCLOSED OUTSIDE OF THE DIRECTORATE RECEIVING THE REPORT.

- Policy

Audit reports must be classified as CONFIDENTIAL if they meet the following criteria:

o Report discloses a weakness (potentially resulting in a loss) which has not been corrected at the time of distribution.

o Report discloses sensitive information which could prove an embarrassment to the municipality (if made public)

o Report discloses information classified as "restricted data".

o At the discretion of the Senior Internal Auditor

o Audit reports classified as CONFIDENTIAL must contain the words CONFIDENTIAL REPORT on the title page.

• Process:

The Senior Internal Auditor must discuss his / her recommendation and rationale regarding the classification of a report when it is given to the Municipal Manager.

Follow-up

Within six months of the final report, Internal Audit must perform a follow-up review with management to ascertain the resolution of the report findings.

The actions taken to resolve the findings are reviewed and may be tested to ensure that the desired results were achieved. In some cases, directors may choose not to implement an audit recommendation and to accept the risks associated with an audit finding – the follow-up review must note this as an unresolved finding.

The follow-up report must list the actions taken by the client to resolve the original report findings. Unresolved findings must also appear in the report and must include a brief description of the finding, audit recommendation, client response, current condition, and the continued exposure to the municipality. The follow-up report must be sent to the original report recipients.

98. Review of Audit Work

The Senior Internal Auditor reviews the working papers and approves the draft report.

99. Supervisory Review

All working papers must be independently reviewed to ensure there is sufficient evidence to support conclusions, document the extent of audit work performed, and

ensure that all audit objectives have been met, as well as substantiate compliance with applicable auditing standards. This review should occur as soon as possible after the completion of the working papers.

Detailed reviews must be conducted by the Senior Internal Auditor for the assigned auditor's working papers.

NOTE: An "Audit Completion Summary" must be compiled by the auditor at the end of each audit to ensure that all aspects of the filing has been completed.

In performing the review, the reviewer should:

- Review working papers from audit program steps to the referenced working papers ensuring cross-referencing is proper, the working papers support the steps performed, and all steps have been completed (or why steps were not completed).
- Review working papers from the report to the working paper summaries to the detailed working papers to ensure that all findings are stated, adequately document and support the opinions, findings, and recommendations stated in the report.
- Determine working paper's compliance to the Internal Audit working paper standards.
- Determine report compliance with the Internal Audit report standards.
- Determine the permanent audit file's compliance with the Internal Audit standards.
- Record any deficiencies, comments, etc. on the "Review Notes" form.

The auditor who prepared the working papers must then respond (if necessary) to these points on the "Review Notes" form.

After the reviewer has "cleared" the points and completed (initialled) the review notes, the working papers must be forwarded to the next level for review.

The Senior Internal Auditor must review the working papers and approve the draft report.

NOTE: The working papers and report must be used in the Performance Evaluation process.

100. Report Review

The Senior Internal Auditor reviews the final audit report.

In performing the review, the reviewer should determine whether the report complies with the Internal Audit's report standards and that the information is laid out in a logical manner.

The report should be reviewed for conciseness, completeness, and logic as well as the ease with which it can be read.

101. Review Points

The Senior Internal Audit supervisor review must cover the following points:

- Audit working paper label.
- Indexing of working paper file
- Referencing of working papers in individual sections
- Audit program steps
  - Completion of all steps
  - Reference to the working paper / client documentation, audit note, audit query
- Working paper
  - Layout of data
  - Audit tests performed – no gaps.
  - Explanation of audit symbols
  - Cross referencing to other working paper, queries or notes or client document
- Client documentation
  - Evidence of tests performed.
  - Cross referencing to the working paper
  - Audit program reference
- Audit queries

- o Reference of source of query
- o Substance on the finding – audit step
- o Independency of the condition
- o Client response – clearance of the query
- o Conclusion on the condition e.g., report item, cleared, outstanding.

- Summary of findings

- o Linked to audit procedures.
- o Causes – obtained from the clients during fieldwork.

The Internal Audit Manager 's review must cover the following:

- Review the audit program against objectives.
- Check evidence of review notes by Senior Internal Auditor
- Check evidence of review of working papers by Senior Internal Auditor
- Review summary of findings in line with the audit steps and objectives
- Review detailed report supported by audit evidence – reference to findings.
- Review format of the detailed report
- Develop and / or review the executive summary report.

The Internal Audit Manager must further review the following:

- Review audit process and approach
- Quality assurance review
- Financial report reviews
- Approval of report

Proof of review is the initialling and dating of each page by the reviewer. All pages must be dated and initialled by the auditors performing the audit.

102. Audit Feedback Questionnaire

To continuously improve the quality of service to the municipality, an "Audit Feedback Questionnaire" must be sent out to the director once the audit report has been issued. The director must be requested to provide feedback of the level of satisfaction with our audit work.

Advantages to this survey include future improvement in performance and better client-auditor relations through conflict reduction, greater client participation and a better understanding of the internal auditing function.

103. Finalisation of Audit File

Once the follow-up has been finalised and all documentation has been filed, the indexing must be brought up to date and all relevant documents must be updated and printed for filing. The electronic working papers and documentation must be recorded onto CD and attached to the inside cover of the audit file.

An "Audit Completion Summary" should be completed by the auditor at the end of each audit to ensure that all aspects of the filing have been completed.

104. Electronic Environment

105. Standard Electronic Tools

Electronic Working Papers

To assure standardisation of working papers and reports, standardised reports and working papers have been developed as Word and Excel templates. These templates must be used for in all cases.

The electronic versions of these templates are stored on the drive "My documents\permanent file\internal audit\templates\audit working papers". Clean copies of these are then saved into a folder on the "my documents" that has been given the name of the audit being performed. DO NOT SAVE OVER THE TEMPLATES.

106. Audit Time Tracking System

The Audit Time Tracking System is used to track all time spent on audits and administrative tasks. The information is also used for the Quarterly Audit Report to the Audit Committee (showing leave taken.) as well as to charge out audit time to the various directorates.

107. Daily Functions

Each employee captures the time spent on during the working days on the time budget spreadsheet.

The time is spent either on audit or admin tasks. The Senior internal Auditor must set up any new audit and assign the relevant auditors to allow them to capture time spent on the audit.

Any time spent on admin tasks, Audit Committee or Audit Steering Committee, any leave taken, etc. is allocated to those tasks. This must be done daily. The times recorded on the Audit Time Tracking System must agree with the times recorded in the attendance register.

Each employee must capture a minimum of 8 hours per day (40 hours per week).

Admin hours are assigned by selecting the type of admin while the audit hours are assigned by selecting the audit (only uncompleted audits to which the auditor has been assigned must be shown), the organisation on which the tests are being conducted (only those selected by the Senior Auditor in the set up stage are shown) and the audit stages.

An auditor can only assign audit hours for him / herself, no-one can assign audit hours for another auditor.

Lunch times and public holidays are not recorded on the time budget sheet. Tea breaks and smoke breaks are recorded under "Breaks" in the non-audit activity section.

108. Creation of Audits

When an audit is started, the Senior Internal Auditor must create the time budget sheet.

The Audit ID number is assigned by the Senior Internal Auditor. Also inputs the audit dates, audit category, audit area, audit type, external auditor (if relevant) and the contact person and number.

The budgeted audit hours by stage and the auditors assigned to the audit as well as the financial years and organisation codes covered by the audit are also input.

If an auditor starts working on an audit to which he / she was not assigned in the beginning, the Senior Internal Auditor can assign him / her by adding the name on the sheet.

109. Archiving Working Papers

Working paper files must be retained for seven years after the date of the report as per the Archival Legislation. The electronic working papers must be purged once a year after the Director: Internal Audit and Risk Management's approval. The exception to this policy is when we are required to retain working papers longer by law or by agreement.

110. Computer Software

Only computer software that the Internal Audit or Council owns rights should be available on the computers. If you wish to install other software on a Council computer, you must receive prior approval from the Municipal Manager and Manager: ICT and provide evidence that you own the rights to the software.

111. Office Procedures

112. Physical Security

The staff of the Internal Audit Unit is responsible for the security of the documentation, etc. received for audit purposes.

All documentation, etc. shall be always kept neat and out of public view.

113. Reference Library

Various books are kept in the Unit office for reference purposes. The books are available for the use of all auditors. However, the safety of these books is also the responsibility of all auditors.

Included in the library are current copies of all Acts relevant to the municipality. These are for the use of all auditors during the performance of audits.

114. Office Supplies

All office supplies are available from the Administrator.

Items are requested from and issued by the Administrator if they are available. The staff member then records the items taken in the "Stationery Issue Book" and signs for them.

The Administrator keep track of all office supplies and re-orders whenever necessary.

115. Telephone

Telephones are in the first instance a business convenience. Auditors should exercise telephone etiquette and always use a professional and courteous manner over the telephone. Business related long-distance telephone calls are to be authorised by the Municipal Manager

116. Private Use

Private telephone calls are to be kept to a minimum (both incoming and outgoing) as excessive use impacts negatively on productivity.

Only two private telephone calls are allowed per day, calls must be paid for by the respective auditor, all calls are recorded in the Chris Hani telephone call list register.

Once a month, telephone logs are received from the switchboard. These logs are distributed by the Office Administrator to the Senior Internal Auditor. The Senior Internal Auditor then distributes the logs to the auditors.

Each auditor must show their private calls and indicate the value of the calls. All business calls must also be indicated, together with the reason for the call. The logs are then returned to the Senior Internal Auditor with the register attached.

The Senior Auditors collect the telephone logs for all the auditors working under them and return them to the Office Administrator for processing. The Office Administrator calculates the amount owed by each auditor and a schedule of the amounts is circulated through the office. Each auditor must sign the schedule to grant permission for the amount to be deducted from their remuneration at the end of the month.

117. Dress Code

Internal Audit is a profession and as such auditors should always be neatly and professionally attired as they must reflect the highest level of professional objectivity in

gathering form, evaluating, and communicating information to clients. Extremes in fashion and non-business-like attire are prohibited during normal working hours.

The following conditions apply:

- Male auditors must wear ties when conducting audit visits. Earrings are not allowed.
- Denim jeans, T-shirts, sweatshirts, takkies are excluded.
- When working conditions are different (i.e., physical stock-takes, etc.) appropriate attire must be worn, subject to the approval of management.

118. Attendance Register

The attendance register is utilised for arrivals, departures and recording of lunch breaks. Reasons for late arrivals and early departures should be recorded in the "Remarks" column.

The arrival time recorded in the attendance register is the time that the official started working and not the time of the official's actual arrival.

119. Office Hours

Everyone shall start by no later then 08:45 and finish no later than 16: 30.

If anyone is going to be more than a half-an-hour later than their normal start time, they are to inform the Senior Internal Auditor. On arrival the official record the reason for late arrival in the attendance register along with the time of arrival and the Senior Internal Auditor who was informed of their late arrival. The date that the time is worked in must also be shown.

No auditor is allowed to leave the office to go to the shop or for private business during working hours without the Senior Internal Auditor's authority. Failure to obtain authority could result in an equivalent amount being deducted for the salary of the auditor. Audit staff should use their lunch time for private business.

The last official leaving the office is responsible for switching off equipment and lights and air conditioner and locking all doors.

Medical appointments should be as early as possible in the morning, or after 15:00 in the afternoon. If urgent business should arise during the course of the working day the Senior Internal Auditor's authority must be obtained prior to departure.

120. Lunch Times

Lunch is forty-five minutes during the week and thirty minutes on Fridays. The official lunch time is 13:00 to 14:00 and 13:00 to 13:45.

Auditors should record in the attendance register the respective times when they leave for and return from lunch periods.

In unusual circumstances a lunch break may be changed for an earlier or later time with the prior permission of the Senior Internal Auditor. In these circumstances, the auditor must record his / her departure and lunch time on the attendance register.

121.Tea Times/Smoke break

No official tea times exist but a short break, not exceeding 10 minutes, is permitted for a cup of coffee / tea. This time must be included under "Break" on the Audit Time Tracking System. Smoke break as per the Council's smoking policy is no more than 2 (two) smoke breaks are granted during the

course of a workday; the combined duration of the aforestated smoke breaks shall

not exceed 10 (ten) minutes.

122. Leave

Leave forms for accumulated leave, sick leave and special leave must be scrutinised and authorised by the Municipal Manager after being approved by the Senior Internal Auditor.

All leave for the Senior Internal Auditor must be authorised by the Municipal Manager

Where possible, leave forms must be submitted well in advance.

Applications for leave must be submitted on a pre-numbered "Leave Application Form which can be obtained from the Administration Officer. The following are extracts from the Council's Conditions of Service.

121.1 Annual Leave

Each staff member is entitled to twenty-four days leave each year. The year (cycle) is from the first day of employment. Each staff member must take a minimum of sixteen days leave each year and may accumulate a maximum of forty-eight days leave. Any leave more than forty-eight days must be encashed if the staff member is unable to take such leave due to OPERATIONAL requirements. If this leave is not taken or encashed, the leave must fall away.

121..2 Sick Leave

The auditor must contact the Internal Audit Manager in the event of illness. This must not be later that 09:00.

The Internal Audit Manager must record on the attendance register the sick leave.

Each staff member is entitled to eighty days' sick leave in a three-year cycle (this is prorated for new employees who commenced work within the cycle.

121.3 Special Leave

121.4 Maternity Leave

A staff member is entitled to three months paid maternity leave with no limit to the number of confinements. The staff member must have at least one years' service before maternity leave may be taken.

Family Responsibility Leave

In order to claim Family Responsibility Leave, the staff member must have been employed for longer than four months. A total of five days' leave may be granted during each annual leave cycle when:

- An employee's child is born.
- An employee's child is sick.
- An employee's spouse of life partner is sick.
- In the event of death of the employee's spouse or life partner or the employees' parent, adoptive parent, grandparent, child, adopted child, grandchild, or sibling.

123.Time Worked In / Overtime

Authority for time to be worked in must be arranged with the Chief Audit Executive for the approval by the Municipal Manager prior to the date / time of the time being worked in. This includes commencement of work before 07:30; overtime must be based on an urgent need.

124.General Housekeeping

Good housekeeping bears a direct relationship to orderly and efficient work habits. When out of the office, material in work areas should be straightened. Care is to be exercised to avoid exposure of confidential or potentially sensitive documents.

Files should be kept in designated / appropriate areas.

POLICY ADOPTION

The accounting officer must be the accountable custodian of the Internal Audit Manual and must ensure that this policy is submitted to the council for consideration and adoption.

POLICY REVIEW

SIGNATURES

29/05/2026

N. GEORGE **DATE**

SUBMITTED BY: CHIEF AUDIT EXECUTIVE

29/05/2026

K.L. MULAUDZI **DATE**

ACCEPTED BY: THE MUNICIPAL MANAGER

_____ _____

MR **DATE**

APPROVED BY: THE AUDIT COMMITTEE

RESOLUTION NUMBER.....11/29/05/2026.....