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**BUFFALO CITY MUNICIPALITY**

*Internal Audit, Compliance and Governance  
Three Year Internal Audit Plan 2006/2007, 2007/2008 & 2008/2009.*

and

Annual Internal Audit Plan

## 1. INTRODUCTION

The Institute of Internal Auditors defines internal auditing as follows:

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

### Purpose of this Document

This document sets out the Internal Audit Plan for the period 2006/7 to 2008/9 for consideration and approval by the Audit Committee. The plan incorporates:

- Annual Internal Audit Plan for the financial year ending 30 June 2007
- Strategic three-year rolling Internal Audit Plan

The Internal Audit Plan was designed to provide an independent, objective assurance and advisory service, in an efficient and effective manner, to the following key stakeholders:

- Audit Committee
- Accounting Officer
- Top Management Team and
- Line Management

The overall approach was to formulate a risk-based plan to align the priorities of the Internal Audit Unit with the strategic objectives and goals of the Buffalo City Municipality and the related strategic and major business risks as identified by Management.

## 2. INTERNAL AUDIT – ROLE AND RESPONSIBILITIES

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

### Governance

The Internal Audit Unit assists Management in achieving goals of the Buffalo City Municipality by evaluating the process through which:

- Goals and values are established and communicated
- Risk and control information is communicated
- The accomplishment of Municipal Performance goals is monitored
- Accountability is ensured and corporate ethics and values are preserved

### Risk Management

Internal Audit Unit assists Buffalo City Municipality in facilitating the risk management process. This includes assisting management in identifying, evaluating and assessing significant strategic and organisational risks, and the monitoring thereof.

### Controls

The Internal Audit Unit evaluates whether the internal controls upon which Management relies to mitigate the risks to acceptable levels, are appropriate and functioning as intended and develops recommendations for enhancements or improvements in the control environment.

The Internal Audit Unit is authorised to:

- Have unrestricted access to all functions, records, property and personnel
- Have full and uninhibited access to the Audit Committee
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives
- Obtain the necessary assistance of personnel directorates and departments of Buffalo City Municipality where they perform reviews, as well as other specialised services from within or outside the Municipality

The Internal Audit Unit is not authorised to:

- Perform any operational duties for Buffalo City Municipality
- Initiate or approve accounting transactions external to the Internal Audit Unit
- Direct the activities of any municipal employee not employed by the Internal Auditing Unit, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors in carrying out investigations

The Internal Audit Unit will conduct audits in accordance with the “Code of Ethics” and “Standard for the Professional Practice of Internal Auditing” of the Institute of Internal Auditors as well as relevant Municipal legislation.

### Other Internal Audit Responsibilities/Activities

Additional internal audit activities include:

### Planning and Reporting

Planning and reporting activities of the Internal Audit Unit include amongst others:

- Preparation of a strategic three year internal audit plan
- Preparation of a detailed annual internal audit plan
- Liaison with top management, external auditors and key stakeholders
- Reporting to the Audit Committee and management
- Follow-up on reports issued

### Project Management

Project management activities of the Internal Audit Unit include amongst others:

- Organising and directing audit staff, including monthly internal audit management meetings
- Review of working papers and reports
- Monitoring actual activities against plan
- Quality assurance reviews

### Consulting Services

Advisory service activities of the Internal Audit Unit include amongst others:

- Providing assistance and expertise on either newly developed systems or improving current systems
- Assisting management with facilitation of risk assessments and the implementation of a formal system of risk management
- Act as a “sounding board” to management for ad-hoc projects

### Management Responsibilities

Management is responsible for the establishment and maintenance of an effective system of governance, risk management and internal control.

The objectives of the system of internal control are, inter alia, to provide Management with reasonable, but not absolute, assurance that:

- Risks are properly managed
- Assets are safeguarded
- Financial and operational information is reliable
- Operations are effective and efficient
- Laws, regulations and contracts are complied with

The principal safeguard against fraud, misstatement and irregularities is an effective system of internal control. It must, however, be recognised that there are inherent limitations in any system of internal control – including human error and circumventions through collusion. The prevention and detection of fraud is therefore Management’s responsibility.

2006 to 2007

1. Institutional Performance in accordance with the I D P

### Audit Objectives/Approach:

The purpose of this audit is to determine the adequacy and effectiveness of controls instituted to ensure the completeness and reliability of information used to measure performance indicators in accordance with the Municipal Systems Act and the Performance Management Regulations.

### Risk Level

Statutory audit.

2. Supply Chain Management System

### **Audit Objectives/Approach**

This audit will focus on a review of the entire Supply Chain Management System, including an evaluation of the controls and the operation of the committee system.

### **Risk Level**

The risk level is high and the value is high.

3. Bid Committees

### **Audit Objectives/Approach**

This audit will focus on a review of the operations of the Bid Committee system.

### **Risk Level**

The risk level is high and the value is high.

4. Compliance with MFMA

### **Audit Objectives/Approach**

The purpose of this audit is to determine the level of compliance with the selected provisions of the MFMA and related regulations.

### **Risk Level**

The risk level is high.

5. DORA

### **Audit Objectives/Approach**

The purpose of this audit is to determine the adequacy and effectiveness of internal controls over the accounting for and use of funds allocated by other spheres of government.

### **Risk Level**

Statutory audit.

6. Facilitation of a Risk Assessment and Risk Management Framework

### **Audit Objectives/Approach:**

The purpose is to facilitate Risk Assessment workshops as initiated by Management to identify operational and process risks requiring attention

7. Receipting and Reconciliation

### **Audit Objectives/Approach**

This audit encompasses all activities regarding the management and physical control of cash and negotiable items. The control objectives include internal controls which ensure proper receipting, balancing and depositing of cash (proper control, accounting, and processing of cash related transactions), safeguarding against waste, loss, unauthorised use and misappropriation, adequate controls over imprest funds, timeous uploading of cash, systems to ensure all cash receipted is correctly uploaded and balance to the ledgers and accounts

Cash pick up procedures - The purpose of this audit is to determine the extent of the controls over the collection of municipal funds by both private contractors as well as the City Police and the compliance by Directorates therewith

### **Risk Level**

The risk level is high, and the value is high.

8. Stock Take

### **Audit Objectives/Approach**

The purpose of this audit is to determine the adequacy and effectiveness of internal controls over the stock take procedure including stores related procedures.

### **Risk level**

The risk level is moderate, but the value is high.

9. Procurement, Contract Administration and Reconciliation of Creditors

### **Audit Objectives/Approach**

The purpose of this audit is to determine the adequacy and effectiveness of internal controls over the procurement procedures. It includes the review of procedures and systems involved in contracts and consultancy appointments, the review of contract agreements, solicitation and competitive bidding, awarding, contract administration, payment certificates, compliance with contractual terms, retention etc. Management and physical control of creditors payments and reconciliations as well as internal controls which ensure prompt reconciliations, reviews, and managerial oversight will also be covered.

### **Risk Level**

The risk level is moderate, but the value is high.

10. Printing

### **Audit Objectives/Approach**

The purpose of this audit is to determine the adequacy and effectiveness of internal controls over the printing of face value documentation.

### **Risk Level**

The risk level is moderate, but the value is high.

11. Internal Control Review - Human Resources System

### **Audit Objectives/Approach**

This audit will focus on a review of the Human Resources System, including an evaluation of the controls including input controls over data received for processing, proper authorisation, reasonable assurance that data processing has been performed as intended for the particular application, that all transactions are processed as authorised, that no authorised transactions are omitted, and that no unauthorised transactions are added. Internal controls over leave applications and recording will also be reviewed.

The following other will also be covered –

Staff terminations - adequacy and effectiveness of internal controls over staff terminations.

Occupational Health and safety - adequacy and effectiveness of internal controls over occupational health and safety including, compliance with policies and procedures.

Staff induction - the adequacy and effectiveness of induction procedures followed for newly appointed staff.

### **Risk Level**

The risk level is high and the value is high.

12. Traffic Enforcement and Traffic Impounded Vehicles

### **Audit Objectives/Approach**

The purpose of this audit is to determine the adequacy and effectiveness of internal controls over traffic administration through a review of the systems. The adequacy and effectiveness of internal controls over impounded vehicles and workshops will also be reviewed.

### **Risk Level**

The risk level is moderate, and the value is moderate.

13. Pharmacy

### **Audit Objectives/Approach**

The purpose of this audit is to determine the adequacy and effectiveness of internal controls over the Health Department's pharmacy including operational efficiency. The procedures relating to the issue of drugs within clinics will also be reviewed.

### **Risk Level**

The risk level is high and the value is moderate.

14. Libraries

### **Audit Objectives/Approach:**

The purpose of this audit is to determine the adequacy and effectiveness of internal controls in the department including proper review and compliance with policies and procedures.

### **Risk Level**

The risk level is low, and the value is low.

15. Vehicle Registration

### **Audit Objectives/Approach:**

The purpose of this audit is to determine the adequacy and effectiveness of internal controls in the department including proper review and compliance with policies and procedures.

### **Risk Level**

The risk level is moderate, but the value is high.

16. Market

### **Audit Objectives/Approach:**

The purpose of this audit is to determine the adequacy and effectiveness of internal controls in the department including proper review and compliance with policies and procedures.

### **Risk Level**

The risk level is moderate, but the value is high.

17. Transport

### **Audit Objectives/Approach:**

The purpose of this audit is to determine the adequacy and effectiveness of internal controls in the department including proper review and compliance with policies and procedures. This audit is conducted on request.

### **Risk Level**

The risk level is high and the value is low.

18. Mechanical Workshops

### **Audit Objectives/Approach:**

The purpose of this audit is to determine the extent of the controls over the use of municipal vehicles both during and after hours as well as the hiring of vehicles and plant and the compliance by directorates therewith. It will also include evaluations of the controls over repairs and maintenance of vehicles and on a spot basis verification of fleet.

**Risk Level**

The risk level is moderate, but the value is high.

19. Cash Receipting Points

The purpose of these audits is to determine the adequacy and effectiveness of internal controls in the department including proper review and compliance with policies and procedures. This audit is conducted on request.

**Risk Level**

The risk levels vary from high to moderate.

BUFFALO CITY MUNICIPALITY Cash Receipting Points			
	Cash Point	Requested	Recommended
	<u>Social Services</u>		
	Art Gallery		
	Arts and Cultural Services - Admin Support		
	Aquarium	•	
	Arts and Cultural Services - Coastal Halls		
	Hall Hire	•	
	Beach Orient Ticket Office		
	Gonubie Caravan Park		• [follow up]
	Nahoon Caravan Park		•
	Cambridge Cemetery		•
	James Pearce Park Nursery		
	Main Library - Lending	•	
	Various Libraries.	•	
	Joan Harrison Swimming Pool		• [follow up]
	Ruth Belonsky Swimming Pool		• [follow up]
	Zwelitsha Swimming Pool		• [follow up]
	Zoo Office	•	
	DSS Office - Social Services		
	Queens Park - Admin		
	Public Safety - Admin		
	Vehicle Licenses [various]	•	
	Gonubie Licensing [various]	•	
	Fire Department		
	City Police P/C		
	Health - Admin Office		
	<u>Engineering Services</u>		
	Engineers - Quantum		
	Electricity		
	<u>Finance</u>		
	Accounting Office		
	Chief Financial Officer		
	Berlin Office	•	
	Cashiers.[various]	•	
	Beacon Bay Cashiers	•	

**BUFFALO CITY MUNICIPALITY**  
Cash Receipting Points

KWT Cashiers	•	
Market - Cashiers	•	
Bisho Cashier	•	
Dimbaza Cashier	•	
Ilitha Cashier	•	
Zwelitsha Cashier	•	
Phakamisa Cashier	•	
Pay Office		
Stores - Office		

<u>Corporate Services</u>		
Human Resources Office P/C		
Organisational Support		
<u>Executive Mayor</u>		
IDP		
Mayor's Secretary		
<u>Development Planning</u>		
Bus drivers	•	

It is not clear that all requests can be accommodated but they will be slotted in where time permits.

20. Auditor-General's Report

This work will focus on the presentation of the Auditor-General's report to the Audit Committee and Council.

21. Audit Committee Support

**NOTE**

The implementation of the above work is reliant upon the appointment of qualified staff to prepare and perform the audit work.

The work listed above is referenced to the Risk Assessment which was completed during the 2005 to 2006 financial year.

No	Strategic Risk Schedule	Where covered
1	Inefficient debt recovery	Cash Receipting Billing, etc to be done in another cycle
2	Inadequate / Inappropriate skills resulting in: - Non compliance to policies and procedures - Lack of accountability - Poor service delivery - Insufficient funds to provide training - Incorrect and inaccurate qualifications - Safety and health hazard - Legal liability - Insufficient experience	Covered in Human Resources and a number of other audits
3	Misuse of power - Roles and responsibilities of all concerned - Pressure to make decision - Power struggle / Conflict of interest	Not covered
4	Inability to grow the economic base of the City as a result of: - Macro economic environment - Closure of current business - Inadequate development planning - Unemployment - Globalisation - Competitiveness - Currency fluctuation	Not covered
5	Lack of financial resources - Insufficient funds to provide training - Poor service delivery - Ageing infrastructure (capital funding)	Not covered
6	Occupational Health and Safety Risks	Covered in Human Resources and a number of other audits
7	Ineffective utilisation of assets / resources - Attendance of inappropriate meetings - Inadequate systems and tools - Improper allocation of the budgetary process and organogram	Market, Transport, Mechanical workshops
	Inappropriate design of municipal structure - Scope of responsibility too high - Split responsibility	Not covered
9	Aging infrastructure - Sustainability of delivery	Not covered other than a portion under Mechanical workshops
10	Scarcity of skills	Covered in Human Resources and a number of other audits
11	Lack of proper channels of communication - Delay in response time - Lack of communication channels across the municipality	Not covered To be covered in a future cycle
12	Non compliance with policies, procedures and bylaws.	Institutional Performance, Supply Chain Management, compliance with MFMA and Division of Revenue Act as well as other audits
13	Non compliance with legislation	Institutional Performance, Supply Chain Management, compliance with MFMA and Division of Revenue Act as well as other audits
14	Reputation risk - Misunderstanding of local government by the public - Lack of customer care - Unrealistic expectations in terms of job creation, etc. - Negative perception	Not covered
15	HIV / AIDS - Loss of productivity / expertise	Covered in Human Resources and a number of other audits

No	Strategic Risk Schedule	Where covered
16	Poor service delivery - More time doing paper work than service delivery - Poor productivity - Ageing infrastructure - Absenteeism (use of temporary untrained staff) - Lack of commitment - Inadequate budgets	Market, Transport, Mechanical workshops
17	Improper allocation of funding - Core functions of the Municipality - How realistic / will it be able to meet the strategic objectives	Not covered
18	Lack of strategic direction	Not covered
19	Failure by Provincial / National / District Government to perform its functions / duties	Not covered
20	Failure to broaden the economic base	Not covered
21	Socio-economic risks: - Crime - Vandalism - Tampering	Not covered
22	Ineffective integration/co-ordination resulting in: - SILO management/mentality - Territorial disputes	Not covered
23	Over complicated and outdated internal control systems - Technological innovation	Included in almost all audits undertaken
24	Established Municipal entities not achieving their objectives	Not covered
25	Sustainability of labour cost: - Increase in the labour cost resulting in a decrease in services being delivered	Covered in Human Resources and a number of other audits
26	Strategies not aligned to mission and vision	Not covered
27	Poor governance resulting in fraud and corruption: - Non compliance with policies and procedures - Existence of employee on payroll - Unauthorised system changes - IT, errors - Lack of internal controls across the board - Human factor - division of duties - Collusion between developers and staff During land disposal.	Included in almost all audits undertaken
28	Low staff morale as a result of: - The transition at the municipality - Outdated equipment - Overregulation - Political interference - Uncertainty of direction - Lack of capacity - High stress levels	Not covered

No	Strategic Risk Schedule	Where covered
29	Unfunded mandates - Performance of service delivery not in terms of mandate - Performance of functions on behalf of other spheres of Government	Not covered
30	Inadequate management of service providers - Poor service delivery - Reputation risk - Labour disputes - Sustainability of services (continued use of contractors)	Not covered
31	Change in legislation	Not covered
32	Lack of management of transformation risk	Not covered
33	Impact of RED's - Loss of income for the Municipality	Not covered
34	Inability to take decisions as a result of: - Over regulation - Bureaucracy - Lack of accountability - More time doing paper work than service delivery - Lack of delegation	Not covered
35	Theft and abuse of Council's assets	Included in almost all audits undertaken
36	Inadequate stakeholder buy-in	Not covered save to extent it fits in with the Institutional Performance Management audit
37	Loss of staff	Covered in Human Resources
38	Lack of performance	Not covered save to extent it fits in with the Institutional Performance Management audit
39	Unsustainability of environmental management	Not covered

