

RAMOTSHERE MOILOA LOCAL MUNICIPALITY



Internal Audit Methodology

PURPOSE

This guide sets out the operations audit methodology to be applied by Ramotshere Moiloa Local Municipality Internal Audit. This document is issued and controlled by the Chief Audit Executive of Ramotshere Moiloa Local Municipality Internal Audit and forms an integral part of the INTERNAL AUDIT MANUAL. This document has been compiled from the International Internal Audit framework.

Ramotshere Moiloa Local Municipality Internal Audit Methodology

1. Introduction

1.1. Objective of this Guide

The objective of this guide is to establish a standard methodology for conducting internal audit reviews as required in terms of section 165 of the Municipal Finance Management Act (MFMA), and to comply with the International Standards for the Professional Practice of Internal Auditing (STANDARDS). This methodology is applicable to all audit reviews performed by the unit. This methodology is modelled on the guidelines published by the Institute of Internal Auditors.

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

This guide must be used in conjunction with all other relevant literature, for example, the STANDARDS, Internal Audit Charter, Audit & Risk Committee Charter, Code of Ethics and other sections of the Ramotshere Moiloa Local Municipality Internal Audit (RMLMIA) Procedures manual.

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

1.2. RMLMIA and the different Audit Components (Baseline engagement)

The Ramotshere Moiloa Local Municipality Internal Audit was set up under sections 165 (1) of MFMA.

The scope of internal audit essentially covers two main functions:

- The provision of independent appraisal and review of the diverse operations and internal controls to determine whether:

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- Financial and operation information is accurate and reliable;
 - Risks to the municipalities are identified and minimised;
 - External regulations and internal policies and procedures are followed;
 - Satisfactory operating criteria are met;
 - Resources are used efficiently and economically;
 - The municipal objectives are effectively achieved; and
 - The municipality ensures good corporate governance.
- The provision of professional advice and consulting services to Accounting Officers in the discharge of their responsibilities pertaining to the establishment and maintenance of effective, efficient and transparent systems of financial and risk management, internal control and good corporate governance.

Ramotshere Moiloa Local Municipality Internal Audit consists of a number of specialist components. These components are Risk & Compliance Audit, ICT Audit, Audit of Performance Information and, Performance Audit.

Risk audit evaluates a municipality level of compliance with legislation, regulations, plans and procedures, utilising the business approach to internal auditing, which is risk based.

ICT audit is responsible for providing management with an independent assurance on the adequacy of controls within the information technology environment.

Performance audit is responsible for ensuring that satisfactory management measures have been instituted to ensure resources are acquired economically and are utilised efficiently and effectively in the achievements of the objectives of the respective departments.

Audit of predetermined objectives' main focus is to assess/review how far strategic and operational objectives of the Municipality were achieved and whether there was good value for money spent. Internal Audit will be conducting the performance measurement audit on a quarterly basis (AOPI). (S45 (a) of Municipal System Act of 2003).

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Safety Health and Environmental Audits (SHE Audits) - responsible for providing Management with an independent assurance on the adequacy of controls within the Occupational Health & Safety and Environmental Conservation.

Ethics Audit: responsible for providing Management with an independent assurance on whether Municipality preserve high ethical values as stipulated in the code of conduct for both Councillors and Employees.

1.3. RMLMIA methodology

The RMLMIA methodology is divided into the following six distinct phases for performing an audit or system review.

Phase 1 – Strategic Planning (Annual Plan)

Phase 2 – Engagement Planning

Phase 3 – Performing the Engagement

Phase 4 – Communicating Results

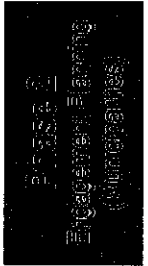
Phase 5 – Monitoring process

Phase 6 – Resolution of Management's Acceptance of Risks

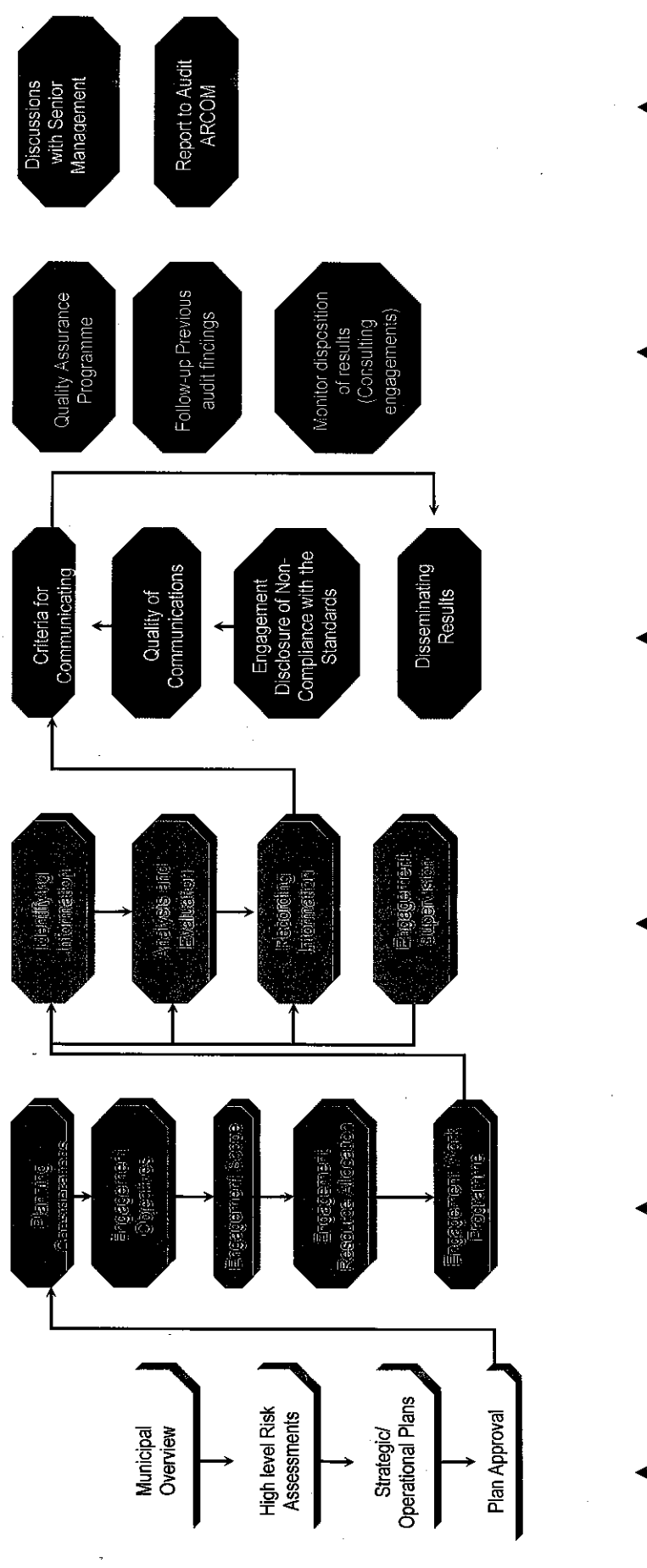
- These phases of the audit should be performed according to the baseline engagement requirements and subject to continuous review, supervision, quality assurance, independence, objectivity and professional care.

INTERNAL AUDIT METHODOLOGY FRAMEWORK

Baseline Engagement
 (Mandate, Council Resolution, MEVA, A Charter, ARCOM Charter, SPPIA, Code of Ethics)



Phase Processes



Review & Supervision, Quality Assurance, Independence, Objectivity, & Professional Care

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1.4. Review & Supervision

A STANDARD requires continuous review and supervision. (ISSPIA 2340):

- Engagements should be properly supervised to ensure objectives are achieved, quality is assured, and staff members are developed.

The Chief Audit Executive is responsible for the quality and integrity of all final audit reports and therefore:

- Signs-off on the audit file, as evidence of applying due professional care.

Before signing-off the audit file, the CAE must ensure that the audit evidence obtained supports the:

- Scope;
- Objectives; and
- Findings of the audit review.

This is done by appropriate review throughout the audit project life cycle.

1.5. Quality Assurance

STANDARDS 2200 to 2500 relates to the performance of audit work and states that the audit work should include:

- Planning the audit (STANDARDS 2200);
- Examining and evaluating information (STANDARDS 2300);
- Communicating results (STANDARDS 2400); and
- Monitoring Progress,

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The CAE must use this Methodology to ensure adherence to quality standards.

The Internal Audit Manager and Senior Auditors will undertake regular reviews of adherence to this methodology as required by STANDARDS 1311 (Internal Assessments).

1.6. Independence & Objectivity

STANDARDS 1120 and 1130 relate to the independence and objectivity of the individual in the performance of audit work and state that the auditor should ensure the following:

- Internal auditors should have an impartial, unbiased attitude and avoid conflicts of interest (STANDARDS 1120); and
- If independence or objectivity is impaired in fact or appearance, the details of the impairment should be disclosed to appropriate parties (STANDARDS 1130).

The Audit Manager/Project Manager and Senior Auditor should ensure that all the team members declare, prior to the engagement by means of a certificate, their independence regarding the audit. This independence should be confirmed after the completion of the audit. Any impairment of independence should be disclosed accordingly as soon as possible to all relevant parties.

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1.7. Professional Care & Proficiency

Engagements should be performed with proficiency and due professional care.

- Internal auditors should possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively should possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities. (STANDARDS 1210 - Proficiency); and
- Internal auditors should apply the care and skill expected of a reasonably prudent and competent internal auditor. (STANDARDS 1220 – Professional Care).

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; and
- Cost of assurance in relation to potential benefits.

1.8. Change Control

Any proposals for changes to this document should be forwarded to the Chief Audit Executive for evaluation. Updates of the document will be issued by the Chief Audit Executive when necessary.

2. Phase 1 – Strategic Planning (Annual Review)

Overview

The Strategic Plan and Annual Operational Plan (Phase 1) will deal with:

- Municipal Overview;
- High level Risk assessment;
- Strategic/Operational Plans;
- Plan Approval; and
- Revision & Review of Strategic Plan.

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Municipal Overview

Guidance

MFMA:

SECTION 165

STANDARDS:

- 2100 – Nature of Work
The internal audit activity should evaluate and contribute to the improvement of risk management, control, and governance processes using a systematic and disciplined approach.
- 2110 – Risk Management
 - The internal audit activity should assist the organization by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and control systems.
 - 2110.A1 - The internal audit activity should monitor and evaluate the effectiveness of the organization's risk management system.
 - 2110.A2 - The internal audit activity should evaluate risk exposures relating to the organization's governance, operations, and information systems regarding the
 - Reliability and integrity of financial and operational information.
 - Effectiveness and efficiency of operations.
 - Safeguarding of assets.
 - Compliance with laws, regulations, and contracts.
 - 2110.C1 - During consulting engagements, internal auditors should address risk consistent with the engagement's objectives and be alert to the existence of other significant risks.
 - 2110.C2 – Internal auditors should incorporate knowledge of risks gained from consulting engagements into the process of identifying and evaluating significant risk exposures of the organization.

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STANDARDS (continued):

- 2100 – Nature of Work
- 2120 – Control
- The internal audit activity should assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.
 - 2120. A1 - Based on the results of the risk assessment, the internal audit activity should evaluate the adequacy and effectiveness of controls encompassing the organization's governance, operations, and information systems. This should include:
 - Reliability and integrity of financial and operational information.
 - Effectiveness and efficiency of operations
 - Safeguarding of assets.
 - Compliance with laws, regulations, and contracts.
 - 2120. A2 - Internal auditors should ascertain the extent to which operating and program goals and objectives have been established and conform to those of the organization.
 - 2120. A3 - Internal auditors should review operations and programs to ascertain the extent to which results are consistent with established goals and objectives to determine whether operations and programs are being implemented or performed as intended.
 - 2120. A4 - Adequate criteria are needed to evaluate controls. Internal auditors should ascertain the extent to which management has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors should use such criteria in their evaluation. If inadequate, internal auditors should work with management to develop appropriate evaluation criteria.
 - 2120. C1 - During consulting engagements, internal auditors should address controls consistent with the engagement's objectives and be alert to the existence of any significant control weaknesses.
 - 2120. C2 - Internal auditors should incorporate knowledge of controls gained from consulting engagements into the process of identifying and evaluating significant risk exposures of the organization.
- 2130. C1 – Consulting engagement objectives should be consistent with the overall values and goals of the organization.

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STANDARDS (continued):

<p>2100 – Nature of Work</p> <ul style="list-style-type: none"> • 2130 – Governance • The internal audit activity should assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives: <ul style="list-style-type: none"> ▪ Promoting appropriate ethics and values within the organization. ▪ Ensuring effective organizational performance management and accountability. ▪ Effectively communicating risk and control information to appropriate areas of the organization. ▪ Effectively coordinating the activities of and communicating information among the board, external and internal auditors and management. • 2130. A1 – The internal audit activity should evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs and activities. • 2130. C1 – Consulting engagement objectives should be consistent with the overall values and goals of the organization.

Objective

Objective	Responsibility	Timeframe
<p>The overall objective of this Phase is to gather background information about the organisation, its objectives, its structure to achieve these objectives, the risks and opportunities that may prevent or facilitate the achievement of these objectives and the processes that exist to monitor and manage the related risks. Key considerations for this phase include:</p>	<p>CAE/AM / AS</p>	<p>Annual</p>

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Objective	Responsibility	Timeframe
<ul style="list-style-type: none"> Assessing the environment, organisational structure, competencies of management and staff, infrastructure, systems and processes established to enable the organisation to achieve its business objectives and identify, capture, evaluate and manage risk, we may be able to provide valuable insights to management as well as refine the focus of internal audit work. 	CAE/AM / AS	Annual

Desired Outcome

Outcome	Responsibility	Timeframe
A municipal overview should be performed with the performance of the high level risk assessments to:	CAE/AM / AS	Annual
<ul style="list-style-type: none"> Develop an understanding of business structures, lines of business, corporate culture, etc. Develop preliminary understanding of business objectives/ risks, Where applicable, develop an understanding of and validate with management its structure and organisation for delivering corporate objectives, Where applicable, develop an understanding of and validate with management the effectiveness of its identification, capture, evaluation and management of risk. 	CAE/AM / AS	Annual

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High level Risk assessment

Guidance

STANDARDS:

2110 – Risk Management

The internal audit activity should assist the organization by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and control systems.

- 2110.A1 - The internal audit activity should monitor and evaluate the effectiveness of the organization's risk management system.
- 2110.A2 - The internal audit activity should evaluate risk exposures relating to the organization's governance, operations, and information systems regarding the
 - Reliability and integrity of financial and operational information.
 - Effectiveness and efficiency of operations
 - Safeguarding of assets.
 - Compliance with laws, regulations, and contracts.
- 2110.C1 - During consulting engagements, internal auditors should address risk consistent with the engagement's objectives and be alert to the existence of other significant risks.
- 2110.C2 - Internal auditors should incorporate knowledge of risks gained from consulting engagements into the process of identifying and evaluating significant risk exposures of the organization.

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Objective

Objective	Responsibility	Timeframe
<p>General risk assessment process and principles may be applied at the:</p>	<p>CAE/IAM / AS/CRO</p>	<p>Annual</p>
<ul style="list-style-type: none"> • Municipal level - in order to identify and prioritise the objectives and risks affecting the organisation and, in turn, to develop the internal audit plans. An enterprise level risk assessment can also be used to identify and prioritise the various business units having the most impact on the enterprise's objectives and risks. These business units might then be subject to further risk assessment. In this context, a business unit can refer to a product line, geographic location, business process or a business segment. 	<p>CAE/IAM / AS/CRO</p>	<p>Annual</p>
<ul style="list-style-type: none"> • Business unit level - to identify the processes, functions, or entities that may be subject to further risk assessment and audit planning. Note that in complex and diversified organisations there may be more than one layer of business unit risk assessment, while in simple centralized organisations there may be no need for this step. 	<p>CAE/IAM / AS/CRO</p>	<p>Annual</p>
<ul style="list-style-type: none"> • Auditable unit level - to determine the risk profile and broad audit strategy at the lowest level of detail in engagement planning. An auditable unit can be a process, function, legal or management entity, or some other logical grouping that can be audited. Performing the risk assessment at the auditable unit level during detailed planning may be appropriate when an auditee specifically requests certain areas be evaluated. In many cases, an auditable unit may also be a business unit, as defined above. 	<p>CAE/IAM / AS/CRO</p>	<p>Annual</p>

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Objective	Responsibility	Timeframe
<p>Performing the risk assessment at the appropriate level(s) allows identification of specific risks for internal audit emphasis. Acting as a filter, the key business units identified at the enterprise level may be subject to a detailed risk assessment and, similarly, those auditable units identified during a higher-level risk assessment may be subject to a detailed risk assessment.</p>	<p>CAE/AM / AS/CRO</p>	<p>Annual</p>
<p>Management retains ultimate responsibility for the internal audit function. Thus, the risk assessment, risk priorities and the resulting audit plans should be approved by them and the audit committee. This is an important element in maintaining independence.</p>	<p>CAE/AM / AS/CRO</p>	<p>Annual</p>

Desired Outcome

Outcome	Responsibility	Timeframe
<p>Apply general risk assessment process and principles at the Municipal level, Business and Auditable unit level</p>	<p>CAE/AM /CRO</p>	<p>Annual</p>
<p>Management / Audit Committee approval of risk assessment, risk priorities and the resulting audit plans.</p>	<p>AO / AC</p>	<p>Annual</p>

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Strategic / Operational Plans

Guidance

MFMA:

Section 165 & 166

STANDARDS:

2000 – Managing the Internal Audit Activity

The chief audit executive should effectively manage the internal audit activity to ensure it adds value to the organization.

- 2010 – Planning
- The chief audit executive should establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organization'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 organization's operations. Those engagements that have been accepted should be included in the plan.

2200 – Engagement Planning

Internal auditors should develop and record a plan for each engagement, including the scope, objectives, timing and resource allocations.

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Objective

Objective	Responsibility	Timeframe
<p>The strategic plan typically identifies what audits will be completed and is the final deliverable from Phase I. Key considerations include:</p> <ul style="list-style-type: none"> • A primary objective of the Strategic/Operational Plans is to create a linkage to the risk assessment and resulting risk summaries. • Summary risk assessments may be incorporated in the plan to support the internal audit strategy. • It is important to indicate how management preferences (e.g., rotation and frequency; focus; scope and effort; and, expectations) and risk priorities have impacted the Strategic/Operational Plans. Exclusions and timing may also be helpful in ensuring management and the Audit Committee agree with the plans. • The internal audit strategy is developed to satisfy the responsibilities of internal audit and, in that respect, will not necessarily affect the planning carried out by external audit in a non-integrated audit environment. It is good practice, however, to keep external audit informed of the planning process and of the key decisions taken in respect of the identification of risks and the development of the audit universe. • Care should be taken to ensure that audits are conducted at an appropriate time of the year taking into account other management commitments, the pattern of activity in the auditable unit to be audited, compliance reporting requirements and the involvement of the Auditor General. 	<p>CAE/IAM / AS</p> <p>CAE/IAM / AS</p> <p>CAE/IAM / AS</p> <p>CAE/IAM / AS</p> <p>CAE/IAM / AS</p> <p>CAE/IAM / AS</p>	<p>Annual</p> <p>Annual</p> <p>Annual</p> <p>Annual</p> <p>Annual</p> <p>Annual</p>

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Objective	Responsibility	Timeframe
<ul style="list-style-type: none"> Effective development and implementation of an Annual Operational Plan is enhanced by the participation of senior management officials, including financial and operational management, who can provide valuable information. Results against the plan should be measured and feedback should be obtained from the auditee (municipality). 	CAE/AM /AS	Annual
<ul style="list-style-type: none"> Consideration of availability of resources. Consideration should be taken of activities that should be audited on an annual basis irrespective of the risks e.g. transfer payments, conditional grants and PMS audit. 	CAE/AM /AS	Annual

Desired Outcome

Outcome	Responsibility	Timeframe
<ul style="list-style-type: none"> Link Strategic/Operational Plans to the risk assessment and resulting risk summaries. 	CAE/AM /AS	Annual
<ul style="list-style-type: none"> Incorporate summary risk assessments in the plan to support the internal audit strategy. 	CAE/AM /AS	Annual
<ul style="list-style-type: none"> Indicate how management preferences (e.g., rotation and frequency; focus; scope and effort; and, expectations) and risk priorities have impacted the Strategic/Operational Plans. (Exclusions and timing may also be helpful in ensuring management and the Audit Committee agree with the plans) 	CAE/AM /AS	Annual
<ul style="list-style-type: none"> Consider the availability of resources (what can be done by IA staff and what can be outsourced). 	CAE/AM /AS	Annual

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Plan Approval

Guidance

STANDARDS:

2000 – Managing the Internal Audit Activity
 2020 – Communication and Approval

- The chief audit executive should communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and to the board for review and approval. The chief audit executive should also communicate the impact of resource limitations.

Objective

Objective	Responsibility	Timeframe
Management and/or the Audit & Risk Committee agreement to the strategic plan is critical to ensure client/management expectations are met and that management and/or the Audit & Risk Committee retain responsibility for the Strategic and Operational Plan. Such agreement, regardless of the form, should be documented in the record of work performed.	AC / MANCO / CAE	Annual

Desired Outcome

Outcome	Responsibility	Timeframe
Obtain Management and Audit & Risk Committee approval of Strategic/Operational Plan	CAE	Annual

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Revise & Review Strategic Plan

Guidance

STANDARDS:

2000 – Managing the Internal Audit Activity

The chief audit executive should effectively manage the internal audit activity to ensure it adds value to the organization.

- 2010 – Planning
- The chief audit executive should establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organization'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 organization's operations. Those engagements that have been accepted should be included in the plan.

2200 – Engagement Planning

Internal auditors should develop and record a plan for each engagement, including the scope, objectives, timing and resource allocations.

2000 – Managing the Internal Audit Activity

2020 – Communication and Approval

- The chief audit executive should communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and to the board for review and approval. The chief audit executive should also communicate the impact of resource limitations.

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Objective

Objective	Responsibility	Timeframe
<p>The approved plan may need to be reassessed as a result of changes in the business, mergers and de-mergers, changes in objectives, or changes in risk factors (e.g., major system implementation accelerated/decelerated or special management or Audit Committee requests). It may also need to be reassessed as a result of additional knowledge or information acquired during our audits. New risks identified may affect the risk priorities previously established. Such reprioritisation should be agreed with appropriate client officials. The formality of the reassessment process will vary by client.</p>	CAE	Annual
<p>Consideration may be given to maintaining the risk summaries as "living" documents. Ongoing updates can increase knowledge management and simplify the annual planning cycle.</p>	CAE/IAM/CRO	Annual

Desired Outcome

Outcome	Responsibility	Timeframe
<p>Reviewed changes in the organisation that may impact the Strategic/Operational Plan.</p>	CAE/IAM	Annual
<p>Obtain management and audit committee approval of the revised Strategic/Operational Plan.</p>	CAE/IAM	Annual

3. Phase 2 – Detailed Project Plan (Municipality)

Overview

The Detailed Municipal Project Plan (Phase 2) will deal with:

- Planning Considerations;
- Engagement objectives;
- Engagement Scope;
- Engagement Resource Allocation; and
- Engagement Work Programme.

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Planning Considerations

Guidance

STANDARDS:

2201 - Planning Considerations

In planning the engagement, internal auditors should consider:

- The objectives of the activity being reviewed and the means by which the activity controls its performance.
- The significant risks to the activity, its objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level.
- The adequacy and effectiveness of the activity's risk management and control systems compared to a relevant control framework or model.
- The opportunities for making significant improvements to the activity's risk management and control systems.
- 2201.A.1 – When planning an engagement for parties outside the organization, internal auditors should establish a written understanding with them about objectives, scope, respective responsibilities and other expectations, including restrictions on distribution of the results of the engagement and access to engagement records.
- 2201.C.1 – Internal auditors should establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities, and other client expectations. For significant engagements, this understanding should be documented.

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Objective

Objective	Responsibility	Timeframe
Consider the following:		
<ul style="list-style-type: none"> The objectives of the activity being reviewed and the means by which the activity controls its performance. 	AM/AS	Pre fieldwork
<ul style="list-style-type: none"> The significant risks to the activity, its objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level. 	AM/AS	Pre fieldwork
<ul style="list-style-type: none"> The adequacy and effectiveness of the activity's risk management and control systems compared to a relevant control framework or model. (Compliance with legislation and regulations). 	AM/AS	Pre fieldwork
<ul style="list-style-type: none"> Review the reports issued by the Office of the Auditor General during their external audit and consider its potential impact on the engagement plan. 	AM/AS	Pre fieldwork
<ul style="list-style-type: none"> The opportunities for making significant improvements to the activity's risk management and control systems. 	AM/AS	Pre fieldwork
<p>For Consulting Engagements</p> <p>The Establishment of an understanding about objectives, scope, respective responsibilities, and other municipality's expectations. (understanding should be documented)</p>	MANCO/CAE/AM	Pre fieldwork

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Desired Outcome

Outcome	Responsibility	Timeframe
Document the following:		
<ul style="list-style-type: none"> ● The objectives of the activity being reviewed and the means by which the activity controls its performance 	CAE/AM	Pre fieldwork
<ul style="list-style-type: none"> ● The significant risks to the activity, its objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level. 	CAE/AM	Pre fieldwork
<ul style="list-style-type: none"> ● The adequacy and effectiveness of the activity's risk management and control systems compared to a relevant control framework or model 	CAE/AM	Pre fieldwork
<ul style="list-style-type: none"> ● Reviewed and considered the reports issued by the Office of the Auditor General during their external audit and considered its potential impact on the engagement plan. 	CAE/AM	Pre fieldwork
<ul style="list-style-type: none"> ● The opportunities for making significant improvements to the activity's risk management and control systems 	CAE/AM	Pre fieldwork
<p>For Consulting Engagements</p> <p>The Establishment of an understanding about objectives, scope, respective responsibilities, and other auditee expectations. (understanding should be documented)</p>	CAE/AM	Pre fieldwork

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Engagement Objectives

Guidance

STANDARDS:

2210 – Engagement Objectives
 Objectives should be established for each engagement.

- 2210.A1 – Internal auditors should conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives should reflect the results of this assessment.
- 2210.A2 - The internal auditor should consider the probability of significant errors, irregularities, non-compliance, and other exposures when developing the engagement objectives.
- 2210.C1 – Consulting engagement objectives should address risks, controls, and governance processes to the extent agreed upon with the client.

Objective

Objective	Responsibility	Timeframe
Objectives should be established for each engagement.		
<ul style="list-style-type: none"> ● Conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives should reflect the results of this assessment 	CAE/AM	Pre fieldwork
<ul style="list-style-type: none"> ● Consider the probability of significant errors, irregularities, non-compliance, and other exposures 	CAE/AM	Pre fieldwork
<p>For Consulting Engagements Agree the risks, controls, and governance processes to be covered with the Auditee.</p>	CAE/AM	Pre fieldwork

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Desired Outcome

Outcome	Responsibility	Timeframe
Agreement on the following:		
<ul style="list-style-type: none"> Preliminary assessment of the risks relevant to the activity under review. Engagement objectives should reflect the results of this assessment The probability of significant errors, irregularities, non-compliance, and other exposures 	AM/AS/IA	Pre fieldwork
<p>For Consulting Engagements</p> <p>The risks, controls, and governance processes to be covered</p>	AM/AS/IA CAE/AM	Pre fieldwork Pre fieldwork

Engagement Scope

Guidance

STANDARDS:

2220 – Engagement Scope
The established scope should be sufficient to satisfy the objectives of the engagement.

- 2220.A1** - The scope of the engagement should include consideration of relevant systems, records, personnel, and physical properties, including those under the control of third parties.
- 2220.A2** - If significant consulting opportunities arise during an assurance engagement, a specific written understanding as to the objectives, scope, respective responsibilities and other expectations should be reached and the results of the consulting engagement communicated in accordance with consulting standards.
- 2220.C1** - In performing consulting engagements, internal auditors should ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If internal auditors develop reservations about the scope during the engagement, these reservations should be discussed with the client to determine whether to continue with the engagement.

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Objective

Objective	Responsibility	Timeframe
The established scope should be sufficient to satisfy the objectives of the engagement.		
Consider relevant:	AM/AS/IA	Pre fieldwork
<ul style="list-style-type: none"> • Systems; Records; Personnel; and Physical properties, including those under the control of third parties. 	AM/AS/IA	Pre fieldwork
For Consulting Engagements	AM/AS/IA	Pre fieldwork
<ul style="list-style-type: none"> • Ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. • If significant consulting opportunities arise during an assurance engagement, a specific written understanding as to the objectives, scope, respective responsibilities and other expectations should be reached and the results of the consulting engagement communicated in accordance with consulting standards. 	AM/AS/IA	Pre fieldwork

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Desired Outcome

Outcome	Responsibility	Timeframe
<p>Documented scope:</p> <ul style="list-style-type: none"> Including the process that you will audit, specific activities that you will focus on, site that you will visit to perform the audit, and the period that you will be auditing. 	<p>AM/AS</p>	<p>Pre fieldwork</p>
<p>For Consulting Engagements</p> <ul style="list-style-type: none"> Sufficient engagement scope to address the agreed-upon objectives. 	<p>AM/AS</p>	<p>Pre fieldwork</p>
<ul style="list-style-type: none"> Written understanding as to the objectives, scope, respective responsibilities and other expectations. 	<p>AM/AS</p>	<p>Pre fieldwork</p>

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Internal Audit Methodology**

Engagement Resource Allocation

Guidance

STANDARDS:

2230 – Engagement Resource Allocation

- Internal auditors should determine appropriate resources to achieve engagement objectives. Staffing should be based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources.

Objective

Objective	Responsibility	Timeframe
Determine appropriate resources to achieve engagement objectives.	AM/AS	Pre fieldwork
Staffing based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources	AM/AS	Pre fieldwork

Desired Outcome

Outcome	Responsibility	Timeframe
Identified resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources.	AM/AS	Pre fieldwork

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Engagement Work Programme

Guidance

STANDARDS:

2240 – Engagement Work Program
Internal auditors should develop work programs that achieve the engagement objectives. These work programs should be recorded.

- 2240.A1 - Work programs should establish the procedures for identifying, analyzing, evaluating, and recording information during the engagement. The work program should be approved prior to its implementation, and any adjustments approved promptly.
- 2240.C1 - Work programs for consulting engagements may vary in form and content depending upon the nature of the engagement.

Objective

Objective	Responsibility	Timeframe
Develop and record work programs to achieve the engagement objectives.	AM / AS	Pre fieldwork
Establish the procedures for identifying, analyzing, evaluating, and recording information during the engagement.	AM / AS	Pre fieldwork
Work program approval prior to its implementation, and prompt approval of adjustments	CAE/AM	Pre fieldwork
For Consulting Engagements		
<ul style="list-style-type: none"> • Develop work programs dependent upon the nature of the engagement. 	AM / AS	Pre fieldwork

Desired Outcome

Outcome	Responsibility	Timeframe
Developed and recorded work programs to achieve the engagement objectives.	AM / AS	Pre fieldwork

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Outcome	Responsibility	Timeframe
Procedures for identifying, analysing, evaluating, and recording information during the engagement.	AM / AS	Pre fieldwork
Approved Work program prior to its implementation, and prompt approval of adjustments	CAE/AM	Pre fieldwork
For Consulting Engagements <ul style="list-style-type: none"> • Work programs dependant upon the nature of the engagement. 	AM / AS	Pre fieldwork

4. Phase 3 – Performing the Engagement

Overview

The execution of the audit (Phase 3) will deal with:

- Identifying Information;
- Analysis and Evaluation;
- Recording Information; and
- Engagement Supervision.

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Identifying Information

Guidance

STANDARDS:

<p>2300 – Performing the Engagement Internal auditors should identify, analyze, evaluate, and record sufficient information to achieve the engagement's objectives.</p> <ul style="list-style-type: none"> • 2310 – Identifying Information <ul style="list-style-type: none"> ○ Internal auditors should identify sufficient, reliable, relevant, and useful information to achieve the engagement's objectives.
--

Objective

Objective		
Responsibility	Timeframe	
AM / AS	During fieldwork	Identification of sufficient, reliable, relevant, and useful information (sample selection) to achieve the engagement's objectives.

Desired Outcome

Outcome		
Responsibility	Timeframe	
AM / AS / Team	During fieldwork	Documentation of sufficient, reliable, relevant, and useful information to achieve the engagement's objectives.

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Analysis and Evaluation

Guidance

STANDARDS:

- 2300 – Performing the Engagement
Internal auditors should identify, analyze, evaluate, and record sufficient information to achieve the engagement's objectives.
- 2320 – Analysis and Evaluation
 - Internal auditors should base conclusions and engagement results on appropriate analyses and evaluations.

Objective

Objective	Responsibility	Timeframe
Conclusions and engagement results base on appropriate analyses and evaluations.	AM / AS / Team	During fieldwork

Desired Outcome

Outcome	Responsibility	Timeframe
Documented conclusions and engagement results based on appropriate analyses and evaluations.	AM / AS / Team	During fieldwork

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Recording Information

Guidance

STANDARDS:

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

- 2330 – Recording Information
 - Internal auditors should record relevant information to support the conclusions and engagement results.
 - 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, as appropriate.
 - 2330.A2 - The chief audit executive should develop retention requirements for engagement records. These retention requirements should be consistent with the organization's guidelines and any pertinent regulatory or other requirements.
 - 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 organization's guidelines and any pertinent regulatory or other requirements.

Objective

Objective		Responsibility	Timeframe
Record relevant information to support the conclusions and engagement results.		AM / AS/Team	During fieldwork
Access control over engagement records.		AM / AS / Team	During fieldwork
Approval prior to releasing engagement records to external parties.		CAE/AM	During fieldwork
Adherence to retention requirements for engagement records in line with the Audit Charter and legislation.		CAE/AM	During fieldwork
Adherence to policies governing the custody and retention of engagement records, as well as their release to internal and external parties in line with the Audit Charter and legislation.		CAE/AM	During fieldwork

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Objective		Responsibility	Timeframe
Preparation of Informal Internal Audit Findings		AM / AS / Team	During fieldwork
Obtaining management's responses to Informal Internal Audit Findings		AM / AS	During fieldwork

Desired Outcome

Outcome	Responsibility	Timeframe
Recorded information to support the conclusions and engagement results.	AM / AS / Team	During fieldwork
Access control over engagement records.	CAE/AM	During fieldwork
Approval prior to releasing engagement records to external parties.	CAE/AM	During fieldwork
Adherence to retention requirements for engagement records in line with the Audit Charter and legislation.	CAE/AM	During fieldwork
Adherence to policies governing the custody and retention of engagement records, as well as their release to internal and external parties in line with the Audit Charter and legislation.	CAE/AM	During fieldwork
Informal Internal Audit Findings	AM / AS / Team	During fieldwork
Management's responses to Informal Internal Audit Findings	CAE/AM	During fieldwork

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Engagement Supervision

Guidance

STANDARDS:

<p>2300 – Performing the Engagement Internal auditors should identify, analyze, evaluate, and record sufficient information to achieve the engagement's objectives.</p> <ul style="list-style-type: none"> ● 2340 – Engagement Supervision <ul style="list-style-type: none"> ○ Engagements should be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.
--

Objective

Objective	Responsibility	Timeframe
Proper engagement supervision to ensure objectives are achieved, quality is assured, and staffs are developed.	CAE/IAM / AS	During fieldwork

Desired Outcome

Outcome	Responsibility	Timeframe
Proper engagement supervision that ensured objectives were achieved, quality is assured, and staffs are developed.	CAE/IAM	During fieldwork

5. Phase 4 – Communicating Results

Overview

Reporting (Phase 4) will deal with:

- Criteria for Communicating;
- Quality of Communications;
- Engagement Disclosure of Non-compliance with the Standards; and
- Disseminating Results:
 - Draft Audit Reports;
 - Management Comments / Discussions;
 - Final Audit Report;
 - Executive Summary Report;
 - Management & Audit & Risk Committee Report.

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Criteria for Communicating

Guidance

STANDARDS:

2400 – Communicating Results
Internal auditors should communicate the engagement results

- 2410 – Criteria for Communicating
 - Communications should include the engagement's objectives and scope as well as applicable conclusions, recommendations, and action plans.
 - 2410.A1 – Final communication of engagement results should, where appropriate, contain the internal auditor's overall opinion and or conclusions.
 - 2410.A2 – Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.
 - 2410.A3 – When releasing engagement results to parties outside the organization, the communication should include limitations on distribution and use of the results.
 - 2410.C1 – Communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client.

Objective

Objective	Responsibility	Timeframe
Communications should include the engagement's objectives and scope as well as applicable conclusions, recommendations, and action plans.	CAE/AM	Post fieldwork
Final communication of engagement results should, where appropriate, contain the internal auditor's overall opinion and or conclusions.	CAE/AM	Post fieldwork
Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.	CAE/AM	Post fieldwork

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Objective	Responsibility	Timeframe
<p>For Consulting Engagements</p> <ul style="list-style-type: none"> • Communication of the progress and results based on the nature of the engagement and the needs of the client. • When releasing engagement results to parties outside the organization, the communication should include limitations on distribution and use of the results 	CAE/AM	Post fieldwork

Desired Outcome

Outcome	Responsibility	Timeframe
Communications including the engagement's objectives and scope as well as applicable conclusions, recommendations, and action plans.	AM /HoD	Post fieldwork
Final communication of engagement results with, where appropriate, the internal auditor's overall opinion and or conclusions.	CAE/AM	Post fieldwork
Acknowledgement of satisfactory performance in engagement communications.	CAE/AM	Post fieldwork
Communication with limitations on distribution and use of the results	CAE/AM	Post fieldwork
<p>For Consulting Engagements</p> <p>Communication of the progress and results based on the nature of the engagement and the needs of the client.</p>	CAE/AM	Post fieldwork

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Quality of Communications

Guidance

STANDARDS:

<p>2400 – Communicating Results Internal auditors should communicate the engagement results.</p> <ul style="list-style-type: none"> ○ 2420 – Quality of Communications <ul style="list-style-type: none"> ▪ Communications should be accurate, objective, clear, concise, constructive, complete, and timely. ○ 2421 – Errors and Omissions <ul style="list-style-type: none"> ▪ If a final communication contains a significant error or omission, the chief audit executive should communicate corrected information to all parties who received the original communication.

Objective

Objective	Responsibility	Timeframe
Accurate, objective, clear, concise, constructive, complete, and timely communications	CAE/AM	Post fieldwork
Communication of corrected information to all parties who received the original communication if a final communication contained a significant error or omission.	CAE/AM	Post fieldwork

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Desired Outcome

Outcome	Responsibility	Timeframe
Accurate, objective, clear, concise, constructive, complete, and timely communications	CAE/AM	Post fieldwork
Communication of corrected information to all parties who received the original communication if a final communication contained a significant error or omission.	CAE/AM	Post fieldwork

Engagement Disclosure of Non-Compliance with the Standards

Guidance

STANDARDS:

2400 – Communicating Results
Internal auditors should communicate the engagement results.

- **2430 – Engagement Disclosure of Noncompliance with the Standards**
 - When noncompliance with the Standards impacts a specific engagement, communication of the results should disclose the:
 - Standard(s) with which full compliance was not achieved.
 - Reason(s) for noncompliance, and
 - Impact of noncompliance on the engagement.

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Objective

Objective	Responsibility	Timeframe
Communication of non-compliance with the Standards on a specific engagement: Disclose the: <ul style="list-style-type: none"> • Standard(s) with which full compliance was not achieved, • Reason(s) for non-compliance, and • Impact of non-compliance on the engagement. 	CAE/AM CAE/AM	Post fieldwork Post fieldwork

Desired Outcome

Outcome	Responsibility	Timeframe
Communication containing detail of non-compliance with the Standards on a specific engagement: Disclosure of the following: <ul style="list-style-type: none"> • Standard(s) with which full compliance was not achieved, • Reason(s) for non-compliance, and • Impact of non-compliance on the engagement. 	CAE/AM CAE/AM	Post fieldwork

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Disseminating Results

Guidance

STANDARDS:

2400 – Communicating Results

Internal auditors should communicate the engagement results.

• 2440 – Disseminating Results

- The chief audit executive should communicate results to the appropriate parties.
- 2440:A1 - The chief audit executive is responsible for communicating the final results to parties who can ensure that the results are given due consideration.
- 2440:A2 - If not otherwise mandated by legal, statutory or regulatory requirements, prior to releasing results to parties outside the organization, the chief audit executive should:
 - Assess the potential risk to the organization.
 - Consult with senior management and/or legal counsel as appropriate
 - Control dissemination by restricting the use of the results.
- 2440:C1 - The chief audit executive is responsible for communicating the final results of consulting engagements to clients.
- 2440:C2 – During consulting engagements, risk management, control, and governance issues may be identified. Whenever these issues are significant to the organization, they should be communicated to senior management and the board.

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Objective

Objective	Responsibility	Timeframe
Preparation of a Draft Internal Audit Report	AS	Post fieldwork
Reviewing and approval of a Draft Internal Audit Report	AM	Post fieldwork
Obtaining management's responses to findings in the Draft Internal Audit Report	AM/AS	Post fieldwork
Preparing a Final Internal Audit Report	AS /AM	Post fieldwork
Reviewing and approval of Final Internal Audit Report	CAE	Post fieldwork
Preparing an Audit & Risk Committee Report	CAE	Post fieldwork
Control the dissemination of reports, Restricting the use of report	CAE	Post fieldwork

Desired Outcome

Outcome	Responsibility	Timeframe
Draft Internal Audit Report	AS	Post fieldwork
Reviewed and approved Draft Internal Audit Report	AM	Post fieldwork
Management's responses to findings in the Draft Internal Audit Report	AM/AS	Post fieldwork
Final Internal Audit Report	AS	Post fieldwork
Reviewed and approved Final Internal Audit Report	CAE/AM	Post fieldwork
Audit & Risk Committee Report	CAE/AM	Post fieldwork
Controlled dissemination of reports, Restricting the use of reports	CAE/AM	Post fieldwork

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6. Phase 5 – Monitoring Process (Follow up)

Overview

Monitoring (Phase 5) will entail:

- Follow-up Previous Audit Findings; and
- Monitor Disposition of Results (Consulting Engagements).

Quality Assurance Programme

Guidance

STANDARDS:

2500 – Monitoring Progress

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

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

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Objective

Objective	Responsibility	Timeframe
Ensure client is satisfied with the service rendered	CAE/AM	Ongoing
Ensure internal audit is performed in line with the IA Internal Audit Methodology, and the Standard	CAE/AM	Ongoing
Ensure staff is evaluated and developed	CAE/AM	Ongoing

Desired Outcome

Outcome	Responsibility	Timeframe
Establish whether client is satisfied with the service rendered	CAE/AM	Ongoing
Internal audits done in line with the IA Internal Audit Methodology, and the Standard	CAE/AM	Ongoing
Effective staff evaluation and development	CAE/AM	Ongoing

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Follow-up Previous Audit Findings

Guidance

STANDARDS:

<p>2500 – Monitoring Progress The chief audit executive should establish and maintain a system to monitor the disposition of results communicated to management.</p> <ul style="list-style-type: none"> • 2500. A1 - The Chief Audit Executive should establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.
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Objective

Objective	Responsibility	Timeframe
Evaluate whether management implemented the corrective measures agreed to the Final Audit Report	AM/AS	Ongoing
Select sample of items, test these items for evidence that the action plan have been implemented, report on implementation of action plan	AM/AS	Ongoing

Desired Outcome

Outcome	Responsibility	Timeframe
Report on the current status of previous audit findings, and report containing instances where agreed management actions were not implemented	CAE/AM	Ongoing

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Monitor Disposition of Results (Consulting Engagement)

Objective

Objective	Responsibility	Timeframe
Follow up on the current status of recommendations made during consultation	CAE/AM	Ongoing

Desired Outcome

Outcome	Responsibility	Timeframe
Report on the current status of recommendations made during consultation	CAE/AM	Ongoing

7. Phase 6 – Management’s Acceptance of Risk

Guidance

STANDARDS:

2600 – Resolution of Management’s Acceptance of Risks

- When the chief audit executive believes that senior management has accepted a level of residual risk that may be unacceptable to the organization, the chief audit executive should discuss the matter with senior management. If the decision regarding residual risk is not resolved, the chief audit executive and senior management should report the matter to the board for resolution.

Overview

Management’s Acceptance of Risk (Phase 6) will entail:

- Discussions with Senior Management; and
- Report to Audit & Risk Committee.

Discussions with Senior Management

Objective

Objective	Responsibility	Timeframe
Establish the level of risk before and after the assignment	CAE/AM	Ongoing
Identify residual risk, discuss residual risk with senior management	CAE/AM	Ongoing
Reach consensus on the level of residual risk and actions to mitigate	CAE/AM	Ongoing

Desired Outcome

Outcome	Responsibility	Timeframe
Report containing details of the level of risk before and after the assignment	CAE/AM	Ongoing
Residual risk report	CAE/AM	Ongoing
Documented discussion of residual risk with senior management	CAE/AM	Ongoing
Consensus on the level of residual risk and actions to mitigate	CAE/AM	Ongoing

Report to Audit Committee

Guidance

STANDARDS:

<p>2600 – Resolution of Management's Acceptance of Risks</p> <ul style="list-style-type: none"> When the chief audit executive believes that senior management has accepted a level of residual risk that may be unacceptable to the organization, the chief audit executive should discuss the matter with senior management. If the decision regarding residual risk is not resolved, the chief audit executive and senior management should report the matter to the board for resolution.
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Objective

Objective	Responsibility	Timeframe
Disclosure of unacceptable levels of residual risk to the Audit & Risk Committee.	CAE/AM	Ongoing

Desired Outcome

Outcome	Responsibility	Timeframe
Resolution to accept level of residual risk.	CAE/AM	Ongoing

INTERNAL AUDIT METHODOLOGY APPROVAL AND GLOSSARY TERMS

**Ramotshere Moiloa Local Municipality
Internal Audit Methodology**

Compiled for and on behalf of Ramotshere Moiloa Local Municipality Internal Audit by:



Chief Audit Executive

Ms M.G Mathye

12/05/2016

Date

Approved for and on behalf of Ramotshere Moiloa Local Municipality Audit Committee
by:



17/05/2016

Chairperson Audit Committee

Mr SAB Ngobeni

Date

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8. Glossary

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

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

CAE – Chief Audit Executive

AM- Audit Manager

AS – Audit Senior.

IA- Internal Auditor

RMLMIA- Ramotshere Moiloa Local Municipality Internal Audit

Audit Budget – The written records of the expectations for the period; a comparison of budgets with actual results may indicate whether or not misstatements are likely.

Client – The client municipality or institution.

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

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

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

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

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

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

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

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

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

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

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

Documenting - Provides evidence of the exercise of authority and responsibility, compliance with policies, procedures, and standards of performance, supervising, observing, and testing.

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

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

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

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

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

Findings - Pertinent statements of fact. Audit findings emerge by a process of comparing what should be with what is. Those findings, which are necessary to support or prevent misunderstanding of the internal auditor's conclusions and recommendations, should be included in the final audit report. Less significant information or findings may be communicated orally or through informal correspondence.

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

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

IA - Internal Audit

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

Institution - A municipality or a constitutional institution.

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

- Reliability and integrity of information;
- Compliance with policies, plans, procedures, laws and regulations;
- safeguarding of assets;
- Economical and efficient use of resources; and
- Accomplishment of established objectives and goals for operations or programs.

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

Monitoring - Encompasses supervising, observing, and testing activities and appropriately reporting to responsible individuals. Monitoring provides an ongoing verification of progress toward achievement of objectives and goals.

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

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

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

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

Project Manager - An "Auditee Manager" or 'Audit Senior" in charge of the project.

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

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

Quality of Performance - To ascertain whether the organization's objectives and goals have been achieved.

Reasonable Assurance - Is provided when cost-effective actions are taken to restrict deviations to a tolerable level.

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

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

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

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

Team – Members of the audit team.

Timely reports - Reports that issued without undue delay and enable prompt effective action.