eThekwini Municipality Audit Risk and Advisory Services

INTERNAL AUDIT FRAMEWORK

DECEMBER 2021

CONTENTS

1 DEFINITIONS

Accounting Officer:	Refers to the Accounting Officer as defined in terms of Section 60 of the Municipal Finance Management Act
EXCO:	Refers to the Executive Committee of Council
Council:	Refers to the municipal council of eThekwini as set out in the Municipal Structures Act 117 of 1998 paragraph 18
EMC:	Refers to eThekwini's Executive Management Committee consisting of the City Manager, Deputy City Managers and key strategic employees as set out in the EMC Terms of Reference
Constitution:	Refers to the Constitution of the Republic of South Africa, 1996 (Act 108 of 1996)
COSO:	Refers to Committee of Sponsoring Organisations of the Treadway Commission, an organisation dedicated to providing guidance to executive management and governance entities on critical aspects of organisational governance, business ethics, internal control, enterprise risk management, fraud, and financial reporting;
CAE:	Refers to the Chief Audit Executive as appointed by eThekwini in accordance with the approved organogram under the Office of the City Manager. The IIA defines the Chief Audit Executive as a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the mandatory elements of the International Professional Practices Framework.
eThekwini/City:	Refers to eThekwini Municipality as the sole metro of the province of Kwa-Zulu Natal; and includes both its entities namely Durban Marine Theme Park (DMTP) AND Durban International Convention Centre (DICC)
MFMA:	Refers to Municipal Finance Management Act, (Act no. 56 of 2003)
MSA:	Refers to Municipal Systems Act, (no. 32 of 2000)
Auditor – General:	Refers to the Office of the Auditor General of South Africa, a Chapter 9 institution mandated by the Constitution of 1996 to fulfil certain functions and is responsible for the auditing of national and provincial state units and administrations, all municipalities and any other institution or accounting entity required by national and provincial legislation to be audited by the Office of the Auditor – General
Province:	Refers to the Province of KwaZulu-Natal as contemplated in section 103(1)(d) of the Constitution

Audit Committee:	Refers to the eThekwini Audit Committee appointed by the municipality's council as set out in Section 166 of the MFMA. The Main Audit Committee is responsible for the City and its Entities.
EMARAS:	Refers to the eThekwini Municipality Audit and Risk Assurance Services being the in-house unit responsible for all internal audit and risk activities located within the Office of the City Manager
EMARAS Enterprise Risk Management Framework	Refers to the eThekwini's Enterprise Risk Management Framework developed and adopted by the city to govern all risk-based activities
Companies Act:	Refers to the Companies Act 71 of 2008
IPPF:	Refers to the International Professional Practices Framework governing the practices over internal auditing

Abbreviations:

- ❖ International Professional Practices Framework (IPPF)
- ❖ International Standards for the Professional Practice of Internal Auditing (ISPPIA)
- ❖ Committee of Sponsoring Organisations (COSO)
- ❖ Municipal Finance Management Act (MFMA)
- ❖ Municipal Systems Act (MSA)
- ❖ Chief Audit Executive (CAE)
- ❖ eThekwini Municipality Audit and Risk Assurance Services (EMARAS)
- ❖ Performance Management System (PMS)
- ❖ Auditor General (AG)
- ❖ Office of the City Manager (OCM)
- ❖ Institute of Internal Auditors (IIA)
- ❖ Enterprise Risk Management Framework (ERM);
- ❖ City Integrity and Investigations Unit (CIIU)
- ❖ Deputy City Managers (DCM's)
- ❖ Cooperative Governance and Traditional Affairs (COGTA)
- ❖ City Manager (CM)
- ❖ EMC (Executive Management Committee)
- ❖ Continuous Professional Development (CPD)
- ❖ Institute of Internal Auditors of South Africa (IIASA)
- ❖ South African Institute of Chartered Accountants (SAICA)
- ❖ Certified Fraud Examiners (CFE)
- ❖ Institute of Risk Management of South Africa (IRMSA)
- ❖ Information Systems Audit and Control Association (ISACA)
- ❖ Information Technology (IT)
- ❖ Artificial intelligence (AI)
- ❖ computer-assisted audit tools and techniques (CAATS)
- ❖ quality assurance (QA) programme
- ❖ Knowledge Management (KM)
- ❖ Service Delivery Budget Implementation Plan (SDBIP)
- ❖ Performance Indictors (PI)
- ❖ Municipal owned entities (MOE's)
- ❖ Integrated Development Plan (IDP)
- ❖ Control Objectives for Information and Related Technology (COBIT)
- ❖ systems development life cycles (SDLC)
- ❖ IT Governance Institute (ITGI)
- ❖ Audit Risk Compliance (ARC)
- ❖ EEE's (i.e. efficient, effective and economy)
- ❖ Accounting Officers (AOs)

eThekwini Municipality
EMARAS
Internal Audit Framework

1.1   Background

This framework has been developed to consolidate all internal audit best practices and regulated prescripts or guidelines such that it includes practical implementation that relates to the public service. It further reflects developments in the discipline of internal auditing. It establishes a minimum guideline for the operation of internal auditing and serves as a source of reference and pre-guidance mechanism of internal auditing in compliance with all the Standards for the International Professional Practices Framework (IPPF), the Committee of Sponsoring Organisations (COSO) Framework on internal control, Risk management framework, principles of the King IV report on Corporate Governance as well as related legal prescripts.

1.2   Legal Framework

The Legislative mandate provides for an internal audit function in accordance with the requirements set out below:

i.   The Constitution of the Republic of South Africa
i.   Municipal Finance Management Act (MFMA) no. 56 of 2003
ii.   Municipal Systems Act (MSA) no. 32 of 2000
iii.   Local Government Municipal Planning and Performance Management Regulations 2001 14 (1)

Other Governance Frameworks/related prescripts include:

iv.   The Corporate Governance principles as envisaged in the King IV Report on Corporate Governance in South Africa (Refer to paragraph 1.3);
v.   The COSO Framework on Internal Control (Refer to methodology).
vi.   Circular 65 of the MFMA

1.2.1.   The Constitution of the Republic of South Africa

The Constitution of the Republic of South Africa (Chapter 10, section 195(1) and (2) and Chapter 13, section 215(1), embedded in EMARAS (eThekwini Municipal Audit and Risk Assurance Services) responsibility to evaluate controls, risk management and governance processes as well as section 217 (1) with regard to transparent, fair, competitive and equitable procurement in line with MFMA prescripts and strictures.

1.2.2.   Municipal Finance Management Act no. 56 of 2003

The Municipal Finance Management Act (MFMA), no. 56 of 2003, Section 95 provides that: General financial management functions of accounting officers.—The accounting officer of a municipal entity is responsible for managing the financial administration of the entity, and must for this purpose take all reasonable steps to ensure—

i.   That the entity has and maintains effective, efficient and transparent systems—
ii.   Of internal audit complying with and operating in accordance with any prescribed norms and standards;

The Municipal Finance Management Act (MFMA), no. 56 of 2003, section 165, provides that:
i.   *Each municipality and each municipal entity must have an Internal Audit Unit, subject to subsection (3).*
ii.   *The internal audit unit of a municipality or municipal entity must:*
         ❖ *Prepare a risk-based audit plan and an internal audit program for each financial year;*
         ❖ *Advise the accounting officer and report to the audit committee on the implementation of the internal audit plan and matters relating to—*

- *internal audit;*
- *internal controls;*
- *accounting procedures and practices;*
- *risk and risk management;*
- *performance management;*
- *loss control; and*
- *compliance with this Act, the annual Division of Revenue Act and any other applicable legislation; and*

❖ *Perform such other duties as may be assigned to it by the Accounting Officer.*

Section 166 of the MFMA requires that each municipality and municipal entity must have an Audit Committee. The Audit Committee is an independent advisory body that must

i. *Advise the municipal council, the political office-bearers, the accounting officer and the management of the municipality or municipal entity on matters relating to:*
- ❖ *internal financial control and internal audits;*
- ❖ *risk management; • accounting policies;*
- ❖ *the adequacy, reliability and accuracy of financial reporting and information;*
- ❖ *performance management;*
- ❖ *effective governance;*
- ❖ *compliance with the Act, the annual Division of Revenue Act and any other applicable legislation;*
- ❖ *performance evaluation; and*
- ❖ *any other issues referred to it by the municipality or municipal entity*

ii. *review the annual financial statements to provide the Council of the municipality or, in the case of a municipal entity, the council of the parent municipality and the board of directors of the entity, with an authoritative and credible view of the financial position of the municipality or municipal entity, its efficiency and effectiveness and its overall level of compliance with this Act, the annual Division of Revenue Act and any other applicable legislation;*
iii. *respond to the council on any issues raised by the Auditor-General in the audit report;*
iv. *carry out such investigations into the financial affairs of the municipality or municipal entity as the Council of the municipality, or in the case of a municipal entity, the Council of the parent municipality or the board of directors of the entity, may request and e) perform such other functions as may be prescribed.*

In terms of Section 166(3) (b), the Audit Committee must liaise with the Internal Audit Unit of the Municipality and the person designated by the Auditor General to audit the financial statements of the Municipality and its Entities.

1.2.3. Municipal Systems Act no. 32 of 2000

A role for internal audit in performance management is also mandated in Section 45 of the Local Government Municipal Systems Act, which states that the results of performance measurements in terms of the Performance Management System (PMS) must be audited as part of the Municipality's internal auditing process. Further provision is made in the supporting Regulations.

Municipal Systems Act, Act no.32 of 2000, Section 45 states that the results of performance measurements in terms of section 41 (1) (c) must be audited:
i. *As part of the Municipality's Internal Auditing processes; and*
ii. *Annually by the Auditor General (AG).*

1.2.4. Local Government Municipal Planning and Performance Management Regulations 2001 14 (1):

i. *A Municipality must develop and implement mechanisms, systems and processes for auditing the result of performance measurements as part of its internal auditing processes.*

ii. *Any Audit in terms of paragraph (a) must include assessment of the following:*
   - ❖ *The functionality of the Municipality's Performance Management System;*
   - ❖ *Whether the performance management system complies with the MSA; and*
   - ❖ *The extent to which the Municipality's Performance measurements are reliable in measuring performance of the Municipality.*

iii. *A Municipality's Internal Auditors must:*
   - ❖ *On a continuous basis, audit the performance measurements of the Municipality; and*
   - ❖ *Submit quarterly reports on their audits to the Municipal Manager and the Performance Audit Committee.*

1.2.5. King 4

Refer to 1.4.6

1.3   Purpose

The purpose of the Internal Audit Framework is to provide a broad framework of operations of eThekwini Municipality's Internal Audit Services. It serves as guidance to the Chief Audit Executive (CAE) and Executive on the mandate, authority, and functioning of Internal Audit.

Having consideration for the complex, diverse, and dynamic nature of eThekwini Municipality's operation and its primary focus of service delivery organization the framework is meant to facilitate audit activities which is proactive, thoughtful, systematic, disciplined, practical, stakeholder driven and strategically aligned to the Municipality.

The framework is supported by the Audit Committee Charter, and Internal Audit Charter. Further the principles herein are expanded in the Internal Audit methodology. Therefore, this framework must be read in conjunction with The Audit Committee Charter, Internal Audit charter, The IPPF, the Internal Audit strategy, the Internal Audit Methodology and the MFMA and related legislative prescripts.

eThekwini Municipality Audit and Risk Assurance Services (EMARAS) is an inhouse internal audit and risk service located within the office of the City Manager (OCM), supported and advised by the eThekwini Audit Committee (known as the Main Audit Committee), designed to add value and improve operations within the City. It helps the various units, subunits and municipal entities within the City to accomplish their objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The primary purpose of Internal Audit, as defined by the Standards is to undertake;
"... 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".

The vision of Internal Audit is "To be eThekwini Municipality's centre of excellence and leaders in governance, risk and control, services that contributes towards the well-being of its citizens".

The strategic objectives of the EMARAS are to:
  i.   Provide efficient and effective value-added assurance and advisory services
  ii.   Promote and enhance a culture of risk management and good governance

These strategic objectives are achieved through work conducted by the following sub-programmes of the EMARAS, viz:
  i.   Assurance Services
  ii.   Risk and Advisory Services

This framework sets out the governance and organizational structure relevant to internal audit services in the City, including the roles, responsibilities and accountabilities of EMARAS as derived from the approved internal audit charter and audit committee charter as contemplated in Section 165 and Section 166 of the Municipality Finance Management Act read in conjunction with Circular 65 of the MFMA

1.4   Professional Mandate

eThekwini Municipality's Internal Audit subscribes to the Internal Audit Professional body, the Institute of Internal Auditors which provides the International Professional Practices Framework (IPPF) for the operations of Internal Audit Services.

This framework articulates:
  i.   Internal Audit Definition
  ii.   the mission of Internal Audit
  iii. the core principles for the professional practice of Internal Audit,
  iv.   the Code of Ethics,
  v.   the Standards as mandatory guidance.

Source: IPPF 2017

1.4.1   Internal Audit Definition

The Institute of Internal Auditors (IIA) defines **internal auditing** as:
"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."

1.4.2   Mission

Whilst the mission, as per as per the IPPF is "to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight", EMARAS has adopted the mission aligned thereto as "To enhance and protect organizational value by providing effective risk management advisory; objective assurance, consulting service and insight thereby promoting a culture of accountability in eThekwini Municipality and delivery of services".

1.4.3   Core Principles

The Core Principles, taken as a whole articulate internal audit effectiveness. For an internal audit function to be considered effective, all Principles must be present and operating effectively.

Achievement of the Core Principles may be quite different from organization-to-organization but, failure to achieve any of the Principles implies that an internal audit activity is not effective in achieving internal audit's mission. The core principles are as follows:
i.   Demonstrates integrity.
ii.   Demonstrates competence and due professional care.
iii. Is objective and free from undue influence (independent).
iv.   Aligns with the strategies, objectives, and risks of the organization.
v.   Is appropriately positioned and adequately resourced.
vi.   Demonstrates quality and continuous improvement.
vii. Communicates effectively.
viii. Provides risk-based assurance.
ix.   Is insightful, proactive, and future-focused.
x.   Promotes organizational improvement

1.4.4   Code of Ethics

Integrity - The integrity of Internal Auditors establishes trust and thus provides the basis for reliance on their judgment.

Objectivity - Internal Auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal Auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.

Confidentiality - Internal Auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

Competency - Internal Auditors apply the knowledge, skills, and experience needed in the performance of internal auditing services.

1.4.4.1 Rules of Conduct

i. Integrity - Internal Auditors:
- ❖ Shall perform their work with honesty, diligence, and responsibility.
- ❖ Shall observe the law and make disclosures expected by the law and the profession.
- ❖ 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 organization.
- ❖ Shall respect and contribute to the legitimate and ethical objectives of the organization.

ii. Objectivity - Internal Auditors:
- ❖ Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.
- ❖ Shall not accept anything that may impair or be presumed to impair their professional judgment.
- ❖ Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

iii. Confidentiality - Internal Auditors:
- ❖ Shall be prudent in the use and protection of information acquired in the course of their duties.
- ❖ 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 organization.

iv. Competency - Internal Auditors:
- ❖ Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
- ❖ Shall perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing.
- ❖ Shall continually improve their proficiency and the effectiveness and quality of their services.

Specifically, eThekwini Municipality Internal Audit applies a systematic and disciplined approach to its assessments to provide reasonable assurance that:
- i. Risks are appropriately identified and managed.
- ii. Governance issues impacting the Municipality are recognized and addressed appropriately
- iii. Significant financial, managerial, and operating information is accurate, reliable, and timely
- iv. Laws, Regulations and Institutional policies and procedures are complied with
- v. Resources are acquired economically and used efficiently
- vi. Quality and continuous improvement are fostered
- vii. Institutional assets (physical and intellectual), records, and data are safeguarded

1.4.5 Standards

The eThekwini Municipality's Internal Audit services subscribes to the following standards, the application of which is expanded on the Internal Audit Methodology

The purpose of the Standards is to:
- i. Guide adherence with the mandatory elements of the International Professional Practices Framework;
- ii. Provide a framework for performing and promoting a broad range of value-added internal auditing services;
- iii. Establish the basis for the evaluation of internal audit performance; and
- iv. Foster improved organisational processes and operations.

Please see annexure Standards

1.4.6 King IV (2016)

King IV – Principle 8 - The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement, and assist with balance of power and the effective discharge of its duties

i. Para 51. The establishment of an audit committee is a statutory requirement for some organizations, As a matter of leading practices the governing body of an organization that issues audited financial statements should consider establishing an audit committee, the role of which should be to provide independent oversight of among others:
   ❖ The effectiveness of the organization's assurance functions and services, with particular focus on the combined assurance arrangements, including external assurance services providers, internal audit and finance function

ii. Para 54. Whether or not the governance of risk is delegated to the audit committee, the audit committee should oversee the management of financial and other risks that affect the integrity of external reported issued by the organisation

1.5 Values of EMARAS

i.   Integrity
ii.   Honesty
iii. Accountability
iv.   Equality
v.   Fairness
vi.   Objectivity
vii. Confidentiality
viii. Competency

i. Integrity
The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

ii. Honesty
Internal auditors preserve a character that reliable, trustworthy, loyal, fair, and sincere.

iii. Accountability
Internal audit foster accountability in organization through implementing a risk based internal audit scope that will inform audit recommendations that promote the principles underlying accountability practices

iv. Equality
Internal audit promotes fairness and ensure that all professionals are consistently treated equally (formal equality) and provided with equal opportunities to venture into different professional work streams (substantive equality).

v. Fairness
Internal Auditors will have Impartial and just treatment or behavior without favoritism or discrimination.

vi. Objectivity
Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating

information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.

vii. **Confidentiality**
Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

viii. **Competency**
Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

1.6 Professional Skepticism

While the definition mission, core principles and standards are foundation for internal auditors an additional principle that guides eThekwini Internal Auditors in fulfilling their mandate is Professional Skepticism. The IIA Glossary defines this as "the state of mind in which internal auditors take nothing for granted; they continuously question what they hear and see and critically assess audit evidence."

The 3 elements to Professional Skepticism are:
i. The attributes: the qualifications of the auditor, i.e., knowledge, skills, and capabilities.
ii. The actions: the tools and methodologies adopted by the auditor to undertake the Professional Skepticism; including risk assessment methodology, quality of audit evidence, methodology of analyses and evaluation of information and document, etc.
iii. The mindset: the auditor's psychological features which require neutralism, credibility, and independency in the course on undertaking the Professional Skepticism.

While professional skepticism is considered key to the external auditors and investigations it an integral skill for internal auditors to ensure value added, quality audits. Our internal auditors are expected to display the six characteristics of skepticism cited in the Centre for Audit Quality's report, *Deterring and Detecting Financial Reporting Fraud: A Platform for Action,*

i. a questioning mind; i.e. be prepared to ask tough questions
ii. suspension of judgment until appropriate evidence is obtained;
iii. a desire to search for knowledge and corroborate information, having a natural curiosity;
iv. the understanding that people's motivations and perceptions may lead them to provide biased or misleading information;
v. autonomy or independence of mind; and
vi. sufficient self-esteem to challenge assumptions, resist pressure and the confidence to standby findings and conclusions reached.

Professional skepticism facilitates the appropriate exercise of professional judgment, throughout the audit process from planning, execution, reporting for instance regarding decisions about:

i. Scope of the audit
ii. During risks assessment
iii. the nature, timing and extent of audit procedures to be performed to reduce the risk to an appropriate level;
iv. whether sufficient appropriate audit evidence has been obtained and whether more needs to be done to achieve the objectives of the relevant assurance standards;
v. the drawing of conclusions based on the audit evidence obtained;
vi. the evaluation of management's judgments and responses.

In the pursuit of this characteristic, it is recognised that the following impediments to professional skepticism exist and are considered as part of the internal audit methodology and tool and techniques recommended:

i. Complacency: one of the biggest challenges
ii. Overconfidence – over-estimation of abilities and understanding of issues. Overconfidence can lead to insufficient challenge of statements, assumptions, and procedures.
iii. Confirmation bias - giving more weight to information that confirms our opinions and thus to see what they expect to see or unduly discounting facts that disagree with our opinions/conclusions.
iv. Anchoring - Placing too much reliance on initial evidence when considering subsequent data and decisions or the tendency to start with initial values and data that are familiar e.g. a prior audit.
v. Auditor's conflicts of interest
vi. Inadequate understanding of the business and
vii. Time and deadline pressures – the need to balance the sufficiency and quality of evidence and time required to obtain such.

Accordingly, to enable Internal Auditors to be discerning and display professional skepticism they additionally should

i. display critical self-assessment and continuously challenges his or her beliefs and belief-based risk assessments.
ii. Make an effort to resist complacency and other natural tendencies such as confirmation bias.
iii. Be intuitive and avoid discounting evidence inconsistent with their expectations.
iv. Be alert to Pressure and / or misdirection.

1.7 Batho Pele Principles

As we undertake our work informed by various dynamics of the Operations of the Municipality; we shall aspire to live up to our government's Batho Pele Principles.

There are 8 principles or guidelines for Batho Pele in the White Paper, being

i. Consultation
ii. Service Standards
iii. Courtesy
iv. Access
v. Information
vi. Openness and Transparency
vii. Dealing with complaints
viii. Giving Best Value

In EMARAS, as with the KZN province, we have another two principles:

i. Encouraging Innovation and Rewarding Excellence
ii. Customer Impact

1.8. Independence, Objectivity and Reporting lines

The internal audit activity will remain free from interference by any element of the Institution, including matters of planning, resourcing, methodology, audit selection, scope, procedures, frequency, timing or report content in order to maintain an independent and objective mind set.

eThekwini Municipality
EMARAS
Internal Audit Framework

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal control, develop procedures, install systems, prepare records, or engage in any other activity that may impair the internal auditor's judgement.

1.9. Applicability of the Framework

The framework is applicable to EMARAS and all its stakeholders. The figure below provides a strategic model for the internal audit function and its stakeholders to understand the relationship between governance processes necessary to achieve a high quality, effective and efficient internal audit function.

1.9.1 Major Components of an effective Internal Audit Function and definitions
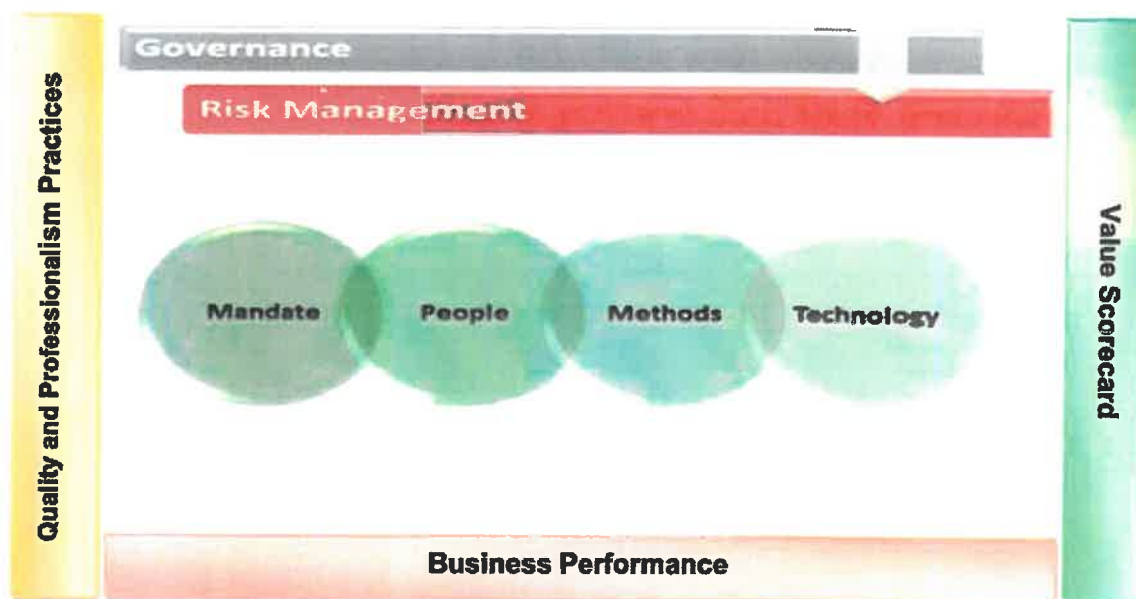
i. Governance

Defines internal audit's role and responsibility to the Executive, Management and related governance structures established to:
- ❖ Monitor and constantly evaluate units' performance,
- ❖ Their position in the structures, policies, their position within the government systems;
- ❖ Procedures that govern the function; and
- ❖ Internal and external communication requirements and responsibilities.

ii. Risk management

Includes the identification, assessment, controls and monitoring, development and analysis of risks and opportunities, and compliance activities, with specific focus on internal audit's role in risk management, including its responsibility for assessing the effectiveness of risk management systems in units, and aspects of integration with other risk functions for purposes of ensuring the applicability and effectiveness of the combined assurance model (Reference to developed and approved Combined Assurance Model). Risk profiles of each Cluster are utilized for the development of internal audit's rolling three years annual operational plans and the strategic plans.

iii.   Capabilities

Covers the infrastructure and operations for internal audit function and focuses on the following four primary areas:

❖   **People**: How internal audit aligns its people in terms of resourcing, competency, roles, and learning and development, to its purpose and mandate.

❖   **Mandate**: Internal audit's purpose and mission, alignment with stakeholder needs and other risk functions, and coverage and scope.

❖   **Methods**: Addresses the internal audit approaches and method for planning, providing assurance, identifying issues, tracking and remediation, and monitoring and reporting, as well as efficiency and effectiveness of the function.

❖   **Technology enablement**: Assesses how the internal audit process is enhanced and enabled by the use of technology.

iv.   Business performance

This relates to how internal audit delivers value to the organization by enabling business performance through process improvement advanced as per recommended best practices, regulatory reliance, facilitation of change programs and major business initiatives, and strategic insights.

v.   Foundational elements (Value Scorecard)

Measures the quality and performance of the internal audit function and its outputs, as well as the value provided to the organization.

2.   EMARAS ACTIVITIES

2.1   Internal audit evolved as the organization's risk management processes improved as depicted in the figure below:
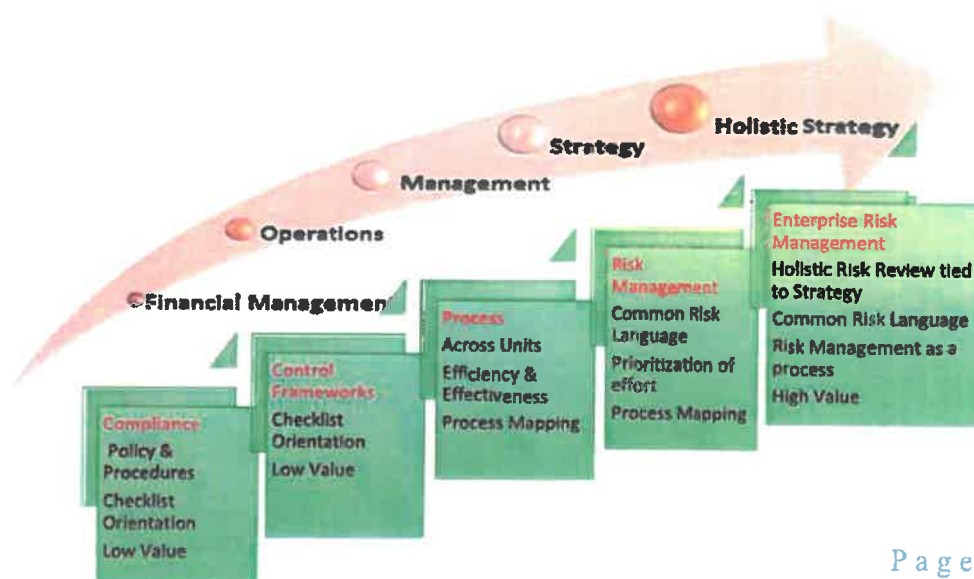
All audits conducted by the EMARAS contribute towards the improvement of the risk management, control and governance processes of units and clusters units, using a systematic disciplined approach. Internal audit activities are conducted in accordance with the following methodologies:

i.   EMARAS internal Audit Methodology;
ii.   Enterprise Risk Management (ERM) Framework;
iii.   IT Audits Methodology;
iv.   Program and Projects Audit Methodology; and
v.   Combined Assurance Framework.

All these methodologies have been compiled in terms of the IIA standards and the MFMA.

The Chief Audit Executive is responsible for ensuring that the Strategic Plan and Risk Based Annual Internal Audit Plan are developed annually and approved by the Audit Committee and acknowledged by the Accounting Officers and Oversight Authorities. The Internal Audit Strategic Plan is reassessed every three years and any changes incorporated into the Internal Audit Plan.

The execution of the Internal Audit Plan is monitored throughout the year by the Audit Committee (Functionally) through quarterly audit committee meetings, and the Accounting Officer (Administratively). Deputy City Managers (DCM's) and heads of units are engaged and kept informed of progress on its implementation, modifications to the plan, significant findings and trends.

In the event that EMARAS and/or the Accounting Officers and Oversight Authorities want to cancel, postpone or roll-over any audit engagement in the Annual Internal Audit Plan, a formal written request should be made to the CAE giving details of the request for cancellation, postponement or roll-over of the audit assignment and reasons for the request. The CAE should consider the request and communicate the request to the Audit Committee for approval. It is important to note that only the Audit Committee may authorize the cancellation, postponement or roll-over of any audit assignment in the Annual Internal Audit Plan.

Risk assessments conducted, strategic and operational risk profiles compiled are used for the development of the rolling three year strategic and annual operational plans. They also facilitate a wide range of audits to be conducted in order to respond to various stakeholders' expectations as depicted in the figure below.

The Internal Audit Continuum and Approach

2.2 Key stakeholders in the internal audit function include:

i. Executive Committee/Municipal Council
ii. The Accounting Officer of eThekwini Municipality
iii. The Accounting Officers of the City's entities
iv. Senior Management of the City and its entities
v. The Audit Committee
vi. Auditor - General
vii. National Treasury
viii. KZN Provincial Treasury
ix. Cooperative Governance and Traditional Affairs (COGTA)

3. ORGANIZATION AND STRUCTURE

EMARAS is an independent function established to assist management in achieving their objectives by providing them with reasonable assurance regarding the effectiveness of the City's and its entities corporate governance, risk management processes and systems of internal control.

It was established in accordance with MFMA Section 165 of the MFMA and is headed by the CAE. The CAE reports functionally to the Main Audit Committee and the Accounting Officer of Ethekwini Municipality administratively. According to standard 1110, the CAE must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities with independence and objectivity.

At a minimum, EMARAS should maintain the following structure in order to respond to its obligations:

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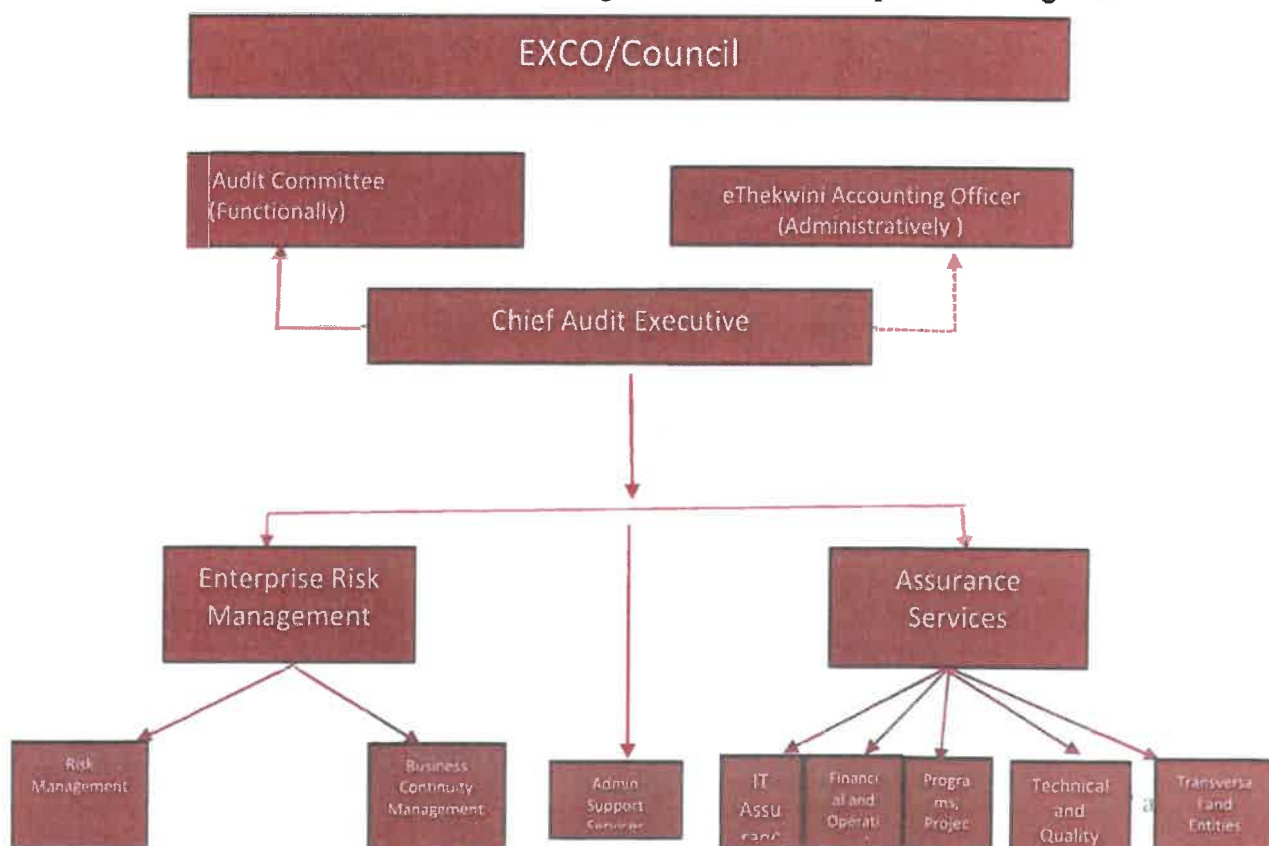
Independence is effectively achieved when EMARAS reporting lines and responsibilities are in compliance with Standards 1110 (including Standard 1110A.1) and 1130 (including Standard 1130.A1 to 1130.C2). Examples of functional reporting involve approval of the:

i.   Internal audit charter and the Audit Committee Charter.
ii.   Risk-based rolling three-year strategic plan and annual operational internal audit plan.
iii.   Internal audit budget and resource plan.
iv.   Receiving communications from the Chief Audit Executive on the internal audit activity's performance relative to its plan and other matters.
v.   Making appropriate inquiries of management and the CAE to determine whether there are inappropriate scope or resource limitations that may impair on the effectiveness of the internal audit function, etc.

3.1   Authority and Independence of EMARAS

In accordance with standard 1000 the purpose, authority, and responsibility of the internal audit activity is formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the ISPPIA (International Standards for the Professional Practice of Internal Auditing), and the Definition of Internal Auditing). The CAE must periodically review the internal audit charter and present it to the Main Audit Committee for approval. The approved Charter should be presented to the Accounting Officers for information.

Internal audit unit must be independent with no limitations on its access to information. Accordingly, the CAE and internal audit staff are authorized to review all areas of eThekwini's financial, operating, governance, risk management and information systems; and have full, free and unrestricted access to all Council's activities, records, IT systems, property, personnel, accounting officers and the Chairperson of the Main Audit Committee

Also, standard 1100 stipulates that the internal audit activity must be independent, and internal auditors must be objective in performing their work. Individual Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest as per standard 1120. If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to the CAE or to the Accounting Officer and the Audit Committee Chairperson, depending on level of the auditor involved.

According to standard 1130 relating to impairment to independence or objectivity:

i.   Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year (1130.A1).
ii.   Assurance engagements for functions over which the CAE has responsibility must be overseen by a party outside EMARAS (1130.A2).
iii.   EMARAS may provide assurance services where it had previously performed consulting services, provided the nature of the consulting did not impair objectivity and provided individual objectivity is managed when assigning resources to the engagement (1130.C1).
iv.   Internal auditors may provide consulting services relating to operations for which they had previous responsibilities. If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure must be made to the engagement client prior to accepting the engagement. This applies to internal auditors deployed to conduct an engagement by the External Service Providers (1130.C2).

Therefore, EMARAS:

    i.   Has no direct operational responsibility or authority over any of the activities they review;

    ii.   Does not develop nor install systems or procedures, prepare records, or engage in any other activity that would normally be audited;

    iii.   Does not initiate or approve accounting transactions external to the unit; and

    iv.   Ensures that each audit project team member declares his or her interest before commencement of an audit project.

3.2 Independence and objectivity

In line with the IIA standard 1100, "The internal audit activity must be independent, and internal auditors must be objective in performing their work". Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. Internal audit will manage threats to independence must be managed at the individual auditor, engagement, functional, and organizational levels.

The Chief Audit Executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The Chief Audit Executive must confirm to the EXCO/board, at least annually, the organizational independence of the internal audit activity.

    i.   Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels.

    ii.   Internal Audit will remain free from interference by any element in the matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

    iii.   Internal auditors will not initiate or approve accounting transactions external to the scope and will always avoid conflict of interest.

    iv.   Internal auditors will exhibit the highest level of professional objectivity and competence in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors will make a balanced assessment of all the relevant factors and not be duly influenced by their own interest or by others, in forming judgment.

    v.   Each internal auditor will have an objective attitude and shall be in a sufficiently independent position to be able to exercise judgment, express opinions and present recommendations with impartiality.

    vi.   An internal auditor shall be free from any conflict of interest arising from professional or personal relationships or other interests which he/she may be subjected to audit;

    vii.   The CAE will confirm to the Audit Committee, at least annually, the independence of the Internal Audit Activity, further complying with ISA 610 for AGSA reliance purposes.

    viii.   The Chief Audit Executive shall have direct communication with the Accounting Officer, Audit Committee, Municipal Council, and other appropriate governing authorities.

3.3 Organisational Structure

    i.   The organizational structure must promote the independence of the Internal Audit Function as a whole and allow internal audit to perform its work objectively and independently.

ii.   Internal audit has free and unrestricted access to management, employees, activities, physical locations and to all information considered necessary for the proper execution of internal audit's work, as determined by the CAE.

iii.   The CAE is ultimately responsible for the work performed by all internal audit staff throughout eThekwini Municipality and their appraisal. In order to deliver the maximum added value to eThekwini Municipality, operational management must be able to provide support and assistance without organisational influence on the deployment of audit resources.

iv.   Internal Audit remuneration, bonuses and benefits is to be considered appropriately based on eThekwini Municipality Human Capital policies.

3.4 Reporting Lines

i.   The CAE reports functionally to the Audit Committee and administratively to the City Manager (CM).

ii.   The City Manager, in compliance with the Municipal Systems Act and its Regulations and Council's recruitment and selection policy is responsible for the appointment of the CAE. The Audit Committee is responsible for performance evaluation of the Internal Audit Function.

iii.   The CAE has a standing invitation to attend meetings of the Executive Management Committee, Executive Committee or other committees made up of a majority of senior executives but may not be a member of these committees in order to protect independence.

iv.   The internal audit coverage plan should be submitted to the Audit Committee for approval and reporting in line with the workplan should take place at each quarterly meeting of the Audit Committee.

v.   The Audit Committee should ensure that the internal audit function is subjected to an independent external quality assurance review in terms of Internal Audit Standards every five years or shorter period as the Committee determines it appropriate as a measure to ensure that the function remains effective. Within the five-year period between external assessments, internal periodic self-assessments and peer reviews may also take place.

vi.   Any attempted scope limitation by management must be reported, preferably in writing, to the City Manager and to the Audit Committee. The question of whether an action by management in fact constitutes a scope limitation is at the judgment of the CAE.

vii.   Except in cases of suspected fraud, the City Manager and the Audit Committee may decide to accept a limitation of scope. In such instances, the CAE should evaluate from time to time whether the circumstances surrounding the scope limitation are still valid and whether the scope limitation needs to be reported again to the City Manager and the Audit Committee for their renewed consideration.

3.5 Roles and Responsibilities of Internal Audit

The CAE and audit staff are responsible for rendering Internal Audit Services to eThekwini Municipality and its Entities in accordance with the Institute of Internal Auditors code of conduct read in conjunction with City's code of conduct, accordingly it must:

3.5.1 Internal Control and Assurance

i.   Evaluate the Municipality's governance processes including ethics, especially the 'tone at the top'.

ii.   Performing an objective assessment of the effectiveness of risk management and the internal control framework.

iii.   Systematically analysing and evaluating business processes and associated controls.

iv.   In specific, internal audit must provide a written assessment of the effectiveness of the system of internal controls and risk management to Council. An assessment, based on a written documented review of the internal financial controls, must be reported directly to the Audit Committee.

v.   Assist eThekwini Municipality in maintaining efficient and effective controls by evaluating these controls to determine their adequacy and effectiveness and provide recommendations to mitigate risk. The controls subject to evaluation should, amongst others, encompass the following:

- ❖ The information systems, environment, including the electronic information system and electronic banking services;
- ❖ The reliability, integrity, accuracy, completeness and timeliness of financial and management information;
- ❖ The effectiveness, efficiency and economy of operations;
- ❖ The application and effectiveness of eThekwini Municipality's risk management procedures and risk assessment methodologies;
- ❖ Safeguarding of assets; and
- ❖ Compliance with laws, regulations and controls.

vi. Assist the City Manager in achieving the objectives of eThekwini Municipality by evaluating and developing recommendations for the enhancement or improvement of the control environment and risk management processes.

vii. Issue periodic reports to City Manager and the Audit Committee and summarizing results of audit activities.

viii. Keep the Audit Committee and the City Manager informed of emerging trends and successful practices in internal auditing.

ix. Consider the scope of the work performed by the external auditors and any other third party, as appropriate, for the purpose of providing optimal combined audit coverage to eThekwini Municipality at a reasonable overall cost.

x. Provide advisory services to eThekwini Municipality regarding the development or improvement of internal controls provided that the advisory or consulting services are ancillary to the basic function and primary responsibilities of Internal Audit. Internal Audit shall not be precluded from analyzing and criticizing the internal controls that have been put in place by or at the direction of senior management and the introduction, development or improvement of internal controls shall remain the responsibility of the management of the Municipality.

xi. At least annually, submit to senior management and the Audit Committee an Internal Audit plan consisting of the work schedule as well as budget and resource requirements for the next financial year. The Internal Audit plan will be developed based on prioritization of the audit universe using a risk-based methodology, including input from Senior Management, and the Audit Committee. The CAE will review and adjust the plan as necessary, in response to changes in the Municipality business, operations, programs, systems and controls. Any significant deviations from the Internal Audit plan will be communicated to Senior Management through quarterly audit reports.

xii. A written report will be prepared and issued by the CAE or designee following the conclusion of each Internal Audit engagement and will be distributed as appropriate.

xiii. Auditing performance measurements in terms of section 45 of the Local Government: Municipal Systems Act and providing results to senior management and Audit Committee.

xiv. Internal Audit Unit shall remain functionally accountable to the Audit Committee as follows:
- ❖ Maintain open and effective communication with the Audit Committee;
- ❖ Develop a flexible annual audit plan using a risk-based methodology, addressing any weaknesses in risks or controls identified;
- ❖ Submit the audit plan to the audit committee for review and approval;
- ❖ Report on the implementation and results of the annual audit plan including special tasks requested by management and the Audit Committee;
- ❖ Assist in drafting the agenda and documentation, and facilitate the distribution thereof to the Audit Committee in advance of meetings;
- ❖ Meet periodically with the chairperson of the Audit Committee to discuss whether the material and information furnished meets the requirements of the Audit Committee
- ❖ Cooperate with the Audit Committee as they conduct annual reviews of the Internal Audit function; and
- ❖ Submit the Internal Audit charter to the Audit Committee for review and approval on an annual basis and as necessary.

3.5.2 Governance

i. Evaluate the Municipality's governance processes including ethics, especially the 'tone at the top'.
ii. Assist the City Manager in achieving the objectives of eThekwini Municipality by evaluating and developing recommendations for the enhancement or improvement of good governance processes through which:
   ❖ Objectives and values are established and communicated;
   ❖ The accomplishment of objectives is monitored;
   ❖ Accountability is ensured; and
   ❖ Corporate values are preserved.
iii. Internal audit provides insight by acting as a catalyst for senior Management as well as the Boards of Entities and must have a deeper understanding of governance processes and structures. It inspires organizational confidence and enables competent and informed decision making. Furthermore, Internal audit can add value by providing advisory and consulting services, intended to improve governance, risk management and control processes.

3.5.3 Fraud and Corruption

i. Internal Audit should consider where fraud risk is present within the business and respond appropriately by auditing the controls of that area, evaluating the potential for the occurrence of fraud and how the organization manages fraud risk (Standard 2120.A2) through risk assessment, and audit planning. It is not internal audit's direct responsibility to prevent fraud happening within the business. This is the responsibility of management as the first line of defense. The Internal Auditor should not be expected to have the expertise of a person whose primary responsibility is to investigate fraud. Such investigations are best carried out by those experienced to undertake such assignments.
ii. When an Internal Auditor suspect's wrongdoing, he or she shall apply the standards and determine the extent; report concerns to the Audit Committee and recommend any investigation that may be considered necessary in the circumstances to the City Manager who shall in turn engage the relevant Executive. All identified incidents of fraud and corruption shall be reported to CIIU (City Integrity and Investigations Unit) and noted in each successive meeting of the Audit Committee.
iii. Internal Audit must apply audit techniques, data mining and analytics in conducting continuous auditing and all incidents of fraud and corruption detected must be reported to Audit Committee, City Manager and City Integrity and Investigations Unit.

3.6. The Internal Audit Charter

A written charter for the Ethekwini Municipality Audit and Risk Assurance Services (EMARAS) must be developed and approved by the Audit Committee and recommended by the Accounting Officer of eThekwini. The Internal Audit Charter serves as EMARAS's statement of purpose, authority and responsibility and serves as a mandate for EMARAS. In conformance with the ISPPIA it must address the following:

i. The purpose, authority, independence and responsibilities of internal audit;
ii. EMARAS organizational status;
iii. The scope of work to be undertaken;
iv. Description of audit and consulting services to be provided;
v. The frequency of the review of Charters; and
vi. Authority in relation to access to systems, people, information and properties.

4. THE ROLES, RESPONSIBILITIES AND ACCOUNTABILITIES OF KEY STAKEHOLDERS

4.1 Management

The primary responsibilities of management are:
  i. Management of the City and the Entities are risk owners' and directly responsible for risk management'.
  ii. Setting the risk appetite, tolerances and imposing risk management process.
  iii. Manage risk by implementing and taking decisions on risk responses.
  iv. Take accountability for risks and controls.
  v. Specifically designing, developing and implementing controls that mitigate risks.
  vi. Specifying the elements of a control framework according to which the Municipality's control environment can be managed.
  vii. Maintaining a system of internal control, including proper accounting records; and other management information suitable for running the business.
  viii. Responsible for deciding on swift actions to be taken as a result of Internal Audit's findings.
  ix. Management, as represented by the City Manager (CM) and Entities management as represented by CEOs also need to ensure that the internal auditors have direct access and freedom to undertake their work and report to the Audit Committee.

4.2. The key responsibilities of the Audit Committee

AUDIT COMMITTEE

Control environment

- Review reports of Internal Audit and Management and provide advice to management on significant issues identified in audit reports and action taken on issues raised.
- Ensure that the charter, independence, and activities of the internal audit function are clearly understood and respond to the objectives of the municipality & its entities and the legal framework.
- Regularly review the functional and administrative reporting lines of EMARAS to ensure that the organizational structure is consistent with the principles of independence and accountability.
- Review and approve the Internal Audit Charter to ensure appropriate structure, authority, access and reporting arrangements are in place.
- Review the adequacy of internal audit resources to carry out auditing responsibilities.
- Review and approve the EMARAS Strategic Plan and Annual Audit Coverage Plan
- Confirm that the audit plan makes provision for critical risk areas in the municipality and its entities.
- Review significant differences of opinion between management and internal audit and provide guidance thereon.
- Monitor the EMARAS compliance with IIA standards and related legislation.
- Periodically review the performance of EMARAS
- Prepare quarterly reports to the EXCO in respect of all the committee's' activities undertaken and prepare report for inclusion in the annual report.
- Ensure effective implementation of the Combined Assurance Model

Risk Management

- The Audit Committee oversees, evaluates and provides advice to the EXCO/Council on the risk management and control environment of the Municipality and it's Entities.
- Verify whether a sound and effective approach has been followed in developing strategic risk management plans for the City and its entities;
- Report on the impact of the risk management framework on the control environment in each cluster of the City and the etities

Auditor - General

- Provide input and feedback on the financial statements and performance audit coverage and provide feedback on the audit services provided by the Auditor - General.
- Consider all external audit plans and significant findings in reports and monitor management's implementation of audit recommendations;
- Provide advice to the EXCO/Council and the Boards on actions taken on significant issues raised in the Auditor - General reports; and
- Consider and advise the EXCO/Council,the Boards and Accounting Officers on Auditor - General costs.

Fraud and Corruption

- Together with the Head City Integrity and Investigations and the Accounting Officer the Main Audit Committee oversees the City Integrity and Investigations Unit (CIIU) performance to ensure they are operating effectively;
- Reviews reports on the activities of the City Integrity and Investigations Unit in respect of investigations into reported fraud and corruption by employees.
- Must report to the EXCO/Council and the Boards on critical and major fraud (both potential and actual) reported and investigated matters by CIIU This includes investigations and activities undertaken to prevent future occurrences.

Other Governance Matters

- Provide strategic guidance on matters relating to the moral and ethical environment in the Municipality and It's Entities , and
- Compliance to laws, regulations and the plans of the City and it's Entities
- Monitor compliance with Consequence Management and the Disciplinary Board
- Provide oversight over legal matters
- Provide oversight on performance management responsibilities of the City and its entities through review of performance information management reports by PME and EMARAS

4.3 EXCO/Council

i.   is responsible for providing strategic leadership and guidance to the Boards, Accounting Officers and Oversight and governance structures responsible for the internal control system, risk management and good corporate governance

ii.   Ensure that Accounting Officers implement all AG and Internal Audit recommendation

iii. Ensure that the Boards monitor the entities' implementation of AG and Internal Audit recommendations.

iv.   Approve the Audit Committee Charter

v.   Consider reports from the Audit Committee and monitor implementation of recommendations

4.4 Chief Audit Executive (CAE)

EMARAS is headed by the CAE, appointed as a full-time employee under the Office of the City Manager. The CAE is assisted in the performance of his or her duties by internal audit staff as well as where needed a co-sourced service provider.

The roles and responsibilities of the CAE are as follows:

i.   To provide advice, counsel and opinions regarding City and its Entities' efficiency and effectiveness in risk management, internal control, corporate governance and performance management;

ii.   Reviewing reports on the activities of the Assurance, and Risk Management and Advisory Units within EMARAS in respect of internal control, governance and risk;

iii. Considers and acts on recommendations from the Audit Committee and any other appropriate structures for improving the overall state of internal control, risk management and governance within the City and its entities;

iv.   Directs, supervises and manages the activities of EMARAS. These amongst other include strategic leadership and planning, resource management, development and implementation of the internal audit function's operating policies and procedures, review of work, coordination of assurance activities and quality assurance;

v.   Reports to the Audit Committee on all internal audit activities, including risk management related issues;

vi.   Ensure that the Audit Committee reports quarterly to the Council and provides adequate and complete write ups for the Annual Report;

vii. Develops and maintains a quality assurance and improvement program that covers all aspects of the internal audit activity in terms of standard 1300 and 1320 and ensure external assessments are conducted in compliance with standard 1312. Furthermore, periodic internal self-assessment of EMARAS must be conducted regularly in compliance with standard 1311.

viii. Management of the Internal Audit Function in compliance with all the ISPPIA requirements

The CAE reports functionally to the Audit Committee, and administratively to the Accounting Officer of the City.

In conformance with standard 1111, the CAE has direct communication with the City's Accounting Officer, Audit Committee and the respective Accounting Officers and Boards of the entities and should have unfettered access to all other Members of Council, and/or other appropriate governing authorities which relates to its oversight responsibilities for auditing, risk and advisory services, corporate governance and control, as well as any other services provided by the EMARAS.

The CAE responsibilities may extend beyond his/her responsibilities on the EMARAS (standard 1111). Where he/she has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards must be in place to limit impairments to independence or objectivity.

The CAE must maintain required performance standards of EMARAS as prescribed in the IPPF which includes:

i. Effective management of EMARAS to ensure it adds value to its clients.

ii. Establishing a risk-based plan to determine the priorities of EMARAS, consistent with the City's, Provincial and National goals.

iii. Communicating EMARAS's plans and resource requirements, including significant interim changes, to the Audit Committee functionally and the Accounting Officers administratively for review and approval where appropriate.

iv. Ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

v. Establish policies and procedures to guide the internal audit activity.

vi. Share information, coordinate activities, and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimize duplication of efforts in line with the developed and approved combined assurance framework. Collaborating the work of EMARAS with the AGSA is also important for ensuring maximum positive impact on the control environment and value add by EMARAS and the Main Audit Committee.

vii. Report any form of interference on the work of internal audit by senior management and the accounting officers or officials in writing to the Audit Committee chairperson for escalation to Council.

viii. The CAE is invited to attend and participate in meetings of all clusters within the City and its entities as well as meetings held by the AG, Strategic committees of the City and external committees that lend value to the achievement of the objectives of the city especially those which relate to its oversight responsibilities for auditing, financial reporting, corporate governance, risk management and control.

4.5 Accounting Officers and Boards

i. Section 62 (1) (a) of the MFMA states that, "the Accounting officer of a Municipality is responsible for managing the financial administration of the Municipality and must for this purpose take all reasonable steps to ensure, that the resources of the municipality are used effectively, efficiently and economically."

ii. Section 62 (1) (c)(i)(ii) of the MFMA states that "the Accounting Officer of a Municipality is responsible for managing the financial administration of the Municipality, and must for this purpose take all reasonable steps to ensure- (c) that the Municipality has and maintains effective, efficient and transparent systems; (i) of financial and risk management and internal control; and (ii) of internal audit operating in accordance with any prescribed norms and standards."

iii. Each Accounting Officers/ the Boards:
   ❖ May hold management accountable for designing, implementing, monitoring and integrating the principles of internal control into their day-to-day activities;
   ❖ Is responsible for monitoring and providing guidance in respect of the system of internal controls, risk management and good governance;
   ❖ Ensure that internal auditors have access to people, systems, records and premises of the units when audits are conducted; and
   ❖ Is responsible for the risk management function in their respective institutions.

iv. Internal audit and risk management issues will be a standing item for discussion at EMC (Executive Management Committee and the Board meetings.

v. Each Accounting Officer must submit to the Audit Committee Accounting Officers reports requested from him or her by the requested on a quarterly basis (Accounting Officers report on performance management, controls and risk management issues).

vi. Accounting Officer/CEOs must attend the Audit Committee meetings.

vii. Create a conducive environment for Internal Audit Services to execute its responsibilities within their institutions, i.e. support the work of internal auditors.

viii. Establishment of an effective internal control and risk management capacity within the City/entity, capacitated by the relevant qualified, well trained and skilled risk management practitioners and internal control practitioners.

5. RESOURCES (MANAGEMENT OF THE UNIT)

5.1   Human Capital

The CAE, Deputy Heads of Internal Audit, Chief Risk Officer and Senior Internal Audit Managers have ultimate management responsibilities to ensure achievement of strategic mandate of EMARAS. Like all managers within the municipality, there is a need to plan activities and establish resources in line with the mandate and scope of the EMARAS.

5.1.1   Resource Capacity

i.   The CAE must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to the City Manager, senior management and the board for review and approval and to the Audit Committee for consideration. The CAE must also communicate the impact of resource limitations (IIA 2020).

ii.   The CAE must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan (IIA 2030).

5.1.2.   Skills and Expertise

i.   Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual professional responsibilities (IA 1210) - this implies the mix of knowledge, skills, and other competencies needed to perform the plan.

ii.   In planning resources, the Leadership of EMARAS must make consideration of current activities, trends, and emerging issues, to enable relevant advice and recommendations to Council business. Internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications, such as the Certified Internal Auditor designation and other designations offered by The Institute of Internal Auditors and other appropriate professional organizations (IIA 1210)

5.1.3   Subject Matter Expert (Outsourced Vs Co Sourced)

i.   Generally, it is common for large organizations to have their own IA function, which for complex, listed, global businesses could comprise hundreds to thousands of people (KPMG, 2016).

ii.   A fully outsourced Internal Audit is often only the domain of small, complex organisations (KPMG, 2016).

iii. The facilitation of resources within EMARAS is through an insourced approach, however in the event a special skill is needed, both outsourcing and co-sourcing methods can be used.

iv.   Generally, whether the Internal Audit function is insourced, outsourced or co-sourced, it is essential that the skills of the team align with the specific needs of Council business.

5.2   Skills development

The evolution of business processes brought about the rapid technological changes requires an audit function that is agile to ensure appropriate skills to address the needs of the organisation. As a standard practice, the CAE must put a training programme to ensure continuous skills development of the internal audit staff in order to remain relevant to the need of the Municipality (IIA 1210) and its entities.

5.2.1 Professional Membership

i. Professional Membership of the IIA SA identifies individuals as working or studying in internal audit or a related area such as risk management, compliance and governance (IIA SA)

ii. All Internal Audit staff will conduct themselves in accordance with the Internal Audit Standards set by IIA Inc. as adopted by IIA SA. Internal Audit shall comply with the following professional standards issued:

  ❖ The Code of Ethics of the IIA SA.

  ❖ Code of Ethics of eThekwini Municipality.

  ❖ Values of eThekwini Municipality.

  ❖ Various codes as applicable; and

  ❖ Membership of professional Institute must be in good standing.

iii. The Internal Auditors shall be members of professional bodies relevant to Internal Audit professional remit (i.e., IIA SA, ISACA, SAICA, CFE, IRMSA, AGA), in order to keep up to date with the professional developments and requirements of continuous professional development. Internal Audit shall actively participate in IIA activities to ensure the maintenance of professional proficiency and competencies.

iv. Internal Audit shall in addition comply with any regulations or instructions issued by National Treasury concerning internal audit components and their functioning.

5.2.2 Continuous Professional Development (CPD)

i. The rule of conduct – Competency under the IIA Code of Ethics states that, "Internal Auditors all continually improve their proficiency and the effectiveness and quality of their services". This proposition implies that internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development (IA1210) in order to remain relevant to Council business and in audit profession. The CPD improves professionals' productivity, motivation, engagement and overall performance.

ii. Senior management should ensure that training and development programs as per EMARAS training and development schedule are aligned or designed to support audit professionals CDP requirements.

5.3 Tools of trade

i. EMARAS acknowledges the rapid changes in information technology that consequently cause disruptions in business processes, therefore embraces the use of technology to support the function achieves its targets and goals. As audit professionals, we recognize that client risks are changing, hence the need to continually provide evolving solutions and services to meet those needs (ICAEW, 2017)

ii. Continued improvement and innovation enable EMARAS employees to work anywhere, connect to information and systems via cloud-based solutions.

iii. Information Technology (IT) enable an unquestionable tool that provide power for handling information within the audit profession. With this rapid change in technology, it is expected that the Internal Auditors have greater IT-skills (Protiviti)

iv. Internal Audit can perform more audit services due to the collaboration of technologies, helping increase productivity and efficiency, while reducing costs and improving the quality of audits (PWC,2019).

v. As the Municipality transform its business processes to align with the evolution of technology, wider assurance services to mitigate related risks is expected (KPMG,2020). EMARAS uses data analytics computer-assisted audit tools and techniques (CAATS) to enable informed and efficient audit outcomes.

5.4 Future Fit Internal Audit

i. (Hintze, 2016) defines Artificial intelligence (AI) as, "machines that enable professionals to undertake tasks that require some kind of 'intelligence', which typically refers to things such as learning, knowing, sensing, reasoning, creating, achieving goals, generating and understanding language.

ii. With continuous developments, AI has been based on techniques such as machine learning and deep learning, whereby algorithms learn how to do things, such as classify objects or predict values, through statistical analysis of large amounts of data, rather than through explicit programming.

iii. These are intelligent systems able to handle huge amounts of data and make complex calculations very quickly (Hintze, 2016). Hintze further outlines the four different types of artificial intelligence as reactive machines, limited memory, theory of mind and self-awareness. As EMARAS, with continued skills development and innovation, we endeavor to develop digital talent in order to remain relevant the Council business needs and to respond to COVID 19 business pressures.

5.5 Knowledge Management (KM)

i. Knowledge management is concerned with using to best advantage the knowledge and experiences that have been gained across an organisation (Hamono et al, 2018).

ii. EMARAS defines its knowledge management as information used and generated by its internal audit professionals in collection of specific data, specific and broad information sets, the skills attained, and experience in similar audit situations. Internal auditing requires collaboration and the integration of information and knowledge both from within the audit Unit and from the auditee's sources to enable a valuable outcome for all involved ((Hamono et al, 2018).

iii. EMARAS recognises that knowledge has become a key asset for Internal Audit Professionals, consequently a continued need to preserve information arising out of its audit processes and activities. Knowledge Management processes such as knowledge sharing, document management, externalization for knowledge capture, and routines for knowledge application must be implemented within Internal Audit to improve effectiveness and efficiency (Hamono et al, 2018).

5.6 Quality Review

The IIA Standards (1300) stresses the importance of quality and continuous improvement in internal audit to ensure preservation quality of work. It is the Chief Audit Executive responsibility to develop and maintain a quality assurance (QA) programme that covers all aspects of the internal audit activity and continuously monitors its effectiveness. This involves defining the appropriate standards and level of quality for audit outputs and then establishing comprehensive procedures which will ensure that this level of quality is achieved and maintained. QA takes place at two levels:

i. Level one involves internal assessments to ensure that individual audits are carried out to an acceptable level of quality; and

ii. Level two involves broader external reviews of the full range of audit tasks to establish that laid down policies and procedures are adhered to and that they actually ensure that work is carried out to an acceptable level of quality.

5.6.1 Internal assessments

i. Each audit needs to be supervised and reviewed in order to ensure that the quality of audit work is maintained and that the coverage and timing of the audit is in line with the audit plan.
ii. Peer reviews must be conducted on a regular basis as part of the internal control self
iii. The Chief Audit Executive is responsible for ensuring that individual audits are adequately resourced and properly supervised throughout and should review each audit on an on-going basis.

5.6.2 External QA reviews

i. In addition to assessing the quality of individual audits it is important to obtain independent assurance that the internal audit policies and procedures for carrying out audits are being adhered to and that they are achieving their objectives.
ii. It is also important to obtain assurance about the processes for the way the internal audit function is being managed.
iii. The IIA recommends that an external quality review should be carried out at least once every five years. It is important that these reviews are carried out in a way which is consistent with the guidance set out in the IIA Quality Assurance Manual.

5.7 Performance Measurement

It is important to define internal audit's value and measure value creation of Internal Audit Services appropriately. While the number of audits performed or the number of findings and recommendations can be easily counted, the value of an audit or the value of the internal audit function with its unique insights is certainly more than a quantitative figure. Considering this, it is obvious that internal audit's value comprises qualitative (e.g., the satisfaction of stakeholders) as well as quantitative (e.g., the number of audits performed) characteristics.

Our well-defined goals are focused on improving our delivery model high-impact and high-priority engagements, build deeper partnerships and coordination, stronger relationships and collaboration and more agile internal processes resulting in higher level of service and professionalism. This will enable Internal Audit to continuously adapt to the volatile, uncertain, and rapidly shifting risk landscape.

The performance of the Internal Audit Services will be conducted via the reporting process of the organisation being the Service Delivery Budget Implementation Plan (SDBIP). These are reported to the Audit Committee to enable their oversight. Additional Performance Indictors (PI) for internal assessment will also be monitored by EMARAS management.

PIs for inclusion on the SDBIP

	Objective	PI	Frequency	Target
1.	Undertake Internal Audits as approved by the Audit Committee.	Percentage of Audit Coverage Plan Implemented	Quarterly	90%
2.	To ensure effectiveness internal audit services by measuring the audit committee's assessment of the IA	Audit Committee rating of the IA effectiveness level	Annually	3
3.	To monitor the implementation of the recommendations by management	Agreed management action monitored by updating the status thereof on the audit log	Quarterly	100%

Internal PIs

	Objective	PI	Frequency	Target
1.	To ensure effectiveness internal audit services by measuring the Senior Management's satisfaction	Senior and /or Executive Committee Satisfaction (level) of services received	Quarterly	3
2.	To ensure value-add internal audit services by measuring the Client Management's satisfaction for each project	Committee Satisfaction (level) and recommendations implemented	Annually	3 Based on at least 70% return
3.	To ensure expertise and skilled Team members	% of professional staff with certifications	Bi Annually	
		% of works place skills plan (continuing professional development programme) funded	Bi Annually	100% of the plan
		% of works place skills plan (continuing professional development programme achieved)	Quarterly	80% achievement
4.	To ensure Technology Driven Audit Service	% of audits completed on Automated Tool	Bi Annually	100% Audit of Performance Information audits 100% Audit Committee reports for Audit of Performance Information 50% of Assurance Audits (required to be competed on tool)
5.	Financial/ Budget Indicator	% of organisational budget spent on Internal Audit Services	Annually	100%

With the consistent progress and monitoring of these performance indicators the objective driving value and positive change should be achieved

6.   eTHEKWINI AUDIT COMMITTEE

6.1   Appointment of the Audit Committee:

The Audit Committee in accordance with section 166 of the MFMA, requires that each municipality should have an Audit Committee which must serve the purpose of being an independent advisory body to the Council, Political Office bearers, Accounting Officer, Management and staff. The mandate of the Audit Committee and therefore its authority extends to the municipal owned entities (MOE's), enterprises and organisations funded by eThekwini Municipality.

The Council shall appoint Audit Committee members and shall have the power at any time to remove any members from the Committee, The Council must fill vacancies on the Committee within forty (40) business days after the vacancy arises. An agreement between the member and the Municipality shall be entered into.

6.2   Removal from Office of Audit Committee Members

The Council may be remove the Audit Committee member from office if the member –

i.   becomes incapacitated.
ii.   contravenes any provision of the prescripts governing the activities of the Audit and Risk Committees and or the agreement entered into.
iii. fails to attend three consecutive meetings without reasonable justification.
iv.   is convicted of an offence involving dishonesty, including but not limited to offences such as theft, fraud, forgery, perjury or an offence under the Corruption Act, 1992 (Act No. 94 of 1992); or
v.   is convicted of an offence and sentenced to imprisonment without the option of a fine.

In the event of member failing to attend three (3) consecutive meetings, without notice, the agreement shall be terminated with immediate effect, without the Municipality having to give prior notice thereof to the Member.

The member must declare private and business interests annually, and in each meeting agenda, declaration of matters to be tabled.

Should a member breach any terms and conditions of the Agreement and Annexures hereto, the Municipality shall give the member seven (7) days written notice thereof, calling on the member to rectify the breach.

Should the member commit fraud or fail to remedy the breach, the agreement shall terminate forthwith.

6.3   Composition and Membership of the Audit and Risk Committees

Section 166(4) of the MFMA state that an audit committee must consist of at least three (3) persons of whom the majority may not be in the employ of the Municipality or it's Entities.

The Audit Committee should consist of at least six (6) but not more than eight (8), independent individuals, who have sufficient qualification and experience and who are neither in the employ of nor are Councillors of eThekwini Municipality which is in line with requirement of section 94 of companies Act. This number may be extended and contracted when a need is established and motivated for approval. The members of the Board of the MOE's may not be members of the Audit Committee.

The Audit Committee has the power to invite any board member of the MOE's to participate in committee meetings dealing with MOE's oversight issues.

As required by section 166 (5) of MFMA, the Chairperson (who is not in the employ of the Municipality or Municipal Entities) and members (who are not councillors) of the Audit Committee shall be appointed by Council, the Mayor / EXCO, or in terms of authority delegated to the Accounting Officer, to so appoint the chairperson. The chairperson shall be independent, knowledgeable of the status of the position they occupy, have the requisite business, financial and leadership skills and may not be a political office bearer.

Chairpersons are appointed for a minimum of three (3) years (renewable to a maximum of 2 terms) to provide opportunity to the members to contribute most effectively and provide a level of stability to the leadership of the Committees.

Members' contracts are for three (3) years, with an option to renew the contract. A member's contract may only be renewed once.

Audit Committee members appointments are staggered to ensure continuity in the AC operations and ensure maintenance of institutional memory in order to share experience with new members. There is a formal process of induction to provide new members with sufficient briefings and information to understand their responsibilities and expectations.

6.4. Independence of members Disclosure of Interest

The Audit Committee will be constituted so as to ensure their independence of line management and objectivity in deliberations. The members of the AC should be independent of the City and it's entities management operations and responsibilities, including involvement in the recruitment and selection of any staff, as they are not in the employ of the Municipality or Municipal Entities nor Councillors

i.   In accordance with King IV report on corporate governance, members of the Audit Committee do not control or have significant influence over management of the Municipality or Municipal Entities , and must be free from any business or relationship that could be a conflict.

ii.   The term of the Audit and Risk Committee members is not more than two consecutive terms

iii. Every member involved in the Audit Committee meetings, deliberation and resolutions, is obliged to declare any conflict of interest.

iv.   Every member of the Audit Committee is responsible for representing the interests of the Audit Committee and the City and It's Entity as a whole.

v.   Audit Committee Members may not -
   ❖ use their position to promote any special financial or other interest, including but not limited to the interest of any individual, company or other entity;
   ❖ act in a manner that is inconsistent with their membership and their role in the Committees;
   ❖ exposes themselves to any situation involving the risk of a conflict between their official and / or professional responsibilities and a personal interest;
   ❖ use their position or any information entrusted to them, obtained as a result of their involvement in the Committees to enrich themselves or improperly benefit any other person or entity; and
   ❖ act in a manner that may compromise the credibility, workings and integrity of the Audit Committee and that of the City and it's Entities

6.5. Code of conduct (Audit Committee)

As charged with governance oversight duties in the organisation, the Audit Committee members commits:

i.   To serve the best interest of eThekwini Municipality with care, skill, diligence and courage;

ii.   To be responsible for providing oversight on the assets of the organisation and for providing guidance in keeping the organisation on its strategic path;

iii. To be accountable to Council for oversight on the decisions and actions of the eThekwini Municipality;

iv.   To be fair to Council of the organisation by considering the legitimate interests of those who are affected by the eThekwini Municipality; and

v.   To be transparent by providing oversight on the disclosure of information that will enable stakeholders to hold eThekwini Municipality to account and that provides a holistic representation of eThekwini Municipality's past performance and its prospects for future value-creation.

6.6 The Audit Committee Charter

In terms of the Standards and MFMA circular 65 the Audit Committee should have a formally approved Audit Committee Charter. The purpose, roles, responsibilities and authority of the Audit Committee should be clearly documented in the Charter. The charter must be accepted by all the members of the Audit Committee and approved EXCO/Council .

6.7   Power and Authority of the Audit Committee

i.   The Audit Committee of the eThekwini Municipality is authorized, in terms of this Charter, to perform the duties and functions required to ensure adherence to the provisions of the MFMA, specifically S166 and the applicable provisions of the MSA.

ii.   In carrying out its mandate, the Audit Committee must have regard to the strategic goals of the eThekwini Municipality, strategic focus areas and programmes as outlined in the Integrated Development Plan (IDP) and the Service Delivery Budget Implementation Plan (SDBIP); coupled with the required MSA on predetermined objectives.

iii.   The overall objective of the Audit Committee is to provide oversight over systems to ensure the adequacy and effectiveness of the risk management processes; internal controls over financial management and reporting, operations management, compliance with applicable legislation; and good governance processes. The Municipal Council is the ultimate approval body in the organisation where the Audit Committee recommends to Municipal Council for approval. The charter of the Committee must be in line with the broad principles already defined in ISPPIA and King IV report on Corporate Governance. Any amendments may be accepted or refused by the Council through delegated authority to the Accounting Officer. The refusal must not impinge on the independent functioning of the Audit Committee.

iv.   *In terms of the provisions of Section 166 of the MFMA, and MFMA circular 65 as applicable:*

❖   *The Audit Committee is authorised by the Executive Committee of Council to investigate any activity within its terms of reference.*

❖   *The Audit Committee is authorised by the Council to obtain outside legal, accounting or other independent professional advice in concurrence with the Accounting Officer. The committee may secure the attendance of outsiders with relevant experience and expertise if it considers this necessary to its meetings.*

❖   *The Audit Committee is authorised to seek any information it requires from any employee of the municipality and municipal entities, and all employees are directed to co-operate with any request made by the Committee. Such requests will be channelled through the Accounting Officer and / or the Chief Audit Executive.*

❖   *The mandate of the Audit Committee and therefore its authority extends to the Municipal Owned Entities (MOE's), enterprises and organisations funded by eThekwini Municipality.*

❖   *The Audit Committee must ensure that in exercising its delegated authority its decisions and recommendations support and promote the production of accurate, reliable financial reporting and financial statements in compliance with applicable legislation and standards for financial reporting.*

v.   The Audit Committee must not perform any management functions or assume any management responsibilities (including involvement in the selection and recruitment of any municipality staff) as this could prejudice its objectivity. The Committee will make recommendations to EXCO/Council as well as the Accounting Officer and senior management resulting from the activities carried out by the Committee according to its terms of reference.

vi.   The Audit Committee shall have the authority to perform functions, and to obtain any information and advice, from within or outside the municipality or entity, in order to perform its functions as legislated. Appropriate resources will be made available to the Audit Committee to perform its functions.

vii.   The Audit Committee may:

❖   Communicate with the EXCO/Council, Accounting Officer or the internal and external auditors of the municipality or municipal entity;

❖   Have access to municipal records containing information that is needed to perform its duties or exercise its powers;

❖   Request any relevant person to attend any of its meetings, and if necessary to provide information requested by the committee;

❖   Conduct investigations into the financial affairs of the municipality or municipal entity, as may be requested by the Council of the municipality or in the case of a municipal entity, the Council of the parent

    municipality or the Board of directors of the entity.
- ❖ As it deems necessary, direct the CAE to consider or to adopt specific practices, policies or methods in the performance of his or her duties to facilitate efficiency and effectiveness;
- ❖ Direct Accounting Officers to provide status reports detailing progress made in the implementation of the Committee's resolutions;
- ❖ Direct whether to approve or not approve the requests for cancellation/postponement/roll-over of planned audits or investigations as per Accounting Officers' and/or the EMARAS's requests; and

The MPAC, in discharging its responsibilities, may make use of any information provided by the Audit Committee to avoid duplication of effort.

6.8. Meetings

i. The audit committee should meet as often as is required to perform its functions, but at least
ii. Meet formally four times a year as per the MFMA circular 65
iii. Bilateral meetings with the Audit Committee and Auditor – General and Internal Audit EMARAS are held at least twice a year and is subject to review from time to time.
iv. The quorum for any meeting will be 50% plus 1-member present for the duration of the meeting. If no quorum is formed, the meeting will be postponed. Only two consecutive postponements are allowed.
v. Special meetings may be convened with the Chairperson's approval of the Audit Committee when it quorate.
vi. The special and / or additional meetings may be determined at the discretion of the chairperson and based on availability of other members and convened when the quorum is established, taking into account scheduled calendar of meeting as approved, the need, cost and the value add including significance of issues requiring such and in concurrence with the Accounting Officer or his / her delegate.
vii. The Secretariat must take minutes of all the committees' proceedings.

6.9. Training and Development of the members

The Chairperson of the Audit Committee in consultation with the Accounting Officer and the CAE should identify opportunities for further development of the members of the committees in areas of risk management, financial reporting, corporate governance, or any other specific areas intended to improve the effectiveness of the committee.

7. NATURE OF WORK CONDUCTED BY EMARAS

The nature of work conducted by EMARAS is to provide assurance to the Accounting Officers, the Executive and to collaborate results with other assurance providers. The audit focus areas as well as the scope of work is influenced by the results of risks identified by management, external risks, emerging risk from previous audits, risks arising from Macro and Micro influences that arise during the course of the year as well as other activities undertaken by the 1st and 2nd line of defense.

All audits to be conducted by EMARAS stemming from the rolling three (3) year risk-based strategic plan and an annual operational risk-based plans developed for eThekwini Municipality and its entities, covering individual units and clusters and aligned to each clusters individual risk profiles. Operational plans are developed taking into account audit focus areas as per the risks identified, the scope determined, and allocation of resources to execute the audits, timing of performance of the audit and reporting requirements and deadlines. The field work on each audit must focus on the risks to which the cluster or individual units, and entities are exposed. The risk assessment process to be followed is as per the EMARAS Risk Framework. Critical to this process is understanding the business, operational risks and controls for managing risks associated with the audited business environment. Other key issues for consideration in the development of the risk-based annual operational plans includes:

i. Availability of qualified and skilled internal auditors. This includes specialized audits;
ii. Changes in the risk environment of the units and clusters. The latter requires continuous risk assessment;
iii. Changes in the units operations that may compel changes in the operational plans already approved by the Main Audit Committee;
iv. The materiality of ad-hoc requests as this could have a significant impact on the normal audit planning and timing process.
v. Amendments to the plans during the financial year should be considered as these may be subject to the changing priorities and emerging audit needs of the individual units. The Audit Committee through submissions by the CAE must approve these changes.

The nature of work by EMARAS is also defined in its strategy and Charter, which over the mission, vision, values, strategic objectives, measurable objectives and identified risks associated with that strategy.

7.1 Evaluation of Risk Management Functions

Risk management is a key responsibility of the Accounting Officers and senior management of the various clusters and units and entities. They should ensure that adequate risk management processes are in place and functioning as intended. Furthermore, it is their responsibility, together with the Executive Council and the Boards to validate and take ownership of the risks, identify related controls to mitigate those risks, monitor the implementation of those mitigation controls. EMARAS on the hand have specific core responsibilities in the risk management processes as depicted in the graph below:

Core Internal Audit Roles to Risk Management
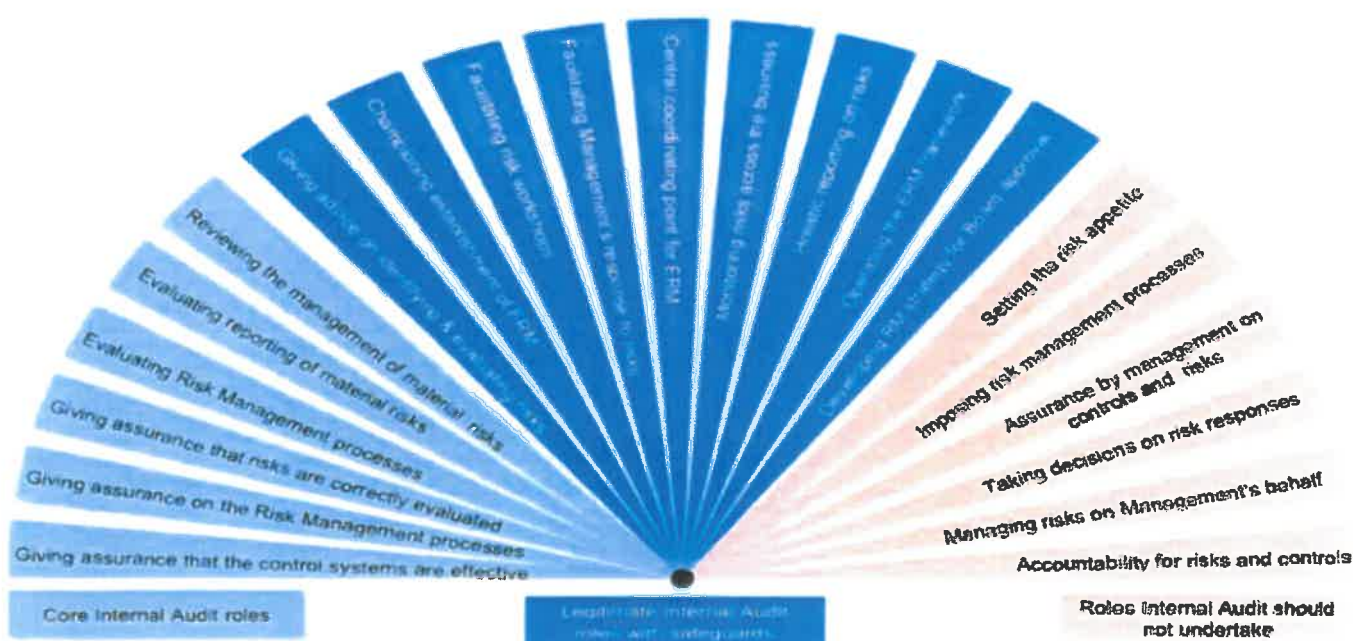
EMARAS's credibility and value is enhanced when auditors are proactive and their evaluations offer new insights and consider future impact. EMARAS must therefore evaluate the effectiveness of the Municipality and municipal entities' risk management systems and processes and provide recommendations that contribute towards the improvement of risk management processes.

Primarily, EMARAS must, evaluate risk exposures relating to the entities, municipality's units and clusters governance, operations, and information systems regarding the:

i.   Achievement of the organization's strategic objectives.
ii.   Reliability and integrity of financial and operational information.
iii.   Effectiveness and efficiency of operations and programs.
iv.   Safeguarding of assets.
v.   Compliance with laws, regulations, policies, procedures, and contracts

Furthermore, as part of its risk management audit processes, EMARAS must:

i.   Evaluate the potential for the occurrence of fraud and how the entities, municipality's individual Units and Clusters manage fraud risks.
ii.   During consulting engagements, internal auditors must address risks consistent with the engagement's objectives and be alert to the existence of other significant risks.
iii.   Internal auditors must incorporate knowledge of risks gained from normal audits and consulting engagements into their evaluation of the units' risk management processes.
iv.   Emerging risks from business strategies and activities should be identified and prioritized for reporting. It will then be the responsibility of management to determine the level of risk acceptable to Municipality or municipal entity.
v.   New risks should also be communicated to Risk Management Unit within EMARAS for inclusion into the Risk Register of the relevant entity or Cluster and to management for consideration of mitigating controls and inclusion thereof into their risk profile.
vi.   Similarly, the risks that have materialized must be reported accordingly, if detected by the auditors during the audit process.
vii.   Ongoing activities should be conducted to periodically reassess risk and the effectiveness of controls to manage risk.

EMARAS is **not responsible for providing management assurance on risk management.** Currently, the Risk management unit assist management, through internal control and risk management components established within units or Clusters (namely risk champions), by providing guidance on how to discharge management assurance in relation to their risk management responsibilities. When assisting management in establishing or improving risk management processes, EMARAS must refrain from assuming any management responsibility by actually managing risks.

7.2   Governance Reviews

EMARAS must assess and make appropriate recommendations to improve the municipality and its entities' governance processes for:

i.   Making strategic and operational decisions.
ii.   Overseeing risk management and control.
iii.   Promoting appropriate ethics and values within the municipality and municipal entities.
iv.   Ensuring effective organizational performance management and accountability.

v. Communicating risk and control information to appropriate areas of the entities and municipality's units or Clusters .

vi. Coordinating the activities of, and communicating information among, the Executive Council, the Boards, external auditors, the Audit Committee, other assurance providers and management.

vii. Assessment whether the information technology governance of the units supports their strategies and objectives.

viii. Promotion of governance and policy in general

ix. Effectiveness of various governance structures established to monitor implementation of various service delivery programs based on EXCO and Council resolutions

7.3 Information Technology (IT) Audits

eThekwini Municipality and its Entities operations and records are highly computerized and that has created a need to regularly evaluate the IT control environment. The primary purpose of these audits is to ensure that the IT systems are reliable, secure and not vulnerable to computer attacks. IT audit is important because it gives assurance that the IT systems are adequately protected, provide reliable information to users and properly managed to achieve their intended benefits. IT audits also help to reduce the risks of data tampering, provide assurance on adequacy and effectiveness of IT internal controls designed to minimize loss or leakage of information assets, service disruptions, pro-active planning for unforeseen disasters, evaluation of value derived from IT investments and generally assessment of the management of IT systems to ensure that they are effective and improve efficiency in operations as intended.

The primary objectives of IT audits include:

i. Evaluating the reliability of data from IT systems which have an impact on the financial statements of eThekwini Municipality and its entities.

ii. Ascertaining the level of compliance with the applicable laws, policies and standards in relation to IT.

iii. Checking if there are instances of excess, extravagance, gross inefficiency tantamount to waste in the use and management of IT systems.

iv. Evaluate IT systems vulnerability to potential cyber-attacks or external manipulation

v. Evaluate IT network infrastructure security, management of acquisition and maintenance costs and systems optimal usage.

Among others, audits conducted includes General Access Control Audits, Application Controls Audits (business/financial/operational), Technical IT audits focusing on infrastructure, data centres, data communication and networks, development/implementation IT audits focusing on the software application specification/ requirements, design, development, and post-implementation phases (also referred to as SDLC), and compliance IT audits involving national or international standards.

The audit's primary role, except in areas of management advisory services, is to provide a statement of assurance as to whether adequate and reliable internal controls are in place and are operating in an efficient and effective manner. The responsibility for ensuring that adequate internal controls are in place rests with the management.
The breadth and depth of knowledge required to audit IT systems involves the:

i. Application of risk-oriented audit approaches;

ii. Use of computer-assisted audit tools and techniques (CAATs) such as data extraction and analysis software or test data, where appropriate to perform audit tests;

iii. Application of standards (national or international) such as ISO 9000/3 and ISO 17799 to improve and implement quality systems in software development and meet security standards (not yet applied by EMARAS);

iv. Understanding of business roles and expectations in the auditing of systems under development as well as the purchase of software packaging and project management;

v. Assessment of information security and privacy issues which can put municipality and entities at risk;

vi.   Examination and verification of the municipality and its entities' compliance with any IT-related legal issues that may jeopardize or place them at risk;

vii.   Evaluation of complex systems development life cycles (SDLC) or new development techniques;

viii.   Perform audit tests, using Computer-Assisted Audit Tools.

ix.   Reporting to management and performing a follow-up review to ensure actions taken at work.

The objectives as well as the procedures to be followed for each section in the audit process should be explained with reference to "Control Objectives for Information and Related Technology (COBIT®)", "COBIT® & Application Controls: a management guide", the "COBIT® IT Assurance Guide" and "The Risk IT Practitioners Guide", as per the guidelines of the IT Governance Institute (ITGI) and Information System and Control Association (ISACA) for IT audit.

The baseline IT Internal Audit engagement should follow the procedures/phases in the diagram below. Furthermore, consider the risks, guided by the ISACA Risk IT Practitioner's guide to determine the risks associated with the relevant activity.

The objectives as well as the procedures to be followed for each section are explained with reference to following guidelines:

- IT Audit Framework (ITAF™) 4th edition.
- Control Objectives for Information and Related Technology (COBIT)
- COBIT IT Assurance Guide
- Circular 65, section 165 of MFMA
- International Standards for the Professional Practice of Internal Auditing
- Municipal policies and procedures

Therefore, users of this manual, as a prerequisite, should have a working knowledge of the above frameworks and guides.

EMARAS
Baseline for IT Internal Audit engagement
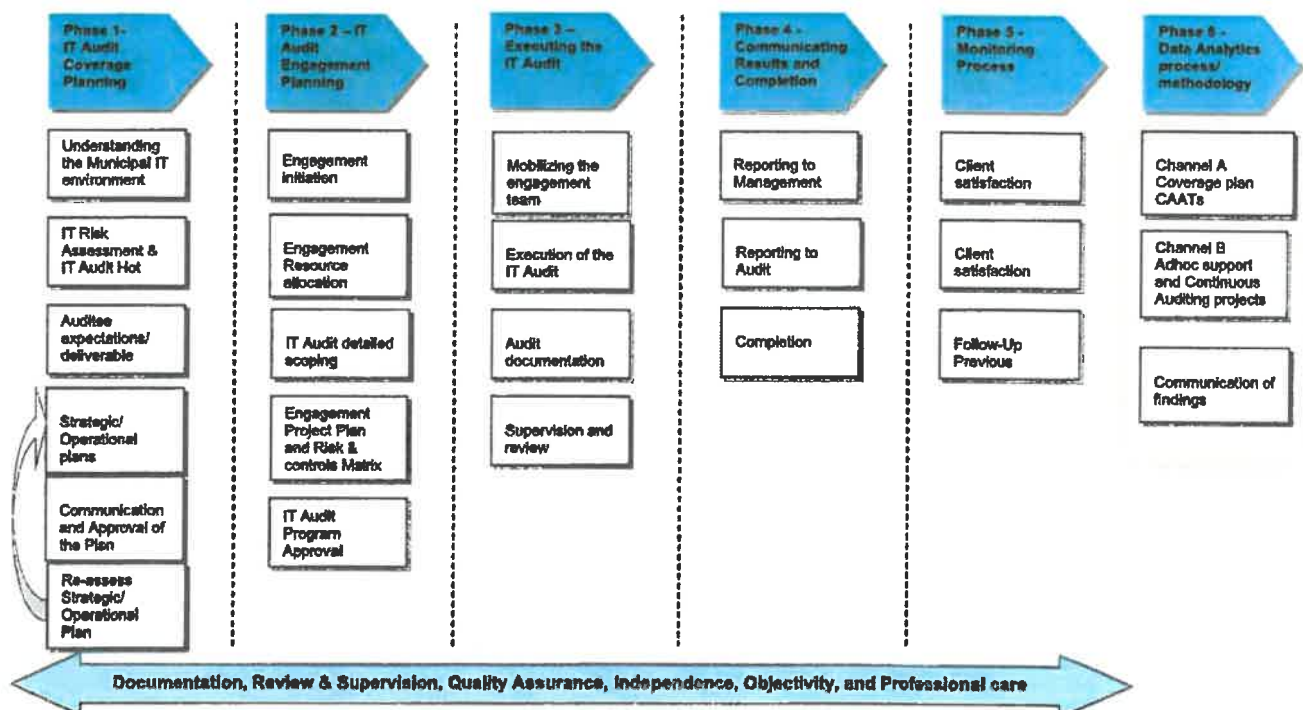
7.4 Audit of Performance Information

The audit of the performance management system and performance information is undertaken in terms of the legislative mandate from the MFMA, MSA and the supporting regulations. Performance management is essential to enable oversight and accountability. Performance management measures if the Municipality is delivering services, by comparing their performance against their budgets and strategic plans and to alert those charged with governance to areas where corrective action is required.

The objective of an audit of performance information is to verify whether the reported performance against predetermined objectives is reliable, accurate and complete. Risk based auditing is undertaken during the year by Internal audit to ensure the oversight committees (including the Audit Committee) meet their legislative mandate regarding the monitoring and reporting on performance of the Municipality and it's Entities. The normal audit process is applicable for the execution of these audits.

7.5 Continuous Security Audits

Continuous Security Auditing (CSA) Remit performs audits pertaining to eThekwini municipality and are being conducted on a frequent and repeated basis in a form of consulting (Special request) or normal risk-based assurance engagements to provide ongoing assurance to Council and oversight committees. These are as per risk based annual operational plans. They are conducted on a timelier insight into risk and control issues affecting Council.

The audit engagements mainly focus on assessing controls regarding securing the Council Assets, resources, processes, image, reputation, economy, etc., results of which should present the control rating based on audit findings and relative to the risks of business activity subjected to audit review. Continuous auditing helps the organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

7.6 Capital Programs and Project Auditing

Capital Programs and Project Auditing team is an independent and objective assurance and consulting remit auditing processes designed to add value to eThekwini municipality's capital programs and projects infrastructure to enhance service delivery and contributing to economic stimulation of eThekwini Municipality economy projects infrastructure, policies, and operations.

Capital Projects and programs conducts assurance and consulting audits to assist eThekwini municipality to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes in order to improve the delivery of infrastructure and asset management.

The same audit approach applied for normal systems audits is currently used to conduct assurance and consulting services for the City and its entities. The audit engagements are conducted to assess the likelihood of the projects achieving their objectives, as a fundamental aspect of project governance.

This assurance reviews cover the identification and management of risk, evaluation of opportunities, and actions being taken to realize those benefits on which approval of the business cases were based. Assurance and consulting audits also seek evidence of effective controls and opportunities to increase the likelihood of success of the projects thus ensuring that service delivery, Infrastructure Implementation and Economic Stimulation as the objective of eThekwini Municipality are met. In addition to normal compliance requirements, the assessment on the economy, efficiency and economic use of resources employed in the implementation of projects are reviewed.

7.7 Normal System/Management Audits and Financial audits

EMARAS must assist the Municipality and Entities in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous monitoring of the control environment. These includes evaluation of the adequacy and effectiveness of financial internal controls and any other management controls designed to respond to risks within the Municipality and entities' governance, operations, and information systems.

Internal auditors must incorporate knowledge of controls gained from consulting engagements into evaluation of the Municipality and entities' control processes. It is the responsibility of management to determine the level of risk they are willing to accept (risk tolerance level) in the area to be audited before the controls can be evaluated. Controls implemented are then evaluated to determine how effective they are to reduce the risks to the level desired (in line with the organization's risk appetite)

The following diagram depicts the type of internal controls implemented by management in units, clusters and entities

Directive Controls
A directive control intended to cause or encourage a desirable event to occure, e.g. orientation to all new employees on organizational policies, and implementation of a delegation framework within the department

Preventative Control
These controls are designed to prevent undesirable events from occuring. They include employment of honest and competent personnel, segregation of duties, physical control over assets against improver use

Types of Internal Controls

Detective Controls
They are designed to detect undesirable events that have occured. They include reviews and comparisons of records of performance and independent checks on performance

Corrective Controls
Corrective controls retify an error or irregularity which has been detected. e.g. recovery of undue payment or fraudulently acquired government funds by the employee

7.7.1   Evaluation of Controls

Based on the results of the risk assessment conducted by the Risk Unit within EMARAS, EMARAS internal audit team must evaluate the adequacy and effectiveness of internal controls encompassing the municipality and entities governance, operations, and information systems. The evaluation should include:

i.   Reliability and integrity of financial and operational information;
ii.   Effectiveness and efficiency of operations;
iii.   Safeguarding of assets; and

iv.   Compliance with laws, regulations, contracts, plans and procedures.

EMARAS should perform sufficient audit work and gather information to form an opinion on the adequacy and effectiveness of the internal control process. The CAE must communicate the overall opinion on a timely basis. The following aspects should be considered when assessing controls for adequacy:

i.   The control environment and management attitude towards controls;
ii.   Standard control practices (generally accepted management practices); and
iii.   Compliance with other generally used control frameworks (e.g. internal control framework).

After satisfying oneself that the controls are adequate, the internal auditors should evaluate the controls for effectiveness. To ensure that the conclusions reached are correct and supported by acceptable evidence the auditors are required to analyze and evaluate the findings of the audit in order to determine whether the controls are effective or not. The auditors may reach one of the following audit opinions when evaluating the controls:
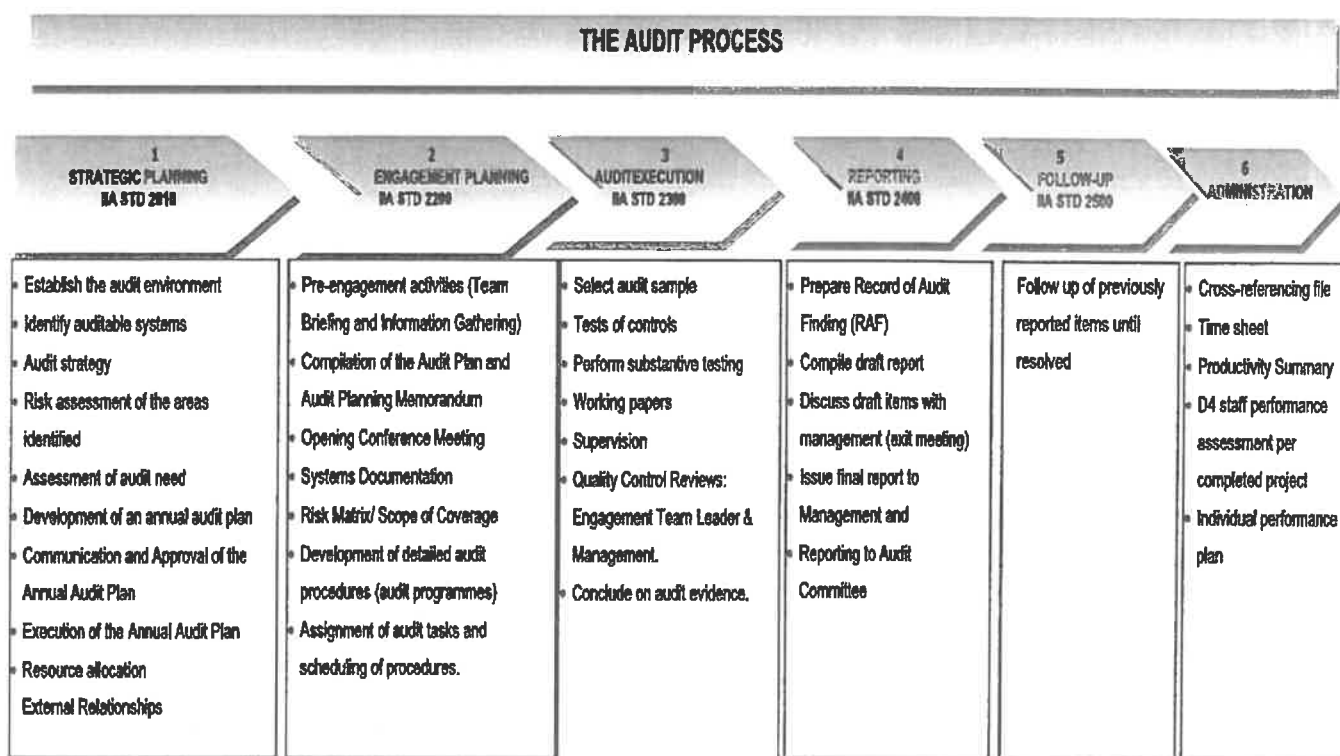
Adequate/Effective: The existing controls are effective, i.e. they provide reasonable assurance that the activity will achieve its performance objectives.

Requires improvement: - There are controls in place however there are limitations that prevent them from providing assurance that the activity will achieve its performance objectives

Inadequate/Ineffective: The existing controls are ineffective, i.e. they do not provide reasonable assurance that the activity will achieve its performance objectives.

All normal/systems audits are conducted according to the audit process and methodology illustrated below.

DIAGRAMMATIC ILLUSTRATION OF THE AUDIT PROCESS

THE AUDIT PROCESS

1 STRATEGIC PLANNING IIA STD 2010	2 ENGAGEMENT PLANNING IIA STD 2200	3 AUDIT EXECUTION IIA STD 2300	4 REPORTING IIA STD 2400	5 FOLLOW-UP IIA STD 2500	6 ADMINISTRATION
• Establish the audit environment	• Pre-engagement activities (Team Briefing and Information Gathering)	• Select audit sample	• Prepare Record of Audit Finding (RAF)	Follow up of previously reported items until resolved	• Cross-referencing file
• Identify auditable systems		• Tests of controls	• Compile draft report		• Time sheet
• Audit strategy	• Compilation of the Audit Plan and	• Perform substantive testing	• Discuss draft items with		• Productivity Summary
• Risk assessment of the areas identified	Audit Planning Memorandum	• Working papers	management (exit meeting)		• D4 staff performance assessment per
• Assessment of audit need	• Opening Conference Meeting	• Supervision	• Issue final report to		completed project
• Development of an annual audit plan	• Systems Documentation	• Quality Control Reviews: Engagement Team Leader &	Management and		• Individual performance plan
• Communication and Approval of the	• Risk Matrix/ Scope of Coverage	Management.	• Reporting to Audit		
Annual Audit Plan	• Development of detailed audit	• Conclude on audit evidence.	Committee		
• Execution of the Annual Audit Plan	procedures (audit programmes)				
• Resource allocation	• Assignment of audit tasks and				
• External Relationships	scheduling of procedures.				

7.8   The Audit Process

The methodology defines all basic audit steps to be followed during various the audit processes, and mainly applies to normal systems audits, governance reviews and financial audits. All steps are also prescribed in the IPPF as follows:

7.8.1   Engagement Planning

Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations. The plan must consider the organization's strategies, objectives, and risks relevant to the engagement.

Planning Considerations

In planning the engagement, internal auditors must consider:

i.   The strategies and objectives of the activity being reviewed and the means by which the activity controls its performance.

ii.   The significant risks to the activity's objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level.

iii.   The adequacy and effectiveness of the activity's governance, risk management, and control processes compared to a relevant framework or model.

iv.   The opportunities for making significant improvements to the activity's governance, risk management, and control processes.

When planning an engagement, internal auditors must establish a written understanding about objectives, scope, respective responsibilities, timing and other expectations, including restrictions on distribution of the results of the engagement and access to engagement records.

Internal auditors must establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities, timing and other client expectations. For significant engagements, this understanding must be documented (engagement work program).

7.8.2   Engagement Objectives

Objectives must be established for each engagement.

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

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

iii.   Adequate criteria are needed to evaluate governance, risk management, and controls. Internal auditors must ascertain the extent to which management and/or the board has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors must use such criteria in their evaluation. If inadequate, internal auditors must identify appropriate evaluation criteria through discussion with management and/or the board.

Consulting Activities: Formal and Informal

Consulting engagement objectives must:

i.   Address governance, risk management, and control processes to the extent agreed upon with the client.
ii. Be consistent with the department's values, strategies, and objectives.

7.8.3   Engagement Scope

The established scope must be sufficient to achieve the objectives of the engagement. The scope of the engagement must include consideration of relevant systems, records, personnel, and physical properties, including those under the control of third parties.

The scope can also be defined in terms of the geographical area, period under review, the business activity and the relevant systems to be subjected for the review.

Consulting engagements scope:

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 (i.e. should form part of the audit engagement letter or the Audit Planning Memorandum).

In performing consulting engagements, internal auditors must 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 must be discussed with the Accounting Officer to determine whether to continue with the engagement.

During consulting engagements, internal auditors must address controls consistent with the engagement's objectives and be alert to significant control issues.

7.8.4   Engagement Resource Allocation

Internal auditors must determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources. In this regard, the appropriate mix of knowledge, skills, and other competencies needed to perform the engagement as well as sufficient quantity of resources needed to accomplish the engagement with due professional care is critical.

In determining resources, the following should be considered:

i.   The number and experience of internal auditors required.
ii. Consideration of the use of external resources.
iii. Geographical areas to be covered and localities to be visited.
iv. The period when external resources will be needed and the period of completion of the engagement.
v.   Availability of appropriate audit tools needed.

7.8.5   Engagement Work Program

Internal auditors must develop and document work programs that achieve the engagement objectives. Work programs must include the procedures for identifying, analyzing, evaluating, and documenting information during the engagement. The program must be appropriately referenced and cross-referenced. The sample size of the engagement must be determined by the nature of controls (as guided by the approved methodology). It must be approved prior to its implementation, and any adjustments approved promptly.

Consulting engagements:
Work programs for consulting engagements may vary in form and content depending upon the nature of the engagement.

7.8.6   Performing the Engagement

Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives. This particular process includes:

Identifying Information:

Internal auditors must identify sufficient, reliable, relevant, and useful information to achieve the engagement's objectives. In other words,

 i. Sufficient information, which is factual, adequate, and convincing so that a prudent, informed person would reach the same conclusions as the auditor must be gathered.
 ii. That information can only be considered reliable information if attained through the use of appropriate engagement techniques, to support engagement observations and recommendations and is consistent with the objectives for the engagement.
 iii. Useful information helps the department meet its goals or strategic objectives.

7.8.7   Documenting System Description

A detailed system description covering sufficient, reliable, relevant, and useful information to support the engagement results and conclusions should be documented by the auditors either in flow chart format or narratively. Controls that management has implemented to manage the risks in the process should be identified. Any changes in the audit focus area should be reflected in the system process flow of the activities audited.

7.8.8   Verifying the System Description

The documented system description should be discussed with management to verify completeness and accuracy of the processes.

7.8.9   Analysis and Evaluation:

This process provides efficient and effective means of assessing and evaluating information collected during the audit. It can assist in identifying unexpected differences resulting from analytical procedures, potential errors, irregularities or illegal acts. Internal auditors must base conclusions and engagement results on appropriate analyses and evaluations.

7.8.10   Documenting Information

Information obtained during the audit process should be documented as prescribed in the Internal Audit Methodology (using the working papers designed and adopted). Access to the working papers and retention thereof is as stipulated in the EMARAS policy, internal audit charter and the methodology, and will be restricted to authorized persons only. These retention requirements must be consistent with the department's guidelines and any pertinent regulatory or other

requirements. Similarly, access of documents to external persons must be consistent with the organization's guidelines and any pertinent regulatory or other requirements. Release of documents by the CAE should be approved by appropriate personnel with due consideration for reporting structure, legislation and associated legalities.

Audit evidence can be gathered through inspection, re-performance, confirmation, enquiry or observations or other suitable audit techniques

7.8.11 Engagement Supervision

The CAE has overall responsibility for supervising the engagement, whether performed by or for the internal audit activity, but may designate appropriately experienced members of the internal audit activity to perform the review. Appropriate evidence of supervision must be documented and retained. Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.

The extent of supervision required will depend on the proficiency and experience of internal auditors and the complexity of the engagement.

7.8.12 Communicating Results

The audit results should be communicated to the relevant Deputy City Managers and senior management through an audit report. All findings documented should be discussed with the line management and the relevant Head of business unit. Management should consider the cost-benefit of implementing internal audit recommendations.

i. **Criteria for Communicating**

❖ Communications must include the engagement's objectives, scope, and results (conclusions, root causes, recommendations and action plans). Recommendations should address the root cause of the findings which must be structured to reflect on the criteria, condition, cause and the impact of the actual condition not being met.

❖ Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.

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

❖ 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 management or the Executive.

ii. **Quality of reporting**

❖ Information communicated must be accurate, clear, objective, concise, constructive, complete and timely. Where appropriate, the internal auditors' opinion should be provided.

7.8.13 Overall Opinion

An opinion must take into account the strategies, objectives, risks of the department, expectations of senior management and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information. Opinions at the engagement level may be ratings, conclusions, or other descriptions of the results. Such an engagement may be in relation to controls around a specific process, risk, or the general performance of the affected business unit. The formulation of such opinions requires consideration of the engagement results and their significance.

7.8.14 Use of "Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing"

Indicating that engagements are "conducted in conformance with the International Standards for the Professional Practice of Internal Auditing" is appropriate only if supported by the results of the quality assurance and improvement program. EMARAS conforms with the Code of Ethics and the Standards when it achieves the outcomes described therein. The results of the quality assurance and improvement program include the results of both internal and external assessments. All internal audit activities will respond to the results of internal assessments. The external quality assessment review must be conducted at least every five years by external assessment assessors.

7.8.15 Engagement Disclosure of Nonconformance

When nonconformance with the Code of Ethics or the Standards impacts a specific engagement, communication of the results must disclose the:

i. Principle(s) or rule(s) of conduct of the Code of Ethics or the Standard(s) with which full conformance was not achieved.
ii. Reason(s) for nonconformance.
iii. Impact of nonconformance on the engagement and the communicated engagement results.

7.8.16 Disseminating Results

CAE must communicate final results to the appropriate parties who can ensure that the results are given due consideration to take corrective action. He/She is responsible for reviewing and approving the final engagement communication (audit reports) before issuance to relevant senior management, Accounting Officer, the Audit Committee, the Executive Council (where is necessary) and other governance and oversight committees (where appropriate). Should this be delegated these duties, he or she retains overall responsibility.

The final results should contain adequate management action plans obtained from management as prescribed by the Internal Audit Charter and in accordance with the agreed terms as per the engagement letter, failing which the final report will be issued without management comments and escalated to the Audit Committee for intervention.
Internal Auditors must ensure that management comments obtained are adequate and relevant to the findings and recommendations raised in the report. Auditors should also consider proposed actions by management to enhance the control environment and determine the impact these would have on the audit report.

Disseminating audit results to external parties is subject to the eThekwini Municipality's policies and or terms of the engagement. If not otherwise mandated by legal, statutory, or regulatory requirements, prior to releasing results to parties outside the department (s) the CAE must:

i. Assess the potential risk to the relevant department.
ii. Consult with the Accounting Officer and/or Executive Authority, and/or legal counsel as appropriate.
iii. Control dissemination by restricting the use of the results.

The CAE is responsible for communicating the final results of consulting engagements to relevant units. During consulting engagements, governance, risk management, and control issues may be identified. Whenever these issues are significant to the organization, they must be communicated to relevant line management and the Accounting Officer.

7.8.17 Monitoring Progress and/or Follow up

The CAE must establish a system to monitor the disposition of results communicated to management. The process must include:

i. 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. The Audit Log should be applied as a tool to measure progress made in the implementation of audit recommendations raised by internal and external auditors. The internal audit log is maintained by EMARAS whilst the external audit log is maintained by the internal control unit reporting directly to management

ii. Follow up audits must be incorporated in the annual audit plan and conducted as prescribed in the audit methodology

Monitoring the disposition of results of consulting engagements to the extent agreed upon with the department and ensure that actions taken by management address the identified deficiencies. Observations and recommendations requiring immediate action should be monitored closely by auditors.

7.8.18 Communicating the Acceptance of Risks

When the CAE concludes that management has accepted a level of risk that may be unacceptable to the organization, he/she must discuss the matter with senior management. If the CAE determines that the matter has not been resolved, he/she must escalate the matter to the Executive Council/Board through the Audit Committee and the Accounting Officer. It is not the responsibility of the CAE to resolve the risk.

7.8.19 Disclosure of Nonconformance

When nonconformance with the Code of Ethics or the Standards impacts the overall scope or operation of EMARAS, the CAE must disclose the nonconformance and the impact to senior management, the Accounting Officer and the Audit Committee.

8. CONSULTING ACTIVITIES

The IIA Standards define Consulting Services as follows:
Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training.

Consulting services should focus on assisting management in problem solving activities, achieving the units' objectives and add value through assignments conducted as prescribed in the Internal Audit Charter. Consulting services may be rendered in the form of:

i. **Formal Consulting Engagements**: those that are planned and subject to written agreement;
ii. **Informal Consulting Engagements**: routine activities such as participation on standing committees, limited-life audit projects, ad-hoc meetings and routine information exchange.
iii. **Special Consulting Engagements**: participation on dedicated teams such as merger and acquisition teams or system conversion teams;

iv. **Emergency Consulting Engagements**: participation on a team established for recovery or maintenance of operations after a disaster or other extraordinary business event, or a team assembled to supply temporary help to meet a special request or unusual deadline.

Examples of consulting services in a practical context are as follows:

i)   "Assessment services": engagements in which the auditor examines or evaluates a past, present, or future aspect of operations and renders information to assist management in making decisions. Examples of this type of consulting engagements are as follows:

❖ the assessment of controls in a system design, such as assessing the adequacy of internal control in a proposed accounts payable system
❖ how the SCM division could improve the efficiency of their order entry and tracking system
❖ the study and evaluation of the proposed restructure of the organization to reflect the most practical, economical, and logical alignment
❖ estimating the savings from outsourcing process.

ii)   "Facilitation services": engagements in which the auditor assists management in examining organizational performance for the purpose of promoting change. For instance, the auditor guides management in identifying organizational strengths and opportunities for improvement. Examples of this type of consulting engagements are as follows:
❖ Facilitation of Control self-assessments
❖ Benchmarking
❖ Business process reengineering support
❖ Strategic planning support

Consulting services will differ depending on the circumstances and nature thereof and as such, the above is a guideline for classifying the natures of such services and the examples provided do not constitute a comprehensive list.

Objectives, scope and limitations of the consulting assignment should be confirmed in writing in an engagement letter. Responsibilities of both management and the EMARAS should be defined and documented in the engagement letter that should be signed by both parties.

The nature of the consulting engagement should be clearly articulated in the terms of reference and aligned to the procedures agreed upon with management.

Consulting Engagement should be conducted as prescribed in the Internal Audit Methodology and evidence kept.

Ongoing communication of issues for management consideration during the execution of the consulting engagement should be reported timeously.

Results of the engagement should be communicated in writing or orally, depending on the agreed terms of the engagement with management.

8.1   Acceptance of Consulting Activities

EMARAS may provide or accept consulting activities under the following conditions:

i. If the consulting engagement activity has been identified at the planning stage and has been provided for in the annual operational plan of the municipality or municipal entity;

ii. If requested by management. A written request specifying the initiated engagement by management should be sent and discussed with the CAE. The CAE should obtain the Audit Committee's approval for consulting activities that significantly affect the approved internal audit plan;

iii. The CAE should consider the impact of independence and objectivity on the EMARAS before acceptance of the consulting activities;

iv. The CAE should consider the risks associated with the proposed consulting activity.

v. The CAE should consider whether the team to be deployed to conduct the engagement have the requisite skills, knowledge, time and competencies to perform the proposed consulting activities.

9   RELATIONSHIPS WITH INTERNAL CONTROL FUNCTIONS

Section 62 of the MFMA stipulates that the accounting officer of the municipality is responsible for managing the financial administration of the municipality and must for this purpose take all reasonable steps to ensure –

ii. that the resources of the municipality and municipal entities are used effectively. efficiently and economically.

iii. that full and proper records of the financial affairs of the municipality and its entities are kept in accordance with any prescribed norms and standards;

iv. that the municipality and the entities have and maintains effective, efficient, and transparent systems-
   ❖ of financial and risk management and internal control; and
   ❖ of internal audit operating in accordance with any prescribed norms and standards.

v. that unauthorized, irregular, or fruitless and wasteful expenditure and other losses are prevented.

vi. that disciplinary or, when appropriate, criminal proceedings are instituted against any official of the municipality or the entity, who has allegedly committed an act of financial misconduct or an offence in terms of Chapter 15 of the MFMA: and

vii. that the municipality has and implements-
   ❖ a tariff policy referred to in section 74 of the Municipal Systems Act.
   ❖ a rates policy as may be required in terms of any applicable national legislation.
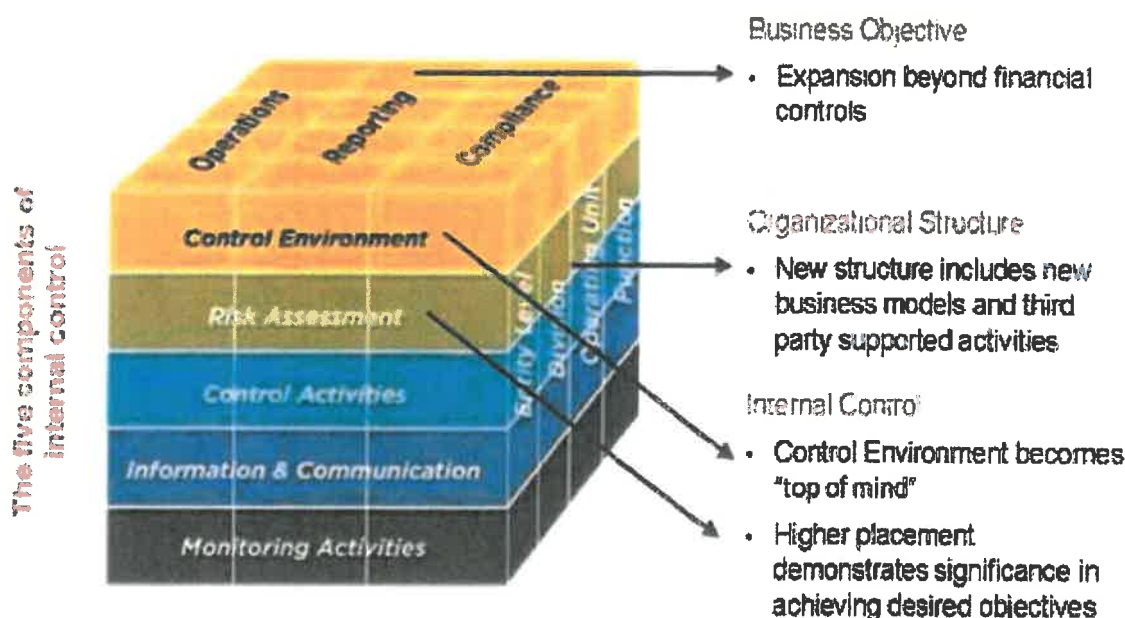
Internal Control is:

i. Recognized as one of the core business processes designed by management to mitigate business risks.

ii. It is an integral part of an organization's financial and business policies that control the strategic, financial and core business operational procedures of an organization.

iii. Internal Control process is based upon a system of management information, financial regulations, administrative procedures and a system of accountability.

iv. The focus for internal control practitioners is development of operations procedure manuals for all business activities, plans for specific projects, techniques and procedures used to meet organizations missions, goals and objectives as well as identification of risks associated with each operational activity.

v. All business plans, laws, policies and regulations issued to regulate the core business activities of each municipal entity and the City must be embedded in its operations through developed procedure manuals (whether automated or manual) by the line function management.

vi. Internal Control practitioners are instrumental to the above requirement as well as addressing training and development needs for compliance purposes.

vii. No specific form of independence is required of Internal Control Practitioners as they operate as a line function

viii. Internal Control is part of the 2nd line of defence in terms of the Combined assurance model.

The EMARAS Methodology developed sets forth the requirements for an effective system of internal control. An effective system provides reasonable assurance regarding achievement of eThekwini and its entities objectives. An effective system of internal control reduces, to an acceptable level, the risk of not achieving units' objectives and compliance with applicable laws, rules, regulations, and external standards or best practices.

The Framework requires judgment in designing, implementing, and conducting internal control and assessing its effectiveness. The use of judgment, within the boundaries established by laws, rules, regulations, and standards, enhances management's ability to make better decisions about internal control, but cannot guarantee perfect outcomes. Effectiveness tests are therefore conducted independently by EMARAS to provide assurance to management.

The framework includes policy objectives focussing on ensuring that adequate and effective controls are in place, applied consistently throughout the municipality and entities where appropriate, to manage the risks and subjected to audits on a regular basis. The policy and the framework are managed within the following key principles as depicted below:

More details pertaining to the five key internal control principles will be adequately explained in the Municipality's Internal Control Framework.

10.   COMBINED ASSURANCE

The primary purpose of the CAF is to formalize the identification and integration of existing assurance providers, and the coordination of existing assurance efforts, enabling management to make an informed assessment that there is appropriate assurance on all key risks facing the organization. As such, it is a strategic management tool that facilitates the decision-making process relating to the coordination and integration of assurance efforts, ensuring optimal coverage of risks facing the organization within the scarce/limited resources.

- ❖ Treasury Regulations 3.1.10 state that the Audit Committee must review the activities of the Internal Audit function, including its annual work program, and coordination with external auditors.
- ❖ Treasury Regulations 3.2.10 states that the Internal Audit function must coordinate with other internal and external providers of assurance to ensure proper coverage and to minimize duplication of efforts
- ❖ The International Standards for Professional Practice of Internal Auditing, **Standard 2050** states that the CAE should share information and coordinate activities with other internal and external providers of relevant assurance to ensure proper coverage and minimization of duplication of efforts.
- ❖ Principle 3.5 of King III on Corporate Governance: "The audit committee should ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities"

It is based on this backdrop that eThekwini Municipality and its Entities adopted the five lines of defense model below to ensure that all its internal and independent assurance providers efforts are co-ordinated and collaborate to improve governance, risk and controls within the organization. EMARAS and AC are key role players in ensuring the effectiveness of this model.

Combined Assurance Model – Five Lines of Defence
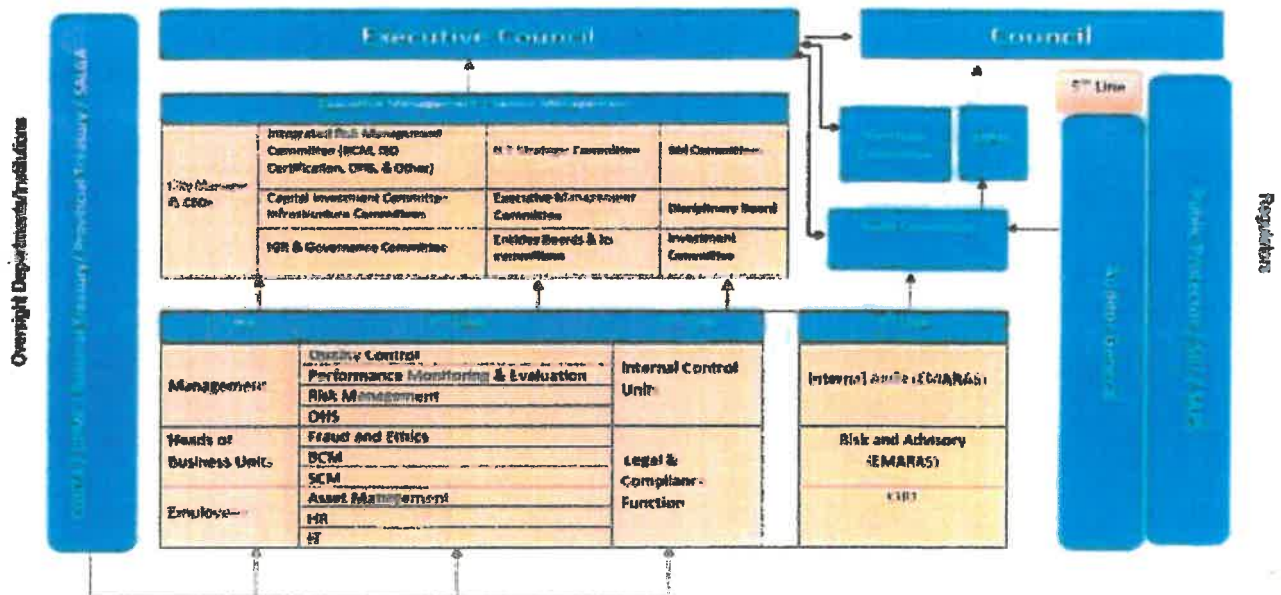
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